



WELFARE REFORM OPTIONS: TABLE OF CONTENTS

	<u>Tab</u>
Welfare reform cost estimates	A
Financing options	B
Working group recommendations & outstanding policy issues to be resolved	C
Phase-in options for welfare reform	D
House Republican's welfare reform bill	E
HHS & CBO pricing for House Republican welfare reform legislation (H.R. 3500)	F
Sawhill list of welfare reform issues	G

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SUMMARY PRICING
HHS Estimate (Feb 24) and Two Possible Alternatives
 (By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK									
Subtotal Transitional Assistance/WORK	0	620	1,950	2,285	3,000	7,855	6,535	33,300	N/A
Option A	0	455	1,360	1,420	1,920	5,155	5,065	24,253	N/A
Option B	0	415	1,235	1,290	1,785	4,725	4,955	23,323	N/A
PARENTAL RESPONSIBILITY									
Subtotal Parental Responsibility	(5)	(5)	465	795	865	2,115	(110)	4,000	N/A
Option A	(25)	(45)	75	170	35	210	(775)	(2,560)	N/A
Option B	(25)	(60)	30	115	(50)	10	(860)	(3,185)	N/A
MAKING WORK PAY									
Subtotal Making Work Pay	0	500	1,000	1,500	2,000	5,000	2,500	17,500	N/A
Option A	0	280	555	835	1,110	2,780	1,390	9,730	N/A
Option B	0	0	0	0	0	0	0	0	N/A
REINVENTING GOVERNMENT									
HHS Subtotal Reinventing Government	0	0	0	0	0	0	0	0	N/A
Option A	0	0	0	0	0	0	0	0	N/A
Option B	0	0	0	0	0	0	0	0	N/A
GRAND TOTAL									
HHS Proposal	(5)	1,115	3,415	4,580	5,865	14,970	8,925	54,800	N/A
A Subtotal	(25)	690	1,990	2,425	3,065	8,145	5,680	31,423	N/A
B Subtotal	(25)	355	1,265	1,405	1,735	4,735	4,095	20,138	N/A

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK									
• JOBS Prep: Case Management for Deferrals	0	15	50	60	70	195	120	695	
A Limited Case Management for JOBS Prep	0	10	25	30	35	100	60	350	
B No Case Management for JOBS Prep	0	0	0	0	0	0	0	0	
• Additional JOBS Spending: Participation assumed to be									
50% above intense saturation work demo	0	260	820	940	980	3,000	730	6,910	2,244 9/
A Participation 10% above intense demo	0	190	610	700	730	2,230	650	5,485	\$2,500/yr per participant
B Participation 10% above intense demo	0	190	610	700	730	2,230	650	5,485	Direct ahead of time
• WORK Program 2/	0	0	0	120	620	740	3,040	11,810	8,790 9/
A Capped Overhead and part-time workers not eligible for AFDC after two years	0	0	0	(65)	265	200	2,185	7,973	
B Same as option A	0	0	0	(65)	265	200	2,185	7,973	
• Child Care for JOBS/WORK Participants	0	240	680	750	870	2,540	2,175	10,330	
A Child Care Associated with Option A	0	150	415	445	540	1,550	1,770	7,530	
B Child Care Associated with Option B	0	150	415	445	540	1,550	1,770	7,530	
• Transitional Child Care 3/	0	85	250	300	350	985	600	3,485	25% behavioral impact
A Alternative under review	0	85	250	300	350	985	600	3,485	
B Alternative under review	0	85	250	300	350	985	600	3,485	
• Enhanced Teen Case Management	0	30	90	105	110	335	120	920	80-90% partic.
A Cap admin costs for case management at \$ 50 m.	0	30	50	50	50	180	50	430	
B Defer	0	0	0	0	0	0	0	0	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)
HHS Estimate (Feb 24) and Two Possible Alternatives
 (By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
• Economic Development: Microenterprise loans and Individual Development Accounts 4/									
<i>A Modest Economic Development</i>	0	0	100	100	100	300	0	300	
<i>B Defer</i>	0	0	0	0	0	0	0	0	
• Savings - Caseload Reduction	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)	
<i>A No change</i>	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)	
<i>B No change</i>	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)	
Subtotal Transitional Assistance/WORK	0	620	1,950	2,285	3,000	7,855	6,535	33,300	N/A
<i>A Subtotal</i>	<i>0</i>	<i>455</i>	<i>1,360</i>	<i>1,420</i>	<i>1,920</i>	<i>5,155</i>	<i>5,065</i>	<i>24,253</i>	<i>N/A</i>
<i>B Subtotal</i>	<i>0</i>	<i>415</i>	<i>1,235</i>	<i>1,290</i>	<i>1,785</i>	<i>4,725</i>	<i>4,955</i>	<i>23,323</i>	<i>N/A</i>

PARENTAL RESPONSIBILITY

• Require Minor Moms to Live with Parents	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)	
<i>A No change</i>	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)	
<i>B No change</i>	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)	
• Comprehensive Demonstration Grants	0	50	50	50	50	200	50	450	
<i>A No change</i>	0	50	50	50	50	200	50	450	
<i>B No change</i>	0	50	50	50	50	200	50	450	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
• Two Parent Provision: Quarters of Work and 100 hour rule 5/	0	0	440	680	945	2,065	1,115	7,290	
A Quarters of Work Only	0	0	220	340	475	1,035	560	3,655	
B Quarters of Work Only	0	0	220	340	475	1,035	560	3,655	
• No additional benefits for additional children	(35)	(100)	(110)	(140)	(150)	(535)	(150)	(1,285)	
A No change	(35)	(100)	(110)	(140)	(150)	(535)	(150)	(1,285)	
B No change	(35)	(100)	(110)	(140)	(150)	(535)	(150)	(1,285)	
• Child Support Enforcement 6/									
Paternity Establishment	5	20	(110)	(165)	(215)	(465)	(355)	(1,970)	
Enforcement(Net)	(10)	(20)	(65)	(80)	(320)	(495)	(1,015)	(4,655)	
Computer Costs	15	35	95	160	160	465	100	1,065	
Sub-total CSE	10	35	(80)	(85)	(375)	(495)	(1,270)	(5,560)	
A No Change	10	35	(80)	(85)	(375)	(495)	(1,270)	(5,560)	
B No Change	10	35	(80)	(85)	(375)	(495)	(1,270)	(5,560)	
• Non-custodial Parent Provisions	0	30	85	110	165	390	165	1,215	
A Modest Non-custodial Parent Provisions	0	15	45	55	85	200	85	625	
B Defer	0	0	0	0	0	0	0	0	
• Access Grants and Parenting Demonstrations	20	25	30	30	30	135	30	285	
A Defer	0	0	0	0	0	0	0	0	
B Defer	0	0	0	0	0	0	0	0	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
• Child Support Assurance Demonstrations	0	0	100	200	250	550	0	2,050	← * No!!
A Limit and Cap CSA Demos	0	0	50	50	50	150	0	150	
B Defer	0	0	0	0	0	0	0	0	
Subtotal Parental Responsibility	(5)	(5)	465	795	865	2,115	(110)	4,000	N/A
A Subtotal	(25)	(45)	75	170	35	210	(775)	(2,560)	N/A
B Subtotal	(25)	(60)	30	115	(50)	10	(860)	(3,185)	N/A

MAKING WORK PAY

• Working Poor Child Care	0	500	1,000	1,500	2,000	5,000	2,500	17,500	
A Target Child Care at Parents 26 and under	0	280	555	835	1,110	2,780	1,390	9,730	
B Defer	0	0	0	0	0	0	0	0	
• Advance EITC 7/	0	0	0	0	0	0	0	0	
A No Change	0	0	0	0	0	0	0	0	
B No Change	0	0	0	0	0	0	0	0	
Subtotal Making Work Pay	0	500	1,000	1,500	2,000	5,000	2,500	17,500	N/A
A Subtotal	0	280	555	835	1,110	2,780	1,390	9,730	N/A
B Subtotal	0	0	0	0	0	0	0	0	N/A

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
REINVENTING GOVERNMENT									
• Asset Rules, Filing Unit, Simplification of Earnings Disregards, Accounting and Reporting Rules 8/	0	0	0	0	0	0	0	0	0
Subtotal Reinventing Government	0	0	0	0	0	0	0	0	0
A No Change	0	0	0	0	0	0	0	0	0
B No Change	0	0	0	0	0	0	0	0	0
GRAND TOTAL									
HHS Proposal	(5)	1,115	3,415	4,580	5,865	14,970	8,925	54,800	N/A
A Subtotal	(25)	690	1,990	2,425	3,065	8,145	5,680	31,423	N/A
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PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
EFFECTS ON OTHER PROGRAMS									
State Systems Costs 5/ <i>Includes estimates of State/Federal costs to adapt computer and other under the new program.</i>	200	200	200	200	200	1,000	100	1,550	
Child Care Feeding Costs (JOBS/WORK/TCC) <i>The CACFP costs associated with expanded child care</i>	0	35	95	105	120	355	280	1,380	
Child Care Feeding Costs(Working Poor) <i>The CACFP costs associated with expanded child care</i>	0	50	100	150	200	500	250	1,750	
WORK Program <i>Remove EITC and Health Care Reform Behavioral Assumptions from HHS's estimates.</i>	0	0	0	10	50	60	240	805	
Food Stamps Interactions	Not Yet Estimated								
Medicaid Interactions	Not Yet Estimated								
Other Interactions	Not Yet Estimated								

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)
HHS Estimate (Feb 24) and Two Possible Alternatives
 (By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
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NOTES:

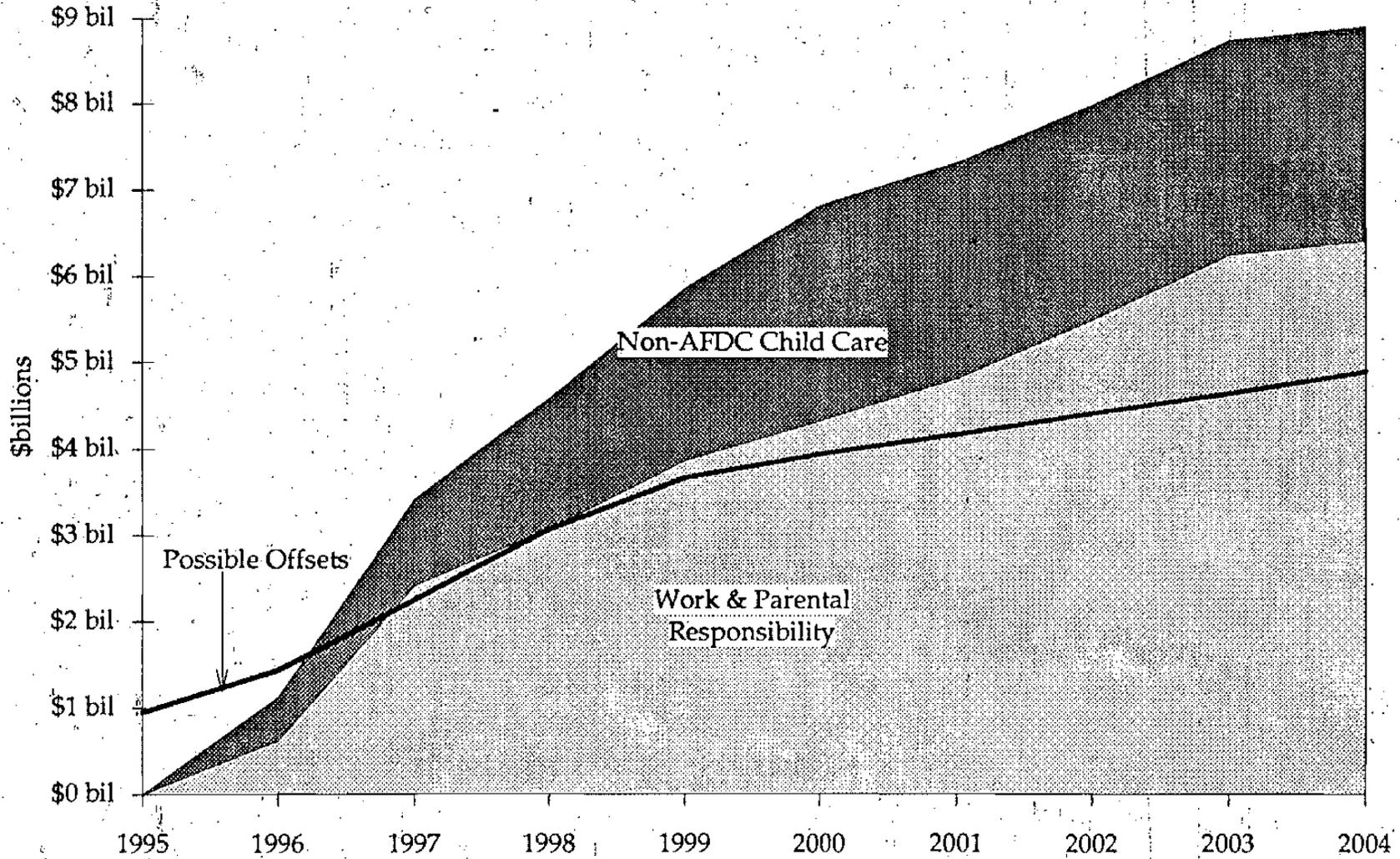
- 1 HHS dollar estimates were provided only through FY99. Subsequent estimates are based on HHS caseload tables. Corrections for the Alternative were made to a.) apply the reform polices to the Budget baseline rather than the lower baseline HHS assumed would result from EITC increases and health reform. Savings are for options considered independently. Combined effect have not been estimated yet. Steady State estimate uses 2004 caseload with no effects of EITC increases or health reform.
- 2 Repeat Footnote 1.
- 3 Working with HHS to understand TCC assumptions.
- 4 Economic development is a 3 year demonstration project.
- 5 Place holder estimate – will be revised shortly.
- 6 These numbers were received verbally Feb. 28. Child Support estimates are combined Federal and State shares of costs and collections. Under current law, these provisions would have Federal costs and savings
- 7 HHS's current proposal assumes no scoreable costs for the Advanced EITC. A change in law in order to mandate the advanced EITC could have significant costs
- 8 HHS's current proposal assumes that the Reinventing Government items will have no net costs. This may be difficult to accomplish given the magnitude of the savings and costs within this category.
- 9 These represent steady state costs of the HHS proposed JOBS and WORK programs assuming no effects of the EITC and health reform.

March 2, 1994

Participation footnote:

HHS assumes transition program parents (including part-time workers) will spend virtually every month in a JOBS activity. This is nearly double the participation levels reached in the flagship Saturation Work Initiative Model demonstration in San Diego. The less intensive option describes a national program which is more than 10 percent more intensive than SWIM. It would occupy about two-thirds of all the months cases were in a mature transition program. Even at that level, there would be concern that JOBS activities were delaying exits from AFDC.

Welfare Reform Costs And Offsets HHS Estimates Extrapolated To 2004



HHS Preliminary Welfare Reform Offset Estimates

Extrapolated to 2004.

3/2/94 10:23'		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
Cap Emergency Assistance	1/	0.26	0.35	0.42	0.50	0.56	2.09	0.70	5.39
Target Child Care Food Program	2/	0.16	0.21	0.23	0.27	0.30	1.17	0.45	3.12
Adjust SSI Deeming Rule	2/	0.18	0.19	0.21	0.23	0.25	1.06	0.35	2.61
Reapplication for SSI Cases Most Likely to Improve	2/	0.07	0.16	0.26	0.37	0.42	1.28	0.67	4.13
Tighten Sponsorship and Eligibility Rules for Aliens	3/	<u>0.27</u>	<u>0.52</u>	<u>1.13</u>	<u>1.70</u>	<u>2.14</u>	<u>5.76</u>	<u>2.73</u>	<u>18.18</u>
	Total	0.94	1.43	2.25	3.07	3.67	11.36	4.90	33.43

Notes on extrapolations for 2000 - 2004

- 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/ Assumes that continued immigration would keep savings growing slightly more than inflation. A 5% growth rate is assumed.

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February 28, 1994

SUMMARY AND WORKING GROUP RECOMMENDATIONS

Everyone is frustrated with the welfare system. Welfare reform is designed to give people back the dignity and control that comes from work and independence. It is about reinforcing work and family and opportunity and responsibility.

The current welfare system provides cash support and a set of rules and expectations focused on verifying eligibility rather than on moving people to self-support. We propose a new vision aimed at helping people regain the means of supporting themselves and at holding people responsible for themselves and their families. The proposal emphasizes that work is valued by making work pay. It indicates that people should not have children until they are able to support them. It signals that parents--*both parents*--have responsibilities to support their children. It gives people access to the training they need, but also expects work in return. It limits cash assistance to two years, and then requires work, preferably in the private sector, but in community service jobs if necessary. Most importantly, it changes the culture of welfare offices, getting them out of the check-writing business and into the training and job-placement business.

Ultimately, this plan requires changing almost everything about the way in which we provide support to struggling families. To achieve this vision, the plan has four main elements.

MAJOR THEMES

Transitional Assistance Followed by Work

- Full participation. Everyone who receives cash support is expected to do something to help themselves and their community. The requirement applies to those who are preparing themselves for work and to those who are currently not ready to work. Those who are unable to work due to disability or other reasons will be expected to do something for themselves or their community, but will not be subject to time limits until they are ready to engage in training, education or job placement services.
- Training, education and job placement services (the JOBS program). As soon as people begin receiving public assistance, they will sign a personal responsibility contract and develop an employability plan to move them into work as quickly as possible. Many will get jobs quickly--in weeks or months--after assistance with job search and job preparation. Others will spend time in education and training services as needed. The program will be closely coordinated with existing mainstream education and training programs including current and new Labor Department programs (the Job Training Partnership Act and the Workforce Security Act), School-to-Work programs, vocational and post-secondary education.
- Time limits. People who are able to work will be limited to two years of cash assistance. Most people are expected to enter employment well before the two years are up. Extensions to complete an education program expected to enhance self-sufficiency will be granted in a limited number of cases.

~~CONFIDENTIAL~~ 203

- Work for those who exhaust their time limit (the WORK program). Those people who are still unable to find work at the end of two years will be required to work in a private sector, community service or public sector job. These are intended to be real, work-for-wages jobs. The program will be designed to favor unsubsidized work and to ensure that subsidized jobs are short-term and non-displacing.

Making Work Pay

- Health care reform. An essential part of moving people from welfare to work is ensuring that working people get health protection. The current system keeps people from leaving welfare for fear of losing their health insurance.
- Advance payment of the Earned-Income Tax Credit (EITC). The expanded EITC makes it possible for low-wage workers to support their families above poverty. Efforts will be made to help families receive the EITC on a regular basis.
- Child care for the working poor. In addition to ensuring child care for participants in the transitional assistance program and for those who transition off welfare, child care subsidies will be made available to low-income working families who have never been on welfare but for whom assistance is essential to enable them to remain in the workforce and off welfare.

Parental Responsibility

- Child support enforcement. The child support enforcement system will be strengthened to ensure that awards are established in every case, that fair award levels are maintained and that awards that are owed are in fact collected. Demonstrations of child support assurance and of programs for noncustodial parents will be conducted.
- Efforts aimed at minor mothers, responsible family planning and prevention. Minor mothers will receive special case management services and will be required to live at home and stay in school to receive income support. Access to family planning will be ensured. A strategy for investing in and learning from programs to prevent high-risk behavior and teen pregnancy will be pursued.
- Efforts to promote two-parent families. We will provide better support for two-parent families by eliminating or reducing the current bias in the welfare system in which two-parent families are subject to more stringent eligibility rules than single-parent families.

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Reinventing Government Assistance

- Coordination, simplification and improved incentives in income support programs. The administrative and regulatory program structures of AFDC and Food Stamps will be redesigned to simplify and coordinate rules and to encourage work, family formation and asset accumulation.
- A performance-based system. In addition to incentives for clients, incentives will be designed to bring about change in the culture of welfare offices with an emphasis on work and performance.

POLICY ISSUES TO BE RESOLVED

The attached paper lays out the major issues that need to be addressed. It is organized around each of the first three broad elements listed above. In each case, a description of the proposed policy is provided and remaining issues discussed. (The details of the fourth element--Reinventing Government Assistance--will be addressed later in a separate paper. We anticipate that changes will be cost neutral for that part of the proposal, so they will not affect cost estimates or financing needs.)

The Welfare Reform Working Group met on Saturday February 26 and discussed the issues that were identified as the most important in the paper. There are five particularly significant sets of issues that need to be resolved:

The scale and phase-in of the reformed welfare system

Should we seek to bring everyone on the caseload into the new system quickly, or should we initially target our resources to sub-groups, such as new applicants or the youngest third of the caseload?

Immediate implementation of the new program would severely strain the ability of federal and state governments to implement the new system.

The Working Group agreed that a phased-in approach was necessary.

A phase-in strategy could start with new applicants, or it could start with young applicants and recipients. Starting with young people avoids any incentives to stay on welfare and any "rewards" to having children and coming on welfare early. It also allows for investments in families who have the most hope of being helped.

The Working Group agreed that an initial focus on the youngest third of the caseload was their preferred phase-in strategy.

~~CONFIDENTIAL~~ 103

Extensions to and exemptions from the time limit

Should any groups of recipients have the time limit extended? Should any be exempted from the requirements of the time limit?

The issue of extensions arises because some recipients, especially those with language difficulties, education deficits and no work experience, may not be able to appropriately prepare themselves for work in a two-year period.

The Working Group agreed that a limited number of extensions for such purposes as completing a high school, school to work or job training program, or for completing a program of postsecondary education combined with work, were appropriate.

The issue of exemptions from the time limit arises because not all recipients are able to work, even if they are not severely enough disabled to qualify for SSI. A second type of exemption issue arises because requiring participation from mothers of infants or very young children may interfere with healthy child development and require substantial expenditures on infant day care. Under current law, over half the caseload, including mothers of children under three, is exempted from participation.

The Working Group agreed that exemptions should be limited, and that participation in some activities should be expected even of those who are exempted. The Working Group agreed that states should be permitted to exempt up to a fixed percentage of the caseload for disabilities, care of a disabled child and other serious barriers to work.

The Working Group split over the issue of whether exemptions for mothers of infants should be for one year (i.e., until the baby's first birthday) or for twelve weeks (Twelve weeks is the mandated leave time in the Parental Leave Act.) Most members agreed on a one year exemption for infants who were not conceived on welfare and a twelve week exemption for those conceived on welfare, with a state option to lower the exemption period to twelve weeks for all children.

The structure and requirements of the WORK program for people who come to the time limit without having found unsubsidized work

After a person hits the time limit, should we mandate States to provide a job which pays an hourly wage, or should we allow States to continue paying a welfare check while requiring work as a condition of receipt? What methods should we use to minimize long-term participation in this work program? How many hours of work should be required?

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Work for wages versus work for welfare. Despite a focus on getting everyone into unsubsidized employment as quickly as possible, a small percentage of those who start on welfare will hit the time limit without having found work. After a period of job search, the state may be required to provide a subsidized or community service job for some. One issue is whether states should be permitted to offer "workfare" slots, as opposed to subsidized private sector work or community service jobs in which the participant works for wages. Workfare is somewhat easier to administer than work for wages, but does not provide either the dignity or the discipline of a job that pays wages.

The Working Group agreed that an emphasis on work for wages is a defining feature of the Administration's welfare reform proposal.

Discouraging extended participation in subsidized or community service work. The WORK program of subsidized and community service jobs is designed to be a short term supplement to unsubsidized work in the private sector, not a replacement for it. A number of steps can be taken to ensure this:

The Working Group agreed that subsidized job slots would last for a defined period of time, after which the person would again be expected to look for unsubsidized work.

The Working Group agreed that the availability of the EITC as a supplement to private sector work would provide a powerful incentive for participants to move from the WORK program into unsubsidized work.

The Working Group also agreed that federal reimbursement to states should decline the longer people were on the rolls, in order to provide serious incentives to move people into employment.

The Working Group also agreed that refusal to accept a private sector job should result in termination of benefits.

An issue arises around what is expected to be a relatively small number of people who continue to be unable to find unsubsidized employment after placement in a job slot and private sector job search despite being willing and able to work. (Refusing a job would be grounds for being cut off, and a work for wages model would already provide sanctions because not showing up for work would mean no paycheck.) Some argue that they should be placed in community service slots for as long as they need them. Others argue that this policy would lead to permanent guaranteed jobs that might be expensive and perceived as simply another welfare program. Instead, people who have not found employment might return to a deferred status, might have their welfare benefits reduced or might be cut off entirely.

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The Working Group agreed that a serious reassessment should be done of everyone who comes to the end of two or three years in work assignments without having found private sector work. Those found at that point to be unable to work could be returned to deferred status with full benefits. Those found to be able to work and unwilling to take an unsubsidized job would have assistance terminated. In situations where jobs were not available for people who conscientiously played by the rules and tried to find work, assistance would be continued through another job slot, a workfare assignment, or training linked with work.

Minimum work expectations: part time or full time. Everyone agrees that independence is the ultimate goal of the system. But two related questions arise in thinking about people working less than full time. The first issue is whether someone who is working at least half time in a private unsubsidized job can continue to receive supplementary welfare benefits after two years if they live in a state where half time work at the minimum wage would leave them below the income level for welfare receipt in that state. Proponents of allowing benefit receipt in these situations argue that half time work allows parents time to nurture their children as well as to support them financially--a task which is especially difficult for single parents. They also argue that getting someone to work part time is a big success and should be rewarded. Opponents argue that full time work and an end to welfare receipt should be the expectation. They argue that continuing AFDC as a work supplement for long periods of time is counter to the basic philosophy of the new program.

The Working Group was split on this issue. About half the group felt that part time workers should continue to be eligible for supplementary benefits after the time limit. Others felt that the time limit should apply, but with many arguing for a slowing of the clock for part time workers. Some members suggested a compromise that said that supplementary welfare benefits would be provided for part time workers (at least twenty hours) who had pre-school children, and at state option to other part time workers.

A related issue arises around the number of hours of work that states would be required to provide through subsidized or community service jobs, and around the supplemental welfare benefits that would need to be paid if the required hours of work did not generate pay at least as high as the welfare benefits received by non-working welfare recipients in the state. Because of wide variations in state welfare benefit levels, the number of hours of work at the minimum wage required to earn the equivalent of the welfare benefit level for a family of three ranges from about 7 to about 47 hours per week. For larger families, work hours would have to be higher to reach the welfare benefit levels. It is obviously hard to structure a real job of eight or ten hours per week. At the other extreme, it is unreasonable to require more than the conventional definition of full time work.

The Working Group agreed that states could vary the number of work hours

~~CONFIDENTIAL~~ 105

they required, but that they could go no lower than 15 nor higher than 35. There was also agreement that the wage paid must be at least the minimum wage and could be higher.

We assume that most states could and would require work hours that would produce earnings roughly equivalent to welfare benefits; some states might do this by paying more than the minimum wage. In the median state this would be about 26 hours a week at the minimum wage for a family of three. Some higher benefit states might choose, however, to structure jobs with fewer hours, and some very high benefit states might choose not to raise the wage to a level sufficient to pay the equivalent of the welfare benefit. Should they be allowed to do this and required to provide a supplementary benefit to bring family income up to the level of welfare benefits for recipients who don't work? The argument for doing so is people who are playing by the rules and working, even if they have not been able to find an unsubsidized job, should not be penalized by receiving lower benefits. The argument against doing so is that this too would continue welfare as a work supplement.

The Working Group was split on this issue. The discussion tended to parallel the discussion on the acceptability of part time work. There was some sentiment in favor of varying the expectation for parents of pre-school children.

The level and focus of child care for the working poor

What level of resources should we devote to child care for the working poor? How should limited resources be targeted?

Child care for the working poor is a potentially costly addition to a welfare reform package. The argument for including it, however, is to ensure that low income working families are encouraged to stay off welfare, and that equity is maintained between those who have and have not been on welfare.

The Working Group agreed that child care for the working poor is an integral part of a welfare reform effort. The Working Group also expressed a preference, however, that working poor child care be paid for through mechanisms other than cuts in programs for the poor. There is a strategic decision to be made, therefore, about the financing and packaging of this aspect of welfare reform.

Parental responsibility and prevention

Should demonstrations of child support assurance and programs for non-custodial parents be included in the welfare reform package? Should states be allowed or required to reduce benefits for children conceived on welfare?

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The Working Group agreed that demonstrations of both Child Support Assurance and programs for non-custodial parents should be included. Enthusiasm for child support assurance varied.

The Working Group did not discuss family caps or other prevention issues, which will be taken up at the next meeting.

COSTS AND FINANCING

The attached paper does not include a discussion of financing options. The Working Group recognized that decisions about the overall welfare reform package that have serious cost implications need to be made in the context of available financing possibilities. Issues of balancing costs and financing were not discussed at the February 26 meeting, but will be the focus of the next meeting.

To provide a sense of the scale of a program and the cost of particular elements, we have created a hypothetical proposal, which served to guide the Working Group's discussions of the costs of various policy choices. The actual cost of the program will differ depending on what decisions are made about the issues identified above. In the attached document, we refer to this hypothetical proposal and indicate where different programmatic decisions would have led to a larger or smaller program. The table which follows is provided only as a basis of discussion--not as an indication that policy decisions have been made.

**TABLE 1.—PRELIMINARY COST ESTIMATES (FEDERAL AND STATE)
FOR A HYPOTHETICAL WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)**

	1995	1996	1997	1998	1999	5-Year Total
PARENTAL RESPONSIBILITY						
Minor Mothers	0	(45)	(50)	(50)	(50)	(195)
Comprehensive Demonstration Grants	0	50	50	50	50	200
Two-Parent Provisions	0	0	440	680	945	2,065
No Additional Benefits for Additional Children	(35)	(100)	(110)	(140)	(150)	(535)
Child Support Enforcement						
Paternity Establishment (Net)	5	20	(110)	(165)	(215)	(465)
Enforcement (Net)	(10)	(20)	(65)	(80)	(320)	(495)
Computer Costs	15	35	95	160	160	465
Non-Custodial Parent Provisions	0	25	80	110	175	390
Access Grants and Parenting Demonstrations	20	25	30	30	30	135
Child Support Assurance Demonstrations	0	0	100	200	250	550
SUBTOTAL, CSE	30	85	130	255	80	580
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK						
S-Prep	0	15	50	60	70	195
Additional JOBS Spending	0	210	750	920	1,000	2,880
WORK Program	0	0	0	130	690	820
Additional Child Care for JOBS/WORK	0	190	630	745	900	2,465
Transitional Child Care	0	70	230	280	360	940
Enhanced Teen Case Management	0	30	90	105	110	335
Economic Development	0	0	100	100	100	300
Savings - Caseload Reduction	0	0	(30)	(60)	(80)	(170)
SUBTOTAL, JOBS/WORK	0	515	1,820	2,280	3,150	7,765
MAKING WORK PAY						
Working Poor Child Care	0	500	1,000	1,500	2,000	5,000
Advance EITC	0	0	0	0	0	0
GRAND TOTAL	(5)	1,005	3,280	4,575	6,025	14,880

Note: Parentheses denote savings.

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.

SEE APPENDIX FOR ENDNOTES TO TABLE

APPENDIX: ENDNOTES TO TABLE 1

Two-Parent Estimates

1. The costs for eliminating the special eligibility requirements for two-parent families is based upon estimates from the food stamp quality control data file. These estimates were then adjusted for increased participation based on estimates from the MATH model employed by Mathematica Policy Research, Inc.

Child Support Enforcement Estimates

1. The costs for the noncustodial parent provisions are 10 percent of the JOBS and WORK program costs.

Caseload Numbers and JOBS and WORK Estimates

The caseload numbers and the JOBS and WORK cost estimates are based on the following policies, assumptions and sources of data:

1. Adult recipients (including teen custodial parents) born after 1972 are subject to the time limit beginning in October 1996 (FY 1997). The cost estimates assume about one third of the States, representing 40 percent of the caseload, will implement the policy a year earlier than required. This follows the pattern of State implementation under the Family Support Act. JOBS spending on other portions of the caseload would continue as per current law.
2. Non-parental caretaker relatives are not subject to the new rules and are not phased-in.
3. Parents who have a child under one (or under 3 months, if conceived after the initial welfare receipt), are caring for a severely disabled child, report a work limitation or who are 60 years of age and older are deferred from participation in the JOBS and WORK programs. As of FY 1999, about 25 percent of the phased-in caseload is deferred.
4. The caseload numbers include modest treatment effects as a result of the new rules.
5. Cost per JOBS participant figures are taken from the FY 1993 JOBS data (adjusted for inflation using the projected CPI).
6. The cost estimate assumes that all non-deferred phased-in recipients are engaged in activities. We assume that at a given point in time, 50 percent of the phased-in recipients are engaged in activities which have cost. For recipients with extensions, it is assumed that everyone is participating in a JOBS activity which costs the program money.
7. The cost of developing and maintaining a WORK assignment is calculated using CWEP data from JOBS and from the welfare-to-work demonstrations of the 1980s (again, adjusted for inflation using the projected CPI). Approximately 25,000 and 130,000 WORK slots would be required in 1998 and 1999, respectively.

8. The figures for JOBS participants and JOBS spending under current law are taken from the baseline in the FY 1995 budget for the HHS Administration for Children and Families
9. The JOBS and WORK cost estimates do not consider the potential impact of child support on the size of the caseload.

Teen Case Management and JOBS-Prep Cost Estimates

The case management cost estimate presumes that at full implementation, enhanced case management services would be provided to all teen parents under the age of 19 and receiving assistance. The percentage of teen parents receiving comprehensive case management services is predicted to rise from 70 percent in FY 1996 to 80 percent in FY 1997, 90 percent in FYs 1998 and 1999 and to 100 percent in FY 2004.

The cost per teen figure for enhanced case management is drawn from Teen Parent Demonstration data. There is no data available on the current level of case management expenditures in the JOBS program. Consequently, the estimate employs, as a proxy for a JOBS case management cost per participant number, a figure calculated using data from the welfare-to-work demonstrations of the 1980s (San Diego I and Baltimore Options).

The additional cost of comprehensive case management for teens is the difference between the cost of providing enhanced case management to teen parents under 19 and the cost of delivering standard case management to the same population. The difference is roughly \$560 per participant per year, in 1993 dollars.

2. The JOBS-Prep cost estimate presumes that JOBS-Prep services will be provided to 20 percent of those in the JOBS-Prep program. As States currently serve only 16 percent of the non-exempt caseload in the JOBS program, it is plausible to suppose that States will not serve a significantly higher percentage of persons in the JOBS-Prep program. We do not know what services States will provide during the JOBS-Prep program (candidates include parenting skills classes, life skills training and substance abuse treatment), so arriving at a cost per participant figure for the program is difficult.

For purposes of the estimate, we assume that States will not provide services such as vocational rehabilitation in the JOBS-Prep program. JOBS-Prep services will consist primarily of case management and referral to external service providers. Many persons in the JOBS-Prep program have disabilities, although most mothers of children under one do not. The cost estimates assume that a fairly intensive level of case management would be required for a small percentage of persons in this program.

The cost per JOBS-Prep participant figure represents a level of case management more intensive than that in the current JOBS program but not as intensive as the level provided in the Teen Parent Demonstration. The number is arrived at by multiplying the Teen Parent Demonstration case management figure by .75.

Child Care Estimates

1. These estimates reflect the child care costs associated with the phase-in assumptions described above under JOBS and WORK.
2. This estimate is based upon baseline spending for the Head Start program and therefore does not account for the additional children who will be served by Head Start when it expands. This follows conventional CBO scoring rules.
3. There is no sliding scale fee for services included in this estimate.
4. We assume that approximately 40 percent of all AFDC families participating in JOBS and WORK will use paid child care.
5. We assume that Transitional Child Care eligibles will have average utilization rates of 40 percent.
6. Our working poor estimate represents a phase-in of a capped entitlement to cover children whose families are below 130 percent of poverty but do not receive AFDC. By 1999, we will approach full implementation with \$2 billion in net funding. We assume that there are approximately 8 million non-AFDC children below 130 percent of poverty, 40 percent of whom will potentially need child care because of their parents' work status, and that 40 percent of these families will use paid child care.

No Additional Benefits for Additional Children

1. This cost estimate is based upon an estimate by the Congressional Budget Office. The estimate assumes a State option policy where States representing 33 percent of the effected caseload adopt a cap for benefits for new children.
2. It is assumed that States would reduce the monthly benefit by \$63 for each child (after the first) born while the mother was receiving AFDC. It is also assumed that States would have little success identifying children born on AFDC during previous spells of welfare receipt.



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

Stacy D.

February 14, 1994

**MEMORANDUM FOR THE DIRECTOR
DEPUTY DIRECTOR**

FROM: Belle Sawhill *Belle*
SUBJECT: Welfare Cost Estimates

The costs of welfare reform depend on

- the contents of the plan,
- the phase-in strategy and time period for which costs are estimated; and,
- the behavioral impacts of the plan.

This memo lays out some of the issues we face in each area and seeks your guidance in resolving them.

The Contents of the Plan

There are a large number of possible reform options consistent with the President's basic vision -- each with a different "steady-state" cost. ("Steady-state" means the cost once the plan has been fully phased in and any new rules or policies apply to the entire caseload, not just a portion of it.) I believe, based on our staffs' work, that the range of annual steady-state costs varies from zero to \$10 billion with the most reasonable estimates probably falling in the middle of this range. We are now working with HHS to specify the most relevant options within this range so that you and others can see what kind of policy you can buy for different prices. Although we will have much more detail for you later, the most relevant issues are likely to be: how much child care is expanded for the working poor, whether the work slots are time-limited, and the administrative costs of creating jobs.

The Phase-In of the Plan

Most of those who have worked on the plan agree that it should be phased in gradually. Although there are numerous ways to do this (by state, by age, by length of time on the rolls, etc.), the most common assumption is that we will start with all new applicants (existing recipients would be grandmothers). Under this assumption, it turns out that the federal costs of a basic reform plan (the time-limit followed by community service, with related training and child care costs and assuming no behavioral effects), based on very preliminary estimates, are as follows:

First five years (cumulative):	\$3 billion
First ten years (cumulative):	18 billion
Steady state (one year):	5 billion
Steady state (five years):	25 billion

As these numbers plainly illustrate, the phase-in path is critical as is the specific time period for which costs are estimated and presented to the public. Depending on which period is picked we can say the same plan costs anywhere from \$3 to \$25 billion. Note that Senate scoring rules adopted in last year's budget resolution require a 10-year window. Moreover, journalists, aided by outside analysts, will surely be interested in presenting steady-state estimates even if we do not.

Behavioral Impacts

To a large degree, the promise of reform is that it will affect behavior. The theme of parental responsibility, with its emphasis on child support enforcement and reducing teen births, is designed to reduce the number of people coming on to the rolls. The theme of work and responsibility, with its emphasis on education, training, and jobs, is intended to move people off the rolls. Many of us believe that over time these impacts will occur and will produce savings that help to offset (possibly even more than offset) the initial costs of reform. The problem is that it is doubtful that CBO will score much if any of these savings. (The estimates cited above do not assume any behavioral impacts.)

Options

In the face of these facts, it seems to me that we have three basic options:

Option One: Count Just the First Five Year Costs

If we did this we could propose quite a generous policy and fully offset it. The downside is that we could be blown out of the water by outside analysts and be

subject to a point of order in the Senate. Republicans would argue that we had launched an expensive policy and only paid for its opening wedge.

Option Two: Count the Steady-State Costs

This would be much more credible but would necessitate proposing a much tougher policy unless we come up with a lot bigger offsets than anyone is contemplating right now or assume much bigger behavioral impacts than CBO is likely to score. We would probably need to time limit the community service jobs, cut back on child care expansions for the working poor, and find creative ways to keep the costs of the work program down. A variety of popular add-ons (such as liberalizing the assets test, treating two-parent families more like one parent families, experimenting with child support guarantees) would probably have to be dropped.

Option Three: Propose a Five Year Program Only

We could make the argument that we believe that behavior is bound to change under our policy, but that we plan to rigorously evaluate the program over a five year period to measure its effects and the associated cost savings. We could propose to sunset the legislation at the end of five years at which time we might ask the Congress to extend and possibly modify it, depending on what was learned over the first five years. This is a sensible approach that avoids some scoring problems but could be criticized for not ending welfare as we know it but rather experimenting with welfare as we know it.

The above is just a first installment on what will undoubtedly be an extended discussion of these issues. I will be setting up some meetings so we can talk about them further and get your input.

cc. Bruce Reed
Kathi Way
Richard Bavier
Stacy Dean

October 27, 1993

E-Mail to: Leon Panetta and Alice Rivlin

From: Belle Sawhill

I earlier shared with you a summary of the bill House Republicans plan to submit on Nov. 8. Briefly, the plan includes:

-A requirement that almost all welfare recipients participate in education, training, job search, or work experience during the first two years (phased in).

-A requirement that almost all welfare mothers work at the end of 2 years, either in the private sector or in a community service job. Individuals would be eligible for community service jobs for up to 3 years.

-No benefits, under most circumstances, for parents under 18, for mothers who do not identify the father of their child, or for mothers who have additional children while on welfare.

The cost of the added services is about \$12 billion over 5 years. However, the bill denies welfare and related forms of assistance to noncitizens, thereby saving \$21 billion. It also proposes to block grant about 10 food programs while cutting funding for them by 5%, thereby saving \$8 billion. The total savings from these and other measures are \$31 billion. Thus, on balance, there are sufficient funds to pay for reform and reduce the deficit by about \$19 billion.

Summary:	New costs	+ 12
	Savings	- 31
	Deficit reduction	- 19

Senate Republican Welfare Reform Proposal

The House and Senate Republican Welfare Reform bills are quite similar. Both bills set up a two year transition to work program, require applicant job search, job training, and finally work for welfare. Exemptions and sanctions in the Senate bill are generally the same as the House, with some administrative differences. Under both bills, minor mothers and fathers would be required to live with their parents, there would be rewards and sanctions for school attendance and States would have the option to deny benefits to children born while on welfare. Both Bills seek to increase paternity establishment and improve child support enforcement, and expand and expedite waiver authority for State experiments. The Senate also restricts welfare payments to immigrants and illegal aliens.

Major differences between House and Senate versions:

JOBS and Work Programs in the Senate

- Would allow recipients to take a private sector job and give employers a voucher to supplement wages. The voucher would be equal to the combined AFDC and Food Stamp benefit. To hire recipients, employers would have to agree to pay the employee at least twice the value of the voucher or minimum wage whichever was higher. After six months, the wage replacement value of the voucher would be reduced by half and would be phased out after two years. Employers could also receive the Targeted Jobs Tax Credit (TJTC) for employing the welfare recipients. There is no similar provision in the House Bill.
- Would require assessment every 6 months to determine if the recipient has made "clear and substantial progress" toward preparing for work.
- While the House requires all non-exempt individuals to work to receive welfare after two years, the Senate requires only those who are found "ready to work" after two years to work.
- There are no participation rates for JOBS and work programs in the Senate version. The House Bill specifies participation rates in the JOBS and work programs of 60% rising to 90% by 2002.

Paternity Establishment and Child Support Enforcement in the Senate Bill

- Once at least one child in the family had paternity established, all children would be eligible to receive AFDC. Only the mother would be sanctioned for non-cooperation. Under the House version, children would be eligible for AFDC only if paternity is established, and the entire family would not receive benefits for non-cooperation.

- Once a paternity suit had been filed, the client would be eligible for full benefits. The House only allows full benefits after paternity is legally established.
- Unlike the House bill, does not require W-4 wage and new hire reporting systems and hospital based paternity establishment processes.

Other Provisions in the Senate Bill:

- extends current deeming requirements from 5 years to citizenship: The Bill requires welfare agencies to report legal immigrants who continue to receive benefits beyond 12 months to the INS. The INS would then be required to treat the immigrants as "public charges," which would make the immigrants potentially deportable.

House Provisions not in the Senate Bill

- The House bill includes a State option to convert AFDC to a block grant. The House would also place a cap on Entitlement programs, consolidate 10 food programs into a block grant, require SSI to identify and periodically test addicts on SSI and, if positive, terminates eligibility and require public housing authorities to disregard FICA and income taxes for 2 years after recipients begin employment. None of these provisions are in the Senate bill.

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

Title and Section	FY94	FY95	FY96	FY97	FY98	FY94-99
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Title I AFDC Transition and Work Program

**AFDC Transition and WORK
Program Child Care***

CBO:	AFDC-JOBS	0	0	300	1,000	1,900	3,200
	AFDC-Child Care	0	-100	100	600	1,600	2,200
	Total	0	-100	400	1,600	3,500	5,400
HHS:	AFDC-JOBS	0	92	450	951	1,512	3,005
	AFDC-Child Care	0	-22	208	603	1,248	2,037
	Total	0	70	658	1,554	2,760	5,042

Note: HHS has indicated that they consider these Child Care estimates to be a little high.

Title I Subtotal

	CBO	0	-100	400	1,600	3,500	5,400
	HHS	0	70	658	1,554	2,760	5,042

Title II Paternity Establishment

**Sanction AFDC Families if
Paternity is not Established**

CBO:	AFDC	-200	-400	-900	-900	-900	-3,300
	Food Stamps	100	200	500	500	500	1,800
	CSE	N/E	N/E	N/E	N/E	N/E	N/E
	Total	-100	-200	-400	-400	-400	-1,500
HHS:	AFDC	-485	-720	-1,180	-1,190	-1,200	-4,775
	Food Stamps	125	250	500	500	500	1,875
	CSE	0	2	4	0	-3	10
	Total	-360	-461	-676	-690	-703	-2,890

Title II Subtotal

	CBO	-100	-200	-400	-400	-400	-1,500
	HHS	-360	-461	-676	-690	-703	-2,890

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

<u>Title and Section</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>	
<u>Title III Expanded Statutory Flexibility for States</u>							
301 State Option to Convert AFDC to a Block Grant							
CBO:	CBO believes that no State would take this option.					0	
HHS:	0	0	0	0	0	0	
302 Deny AFDC if either parent is a minor							
CBO:	N/E	N/E	N/E	N/E	N/E	N/E	
HHS:	-260	-270	-280	-290	-300	-1,400	
303 Treat Interstate immigrants under rules of former State							
CBO:	AFDC	-30	-70	-70	-70	-70	-310
	Food Stamps	<u>20</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>180</u>
		-10	-30	-30	-30	-30	-130
HHS:	AFDC	-140	-140	-150	-150	-160	-740
304 Impose penalty for failure to attend school							
CBO:	AFDC Admin	25	75	100	100	100	400
	AFDC Benefits	*	*	*	*	*	*
	Total	25	75	100	100	100	400
HHS:	AFDC	50	75	110	115	120	470

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(in millions of dollars)

<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
305	No Additional Benefits for New Children						
CBO*	AFDC	-90	-200	-260	-320	-350	-1,220
	Food Stamps	<u>50</u>	<u>100</u>	<u>140</u>	<u>160</u>	<u>190</u>	<u>640</u>
	Total	-40	-100	-120	-160	-160	-580
HHS	AFDC	-160	-440	-620	-810	-1,020	-3,050
* CBO has indicated that these AFDC savings estimates are a little high and will be reestimated.							
306	Option to modify certain AFDC income disregard rules						
CBO:	AFDC	220	220	230	240	250	1,160
	Food Stamps	-110	-120	-120	-120	-130	-600
	Medicaid	<u>140</u>	<u>150</u>	<u>160</u>	<u>180</u>	<u>200</u>	<u>830</u>
	Total	250	250	270	300	320	1,390
HHS	AFDC	260	260	270	280	290	1,360
307	Option to provide married couple transition benefits						
CBO:	AFDC	60	120	120	130	130	560
	Food Stamps	-30	-60	-70	-70	-70	-300
	Medicaid	<u>70</u>	<u>160</u>	<u>180</u>	<u>200</u>	<u>220</u>	<u>830</u>
	Total	100	220	230	260	280	1,090
HHS:	AFDC	60	120	120	130	130	560
	Food Stamps	-30	-60	-70	-70	-70	-300
	Medicaid	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>
	Total	30	60	50	60	60	260

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
308 Disregard Income and resources designated for education training & employment, or related to self-employment							
CBO:	AFDC	10	25	55	55	55	200
	Food Stamps	-5	-5	-10	-10	-10	-40
	Medicaid	<u>10</u>	<u>10</u>	<u>25</u>	<u>35</u>	<u>35</u>	<u>115</u>
	Total	15	30	70	80	80	275
HHS:	AFDC	5	15	30	30	30	110
309 Option to require attendance at parenting & money management classes & prior approval of any action that would result in a change of school for a dependent child							
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	Indeterminate but small.					
Title III Subtotal							
	CBO	340	445	520	550	590	2,445
	HHS	-215	-440	-590	-765	-980	-2,990

Title IV Expansion of State Waiver Authority

Expansion of State and Local Flexibility

CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	*	*	*	*	*	*
Title IV Subtotal							
	CBO	N/E	N/E	N/E	N/E	N/E	N/E
	HHS	*	*	*	*	*	*

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

Title and Section	FY94	FY95	FY96	FY97	FY98	FY94-99
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Title V Child Support Enforcement

Child Support Enforcement

CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	10	2	-2	-9	-27	-26
	CSE	8	12	27	55	24	126
	Total	18	14	25	46	-3	100

Title V Subtotal

CBO	N/E	N/E	N/E	N/E	N/E	N/E
HHS	18	14	25	46	-3	100

Title VI Eliminate Benefits to Non-Citizens

Eliminate All Benefits to Non-Citizens

CBO:	AFDC	0	-100	-300	-300	-300	-1,000
	Food Stamps	0	-400	-800	-800	-800	-2,800
	Medicaid	0	-900	-2,100	-2,400	-2,700	-8,100
	SSI	0	-1,200	-2,500	-2,700	-3,000	-9,400
	Total	0	-2,600	-5,700	-6,200	-6,800	-21,300
HHS:	AFDC	-10	-210	-230	-250	-260	-960
	SSI	-80	-1,970	-2,140	-2,300	-2,460	-8,950
	Total	-90	-2,180	-2,370	-2,550	-2,720	-9,910

Title VI Subtotal

CBO	0	-2,600	-5,700	-6,200	-6,800	-21,300
HHS	-90	-2,180	-2,370	-2,550	-2,720	-9,910

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

<u>Title and Section</u>	<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
<u>Title VII. Controlling Welfare Costs</u>						
Controlling Welfare Costs						
CBO: NET	N/E	N/E	N/E	N/E	N/E	N/E
HHS: NET	0	-600	0	-7,000	-8,200	-15,800
<u>Title VII Subtotal</u>						
CBO	N/E	N/E	N/E	N/E	N/E	N/E
HHS	0	-600	0	-7,000	-8,200	-15,800
<u>Title VIII Consolidated Block Grant To States For Nutrition Assistance</u>						
Block Grant Mandatory and Discretionary Food Programs and reduce authorization by 5%						
CBO: NET	0	-3,000	-1,600	-1,800	-1,900	-8,300
HHS: NET	0	-1,900	-2,600	-3,300	-3,600	-11,400
<u>Title VIII Subtotal</u>						
CBO	0	-3,000	-1,600	-1,800	-1,900	-8,300
HHS	0	-1,900	-2,600	-3,300	-3,600	-11,400
<u>Title IX Miscellaneous</u>						
901 AFDC recipients required to undergo necessary substance abuse treatment as a condition of receiving AFDC						
CBO AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS AFDC	N/E	N/E	N/E	N/E	N/E	N/E

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
902	Random Drug test of addicts getting SSI disability benefits						
CBO	SSI	N/E	N/E	N/E	N/E	N/E	N/E
	Medicaid	N/E	N/E	N/E	N/E	N/E	N/E
HHS	SSI	N/E	N/E	N/E	N/E	N/E	N/E
	Medicaid	N/E	N/E	N/E	N/E	N/E	N/E
903	Evaluation of education and training programs						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	5	5	5	5	5	25
904	Job search required while AFDC application is pending						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
905	Demos on fraud & administrative efficiency						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	1	1	1	1	1	5
906	Public housing rent reform						
CBO	Housing	N/E	N/E	N/E	N/E	N/E	N/E
HHS	Housing	N/E	N/E	N/E	N/E	N/E	N/E

Republican Welfare Reform Bill HR. 3500
A comparison of preliminary HHS and CBO pricing
(in millions of dollars)

<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
907 Required Immunizations for children and health check-ups							
CBO	AFDC	•	5	5	10	10	30
	Medicaid	5	10	25	40	35	115
	Total	5	15	30	50	45	145
HHS	AFDC	0	5	5	5	5	20
<i>Title IX Subtotal</i>							
	CBO	5	15	30	50	45	145
	HHS	6	11	11	11	11	50
<i>Total As Priced</i>							
	CBO	245	-5,440	-6,750	-6,200	-4,965	-23,110
	HHS	-641	-5,486	-5,542	-12,694	-13,435	-37,798

EXECUTIVE OFFICE OF THE PRESIDENT

01-Mar-1994 05:31pm

TO: Alice M. Rivlin

FROM: Isabel Sawhill
Office of Mgmt and Budget, HRVL

SUBJECT: welfare reform

How should the program be phased in?

How much effort should be put into preventing first entry? Should we have a family cap? Should minor moms have to live with parents?

Should we provide benefits for noncustodial parents?

Should we do child support assurance demos?

Who should be exempted from participation? What about extensions? For college?

Should we require job search before receipt of welfare?

Should the emphasis be on labor force attachment or human capital development in the JOBS program?

Should the WORK program be time-limited? Or (equivalently) the number of slots capped?

Should it be work for wages or work for welfare? Can you be fired? What's the final safety net for those who are?

Can a significant number of the WORK slots be child care for other recipients?

Should people in WORK receive EITC?

Should those who are working at end of 2 years continue to receive an AFDC supplement in high benefit states?

Should there be expanded child care for the working poor? Could it be proposed in a separate bill?

Should we change rules for two parents and make other changes to simplify programs? Only if it saves rather than costs money?

Should federal government pay all of the new costs? Or share with

states?

Can some of the financing options be repackaged as cost savers under the "reinventing government" rubric?

WR-COSTS

October 5, 1993

NOTE FROM: Wendell Primus

Last week we had considerable discussion about the cost of community work experience programs (CWEP) for welfare recipients. The attached draft paper provides some unit cost estimates of three types of employment support services, including transitional work experience, which is modeled after CWEP. The paper also identifies the major components of the aggregate service costs for each of the three types of employment support services models. You will note that the child care costs in a transitional work experience program represent only approximately 27% of the aggregate costs -- less than the cost of developing and maintaining the positions (37%), but more than case management costs (20%).

This paper is the best work I have seen on this subject, and I hope you find it helpful for our future discussions.

Attachment

Q's

\$3,300 (nearly 60%) on Admin costs of welfare. Why not just give them the money as a job voucher -- or pay Amer. works?

Why can W-Va. spend \$18/mo on Admin and we assume \$150/mo.?

Why intensive case mgmt for CWEP crowd?

How much does c. care overlap with W. Start?

**DRAFT--FOR INTERNAL REVIEW AND DISCUSSION ONLY
DO NOT CITE**

COSTS OF EMPLOYMENT-SUPPORT SERVICES UNDER WELFARE REFORM¹

October 2, 1993

This paper provides estimates of the cost of providing employment-support services to welfare recipients during various phases of their participation in self-sufficiency oriented activities. Specifically, we have developed estimates of the cost of receiving three different types of program support: (1) supervised and supported job search; (2) a transitional work experience job; and (3) services aimed at promoting retention in private sector jobs and, hopefully, progressing to better paying jobs. The goal in developing these cost estimates is to guide policy developers and program planners regarding the level of funding necessary to provide various types of support to welfare recipients to promote continual progress toward self-sufficiency. Cost estimates are calculated per "year of service." We have considered both the experiences of other programs and preliminary plans for welfare reform in judging how the service bundle under the welfare system will vary for individuals within a year and across individuals. The overall cost estimates are supported by detailed information on the costs of various component services in various ongoing and prior programs and demonstrations.

This paper does not provide estimates of the cost of major services that may be preparatory to participation in job search, transitional work experience, or low-wage private sector employment.

¹This paper was drafted by Rebecca Maynard, based on input from a variety of sources and with assistance from a large number of people, particularly members of the post-transition cost estimation working group--Geoff Gettinger, DHHS/OS; Michael Ruffner, OMB; Sherry Glied, CEA; Dennis Poe, ACF/DHHS; and Jim Houser, DOED. David Long, Craig Thornton, and Ellen Kisker also provided valuable guidance in the assembly and interpretation of data for this paper. A companion volume contains many of the source tables and from which particular pieces of cost data were drawn.

Although many welfare recipients will need extensive transitional support services prior to moving directly into the work force--whether to private sector or work experience positions--the federal costs of these services will depend heavily on the community context. We anticipate that the mental health needs will be provided through the reformed health care system. Many education and job training opportunities are already available for this population, funded through local school districts, community colleges, and the federal job training system, for example. The general assumption is that the welfare system will need to provide case management and support services to clients in these transitional services, but that the cost of the major services during this period will be borne by existing systems outside of welfare.

The following section discusses our overall estimates of the costs of three types of services--job search support, transitional work experience, and employment support--and the components of these aggregate service costs. We present *benchmark* estimates, but also *higher* and *lower* cost estimates for each type of service. Section B discusses the source of our estimates of each of the components of the overall service cost estimates--job creation and support, child care, job search assistance, transportation assistance, and case management. Source data for various of the component cost estimates are presented in a companion volume.

A. OVERVIEW OF THE SERVICE COST ESTIMATES

Service costs are necessarily dependent on program design--the target population for the intervention, participation rates and intensities, and service mix and intensity. Our benchmark or best-guess estimates are that: a supportive **job search assistance** program will cost about \$1,500 per year in post transition job search; **transitional work experience** will cost an average of about \$5,900 per year; and **employment support** for those in low wage jobs will cost an average of about \$3,500 per year (Table 1). However, a number of factors could lead one to judge these estimates to be too high or too low. For example, the specifics of the program design or program targeting that are planned could differ from those implicit in the benchmark estimates, or one could judge that the

assumed level of use of a particular support service is too high or too low. Our "lower" and "higher" costs estimates specifically address these types of concerns. The range of our costs estimates for each type of service generally falls within a range of about plus or minus 25 to 35 percent of the benchmark estimate.

In developing these specific cost estimates, we assumed that the programs will have fairly broad coverage, have strong participation incentives and/or requirements, and have incentives to address the full range of service needs of individuals. These assumptions point to several important differences between the prior programs from which we are drawing cost estimates and the program models likely to evolve under welfare reform.

First, the new programs will have greater and more even coverage of the population. Moreover, programs are expected to make greater efforts to address needs, such as child care, that frequently have been cause for exemption in past programs. As a result, we can expect that, on average, the population will be younger, will have younger children, and will include some who, at first blush, seem less eager or willing to participate than those served under JOBS, for example.

Second, states will be held accountable for participant outcomes, not simply service delivery. This means that we can expect programs to be more attentive to the "bundle" of services needed by individuals to move them to self-sufficiency. Moreover, they will be more attentive to the quality and intensity of the services, since their performance depends on the outcomes of the services not simply their delivery.

Third, there will be real consequences for welfare recipients of not actively pursuing self-sufficiency and availing themselves of necessary services to support these efforts. This means that we can expect more regular program participation and greater use of services by the welfare recipients than under voluntary programs. Fourth, there will be strong emphasis on promoting self-sufficiency at the earliest possible point. This too means that the target population will tend to be

younger than those served by most previous program initiatives, including JOBS, and that they will have much younger children, on average.

Our benchmark cost estimates necessarily reflect judgments about the implications of these factors for extrapolating from the cost experiences of prior program efforts.

1. Job Search Assistance Services

Participants in supervised and supported job search will need a range of services, including child care, direct job search assistance, transportation, and case management. On average, we estimate that providing these services to welfare recipients in this program component will average between \$1,018 and \$1,941 per service year (Table 1). Our benchmark costs estimate is \$1,517 per year.

Child Care. Child care is the largest component of cost--\$524 per year under the benchmark estimate. The benchmark estimate of child care costs assumes that just over half (54 percent) of all job search participants use child care to support their search efforts--the same percent who would have used JOBS-supported child care had the recipients with children younger than three been represented at twice the level they are currently represented in the AFDC population.² But, it assumes that those who receive benefits require them only a third of the months they are in supervised job search. The latter assumption seems reasonable, given the more intermittent nature of job search as compared with employment activities. The average subsidy level per family during months of support is set at the weighted average subsidy level received by those JOBS participants who got them a given month (\$243).³

$$[.54 \text{ Participation Rate} \times 4 \text{ Months of Use} \times \$243 \text{ per Month}] = \$525$$

²See section B and Table 4, below.

³This cost estimate was generated by weighting the average subsidy levels received by JOBS CWEP participants with youngest children in various age ranges by the assumed distribution of program participants under welfare reform (see section B and Table 4 below).

The lower estimate of child care costs (\$389 per year) assumes that fewer participants have very young children. Specifically, we assumed that the age distribution of children whose parents are in job search mirrors that of all AFDC families, which at the JOBS subsidy rates for families with youngest children in different age groups would be 40 percent rather than the 54 percent assumed under the benchmark estimate. The higher cost estimate (\$681) assumes that one aspect of welfare reform would be to encourage and support use of higher quality (and more costly) child care. Specifically, this higher estimate assumes that the average subsidy rate for child care is 30 percent above the current rate paid under JOBS.

Job Search Training. Job Search training costs are assumed to average \$225 per person under the benchmark estimate. Job search training tends to be episodic rather than ongoing, usually lasting two to four weeks. Our benchmark cost estimate assumes that programs would offer a slightly richer training course than the average provided under JOBS (estimated to cost an average of \$150 per participant rather than the \$125 per participant under JOBS). Moreover, we have assumed that half of those individuals staying in supervised job search for extended periods of time would retake the training once during the year.

$$[1.5 \text{ Episodes of Training per Year} \times \$150 \text{ per Episode}] = \$225$$

Under the lower cost estimate, we assumed that each participant would go through the training only once during any year of supervised job search (\$150). The higher cost estimate assumes that participants would attend an average of two training sessions in a year (\$300).

Transportation. Transportation costs associated with job search are assumed to average \$360 a year under the benchmark estimate—a rate that is half the average transportation subsidy costs of participating in a comprehensive service programs such as the Teenage Parent Demonstration

(Maynard 1993) and the various work/welfare demonstrations conducted during the 1980s (Brock et al. 1993).

$$[.5 \text{ Use Rate} \times \$60 \text{ per Month} \times 12 \text{ Months}] = \$360$$

Our lower cost estimate assumes that transportation costs are only one-fourth as large for job search participants as for the typical participant in a full-service program, such as the Teenage Parent Demonstration. Our higher cost estimate assumes the same level of support for transportation as under the benchmark estimate.

Case Management. The final service component--case management--is estimated to cost an average of \$408 per service year for those in supervised job search. This is a modest level of case management assumed to provide mainly supervision of the job search activities and ensure that child care and transportation support is available. This is a level of case management comparable to that provided in two of the work/welfare demonstrations conducted in the mid-1980s that emphasized job search assistance--Baltimore and San Diego (see Maxfield 1990):

$$[\$34 \text{ per Month} \times 12 \text{ Months}] = \$408$$

Our lower cost estimate assumes that programs will provide job search participants about 25 percent less case management (\$300 per year) than was provided in these work/welfare programs, which also served some recipients who were in education and training activities. The higher cost estimate assumes that programs would offer a somewhat richer level of case management, albeit at a still modest cost (\$600 per year). The added richness would allow a limited amount of follow-up with participants whose job search activities seem to need redirecting or whose attention to their search efforts has fallen below the expected levels.

2. Transitional Work Experience

Transitional work experience, modeled after the community work experience (CWEP) programs entails five major cost components--the cost of developing and maintaining the work experience positions, child care, job search training, transportation, and case management. Our benchmark estimate of \$5,872 a year (Table 1) assumes that the average duration of participation in a work experience job will be 12 months--about the average length of participation in one of the few work experience programs with open-ended participation (Ball et al. 1984). A still plausible, but lower estimate of the cost is about \$4,460 per year; and a more generous estimate of the costs is \$7,560.

Job Creation and Maintenance. The work experience costs are both a large share of total costs of this service and highly sensitive to assumptions about the duration of the work experience period and the turnover in job slots. Our benchmark estimate of \$2,200 assumes that the average cost of developing a work slot experienced in the various work/welfare demonstrations with sizeable CWEP components (\$400) would be similar to that experienced under the new work experience programs. Moreover, they assume that the average cost of maintaining the job slot would be similar to the experience in these prior programs (\$150 per month).⁴

$$[\$400 + \$150 * 12 \text{ Months}] = \$2,200$$

This also is the same estimated cost as if one assumed that the average monthly cost of CWEP in JOBS states with 500 or more active CWEP slots could be scaled up to a 12-month cost.⁵

$$[(\$235 \text{ per Month} - \$55 \text{ per Month Allocated to Transportation and Supportive Services Other than Child Care}) * 12 \text{ Months}] = \$2,160$$

⁴See Section B.1 and Table 2 for background data to support this cost estimate.

⁵Unit cost estimates are discussed in section B.1 and reported in Table 2 below.

Our lower estimate of the cost of job development and maintenance (\$1,800) assumes that, in a larger program, there would be economies of scale in the development of the job slots such that the fixed costs of developing a job slot would average only \$300 per year of experience as opposed to the \$400 benchmark estimate, and the marginal cost of maintaining the slot would be only \$125 a month rather than the \$150 assumed under the benchmark estimate. Our higher estimate of \$3,000 per year of work experience assumes that there would be diseconomies of scale, for example, due to the large number of positions that need to be developed relative to local opportunities. Here, we assumed that the fixed development costs would be 50 percent higher than under the benchmark estimate (\$600 rather than \$400) and that the maintenance costs would average one-third higher (\$200 per month rather than \$150).

Child Care. The child care costs associated with keeping a welfare recipient in transitional work experience for a year is estimated to average \$1,575 under our benchmark assumptions. Essentially, this figure assumes that the age distribution of children of work experience participants will be more skewed toward infants and toddlers than under JOBS and, indeed, more so than in the AFDC population, as was the case under our benchmark cost estimates for supervised job search. Moreover, we have assumed both that the same child care subsidy use rates experienced under JOBS for participants with children in different age ranges would apply to work experience participants and that the average subsidy level of those who receive them would be similar to that experienced under JOBS (see further discussion of child care costs below).

$$[.54 \text{ Average Subsidy Receipt Rate} * \$243 \text{ per Month of Subsidy} * 12 \text{ Months}] = \$1,575$$

Our lower cost estimate for child care (\$1,166) assumes that the age distribution of work experience participants by age of youngest child is similar to that in the AFDC population and the subsidy use rates within each age group would parallel the experience under JOBS. This results in an estimated subsidy receipt rate of percent at an average subsidy level of \$243 per recipient month. Our higher

estimate (\$2,047) simply assumes that the average monthly subsidy will be 30 percent larger than under the benchmark estimate (\$316 per month rather than \$243) to promote use of higher quality care and/or to account for more hours of participation in work experience or related activities.

Job Search Training. Job search training will be an important complement to the work experience. Our benchmark estimates assume that all work experience participants will attend at least one job search training course and half will attend a second session at an average cost of \$150 per session.

$$[1.5 \text{ Sessions per Participant per Year} * \$150 \text{ per Session}] = \$225$$

The lower cost estimate assumes that, on average, work experience participants attend only one session, and the higher cost estimate assumes they attend an average of two sessions over a one-year period.

Transportation and Miscellaneous Costs. Transportation and miscellaneous other work-related expenses are assumed under our benchmark estimates to average \$60 a month (or about \$4 per work day if work experience participants work an average of 70 percent of the normal work days per year). As noted above, this subsidy rate is consistent with that experienced for participants in various "full-service" programs for this target population:

$$[\$60 \text{ per Month} * 12 \text{ Months}] = \$720$$

Our lower estimate assumes that, on average, the subsidy is only \$40 per month or an average of \$480 per year of work experience. This lower cost could be due to the work experience involving fewer days of work per year (for example, only about 45 percent of the work days) or to lower rates of use of the subsidy among those who are working. Our higher estimate of transitional work experience costs maintains the same assumptions regarding transportation costs as our benchmark estimate.

Case Management. Our benchmark estimate of the costs of an effective work experience program assumes that participants will receive substantial case management--a level comparable with that provided to the teenage parents who participated in the recent mandatory service demonstration sponsored by ACF and ASPE (Hershey 1991 and Maynard 1993)--which costs an average of about \$96 per month or \$1,152 per year of work experience (see section B.5 below):

[\$96 per month of work experience * 12 months] = \$1,152

→ What does this ~~pay~~ pay for?
Why are we managing them while still on Welfare? Should we spend more on them than on those who get real jobs?

Our lower cost estimate assumes that a lower level of case management, costing only 75 percent as much as that expended in the Teenage Parent Demonstration (\$72 a month rather than \$96) would be sufficient for this service group, perhaps because many of their problems would have been addressed prior to being assigned a work experience job. On the other hand, it is possible that those who fail to get a private sector job on their own will require a higher level of case management than assumed under the benchmark estimate. Thus, our higher cost estimate assumes that case management costs are 30 percent higher than under the Teenage Parent Demonstration, for example (\$125 a month or \$1,497 a year).

3. Employment Support

A part of "making work pay" is supporting those in low-wage employment to retain their jobs and, over time, to progress to higher paying and otherwise better jobs. In developing cost estimates for such support, we have assumed that low-wage workers currently or recently on welfare would be provided with a complementary set of services that includes child care subsidies and placement assistance, job search training, transportation assistance and other support services, and a modest level of case management aimed at early identification and response to problems that could result in job loss or limit opportunities for job advancement.

Our benchmark cost estimate for employment support is \$3,533 per year of service, nearly two-thirds of which is related to child care (Table 1). Our lower estimate is \$2,410 per year of service,

reflecting lower average child care and transportation costs and the elimination of job search training. The higher estimate for employment support is \$4,316, with the increased costs being associated with higher child care subsidies to encourage use of higher quality care.

Child Care. All three of our estimates of employment support costs assume that child care is, by far, the most costly component of employment support for low-wage workers. As with work experience participants, we have drawn on the use and subsidy rates for work experience participants in JOBS. Essentially, we assumed that, for each the benchmark, the lower and the higher estimates of child care costs, those in low-wage jobs would use one-and-a-half times the level of subsidy required to support work experience participants. Our reasoning is that those in private sector employment will tend to have less flexibility of hours and days worked, will tend to have fewer adults willing to care for their children for free on a long term basis, and likely will involve work more work hours on average. The resulting cost estimates are \$2,363 for the benchmark estimate; \$1,750 for the lower cost estimate; and \$3,071 for the higher cost estimate.

It is important to note that, in contrast to the case for work experience participants, the child care subsidy costs for low-wage workers likely will not all be borne by the welfare system. For example, under current tax law, up to 40 percent of the child care costs borne by low-wage workers could be covered through the child care tax credit rather than the welfare employment support program. expand?

Job Search Training. Our benchmark estimate of employment support costs assumes that low wage workers will participate in one job search training course each year at an average cost of \$150. Our lower cost estimate assumes that those who are in the low wage work force do not need further job search training and so will not incur this cost. The higher cost estimate assumes that all participants attend at least one job search training course a year and that half attend a second one for a total cost that averages \$225 per year.

Transportation and Miscellaneous Support. Estimates of transportation and miscellaneous support services costs parallel those for work experience. Both the benchmark and the higher cost estimates assume that these costs are \$720 a year or about \$4 a day (assuming participants incur work-related transportation and other support costs an average of about 3.5 days a week). Under the lower cost estimate, we have assumed that transportation costs will be only half this large--reflecting, possibly, the greater flexibility in the private sector for some to work closer to home or in jobs where car pooling or other economical means of transportation are available.

Case Management. Finally, we have assumed a modest level of case management under all three estimates of employment support--\$300 a year or a level comparable with that provided in programs where case management is primarily an administrative function. This figure is comparable to our lower cost estimate for case management for supervised job search participants, reflecting the fact that those individuals who have made the transition to employment will tend to require somewhat less oversight and assistance than the typical participants in either job search (25 percent less) or work experience (75 percent less).

B. COMPONENT COST ESTIMATES

This section provides a detailed discussion of the cost experience in various other programs and demonstration projects targeted at welfare recipients and offering similar services to those reflected in our proposed service bundles. We begin with a discussion of cost of various work experience programs. We then proceed to discuss child care, job search training, transportation and miscellaneous support service, and case management costs, respectively. The goal of this section is to provide the reader with the background necessary to judge the reasonableness of the unit cost estimates and participation assumptions underlying the overall cost estimates discussed in section A, and to provide program designers with flexibility to develop alternative cost estimates for program and/or policy shifts from those assumed in this paper.

1. Cost of Work Experience Programs

There have been only a limited number of carefully documented work experience programs for welfare recipients. These include the current experience of those states that offer community work experience as part of their JOBS programs, eight of the work/welfare demonstrations conducted in the 1980s, two demonstration programs operated in Wisconsin during the late 1980s, and the Employment Opportunity Pilot Projects conducted in the late 1970s and early 1980s (Table 2). In each case, these programs differed in important respects from the type and/or scale of program that is envisioned under welfare reform. Nonetheless, they provide the best available guidance in estimating the range of costs that would be required to run work experience programs under a welfare reform.

As noted above, our estimates of the cost of placing and maintaining welfare recipients in work experience jobs for one year (assuming that the average duration of participation in this component is a year) range from \$1,800 to \$3,000 (see Table 1 above). We based these estimates largely on the experiences of CWEP programs sponsored under JOBS and the experiences of the work/welfare demonstrations. The annualized cost of these work experience programs averaged about \$2,200. However, there are several key issues that affect the interpretation of these--the duration of the work experience (many programs last for at most 13 weeks); the scale of operation (most offer relatively few work experience slots and none are at the scale envisioned under welfare reform); and the target population (many emphasized the AFDC-U population rather than single parents). Nonetheless, if we consider the experiences from these two sets of programs carefully, we arrive a reasonably similar estimates of the cost of this service component.

Fixed versus Variable Costs. A key factor in the cost of work experience programs, and a factor that accounts for much of the variability in cost across programs, is the job development costs. Based on the experiences from the work/welfare demonstrations, it costs an average of about \$400 to develop a work experience slot in these generally modest size programs (Table 2). Looking across

all of the programs for which we have cost data, there is a clear pattern of costs being higher in places operating at smaller scale. For example, this is particularly notable in comparing the average cost estimates for JOBS sites with more than 500 work slots (\$2,981 per year in FY 93 dollars) as compared with the U.S. average (\$1,591) (Table 2). It is also one of the major factors contributing to the difference in cost between the two work experience programs operated in Wisconsin, where the sites offering work experience and job training (WEJT sites) and costing an average of more than \$6,000 on an annualized basis, tended to be smaller scale than those programs not offering job training (CWEP sites) and costing an average of only about \$3,800 per service year.

To account for scale factors and to permit flexibility to adjust cost estimates to allow for longer periods of participation in jobs, we broke costs down into fixed and variable costs, based experiences in the work/welfare demonstrations (Brock, Butler and Long 1993, Table 10), and more specific data on the fixed versus variable costs of the West Virginia program (Friedlander, Erickson, Hamilton, and Knox 1986; and Ball, Hamilton, et al. 1986). Based on the West Virginia program experience, we assumed that the cost of maintaining a job slot was proportional to the cost of setting it up in the first place and averaged 8 percent of the fixed set up costs. This assumption allowed us then to decompose total job development costs for the various work welfare demonstrations into fixed and variable costs components:

$$[\text{Fixed Costs} + \text{Average Months of Service} * (.08 * \text{Fixed Costs})] = \text{Total Job Development Costs}$$

Proportional Allocation of Other Work Experience Costs. The best available data on the allocation of other component costs is from the various work/welfare program. In the West Virginia program, for example, where participants stayed in work experience jobs for an average of about 11 months, 84 percent of all expenditures were for CWEP administration and support (including transportation and miscellaneous expenses, but not including child care). Of these CWEP operational costs, just over half were for job development and maintenance; 15 percent was spent on general

administration and monitoring; and the remaining costs were for transportation. This resulted in the estimates of average monthly costs of various component services reflected in Table 2.

For illustrative purposes, we also partitioned the JOBS CWEP costs into fixed and variable cost components assuming the fixed job development costs were similar to the average of the work-welfare demonstration (about \$400 per participant slot) and that the average monthly cost of transportation and miscellaneous services was also similar to the experience in these demonstrations (about \$55 a month in current dollars). The residual costs of JOBS CWEP costs were assumed to be variable monthly costs of maintaining the job slot and providing general administration (\$147 a month).

Experiences in Other Programs. The Employment Opportunity Pilot Project experienced costs of work experience jobs that were consistent with the estimates from JOBS and the work/welfare demonstrations. However, its costs for public service jobs was substantially higher--in the neighborhood of \$5,000 per year of service (Table 2). Also, as noted above, the cost experience in one of the Wisconsin programs (CWEP) was comparable to those of JOBS and the work/welfare demonstrations, while that of the other (WEJT) was quite different. Implementation difficulties and scale have been offered as a partial explanations for the higher costs of the WEJT sites.

Application of the Work Experience Cost Estimates. In using these cost estimates, it is critical to consider several factors. The first is whether this job development cost estimate is sufficient, given local labor market conditions and the number of job slots that need to be created. A related factor is the expected tenure of welfare recipients in particular jobs. In developing our cost estimates we have assumed that individuals would stay in their work experience for an average of about one year. Our estimates are based on experiences of programs in which the number of job slots tended to be small relative to the size of the local market; operating at a larger scale may pose greater challenges in terms of finding enough appropriate slots. On the other hand, the experience underlying our cost estimates was based on relatively short-term experiences; over time, sites may develop relationships with employers that could result in a lowering of both the fixed and variable cost components.

A final consideration in applying the work experience cost estimates is making use of the fixed and variable cost components. For example, if under welfare reform, we expect individuals to hold their work experience jobs for an average of 18 months rather than a year, as assumed above, the cost estimates would need to be adjusted. One would either want to adjust all costs to a per participant basis (assuming 18 months of participation rather than 12) or lower the fixed cost component of the 12-month estimate to reflect the fact that the \$400 job development costs would be spread over 18 months of service rather than the 12 used in the calculations underlying Table 1. For example, in the latter case, the annual cost estimate would be calculated as follows:

$$[\$400 * (12 \text{ months in the period} / 18 \text{ months in the job}) + \$150 * 12] = \$2,066 \text{ per year}$$

Under this scenario, the estimated cost per year of service falls by about \$200 or 9 percent. A corresponding increase in the average cost of a year of work experience would result from a shortening of the average tenure of individuals in their work experience jobs.

2. Child Care Costs

Key determinants of child care costs include the use rate, the subsidies rates for those who receive them, and the number of hours and/or months the subsidies are awarded. The use rate will be especially sensitive to both the ages of participant's children--use rates will be very low for those with only school-age children and highest for those with children in the between ages two and three.⁶ The subsidy rates will depend on local child care markets, state reimbursement policies, and the preferences of parents for center versus family day care. The duration of use will depend largely on the intensity of the program activity. For example, job search will tend to be episodic and involve greater flexibility of hours than will be the case for work experience or private sector employment.

⁶Experience suggest that those with infants will be more likely than those with older preschoolers to have access to and prefer free relative care, and some of those with three- to five-year olds will have access to Head Start and other publicly funded preschools.

Thus, participants in job search may be more likely to be able to meet their child care needs through the use of informal, unpaid care than are those who are in some type of employment. We have made assumptions regarding these various parameters in our cost estimates that may need to be varied in accordance with the ultimate design for welfare reform.

Our estimates of child care costs are based largely on the experiences in JOBS programs, with some adjustments to reflect our judgment regarding changes in the age distribution of children of program participants under welfare reform. Making cost of living adjustments, the average costs per month of child care subsidies for those receiving them were reasonably similar across the various programs that have served welfare recipients with children of all ages (Table 3). The costs of the Arkansas and Maine work welfare demonstrations are somewhat lower than for the other sites, reflecting in part the age distribution of children of participants in those programs and in part the lower than average cost of child care in those states. The somewhat higher costs of child care under the Teenage Parent Demonstration reflects the high incidence of infants in care (80 percent of the target population).

In calculating our benchmark estimates of child care, we relied on the JOBS CWEP experience for determining subsidy use rates for participants with children of different ages, as well as the average subsidy rates for families whose youngest child falls into the different age ranges (Table 4). This resulted in our assuming subsidy rates that range for 15 percent for those with no child under 6 to 77 percent for those whose youngest child is between the ages of 1 and 2. For those getting subsidies, the subsidy levels ranged from an average of about \$215 a month for those whose youngest child is 3 or older to \$269 for those whose youngest child is between one and two years old.

For the various service models, we estimated the cost of subsidies per month of service under two different sets of assumptions regarding the age distribution of youngest children of participants. In some cases, we assumed that participants in services would reflect population of AFDC households in terms of the ages of their children. Under these assumptions, 40 percent of all participants in the

program component would receive a child care subsidy and the average subsidy received would be \$243 a month (Table 4). In other cases, we assumed that welfare reform would target more heavily new entrants to the system, thus, resulting in an over-representation--essentially a doubling of the representation--of those with children under age 3. Under these assumptions, the percent receiving subsidies would increase to 54 and the average subsidy rate would remain the same (\$243).

We assumed that those in job search would rely on child care subsidies at the same rate as those in work experience, but would do so only one-third of time they were searching, whereas, we assumed that those relying on subsidized care to support their employment or work experience would do so continuously. We also assumed that those in private-sector employment would be 50 percent more likely than work experience participants to use subsidies or, alternatively, that they would receive subsidies that averaged 50 percent higher in those months they received them. Other assumptions regarding the intensity of use and the average subsidy levels are reflected in the differences among our lower, benchmark, and higher cost estimates (see section A, above).

3. Job Search Assistance Costs

The primary determinants of job search assistance costs are the intensity of the program and the number of episodes of training individuals receive. Job search training programs traditionally last one month or less and entail periods of classroom instruction and supervised job search. As a result the costs of any training session tends to be quite modest. Moreover, the costs of job search have tended to be vary relatively little in absolute terms across programs. For example, over six different programs operated between the early 1980s and now, including JOBS and various demonstration projects, the cost of this service range between \$109 and \$229 per participant (Table 5).

Our most current estimate of job search costs is that for the JOBS program, where the costs average about \$125 per episode (month) in FY93 dollars (Table 5). The unweighted average cost across all six programs for which we report cost data is 25 percent higher than the JOBS costs (\$156 per episode), and the unweighted average of the FY93 costs across the four mid-cost programs

(excluding the highest and lowest cost programs) is \$150 in FY93 dollars. We use this third figure in our estimates of job search training costs under welfare reform. The assumption is that quality job search training will be important for moving individuals in to private sector jobs quickly and for assisting them in making productive job transitions.

4. Transportation and Miscellaneous Support Services Costs

For many AFDC recipients, holding a job or actively looking for one entails substantial transportation costs. Virtually all programs also provide some support for miscellaneous work-related expenses, such as uniforms and tools. However, because the latter costs tend to be small relative to the transportation costs, we have focused our attention on the implications of our assumptions regarding the frequency of reliance on transportation assistance in determining our recommended cost estimate for this bundle of services.

There is limited program data to guide us in estimating these costs under welfare reform, since prior programs have tended to have a liberal exemption policy vis a vis those for whom transportation posed difficulties or excessive costs. However, the information we do have suggests that these costs typically have average around \$55 per month of participation in employment or training (Table 6). Because we envision a much less liberal exemption policy under welfare reform, our benchmark cost estimates assume a slightly higher (\$60 per month) average estimated cost for these services during periods of half-time work experience or employment and a rate about half this level (\$30) a month on average during periods of supervised job search. Our lower and higher cost estimates vary these monthly cost estimates to reflect assumptions about more and fewer days during which the participants go to or search for work.

5. Case Management Costs

A minimal amount of case management is involved in the provision of any program services. However, there is considerable discretion in terms how much and what type of case management is provided above and beyond this minimal level. In developing a proposed cost estimate for case management under welfare reform, we made two preliminary judgments: (1) the level of case management should not be as intensive as that provided in some targeted and intensive interventions such as the New Chance programs or various social welfare demonstration programs, but rather should probably not exceed the levels provided in the Teenage Parent Demonstration (Hershey 1989; and Maynard 1993), and (2) the level of case management should be varied depending on the program service component. In particular, we should emphasize strong case management for those who are still trying to make the transition to private sector employment, especially those in work experience components.

We have a range of estimates of the cost of providing case management services that vary from a low of \$34 a month in two of the work/welfare demonstrations that emphasized job search assistance to a high of \$96 a month in the Teenage Parent Demonstration (Table 7). The Employment Opportunity Pilots project fell in between these estimates.

We opted to use the Teenage Parent Demonstration cost estimate for our benchmark estimates of case management costs during work experience, where we felt substantial guidance, supervision, and assistance would be required to prepare for private sector employment. In the Teenage Parent Demonstration, this cost covered a reasonable level of monitoring and follow-through with a population that was, on average, more challenging than the full AFDC population due to the young ages of both the participants and their children. However, the automated case tracking systems in place in these demonstration sites were very important in providing a reasonably high level of case management for this cost. Many programs would need to invest in such systems in order to duplicate the level of case management offered in the Teenage Parent Demonstration for this cost. For those

for whom we expected case management to be mainly, but not exclusively, a monitoring function--those in job search--we adopted the \$34 per month cost experienced in the work/welfare demonstrations. We used an even lower estimate (\$25 a month) for those in low wage employment, where the majority would need only administrative support.

TABLE 1
ESTIMATED COSTS OF POST-TRANSITION
SERVICES (FY93)

Program Component	Lower Estimate	Benchmark Estimate	Higher Estimate
Supervised Job Search (Per Year of Search)			
Child Care	\$389	\$525	\$682
Job Search Training	150	225	300
Transportation	180	360	360
Case Management	300	408	600
Total	\$1,019	\$1,518	\$1,942
Transitional Work Experience (Per Year of Service)			
Work Experience	\$1,800	\$2,200 ^a	\$3,000
Child Care	1,166 ^b	1,575 ^c	2,047 ^d
Job Search Training	150	225 ^e	300
Transportation	480	720	720
Case Management	864	1,152 ^f	1,497
Total	\$4,460	\$5,872	\$7,564
Employment Support for Low-Wage Workers (Per Year of Employment)			
Child Care	\$1,750 ^g	\$2,363 ^h	\$3,071 ⁱ
Job Search Training	0	150	225
Transportation	360	720	720
Case management	300	300	300
Total	\$2,410	\$3,533	\$4,316

^a Based on the average cost of CWEP in JOBS sites with more than 500 slots and various work/welfare demonstrations (see Table 2).

^b Based on JOBS subsidy and cost rates; assumes the age of youngest child is distributed in proportion to ages of children in all AFDC households (see Table 4).

^c Assumes those with children under age 3 are twice as likely to be served as to be on AFDC.

^d Quality enhancements increase costs by 30 percent.

^e Assumes one-and-a-half episodes of job search.

^f Assumes the same level of case management as in the Teenage Parent Demonstration costs training (see Table 7).

^g Assumes subsidy rates one-and-a-half times those for work experience participants.

TABLE 2
WORK EXPERIENCE COSTS

	Job Development		Administration and Monitoring (per month)	Transportation and Miscellaneous (per month)	12-Month JOB-Slot Equivalent	
	Fixed	Variable (per month)			Current \$	FY93 \$
JOBS (FY91) [1]						
States with > 500 Slots						
California		\$346			\$4,152	
Colorado		NA			NA	
Michigan		71			852	
New York		261			3,132	
Ohio		NA*			NA*	
Pennsylvania		112			1,344	
West Virginia		147			1,764	
Wisconsin		239			2,868	
Large site Average (Unweighted)	\$400*	\$147*		\$55*	\$2,822	\$2,981
US Average (N=12,948)		125			\$1,500	\$1,591
Work Welfare Demonstrations (FY93) [2]						
West Virginia	\$414	\$33	\$18	\$54	\$1,396	\$1,396
Arkansas ^b	435	36	111	55	2,859	2,859
Cook County	260	22	116	128	3,452	3,452
San Diego-I	316	26	140	7	2,392	2,392
San Diego-SWIM	239	20	220	21	3,371	3,371
Virginia	732	61	159	57	4,056	4,056
Baltimore	381	32	62	78	2,445	2,445
Maine ^c	385	32	134	43	2,893	2,893
Average (Unweighted)	\$395	\$33	\$120	\$55	\$2,891	\$2,891
Wisconsin WEJT/CWEP Programs (FY88) [4]						
CWEP Sites			\$261		\$3,132	\$3,633
WEJT Sites			\$411		4,932	5,721
Employment Opportunity Pilot Projects (FY80/81) [5]^d						

	Job Development		Administration and Monitoring (per month)	Transportation and Miscellaneous ^c (per month)	12-Month JOB-Slot Equivalent	
	Fixed	Variable (per month)			Current \$	FY93 \$
PSE			\$291		\$3,492	\$5,531
Work Experience			143		1,716	\$2,718
Average (unweighted)			\$201		\$2,940	\$4,657

- ^a Implausible data reported (\$10 per participant month).
- ^b These were the only sites that served participants with preschool-age children. Child care was assumed to be 68 percent of support services costs.
- ^c Assumes that child care is 34 percent of all supportive service costs in all sites except Arkansas and Maine, which served recipients with preschool-age children (based on the actual supportive services costs estimates for the West Virginia demonstration [3]). In Arkansas and Maine, we assumed that 68 percent of the supportive services costs were for child care, since they served recipients with young children.
- ^d Assumes the wage component of costs was \$5,226 per participant year (\$3.35/hour X 30 hours/week).
- ^e Costs have been allocated assuming the same fixed cost of job creation and the same average monthly costs of transportation and miscellaneous support services as under the work/welfare demonstrations.

TABLE 3
CHILD CARE COSTS IN VARIOUS PROGRAMS

	Cost Estimates			
	Percent Receiving Assistance	Per Month of Work Experience	Per Month of Assistance	Per Child Per Month of Assistance
Work Welfare Demos Serving Mothers with Young Children (FY93) [2]				
Arkansas	NA	\$116	--	--
Maine	NA	92	--	--
JOBS (FY92) [5]				
All CWEP Recipients	40	\$92	\$229	\$160
Youngest child < 1 (3%)	67	160	239	--
Youngest child 1-2(16%)	77	207	269	--
Youngest child 3-5(33%)	61	130	214	--
Youngest child > 6 (47%)	15	32	216	--
21-30 Hours of CWEP	42	133	212	--
31-40 Hours of CWEP	46	145	316	--
Teenage Parent Demo (FY89) [6]				
Those Active (80 percent with Infants)	59	\$146	\$247 ^a	\$247
Minority Female Single Parent Program (FY86) [7]				
All Trainees	35	\$62	\$176 ^b	--

NOTE: In FY 91 there were 8,527,028 children in AFDC households (an average of 1.95 per household) ([8] Table 17). Their distribution by age was as follows:

Age	%	Cumulative %
< 1 years	05.1	05.1
1 - 2 years	19.7	24.8
3 - 5 years	21.4	46.2
6 - 13 years	40.8	87.0

^a Estimated as 80 percent of the unweighted averages across the three sites of the maximum reimbursement rates for family day care and center-based care.

^b Mid-point of a range across four sites.

NA = Not available.

TABLE 4

ESTIMATED CHILD CARE COSTS UNDER WELFARE REFORM

Age of Youngest Child	Proportion of AFDC Households ^a	Child Care Use Rate ^b	Average Cost Per Month of Use ^b	Increment to Total Cost
Allocation in Proportion to the Distribution of AFDC Families by Age of Youngest Child				
< 1	.051	.67	\$229	\$7.82
1-2	.197	.78	239	36.72
3-5	.214	.61	269	35.12
6-13	.408	.20	216	17.63
> 13	.130	.00	0	0.00
Average		.40	\$243	97.29
Reweight Toward Younger Children (Double the Incidence of Families with 0 - 2 Year-Olds)				
< 1	.102	.67	229	\$15.65
1-2	.396	.78	239	73.82
3-5	.214	.61	269	35.12
6-13	.160	.20	216	6.91
> 13	.130	.00	0	0.00
Average		.54	\$243	\$131.50

- Exempt < 3 =
 reduce cost of c. care
 by 45%
 - why pay c. care over 6?
 - what about H. Start?

^a Based on FY 91 caseload data ([8]Table 17).

^b Cost estimates are based on those for JOBS CWEP participants in FY 92 [5].

TABLE 5

JOB SEARCH ASSISTANCE
COSTS IN VARIOUS PROGRAMS

Program	Average Cost Per Participant Month	
	Current \$	FY 93 \$
JOBS Program (FY91) [1]	\$118	\$125
Employment Opportunity Pilot Projects (FY81) [4]	69	109
San Diego-I and Maryland Work/Welfare Demonstrations (FY86) [7]	120*	162
Cook County, IL Work/Welfare Demonstration (FY85) ([8] Table A.1)	107	143
Louisville Intensive Job Search Demonstration (FY85) ([8] Table A.1)	171	229
Arkansas Work/Welfare Demonstration (FY84) ([8] Table A.1)	122	169
Average of Four Mid-Cost Programs (Unweighted)		\$150
Average of All Six Programs (Unweighted)		\$156

NOTE: These costs pertain to job search training and supervised job search. This component usually lasts one month or less.

* Mid-point of the reported range.

TABLE 6

TRANSPORTATION AND MISCELLANEOUS SUPPORT SERVICES COSTS
IN OTHER PROGRAMS

	Average Per Benefit Month	Percent of Months Received	Cost Per Participant/Month
Teenage Parent Demonstration (FY91) [6]	\$87	66	\$57
Work/Welfare Demonstrations (FY93) [2] (See also Table A.1)*			\$55
JOBS [1]	NA--Included in Component Costs Estimates		

Calculated by netting estimated child care costs out of the total support services costs reported for the various demonstration programs. We relied on detailed estimates of the breakdown of these costs in the West Virginia CWEP program (Friedlander, Hamilton, Hoerz et al. 1986 and Ball et al. 1984). See Table 2 for the residual costs allocated to transportation and other support services in each of the demonstration sites and for the assumptions regarding the fraction of costs that were assumed to be for child care.

NA = Not available.

TABLE 7
CASE MANAGEMENT COSTS

Program	Cost per Case Month	
	Current \$	FY 93 \$
Teenage Parent Demonstration (FY91) [6]	\$015	\$96
San Diego-I and Baltimore Work Welfare Demonstrations (FY86) [7]	\$25	\$34
Employment Opportunity Pilot Projects (FY81) [4]	\$47	\$74

Minimal case management

Per *active* case month. These estimates assume that all of the costs allocated to case management and half of those allocated to central administration were associated with the case management function. This total of \$780 per person per year was divided by the number of months each participant was on AFDC during the year (8.6). See Maynard (1993, Figure 2) and Silverberg and Hershey (1993, Table IV.3) for the data on costs and months of participation, respectively.

SOURCE NOTES TO TABLES**[1] JOBS COST DATA**

Administration for Children and Families. FSA-104 Reports and Special Tabulations of JOBS data prepared by Will Weder. [1]

[2] WORK/WELFARE DEMONSTRATION COST DATA

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[3] WISCONSIN WORK EXPERIENCE DEMONSTRATION COST DATA

Pawasarat, John and Lois M. "Evaluation of the Wisconsin WEJT/CWEP Welfare Employment Programs." Milwaukee, WI: Employment Training Institute, April 1993 (Uncitable draft). [3]

[4] EMPLOYMENT OPPORTUNITY PILOT PROJECTS COST DATA

Long, David, Craig Thornton, and Christine Whitebread. *An Examination of the Benefits and Costs of the Employment Opportunity Pilots Project*. Princeton, NJ: Mathematica Policy Research, Inc., 1983. [4]

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[5] CHILD CARE COST ESTIMATES

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[7] MISCELLANEOUS COST ESTIMATES

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¹Numbers in brackets refer to the references cited in the notes to tables.

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WR \$

February 17, 1994

MEMORANDUM

~~CONFIDENTIAL~~ 005

To: Leon Panetta
Alice Rivlin
Belle Sawhill

Thru: David Ellwood
Mary Jo Bane
Bruce Reed

From: Wendell Primus

Attached is a very preliminary cost estimate for a hypothetical welfare reform proposal. These numbers were produced overnight and should be regarded as extremely preliminary. They have not been reviewed by any other divisions in HHS. In some cases, as explained in the footnotes, the estimates reflect our best guess of how CBO will estimate the cost of the proposal.

The actual proposal and the major assumptions used in estimating the cost are explained in the footnotes accompanying the table. The proposal estimated in the table does not reflect any final decisions made by the Working Group or its co-chairs, the Secretary, or any other Administration official. It represents the costs of a hypothetical proposal. I would hope to be able to provide the costs for the year 2004 in several days.

The estimates represent combined Federal and State costs. It is assumed that State costs will be close to zero, and therefore the numbers should be interpreted as Federal expenditures.

For the President's plan to be credible, the estimates of JOBS and WORK cannot be reduced much further than the costs indicated in the table. These estimates assume that adult recipients (including teen custodial parents) born in 1970 or later are subject to the time limit beginning in October 1996. JOBS spending on other portions of the caseload would continue as per current law.

Too political

If you have any questions or wish to see other options, I would be happy to respond.

**PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL AND STATE)
FOR A HYPOTHETICAL PROPOSAL
(By fiscal year, in millions of dollars)**

	Effective Date	1995	1996	1997	1998	1999	5-Year Total
ARENTAL RESPONSIBILITY							
vention Package		NA	NA	NA	NA	NA	NA
ro-Parent Provisions	Oct. '96	0	0	400	600	600	1,600
ild Support Enforcement							
Paternity Establishment (Net)		0	(85)	(200)	(300)	(450)	(1,035)
Enforcement (Net)		130	70	60	(300)	(500)	(640)
Computer Costs		100	150	200	250	300	1,000
Non-custodial Parent Provisions		0	0	100	110	170	380
Access Grants and Parenting Demonstrations		20	25	30	30	30	135
Child Support Assurance Demonstrations		0	0	100	200	250	550
SUBTOTAL CSE		250	160	290	(10)	(200)	490
ANSITIONAL ASSISTANCE FOLLOWED BY WORK							
ditional JCBS Spending	Oct. '96	0	0	930	1,130	1,160	3,220
ORK Program	Oct. '96	0	0	0	0	550	550
ditional Child Care for JOBS/WORK Participants	Oct. '96	0	0	1,100	1,300	1,500	3,900
conomic Development		0	0	100	100	100	300
SUBTOTAL JOBS/WORK		0	0	2,130	2,530	3,310	7,970
ORKING WORK PAY							
orking Poor Child Care	Oct. 95	0	800	1,000	1,300	1,500	4,600
ance EITC		0	0	0	0	0	0
VENTING GOVERNMENT							
et Rules, Filing Unit, Simplification							
Earnings Disregards, Accounting and							
eporting Rules		0	0	0	0	0	0
GRAND TOTAL		250	860	3,820	4,420	5,410	14,860

*Too much
- same as WORK, more than Econ. Devel.
- keeps CSE from saving \$*

Before Time Limit

SEE ATTACHED FOOTNOTES

FEB-10-1994 10:50 AM

NOTES TO TWO-PARENT PROVISIONS

1. The costs for eliminating the special eligibility requirements for two-parent families is based upon estimates from the food stamp quality control data file. These estimates were then adjusted for increased participation based on estimates from the MATH model employed by Mathematica, Inc.

NOTES TO CHILD SUPPORT ENFORCEMENT PROVISIONS

1. The estimates for paternity establishment, enforcement, and computer costs are based upon our best guess of how CBO will estimate the savings from these child support enforcement provisions. The original HHS estimates for these provisions would have produced savings of \$3.6 billion over the period. However, both CBO and OMB staff believe these original estimates are overstated substantially. Thus, for these estimates we are projecting savings of \$0.6 billion over the period.
2. The costs for the non-custodial parent provisions are 10 percent of the JOBS and WORK program costs.
3. The estimate for the cost of the child support assurance demonstrations are based upon CBO estimates of the Rockefeller/Dodd bill.

Too many
demos

NOTES TO CASELOAD NUMBERS AND TO JOBS AND WORK COST ESTIMATES

The caseload numbers and the JOBS and WORK cost estimates are based on the following policies, assumptions and sources of data:

1. Adult recipients (including teen custodial parents) born in 1970 or later are subject to the time limit beginning in October 1996 (FY 1997). JOBS spending on other portions of the caseload would continue as per current law.
2. Caretaker relatives are not subject to the new rules and are not phased-in.
3. Parents who have a child under one (or under 4 months, if conceived after the initial welfare receipt), are caring for a severely disabled child, report a work limitation or who are 60 years of age and older are deferred from participation in the JOBS and WORK programs. As of FY 1999, about 23 percent of the phased-in caseload is deferred.
4. The caseload numbers include no treatment effects as a result of the new rules on either exit rates or on the rate of part-time work. Accordingly, there are no estimated welfare savings. We expect to claim some treatment effects in our final estimates, particularly for estimates after the 5-year period. As of FY 1999, about 6 percent of the

phased-in caseload (which includes persons in the WORK program) is in extended status.

5. Cost per JOBS participant figures are taken from the FY 1993 JOBS data (adjusted for inflation using the projected CPI).
6. The cost estimate assumes that all non-deferred phased-in recipients are engaged in activities. We assume that at a given point in time, 50 percent of the phased-in recipients are engaged in activities which have cost. For recipients with extensions, it is assumed that everyone is participating in a JOBS activity which costs the program money.
7. The cost of developing and maintaining a WORK assignment is calculated using CWEP data from JOBS and from the welfare-to-work demonstrations of the 1980s (again, adjusted for inflation using the projected CPI). Approximately 150,000 WORK slots would be required in 1999. / Too low
8. The figures for JOBS participants and JOBS spending under current law are taken from the ACF baseline.
9. The JOBS and WORK cost estimates do not consider the potential impact of the child support and reinventing government provisions on the size of the caseload.

NOTES ON CHILD CARE COST ESTIMATES

1. These estimates reflect the child care costs associated with the above phase-in assumptions described under JOBS and WORK.
2. CBO's estimates of these costs may be higher than these estimates based on their estimate of the Republican welfare reform proposal. The per-child costs in the CBO estimates are higher. We are continuing to work with them to resolve these differences.
3. This estimate is based upon baseline spending for the Head Start program and therefore does not account for the additional children who will be served by Head Start when it expands. This follows conventional CBO scoring rules.
4. There is no sliding scale fee for services included in this estimate.
5. We assume that approximately 40 percent of all AFDC families participating in JOBS and WORK will use paid child care.
6. From 1996 to 1999, we assume that we will serve approximately 1.2 million additional children (about 700,000 families) with our working poor child care program. Each year we will serve approximately 300,000 additional children. / *Higher than Head Start*

NOTES TO REINVENTING GOVERNMENT PROVISIONS

The proposals in this section were designed to net to zero. The cost of the spending provisions is approximately \$5 billion over the 5-year period, implying that the savings provisions are also \$5 billion over the 5-year period.

Some of the proposals which will increase cost are:

1. Increase the limit on countable resources to the limit established in the food stamp program, and exclude one automobile for both AFDC and Food Stamps.
2. Coordinate accounting and reporting rules between the food stamp and AFDC rules.
3. Mandate fill-the-gap policies in low-benefit States. = 7

Some of the proposals which will decrease cost are:

1. Eliminate the provision that prevents SSI recipients from being included in an AFDC unit.
2. Move the filing unit rules in AFDC toward the food stamp program filing unit rules.

Caseload impact?

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



PHONE: (202)690-7858 FAX: (202)690-7383

Date: 2/17

From: Geri

To: Bruce Reed

Division: _____

Division: _____

City & State: _____

City & State: _____

Office Number: _____

Office Number: _____

Fax Number: _____

Fax Number: _____

Number of Pages + cover 6

REMARKS: _____

WR-\$

February 17, 1994

MEMORANDUM

~~CONFIDENTIAL~~ PDS

To: Leon Panetta
Belle Sawhill

Thru: David Ellwood
Mary Jo Bane

From: Wendell Primus

Attached is a very preliminary cost estimate for a hypothetical welfare reform proposal. These numbers were produced overnight and should be regarded as extremely preliminary. They have not been reviewed by any other divisions in HHS. In some cases, as explained in the footnotes, the estimates reflect our best guess of how CBO will estimate the cost of the proposal.

The actual proposal and the major assumptions used in estimating the cost are explained in the footnotes accompanying the table. The proposal estimated in the table does not reflect any final decisions made by the Working Group or its co-chairs, the Secretary, or any other Administration official. It represents the costs of a hypothetical proposal.

If you have any questions or wish to see other options, I would be happy to respond.

**PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL AND STATE)
FOR A HYPOTHETICAL PROPOSAL
(By fiscal year, in millions of dollars)**

	Effective Date	1995	1996	1997	1998	1999	5-Year Total
PARENTAL RESPONSIBILITY							
Prevention Package		NA	NA	NA	NA	NA	NA
Two-Parent Provisions	Oct. '96	0	0	400	600	800	1,800
Child Support Enforcement							
Paternity Establishment (Net)		0	(85)	(200)	(300)	(450)	(1,035)
Enforcement (Net)		130	70	60	(300)	(500)	(540)
Computer Costs		100	150	200	250	300	1,000
Non-custodial Parent Provisions		0	0	100	110	170	380
Access Grants and Parenting Demonstrations		20	25	30	30	30	135
Child Support Assurance Demonstrations		0	0	100	200	250	550
SUBTOTAL, CSE		250	160	290	(10)	(200)	490
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK							
Additional JOBS Spending	Oct. '96	0	0	930	1,130	1,160	3,220
WORK Program	Oct. '96	0	0	0	0	550	550
Additional Child Care for JOBS/WORK Participants	Oct. '96	0	0	1,100	1,300	1,500	3,900
Economic Development		0	0	100	100	100	300
MAKING WORK PAY							
Working Poor Child Care	Oct. '95	0	800	1,000	1,300	1,500	4,600
Advance EITC		0	0	0	0	0	0
REINVENTING GOVERNMENT							
Asset Rules, Filing Unit and Simplification of Earnings Disregards		0	0	700	900	1,100	2,700
Accounting and Reporting Rules		0	0	200	600	800	1,600
GRAND TOTAL		250	960	4,720	5,920	7,310	19,160

SEE ATTACHED FOOTNOTES

} \$8.6

} \$6.1 cars: 200m/yr

NOTES TO TWO-PARENT PROVISIONS

1. The costs for eliminating the special eligibility requirements for two parent families is based upon estimates from the food stamp quality control data file. These estimates were then adjusted for increased participation based on estimates from the MATH model employed by Mathematica, Inc. These costs are about 2/3 of the costs estimated by the TRIM model.

NOTES TO CHILD SUPPORT ENFORCEMENT PROVISIONS

1. The estimates for paternity establishment, enforcement, and computer costs are based upon our best guess of how CBO will estimate the savings from these child support enforcement provisions. The original HHS estimates for these provisions would have produced savings of \$3.6 billion over the period. However, both CBO and OMB staff believe these original estimates are overstated substantially.
2. The costs for the non-custodial parent provisions are 10 percent of the JOBS and WORK program costs.
3. The estimate for the cost of the child support assurance demonstrations are based upon CBO estimates of the Rockefeller/Dodd bill.

NOTES TO CASELOAD NUMBERS AND TO JOBS AND WORK COST ESTIMATES

The caseload numbers and the JOBS and WORK cost estimates are based on the following policies, assumptions and sources of data:

1. Adult recipients (including teen custodial parents) born in 1970 or later are subject to the time limit beginning in October 1996 (FY 1997). JOBS spending on other portions of the caseload would continue as per current law.
2. Caretaker relatives are not subject to the new rules and are not phased-in.
3. Parents who have a child under one (or under 4 months, if born after the initial welfare receipt), are caring for a severely disabled child, report a work limitation or who are 60 years of age and older are deferred from participation in the JOBS and WORK programs. As of FY 1999, about 23 percent of the phased-in caseload is deferred.
4. The caseload numbers include no treatment effects as a result of the new rules on either exit rates or on the rate of part-time work. Accordingly, there are no estimated welfare savings.
5. Persons who have exited welfare earn back one month of eligibility for assistance for every four consecutive months

How many?
6?

they spend off the rolls. For purposes of this earn-back provision, the WORK program is considered part of the welfare system--persons do not earn back months of assistance for months spent in the WORK program.

6. As of FY 1999, about 6% of the phased-in caseload (which includes persons in the WORK program) is in extended status.
7. Cost per JOBS participant figures are taken from the FY 1993 JOBS data (adjusted for inflation using the projected CPI).
8. The JOBS participation rate (countable participants) is 50% for phased-in recipients who are required to participate, except for those in extended status. For recipients with extensions, the participation rate (total participants) is assumed to be 100%--everyone with an extension is participating in a JOBS activity at some point during the month.
9. The cost per WORK program participant figures assume a work-for-wages model. The cost of developing and maintaining a WORK assignment is calculated using CWEP data from JOBS and from the welfare-to-work demonstrations of the 1980s (again, adjusted for inflation using the projected CPI). Approximately 150,000 WORK slots would be required in 1999.
10. The figures for JOBS participants and JOBS spending under current law are taken from the ACF baseline.
11. The JOBS and WORK cost estimates do not consider the potential impact of the child support and reinventing government provisions on the size of the caseload.

NOTES ON CHILD CARE COST ESTIMATES

1. These estimates reflect the child care costs associated with the above phase-in assumptions described under JOBS and WORK.
2. CBO's estimates of these costs will be higher than these estimates based on their estimate of the Republican welfare reform proposal.
3. This estimate is based upon baseline spending for the Head Start program and therefore does not account for the additional children who will be served by Head Start when it expands. This follows conventional CBO scoring rules.
4. There is no sliding scale fee for services included in this estimate.
5. We assume that approximately 40% of all AFDC families participating in JOBS and WORK will use paid child care.

6. From 1996 to 1999, we assume that we will serve approximately 1.2 million additional children (about 700,000 families) with our working poor child care program. Each year we will serve approximately 300,000 additional children.

NOTES TO REINVENTING GOVERNMENT PROVISIONS

The option shown here assumes that the proposal will:

1. Increase the limit on countable resources to the limit established in the food stamp program, and exclude one automobile for both AFDC and Food Stamps.
2. Eliminate the provision that prevents SSI recipients from being included in an AFDC unit. Two hundred dollars per month of income received from SSA is disregarded.
3. Disregard the first \$120 per month of earnings, and 1/3 of remaining earnings, and allow States to disregard additional income. *permanent not to us.*
4. Extend the \$50 pass-through for child support to the food stamp program.
5. Reduce the AFDC payment standard by 1/3 if any of the following conditions are met:
 - The AFDC child and child's eligible parent live in the same dwelling unit with the child's grandparent;
 - There are no adults in the AFDC unit; and
 - The AFDC unit lives in a dwelling unit that receives a housing subsidy.

WR-\$

EXECUTIVE OFFICE OF THE PRESIDENT

31-Jan-1994 08:59am

TO: Alice M. Rivlin
TO: Bruce N. Reed
TO: Kathryn J. Way

FROM: Isabel Sawhill
Office of Mgmt and Budget, HRVL

CC: Richard B. Bavier
CC: Stacy L. Dean

SUBJECT: welfare reform costing issues

According to HHS, our welfare reform proposal will cost between \$6.5 and 7.8 billion annually once it is fully phased in. My staff had no opportunity to review these numbers before they were presented at a West Wing meeting on 1-25. We are now beginning to work with the Department to understand their model and their assumptions.

Our first goal is to achieve some clarity about what the above numbers represent. For example:

- Are all of the costs federal? What's assumed about state costs and federal match rates?
- What's our exemptions policy?
- What's assumed about behavior in the caseload reduction numbers?
- Are all of the child care costs for the working poor in addition to what's in 95 budget or are some in baseline?

Our second goal is to get a better understanding of how costs vary with the specification of the policy -- that is, to have more of a sense of the costs of different options so that the President and others can make more informed choices. Since it would not make sense to look at every conceivable policy option (some have clearly been decided; others are not important enough to get attention from West Wingers), we need to decide which are the more important open issues with significant cost implications. The following list is my preliminary attempt to specify some of the options that we might be interested in looking at:

1. Up front job search requirements
2. Participation rate and federal match assumed in JOBS
3. Participation rate and federal match assumed in WORK
4. Exemptions

5. Eliminating the 100 hour rule, the quarters of work test, or the state option to provide benefits for only 6 months for two parent families

6. Services to noncustodial parents

7. Liberalizing the assets test

8. Time limiting the work program and providing an in-kind safety net at some fixed percentage of current benefits

9. Conforming Food Stamp and AFDC filing units or other program simplification measures *Child only - Southern states*

10. Counting housing assistance in calculating FS benefits

11. Advance payment of the EITC

12. Capping administrative costs in WORK at different level or assuming more borne by employers *\$1600m savings*

13. Treatment of part-time work

14. Whether additional time on welfare can be earned

15. Child support assumptions

16. Child care assumptions

17. Demos

We need more discussion of the above list and then an agreement with HHS about how to proceed to get more information about these or other issues.

18. Sanctions

19. Disabilities

20. Prevention

21. Paternity

22. Fraud - fingerprinting

23. UC/EITC costs

5.38 housing → FS households

It would be better if it would be a lottery. Big bucks. - \$500m - \$1b

WR- \$

February 11, 1994

MEMORANDUM FOR ISABEL SAWHILL

FROM: Richard Bavier *B*

SUBJECT: Rough estimates of policies for Bruce Reed

The attached spreadsheet table provides the basis for a rough estimate of the cost effects of the two policies you described to me. (No behavioral effects are modeled. In other words, on this table, the program does not get anyone off the rolls any faster.)

1. Half of all post-transitional WORK assignments are in the private sector, with the government paying a subsidy equal to the AFDC benefit and the private sector employer picking up all administrative costs.

The underlined row titled "post-admin" reflects the administrative costs of the WORK program. These are high, and do not include child care. They are based on experience with AFDC work programs that involved considerable job development costs, as well as some monitoring. (I have encouraged HHS to look at the Ohio CWEP program from the mid-1980s, which is the closest thing to a saturation CWEP we've seen, and which probably has lower administrative costs, but I haven't made any progress yet.) It isn't clear how much of these costs could be transferred to private sector employers.

However, it is clear that a lot of the cost of the time-limit followed by community service is this administrative cost. With an estimate for total federal steady-state costs at around \$5 billion, administrative costs associated with WORK make up around 60 percent. (As the smaller attached table shows, this assumes a 50 percent federal match rate for these costs.) If half of all WORK slots were in the private sector with no administrative costs, steady-state federal costs would be about \$1.5 billion lower.

It's probably unrealistic to plan on avoiding all administrative costs for one-half the WORK slots. Job development would still be necessary. An average savings of 50 percent on administrative costs for such slots seems pretty optimistic. At 50 percent savings on 50 percent of the WORK slots, the federal savings relative to full administrative costs for this group would be about \$.75 billion in the steady state.

Experience with private sector employer subsidies (either OJT or tax credits) for hiring disadvantaged people should discourage us from hoping that 50 percent of those hitting the time-limit could be placed in subsidized private sector jobs. It looks like employers don't find it economical to hire these target groups because of the direct overhead (certification that employees are eligible, record-keeping, and reporting) and because of expectations about their lower productivity (sometimes characterized as "stigma"). A table summarizing recent programs and sections from analysis by one of the issue groups is attached.

Because AFDC parents reaching the two years are probably going to be among the least job-ready, persuading private sector employers to hire them will be even harder. (Attrition of less job-ready seems to be a large factor in the operation of intermediaries like America Works, too.) On the other hand, we know that even very disadvantaged AFDC mothers often obtain jobs without a subsidy, so we shouldn't conclude that they are all unemployable and subsidies are hopeless. A deep subsidy with few direct administrative burdens might induce more hiring. (It might induce abuse as well.) In any case, I don't know of evidence we could marshal to justify a prediction that half, or even one-fourth, of WORK participants would end up in subsidized private sector jobs.

2. Half of WORK participants are placed in jobs in expanding government programs, such as providing child care for other AFDC parents, working in Head Start programs, or monitoring other WORK participants.

This policy would reduce the cost of welfare reform by the amount of the benefits or wages paid to half the WORK participants (as compared to the first option that would reduce the administrative costs for half the WORK participants). The logic is that the costs of these services (e.g., child care) already appear in the welfare reform package, or in the Budget. If the benefits or wages of people performing these jobs instead are paid by welfare reform, an offsetting savings must appear somewhere else. The proposal attempts to get savings from the value of the work performed by the WORK participant.

It is stipulated that the jobs must be in expanding programs, in order to avoid running into displacement issues.

The range of offsetting jobs into which WORK participants could be placed is further limited by current cost-sharing arrangements and budget scoring rules. For example, placing a WORK participant in an expanding Head Start program could reduce the amount of Head Start funds needed for staffing the expansion. But there would be no automatic

savings to be scored because Head Start is a discretionary program with an annual appropriation. (On the other hand, if Head Start hired a WORK participant, that could reduce the number of WORK jobs needed.)

To get automatic savings, WORK participants would have to be placed in additional jobs planned under welfare reform (such as additional child care providers or additional monitors) or in some other open-ended entitlement which the Budget says will expand. Medicaid continues to grow. It may be that assignment of WORK participants to provide services for which Medicaid pays, for example nursing home care, could be scored as automatic Medicaid savings. That would be a longer reach than scoring automatic savings in AFDC child care from assignment of WORK participants to provide child care for other AFDC mothers.

The underlined rows titled "Post-transition, AFDC/wages" reflect the benefits or wages paid to WORK participants. In a steady state, the federal-share is estimated roughly around \$4.7 billion per year (assuming that federal matching for WORK pay is the current AFDC matching rate). If half were offset by mandatory budget savings, federal steady-state spending on welfare reform would be \$2.3 billion lower than otherwise.

While we have no experience on which to judge what proportion of WORK participants could be assigned to positions with offsetting savings, we have an indication from HHS that child care advocates would object to too many assignments to child care provider slots. Half of all WORK recipients is probably far too many to hope for in this status. One-fifth might be only optimistic if assignment of WORK participants to monitor other WORK participants were permitted.

Attachments

cc: Barbara Selfridge
Stacy Dean

No behavioral change

	steady state		year 1	year 2	year 3	year 4	year 5	year 6	year 7	year 8	year 9	year 10	5-years total	10-years total	steady state total	year 1 federal	5-years federal	10-years federal	steady state federal
Non-parental	887,000	16.0%	174,350	295,105	390,177	467,848	531,459	583,743	628,201	666,733	700,439	730,169			887,000				887,000
Deferred	1,171,000	20.9%	227,615	385,248	509,362	610,486	693,800	782,055	820,094	870,398	914,396	953,208			1,171,000				1,171,000
Transition	1,598,515	28.5%	667,705	1,163,970	1,258,412	1,318,587	1,371,665	1,404,959	1,436,549	1,452,515	1,471,899	1,489,374			1,598,515				1,598,515
Community service	1,939,485	34.6%			282,540	524,959	724,548	897,478	1,047,240	1,177,254	1,290,822	1,380,602			1,939,485				1,939,485
Part-time workers																			
In-kind safety net																			
Total	5,606,000	100.0%	1,089,677	1,644,323	2,438,500	2,922,672	3,321,470	3,648,234	3,926,084	4,166,898	4,377,546	4,563,353			5,606,000				5,606,000
Percent of phased-in																			
Deferred	24.9%		24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%							
Transition	33.9%		75.1%	75.1%	61.3%	53.7%	49.2%	45.8%	43.4%	41.5%	40.0%	38.9%							
Community service	41.2%				13.6%	21.4%	26.0%	29.3%	31.8%	33.6%	35.1%	36.3%							
Part-time workers																			
In-kind safety net																			
Phased-in / Total	100.0%		19.4%	32.9%	43.5%	52.1%	59.2%	65.1%	70.0%	74.3%	78.1%	81.4%							
Total reform (mil)	\$51,665	\$8,572	\$0	\$164	\$1,139	\$2,143	\$3,087	\$3,870	\$4,542	\$5,126	\$5,635	\$6,084	\$6,554	\$11,611	\$8,572	(\$0)	\$3,864	\$18,802	\$5,064
AFDC benefits (mil)	\$25,512	(\$388)	\$0	\$0	(\$57)	(\$105)	(\$145)	(\$179)	(\$206)	(\$235)	(\$258)	(\$278)	(\$306)	(\$1,467)	(\$388)	\$0	(\$169)	(\$407)	(\$213)
food stamps (mil)	\$15,743	\$631	(\$0)	\$0	\$92	\$171	\$236	\$292	\$341	\$383	\$420	\$452	\$488	\$2,305	\$631	(\$0)	\$498	\$2,385	\$601
up front job search (mil)																			
trans_servs (mil)	\$1,599	\$599		\$184	\$256	\$320	\$372	\$405	\$431	\$453	\$472	\$489	\$1,112	\$3,361	\$599		\$778	\$2,353	\$419
post_admin (mil)	\$5,811	\$5,811			\$548	\$1,575	\$2,174	\$2,692	\$3,142	\$3,532	\$3,872	\$4,172	\$4,596	\$22,006	\$5,811		\$2,298	\$11,003	\$2,906
AFDC child care (mil)	\$3,013	\$1,913				\$203	\$451	\$660	\$930	\$994	\$1,129	\$1,249	\$855	\$5,525	\$1,913		\$0	\$3,888	\$1,339
EITC (mil)																			
nonAFDC child care (mil)																			
vouchers (mil)																			
Non-parental and deferred																			
AFDC benefits (mil)	\$9,554		\$1,857	\$3,143	\$4,150	\$4,981	\$5,801	\$6,218	\$6,681	\$7,102	\$7,461	\$7,777							
food stamps (mil)	\$5,575		\$1,064	\$1,834	\$2,425	\$2,906	\$3,303	\$3,628	\$3,904	\$4,144	\$4,353	\$4,538							
Transition																			
AFDC benefits (mil)	\$7,385		\$3,177	\$5,378	\$6,805	\$8,096	\$9,337	\$9,491	\$9,609	\$9,711	\$9,800	\$9,881	\$26,793	\$60,285	\$7,385	\$1,747	\$2,958	\$3,163	\$3,353
food stamps (mil)	\$4,309		\$1,654	\$3,138	\$3,367	\$3,557	\$3,698	\$3,787	\$3,856	\$3,916	\$3,968	\$4,015	\$15,634	\$35,176	\$4,309	\$1,020	\$4,599	\$10,347	\$2,370
job search (mil)	\$400		\$172	\$291	\$314	\$330	\$343	\$351	\$358	\$363	\$368	\$372	\$1,450	\$3,262	\$400	\$172	\$1,450	\$3,262	\$400
nursing (mil)	\$1,199		\$516	\$973	\$942	\$960	\$1,029	\$1,054	\$1,073	\$1,089	\$1,104	\$1,117	\$4,349	\$9,788	\$1,199	\$361	\$3,045	\$6,851	\$839
child care (mil)	\$870		\$376	\$640	\$691	\$726	\$754	\$773	\$787	\$799	\$810	\$819	\$3,190	\$7,177	\$870	\$265	\$2,233	\$5,024	\$615
Post-transition																			
AFDC/wage (mil)	\$8,572				\$1,248	\$2,320	\$3,202	\$3,867	\$4,428	\$4,901	\$5,291	\$5,706	\$6,146	\$8,772	\$8,572		\$1,724	\$17,432	\$4,716
food stamps (mil)	\$5,859				\$854	\$1,566	\$2,189	\$2,711	\$3,184	\$3,556	\$3,900	\$4,201	\$4,428	\$22,160	\$5,859		\$4,828	\$22,160	\$5,859
work admin (mil)	\$5,818				\$848	\$1,575	\$2,174	\$2,692	\$3,142	\$3,532	\$3,872	\$4,172	\$4,596	\$22,006	\$5,818		\$2,298	\$11,003	\$2,906
child care (mil)	\$2,133				\$311	\$577	\$787	\$987	\$1,152	\$1,295	\$1,420	\$1,530	\$1,685	\$8,069	\$2,133		\$1,180	\$5,848	\$1,493
In-kind safety net																			
vouchers (mil)																			
food stamps (mil)																			
part-time workers																			
AFDC (mil)																			
food stamps (mil)																			
EITC (mil)																			
child care (mil)																			
food stamp offsets from AFDC eligibility losses (mil)																			
exit from impacts on exit rates																			
food stamps (mil)																			
EITC (mil)																			
nonAFDC child care (mil)																			
Baseline																			
Total (mil)	\$43,112		\$35,141	\$29,620	\$25,273	\$21,731	\$18,813	\$16,423	\$14,390	\$12,628	\$11,087	\$9,728							
AFDC benefits (mil)	\$25,900		\$20,885	\$17,379	\$14,634	\$12,307	\$10,555	\$9,048	\$7,781	\$6,649	\$5,675	\$4,817							
food stamps (mil)	\$15,113		\$12,175	\$10,141	\$8,509	\$7,234	\$6,159	\$5,276	\$4,529	\$3,880	\$3,312	\$2,811							
JOBS (mil)	\$1,000		\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000							
child care (mil)	\$1,100		\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100	\$1,100							
baseline caseload w/out first 10 years			4,516,324	5,781,677	5,187,500	2,883,328	2,284,531	1,957,787	1,679,918	1,439,102	1,228,454	1,042,847							
			5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000							
			5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000	5,606,000							
caseload difference			0	0.0%				0	0.0%			0		0.0%					

11-Feb-94

No behavioral change

Baseline caseload 5,606,000
 first time applicants 1,089,677
 all applicants 2,051,228

Up-front job search unit cost \$2,16 70%
 entry rates 100%

Transition program monthly AFDC \$395 55%
 annual AFDC \$4,620
 monthly food stamps max \$394 100%
 annual food stamps \$2,698

non-parental caretakers 19%
 deferred 21%
 total 37%

transition period in years 2
 average transition costs job search \$1,000 70%
 training \$3,000 70%
 child care \$1,100 70%

Transition participation rate by none exempt 50%
 rate by all 32%
 participants in job search 50%
 participants in training 50%
 w/ child care 50%

Post transition avg admin cost \$3,000 50%
 child care \$2,200 70%
 max years (1,2,or20) 20
 wages \$4,420 55%
 food stamps \$3,021 100%

In-kind safety net safety net/ median 75%
 voucher \$1,841 55%
 food stamps \$3,848 100%

entry rates 100%
 effect on exit rates year 1 100%
 year 2 100%
 year 3 100%
 year 4 100%
 beyond 100%

effect on return rates 100%

share of impacts on exempts 0%

food stamp offsets from AFDC eligibility restrictions 0%

costs of exits due to impacts on work percent leaving for work 50%
 annual earnings \$8,840
 food stamps \$1,960
 EITC \$3,536

time-limit for part-time workers? yes
 baseline part-timers 0%
 additional part-timers 0%
 total part-timers 0%
 AFDC with half-time wages \$1,280
 food stamps \$2,637
 EITC \$1,768

Employment and Wage Subsidies

The following matrix identifies major design dimensions of government subsidies of employment, lists the major alternative design features, then summarizes both the intended effects of incorporating the element in the design as well as collateral, often unintended and undesired, effects. The matrix focusses on aspects of job subsidies most relevant to planning for time-limited welfare policies. Some program design issues relevant to job subsidy programs in other contexts are ignored. For example, issues related to the counter-cyclical, GDP, and inflationary effects of job subsidies are not included. Nor are issues related to subsidies available to employees regardless of present or former welfare status, or available only to certain regions or certain industries. Although, arguably, it is just a variety of fully-subsidized job, public employment is not included here.

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
Targeting	Less targeted	Ease of administration. More equitable than targeting on some basis other than need.	Increased costs.	NJTC, EITC ¹
	More targeted	Increased employment or wages for target group members. Efficiency.	Substitution of target group members for other employees. Induced increase in target group membership.	TJTC, OJT, NSWDC, work-supp, WINcredit, JOBS68, BRRs
Duration of program	Permanent	Predictability. Ease of administration.	Windfalls to employers who substitute subsidized for unsubsidized employees.	EITC, OJT, work-supp, TJTC, BRRs
	Temporary	Reduction in windfall to employers who would have hired anyway.	Accelerated, rather than increased, employment. Insufficient time to increase employment by planning for substitution of factors or increase in scale.	NJTC, NSWDC, JOBS68, WINcredit

¹ EITC = Earned Income Tax Credit (1975 to present); NJTC = New Jobs Tax Credit (1977-78); TJTC = Targeted Jobs Tax Credit (1979 to present); JOBS68 = contracts to offset added costs of hiring disadvantaged (1968-73); WINcredit = TJTC predecessor for welfare recipients (1971-81); work-supp = grant diversion or work supplementation for AFDC recipients (1981 to present); NSWDC = National Supported Work Demonstration (1976-81); OJT = on-the-job-training under JTPA and predecessors; BRRs = income disregards lowering benefit reduction rates in AFDC (\$90/mo for work expenses, \$30 plus one-third for four months, then \$30 for another eight) and the Food Stamp Program (standard deduction and 20 percent of earnings) to offset work expenses and create work incentives.

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
Qualified employment	All employment	Ease of administration.	Windfall to employers.	EITC, BRRs
	Additions to employment	Increase impact by subsidizing only increased employment. Reduce windfall.	Govt induced competitive disadvantage for employers unsubsidized due to inevitable arbitrariness in definition and error in measurement of incremental employment.	NJTC
Size of subsidy to employer relative to labor costs	Small	Lower program cost. Less windfall to employers.	Lower uptake due to less reduction in labor costs for employers. Substitute part-time for full-time employees.	
	Large	Greater incentive for participation.	Higher costs.	
Duration of subsidy	Temporary	Maximize efficiency of individual subsidies by not subsidizing after the point that employer would retain employee and employee would keep job without subsidy.	Induce turn-over when subsidy ends.	TJTC, NJTC, work-sup, WINcredit, JOBS68, AFDC-BRR
	Permanent	Assure job retention and income floor for subsidized worker.	Reduce program efficiency - spend more of public resources on those who would remain employed anyway.	EITC, food stamps BRR
Purpose of subsidy	Increase hires	Accelerate hiring (that would have taken place anyway). Give foot-in-door to targeted employees, a chance to demonstrate productivity.	Induce turnover, lower average tenure.	JOBS68
	Subsidize training	Increase hiring and employment of workers who would not have been hired because of cost of training necessary to raise productivity.	Induce turnover. Net effect depends on human capital enhancement in training.	TJTC, NSW, work-sup, CJT

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
	Subsidize wages	Increase labor force participation and income of workers whose reservation wage exceeds their marginal product.	Induce increase in target group membership. Inverse targeting - higher subsidies to those with higher wages. May increase hours of current employees rather than number of employees.	EITC
	Increase employment	Increase employment by inducing substitution of labor for other factors or increasing scale of production.	Induce increase in target group membership. Competitive disadvantage and reduced (probably skilled) employment in industries producing capital-intensive substitute goods.	NJTC, BRRs
Direct recipient	Employer	Provide incentive of reduced labor cost in most visible way.	Stigmatize subsidized workers. Impose cost of administration on employers.	TJTC, NJTC, work-suppl; NSWD, OJT, JOBS68, WINcredit
	Employee	Provide incentive of higher income in most visible way.	When targeted by income and permanent, increase "tax" rate on employee as income rises and subsidy phases out.	EITC, BRRs
Method	Tax credit to employer	Administrative efficiency of using current tax collection machinery - additional staff needed mainly for audit.		TJTC, NJTC, WINcredit
	Tax credit to employee	No welfare system contact. Uses current tax collection machinery - additional staff needed mainly for audit.	Low uptake in advance payment of credit, so potentially large lump sum payment at tax refund time. Experience with EITC suggests potential for fraud that is too expensive to audit and prosecute.	EITC
	Require hiring of target employees as condition of govt contract.	Efficiency - bids for lowest subsidy to include specified number of target employees in contract labor force.	Administrative costs of monitoring compliance. Depending on rules, incentive for phantom employees.	

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
	Transfer to employer	More documentation can target subsidy to individual employee and employer characteristics and reduce fraud.	Higher administrative costs for employer and government.	OJT, work-supp, NSW, JOBS68
	Transfer to employee	Best targeting to employee's need. Sub-yearly eligibility period provides benefit closer to period of eligibility.	Employee must come into contact with welfare system. Higher levels of targeting, documentation, and audit impose higher administrative costs.	BRRs

as many as half of the mothers on welfare may be significantly underqualified for similar jobs. Welfare-dependent mothers are less likely to have job experience and more likely to face discrimination in the labor market.¹⁴ This group is likely to include those who need a little extra help and encouragement as well as those who have intensive emotional, disciplinary or social problems.

c) **TAX INCENTIVES ALONE ARE NOT ENOUGH FOR EMPLOYERS.**

Employer incentives to hire welfare recipients have traditionally come in the form of targeted tax incentives. We find that the value of the tax incentive is often outweighed by the amount of paperwork required and the stigma attached to hiring welfare recipients. If targeted tax incentives are to be effective, they must be accompanied by additional services such as screening, preliminary training, or a probationary work period.

The evidence clearly indicates that tax incentives alone are not enough. Lerman¹⁵ notes that under both the WIN program and the TJTC, only a small fraction of the employers claimed credits for which they were eligible. Burtless¹⁶ conducted an experiment with employer vouchers for hiring disadvantaged workers. Members of the control group who had no voucher payment to offer had more success in obtaining employment. Employers did not want to hire workers marked as "damaged goods" despite generous voucher payments, some of which could be redeemed as cash instead of tax credits. In addition to the stigma explanation, Bishop and Kang¹⁷ explain the low employer participation rates in incentive programs by the high level of administrative costs for processing the incentives.

On the other hand, tax incentives can be packaged together with other employer incentives to provide an attractive overall package.¹⁸ The stigma problem may be overcome by providing subsidized recruiting and screening as well as the initial training and support in

¹⁴ Institute of Women's Policy Research. Testimony cited above.

¹⁵ Lerman, Robert. "A Comparison of Employer and Worker Wage Subsidies" in Robert Haveman and John Palmer, *Jobs for Disadvantaged Workers: The Economics of Employment Subsidies*, The Brookings Institution: Washington, D.C., 1982.

¹⁶ Burtless, Gary. "Are Targeted Wage Subsidies Harmful? Evidence from a Wage Voucher Experiment." *Industrial and Labor Relations Review*, Volume 39, Number 1, October 1985, pp. 105-114.

¹⁷ 1991

¹⁸ Ernst and Young report on the value of America Works placement services. Forthcoming. The study indicates that employers may save as much as \$2500 per person by hiring through America works.

* a new job.¹⁹ Some employers have suggested a one-year exemption from the health care mandate for ex-welfare hires. In addition, employers can screen applicants further if allowed to hire the workers on a temporary basis before committing to permanent employment. Any federal assistance to promote bundling tax incentives with other employer incentives must be flexible enough to allow local markets to shape services for employers.

d) **TRAINING HAS MODERATE, BUT MEASURABLE EFFECTS.** Although low skills are a severe problem, training programs are not a quick fix for welfare dependency.

Inexpensive programs (\$100-1500 per person) provide short-term job search assistance, remedial education, vocational education or work experience. Despite variations in economic conditions and program design, the majority of the evaluations show some improvement in earnings, employment, and welfare exits in comparison to a control group.²⁰ However, even the most successful programs only raised employment levels from 24 percent in the control group to 35 percent in the training group. Thus, the training program only changed the outcome for about 10 percent of the group. While this improvement is worth achieving, it does not help the two-thirds of the group who would not get a job on their own or with the help of a training program. Additional caveats: 1) Exit rates from welfare tend to improve even less than employment rates. 2) The control group in the San Diego SWIM study caught up with the trained group by the fifth year after training.²¹ 3) Neither the most job-ready nor the least job-ready benefit from inexpensive training as much as the middle group: the most job ready will find jobs anyway, and the least job-ready do not tend to get jobs after a quick program.²²

More expensive, targeted training programs, such as the home health care aide demonstration, can cost from \$4,300 to \$8,700 per participant. Although intensive training programs tend to have less impact on rates of employment, they create larger boosts in earnings for those employed. Participants in the Home Health Care training increased their earnings by \$1,200 or \$2,600 per year.²³ In contrast, inexpensive job search or work experience programs tend to raise earnings on average by \$400 or less.²⁴ Intensive programs may be able to increase actual wage levels, while inexpensive programs simply increase hours worked.

Thus, even if we could afford to put every person on welfare through a quick or an

¹⁹ Supportive work demonstrations from the 1970s have had strong impacts on job retention and later employment. See background papers from the Transition Issue Group for references.

²⁰ Friedlander and Hamilton. Gueron.

²¹ Friedlander and Hamilton.

²² Gueron and Pauley.

²³ Bell and Orr

²⁴ Gueron and Pauley.



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

WR-5

February 14, 1994

**MEMORANDUM FOR THE DIRECTOR
DEPUTY DIRECTOR**

FROM: Belle Sawhill *Belle*
SUBJECT: Welfare Cost Estimates

The costs of welfare reform depend on

- the contents of the plan,
- the phase-in strategy and time period for which costs are estimated; and,
- the behavioral impacts of the plan.

This memo lays out some of the issues we face in each area and seeks your guidance in resolving them.

The Contents of the Plan

There are a large number of possible reform options consistent with the President's basic vision -- each with a different "steady-state" cost. ("Steady-state" means the cost once the plan has been fully phased in and any new rules or policies apply to the entire caseload, not just a portion of it.) I believe, based on our staffs' work, that the range of annual steady-state costs varies from zero to \$10 billion with the most reasonable estimates probably falling in the middle of this range. We are now working with HHS to specify the most relevant options within this range so that you and others can see what kind of policy you can buy for different prices. Although we will have much more detail for you later, the most relevant issues are likely to be: how much child care is expanded for the working poor, whether the work slots are time-limited, and the administrative costs of creating jobs.

The Phase-In of the Plan

Most of those who have worked on the plan agree that it should be phased in gradually. Although there are numerous ways to do this (by state, by age, by length of time on the rolls, etc.), the most common assumption is that we will start with all new applicants (existing recipients would be grandmothers). Under this assumption, it turns out that the federal costs of a basic reform plan (the time-limit followed by community service, with related training and child care costs and assuming no behavioral effects), based on very preliminary estimates, are as follows:

First five years (cumulative):	\$3 billion
First ten years (cumulative):	18 billion
Steady state (one year):	5 billion
Steady state (five years):	25 billion

As these numbers plainly illustrate, the phase-in path is critical as is the specific time period for which costs are estimated and presented to the public. Depending on which period is picked we can say the same plan costs anywhere from \$3 to \$25 billion. Note that Senate scoring rules adopted in last year's budget resolution require a 10-year window. Moreover, journalists, aided by outside analysts, will surely be interested in presenting steady-state estimates even if we do not.

Behavioral Impacts

To a large degree, the promise of reform is that it will affect behavior. The theme of parental responsibility, with its emphasis on child support enforcement and reducing teen births, is designed to reduce the number of people coming on to the rolls. The theme of work and responsibility, with its emphasis on education, training, and jobs, is intended to move people off the rolls. Many of us believe that over time these impacts will occur and will produce savings that help to offset (possibly even more than offset) the initial costs of reform. The problem is that it is doubtful that CBO will score much if any of these savings. (The estimates cited above do not assume any behavioral impacts.)

Options

In the face of these facts, it seems to me that we have three basic options:

Option One: Count Just the First Five Year Costs

If we did this we could propose quite a generous policy and fully offset it. The downside is that we could be blown out of the water by outside analysts and be

subject to a point of order in the Senate. Republicans would argue that we had launched an expensive policy and only paid for its opening wedge.

Option Two: Count the Steady-State Costs

This would be much more credible but would necessitate proposing a much tougher policy unless we come up with a lot bigger offsets than anyone is contemplating right now or assume much bigger behavioral impacts than CBO is likely to score. We would probably need to time limit the community service jobs, cut back on child care expansions for the working poor, and find creative ways to keep the costs of the work program down. A variety of popular add-ons (such as liberalizing the assets test, treating two-parent families more like one parent families, experimenting with child support guarantees) would probably have to be dropped.

Option Three: Propose a Five Year Program Only

We could make the argument that we believe that behavior is bound to change under our policy, but that we plan to rigorously evaluate the program over a five year period to measure its effects and the associated cost savings. We could propose to sunset the legislation at the end of five years at which time we might ask the Congress to extend and possibly modify it, depending on what was learned over the first five years. This is a sensible approach that avoids some scoring problems but could be criticized for not ending welfare as we know it but rather experimenting with welfare as we know it.

The above is just a first installment on what will undoubtedly be an extended discussion of these issues. I will be setting up some meetings so we can talk about them further and get your input.

cc. Bruce Reed
Kathi Way
Richard Bavier
Stacy Dean



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

WR Costs

May 5, 1994

MEMORANDUM FOR WELFARE REFORM CO-CHAIRS

FROM: Isabel Sawhill

SUBJECT: Welfare Reform Costs

Working together, we have made steady progress toward developing the Administration's welfare reform proposal. To keep us on track for submitting legislation this Spring, it may be useful to lay out some of the cost issues that remain. A common understanding will help us deal with these issues systematically and quickly, and contribute to a better final product.

Cost issues that depend on resolving outstanding policy questions are outlined below. Attached is a list of requests for information on proposals where the policy is clear but the derivation of the specific estimates is, in our view, still somewhat unclear. These requests are based on the data provided in the cost tables in the draft memo prepared by HHS for the President and dated April 12, 1994 and the April 20, 1994 memo on "Cost estimate memo components" prepared by Don Oellerich and Jennifer Meazey.

Some of our questions may already have been answered, or may reflect an incomplete understanding of agreed-upon policies. If so, we'd welcome updates. Staff at both the Department and here at OMB have been working together to clarify outstanding issues, and have been sharing materials. Nevertheless, we still lack a great many details. Wherever possible, these details need to be spelled out in writing and any unresolved policy issues clearly identified. OMB's final comments on the bill's cost cannot be provided until we are able to review these details and the welfare reform legislation itself. Our hope is that this memo will help the process along.

COST ISSUES

1. Part-time work

In early cost modeling, it was assumed that part-time work policies would induce a large increase in part-time work. More recently, cost estimates have assumed there will be no change in behavior due to part-time work policies. While this

assumption may be consistent with some part-time work policies, until details of the policy proposal are settled and clearly communicated, it cannot be determined whether there will or won't be behavior-driven costs or savings.

2. Sanctions

At a recent specs meeting, it appeared that agreement had been reached among the co-chairs regarding some aspects of sanctions policy. HHS staff have indicated that they are developing cost estimates of sanctions effects. Until the policy proposal and the modeling are documented, we are not in a position to agree or disagree with related cost estimates.

3. Deferrals

The latest HHS caseload estimates we have show 16 percent of the phased-in caseload not subject to the JOBS and WORK requirements, and from 40 percent (in 1996) to 28 percent (in 2005) of the phased-in caseload in the deferred JOBS Prep status. The deferred are assumed to include: a) some who are categorically deferred, such as those with a disabled child; b) some who are deferred prior to exhausting their time-limits, at the discretion of the state, up to a maximum share of the caseload; and c) some who have been reassessed after a WORK assignment and are placed in JOBS Prep rather than given a new WORK assignment. At present, we have not seen a break-out of these sub-groups that totals to the overall JOBS Prep percentages modeled.

4. State flexibility

States are to be given flexibility to design their JOBS and WORK programs similar to the flexibility they have over their current JOBS programs. In 1988, CBO estimated that savings from the Family Support Act would be considerably below the Administration's estimate. The Administration had assumed that states would use their flexibility to implement the kinds of programs research showed to be most effective, while CBO assumed less effective programs would be implemented.

OMB staff understand the argument for assuming that a welfare reform implemented effectively could have impacts comparable to the SWIM demonstration. (Although SWIM was implemented in a flagship office, proposed JOBS participation rates will be half-again as high as SWIM's, and according to special analysis by MDRC, SWIM had caseload impacts on young mothers comparable to those on older mothers.) However, it appears that these impacts will have to be discounted to some extent to allow for state design choices that will be less effective than SWIM.

Other issues about the likely use of state flexibility arise with respect to the WORK program. States will be under predictable pressures to assign WORK slots with effectively higher wage rates. A full-time-equivalent slot can provide WORK assignments to more parents if each works fewer hours for their subsidized wages. And experience shows that, to the extent WORK slots are like real jobs rather than community service assignments, organized labor will pressure states to keep WORK wages near prevailing wages.

Conventional labor economics theory suggests that higher wage rates in WORK will tend to attract parents onto the rolls or slow their exits, with associated costs. Either HHS should model some costs from this tendency to higher wages or else develop an explanation as to why this won't occur.

5. 15 hour floor

States are to be required to provide WORK slots involving at least 15 hours per week and wages at least at the federal minimum. In states with very low AFDC benefits, income from these WORK slots will represent a considerable increase over AFDC benefits. Direct and indirect cost questions remain.

The policy on state matching for these particular WORK subsidies is not clear to us, nor is the modeling. In addition, it seems that the considerably greater income available to WORK participants in these states could draw families onto welfare or slow their exits. Such an effect does not appear to be included in the cost estimates. To concur with these estimates, we will need to understand why such caseload effects can be ruled out.

6. JOBS capacity

Because the group targeted for phase-in represents about one-third of the AFDC caseload, on average states will have to expand their JOBS capacity by around half in the year they implement reform. It seems likely that some states will be unable to do this effectively. If JOBS cannot be expanded this rapidly, child care costs, initial years of WORK costs, and savings impacts will all need to be discounted somewhat.

7. Up-front job search

A recent specs meeting appeared to agree that applicants, including those not in the phase-in group, would be required to perform job search first. It was not entirely clear whether: a) the requirement would be imposed at application or at eligibility determination; b) any screening would be done to exempt the disabled, those with infants, and so on; c) the job search would be structured or unstructured.

The last caseload and cost projections we received from HHS did not reflect this

policy. From the research, we expect that whether such a policy would represent additional costs or savings would depend on details of its design.

8. Match Rates

A central unresolved issue is the match rates to be proposed for each program. Match rates will be a key determinant of program success. Varying the match rate could have strong effects on:

- States' commitment to making the various components of welfare reform succeed.
- States' total operating budgets and their willingness to commit added resources to various programs, such as child support enforcement and JOBS.
- Total Federal costs.

For illustrative purposes, the April 12 cost tables currently assume an 80% to 20% Federal/State split on new costs. Since the question of cost sharing is still open and may depend on the financing levels we can afford, it may help the working group to modify cost tables by displaying the costs of proposals at current-law match rates. Costs of changing the matching rates could be shown separately, so that they could easily be altered and could prompt discussion of the policy underlying the match rates. (For instance, altering States' JOBS match rates over time, based on their performance, could be an incentive for them to provide effective training programs. The same could be true of child support programs, particularly paternity establishment.)

9. Automation

Given the Administration's focus on improving the Federal Government's effectiveness and efficiency, the details of how new and expanded programs will be implemented may merit extra attention. For example in the area of automation, ambitious plans for child support and beneficiary tracking systems are in the works. Automation is central to welfare reform and the success of the plan's implementation depends upon an efficient and quick systems development effort. The ability to track an individual over time is critical to the time limited component of JOBS and the long term success of the No Additional Benefits for Additional Children proposal. Given past GAO and HHS Inspector General reports critical of welfare automation projects, we should be aware of potential pitfalls in this area. We need to flesh out the details of the envisioned systems to ensure we have developed realistic implementation time-frame and cost estimates.

10. Child Support

An improved Child Support system is one of the four main tenets of the welfare reform proposal. We are concerned that the specifics of the proposal have not been subject to the same policy scrutiny as other items in the package. For example, we were surprised to learn informally that the Child Support proposal may no longer include a component which reduces a State's AFDC Federal match when a recipient's paternity is not established. Given the range of success with the current child support programs, ambiguous evidence regarding incentive payments, and the expectations of new automated systems, it is critical that key Working Group members have the opportunity to review fully and to vet each component of the proposal.

One final item relates to two financing proposals. At this time, we are unaware of final decisions with regard to the Emergency Assistance and the Sponsor to Alien Deeming proposals. These proposals are extremely sensitive, given their potential impact on individuals and on States. We need to reach closure on these issues as soon as possible so that we can reach firm savings estimates.

GENERAL

The questions and comments on this attachment are provided with the objective of assuring that adequate detail is provided to explain current estimates. To do this most effectively detail for each provision and each affected program for the item should be provided; capped and uncapped spending should be split out from one another; all pricing should be provided in gross costs and savings; where applicable federal administration costs should be noted; it should be noted whether spending is envisioned to be discretionary, capped entitlement or open entitlement; and applicable interactions for each item whether the item is priced interactively or not, should also be noted. In addition, it would be very helpful to have FNS, Treasury and others provide pricing for their programs for each item.

A. PARENTAL RESPONSIBILITY

1. No Additional Benefits for Additional Children

Proposal:

A State option to deny benefit increases when additional children are conceived on AFDC.

Comments:

FNS should be asked to review ASPE pricing. Pricing for a national policy appears to be generally reasonable. In order to complete assessment of the pricing, analytical support for the determination on what proportion of states will adopt the proposal and what percentage of the caseload that will represent should be provided. Also, analytical support for behavioral assumptions should be provided.

2. AFDC for Minor Mothers

Proposal:

With exceptions, minor mothers would be denied AFDC, should they seek to establish a separate AFDC household apart from their parent(s).

Comments: Pricing appears generally reasonable, although based on an informal State survey, exemption rates for this policy may be higher than assumed by HHS. The cost estimate should take into account possible increases in the IV-E foster care caseload, for those minor mothers who are sanctioned.

3. Child Support Enforcement – Paternity Establishment and Enforcement Techniques

Proposal:

Changes to existing law are designed to increase paternities established, streamline current practices through administrative processes and improve the tracking of those paying child support. The proposals would also overhaul the existing financing and incentive structure for State child support agencies. Under the proposal, the Federal government would assume about 87% of all child support expenditures and recoup 40% of program savings. Overall, the changes are intended to generate more collections, and hence savings to the Federal and State governments.

Comments:

Achieving the net savings depends heavily upon States meeting rigorous performance standards. Specific legislative language will be needed to more accurately determine the savings associated with the changes.

Under current law, States "profit" from child support -- i.e. recoup more in incentives and collections than they pay for administrative costs. Currently, States "profit" by \$500 million annually. The proposed changes would generate \$5 billion more in State "profits" over the next ten years, by increasing match rates and collections. Evidence should be provided to support the proposition that a richer Federal match will result in improved State performance.

Paternity Establishment -- Current pricing assumes that 70% of mothers not cooperating fully with the child support agency will have paternity established within one year. The basis for this assumption is not clear.

Under current law AFDC mothers are required to cooperate with the CSE agency in establishing paternities and support orders. Why are there savings for the cooperation provisions when they are current law?

The interactions among child support provisions are not fully explained in current back-up documentation. For example, research shows that withholding licenses might increase collections by 3%. However the proposed CSE reforms are much wider in scope and the results of a single study (or proposal) may be diluted when States implement the broad changes. To fully explain the child support estimates, the detailed breakout of costs and savings by proposal should be accompanied by an explanation how the proposals interact and how the line items are discounted for the interactions.

4. Child Support Enforcement -- Automation

Proposal:

An ambitious automation project to overhaul existing State automated systems is envisioned, as well as establishing Federal databases and central registries. Systems development costs would be matched at 90%.

Comments:

Systems implementation time frames and costs have historically been optimistic. A practical implementation plan and any new estimates for Child Support Enforcement automation should be provided.

5. Child Support Enforcement -- Interaction with other provisions

Proposal:

Many WORK participants would be treated as non-AFDC cases in child support enforcement. States would be allowed to disregard more than \$50 in child support.

Comments:

This could significantly reduce the amount of child support available to offset AFDC costs, significantly increasing the cost of WORK/increasing net Federal costs of Child Support Enforcement. It is not clear if this is reflected in the pricing. This should be clarified.

B. TRANSITIONAL ASSISTANCE FOLLOWED BY WORK

1. Transitional Assistance Automation

Proposal:

The welfare reform proposal relies on automation to track clients, facilitate programmatic changes and reduce administrative expenditures.

Comments:

Given historical implementation time frames and costs, the cost estimates may be low. No back-up for the administrative savings resulting from automation has been available. The plan for how States would implement programmatic options and the implications for systems costs should be provided.

D. TWO PARENT PROVISIONS

Proposal:

States will have the option to remove all or some of the current eligibility restrictions that prevent two-parent households from obtaining AFDC-UP, even when income and asset levels are similar to those of one-parent families.

Comments:

- *Administrative Costs--*Pricing for this proposal should consider the additional administrative costs associated with caseload increases. If these costs are to be subsumed under the teen case management grant, what will be the effect on the service levels envisioned for teens currently eligible for benefits?
- *JOBS/WORK/Child Care Costs--*Cost estimates for this proposal should include the added costs of providing training and possibly WORK for the added AFDC-UP caseload. Although JOBS and WORK are to be capped, the childcare that participants will need may be open-ended.

E. DEMONSTRATIONS

It appears that current cost estimates for demonstration programs assume that demonstrations (and the benefits they give individuals) end abruptly. In general, demonstrations need to include a phase-down plan so that beneficiaries gradually return to the regular program. Cost estimates for demonstration programs should reflect gradual phase-outs (and phase-in's where appropriate).

1. Microenterprises

Proposal:

\$10 million per year for microenterprise demonstration activities.

Comments:

It should be clarified whether funds would be mandatory or discretionary. The estimates do not appear to include salary and expense for SBA and HHS, as well as evaluation funds for HHS. These items are generally considered discretionary.

2. Matching funds for individual development accounts

Proposal:

\$75 million per year for matching deposits into individual development accounts, with funds usable for self-employment/business capitalization, home purchase, post-secondary education, and retirement purposes

Comments:

Not clear whether funds would be mandatory or discretionary. No analysis is available to determine whether there would be interactive effects with other programs (e.g. Food Stamps).

3. Asset rules for assets in individual development accounts (other than those addressed immediately above)

Proposal:

Allow AFDC (and Food Stamp?) applicants and recipients to put assets into individual development accounts, with modest penalties for using them for non-approved purposes.

Comments:

It should be clarified whether this item is included in the package and specifics should be provided.

4. Child Support Assurance Demonstrations

Proposal:

Child Support Assurance demos -- Up to six States would test the success of the government guaranteeing child support payments

Comments:

It should be clarified whether funding is intended to be open ended mandatory, capped mandatory or discretionary? If open-ended, would there be a limit on the number of participants, or could the demonstration include all of the six largest States?

F. IMPROVING GOVERNMENT ASSISTANCE

1. State flexibility on earned income and child support disregards

Proposal:

States would be required to disregard the first \$120 in monthly earnings, with States deciding on any percentage disregards in addition to the \$120. For child support, States would be able to disregard more than the current \$50.

Comments:

Estimates assume that States would increase total benefits to recipients by \$250 million per year over and above the cost of current waivers. The basis for the cost estimates is not clear. Pricing should factor in Medicaid, Food Stamp, and child care

effects.

2. Conform AFDC to Food Stamp asset rules (except for automobiles)

Proposal:

Legislation would have AFDC adopt Food Stamp asset rules with the exception of the automobile exclusion. Regulations would be issued to increase the AFDC auto exclusion.

Comments:

It appears the estimates assume that liberalizing the automobile asset test by regulation will reduce the cost of increasing the liquid asset allowance. Since estimates must be against the FY95 Budget baseline, new regulatory changes may not reduce scorable costs. Medicaid costs do not appear to be included and should be.

3. Disregard the EITC from assets for a year after receipt

Proposal:

Disregard the EITC from assets for a year after receipt. Presumably, each family's asset limit would equal the basic asset limit plus the lesser of their EITC refund and their subsequent minimum liquid asset balance.

Comments:

Disregarding the EITC for a year after receipt for applicants effectively increases the liquid asset limit by up to \$3,370 (for a total of up to \$5,370), depending on family size and prior year earned income. The added eligibles and administrative complexity do not appear to have been factored in to cost estimates. Medicaid costs do not appear to be included and should be.

4. Conforming AFDC policy on correcting underpayments to Food Stamp policy.

Proposal:

Food Stamps will repay up to 12 months of agency-caused underpayments, and no client-caused underpayments. AFDC currently repays without regard to time or who was responsible for the error.

Comments:

While information for pricing is limited, it would be helpful to understand the assumptions used to estimate this item.

CROSSCUTTING ISSUES

1. Federal Matching Rates

Proposal:

Federal and State governments would share any new net costs of welfare reform at an 80/20% split respectively.

Comments:

All existing line items in the table should be shown at current-law matching rates and the proposed matching rate (with a new line for aggregate matching rate adjustments in welfare programs as a whole.) That display would facilitate estimating the effects the proposed matching rates has on total spending and financial management. A full fiscal accounting under each program of Federal and State by State outcomes should also be provided.

2. Food Programs and Medicaid Costs

Proposal:

N/A

Comments:

In order to accurately price the program the collateral effects of the new JOBS/WORK and IGA on existing Food Programs, EITC and Medicaid programs should be provided. FNS, HCFA, Treasury and others should be asked to provide comments and pricing on the Task Force's proposal. For example, income earned while on the WORK program will be treated as earned income for the Food Stamps program. This will most likely increase Food Stamp benefits for those beneficiaries. Similarly, changes in two-parent provisions could increase the number of people eligible for Medicaid.

3. Baseline

Proposal:

Current law.

Comments:

Under the Budget Enforcement Act, the Welfare Reform proposal must ^{be} priced off of the January baseline. Savings from EITC and Health Care Reform cannot be assumed in pricing the proposal. If current cost estimates are not based on the OMB January 1994 baseline, please do so.

4. Interactions Among Provisions

Proposal:

N/A

Comments:

It is not clear how many interactive effects among provisions have ^{been} included in pricing so far. For example, the WORK program might treat Child Support as non-AFDC collections, rather than AFDC collections. This might decrease the savings from child support provisions. It should be noted where items have been priced interactively and where ^{they} might be interactions, but they have not been priced.

5. Cost-neutral waivers

Proposal:

Some States have cost-neutral waivers to demonstrate some of the changes that would become national policy or State options under the current proposal.

Comments:

Although under cost neutrality waivers may shift the fiscal years in which costs occur, they do not reduce the total cost of any of the legislative proposals. The proposal is priced in such a way that cost neutral waivers may be used to lower costs. This should be clarified and eliminated if true.

6. Outlays vs. budget authority

Proposal: NA

Comments:

It is not clear whether estimates are budget authority or outlays. Tables need to show both budget authority and outlays. It is likely that budget authority and outlays will be the same for some provisions, with budget authority higher than outlays for other provisions.



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

March 31, 1995

Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

At the request of your staff, the Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4, the Personal Responsibility Act of 1995, as passed by the House of Representatives on March 31, 1995.

The bill would affect direct spending and thus would be subject to pay-as-you-go procedures under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

June E. O'Neill
Director

Enclosure

CC: Honorable Sam Gibbons
Ranking Minority Member

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 31, 1995

1. **BILL NUMBER:** H.R. 4
2. **BILL TITLE:** The Personal Responsibility Act of 1995
3. **BILL STATUS:** As passed by the House on March 24, 1995.
4. **BILL PURPOSE:**

To help children by reforming the Nation's welfare system to promote work, marriage, and personal responsibility.

5. **ESTIMATED COST TO THE FEDERAL GOVERNMENT:**

DIRECT SPENDING

The bill would affect federal outlays in the following mandatory programs: Family Support Payments, Food Stamps, Supplemental Security Income, Medicaid, Child Nutrition, Foster Care and Adoption Assistance, and Family Preservation. Additional funds would be devoted to certain drug treatment programs without the need for annual appropriations. The following table shows projected outlays for these programs under current law, the changes that would stem from the bill, and the projected outlays for each program if the bill were enacted.

(Outlays by fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	2000
PROJECTED SPENDING UNDER CURRENT LAW						
Family Support Payments*	18,223	18,544	19,048	19,534	20,132	20,793
Food Stamp Program	25,120	25,930	27,400	28,900	30,390	32,030
Supplemental Security Income ^b	24,322	24,497	29,894	32,967	36,109	42,749
Medicaid	89,216	99,292	110,021	122,060	134,830	148,116
Child Nutrition Programs	7,985	8,499	9,065	9,665	10,291	10,922
Foster Care and Adoption Assistance and Family Preservation ^c	3,540	4,146	4,508	4,930	5,356	5,809
Drug Treatment Program ^d	0	0	0	0	0	0
Total	168,406	180,908	199,936	218,056	237,108	260,419

(continued)

(Outlays by fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	2000
PROPOSED CHANGES						
Family Support Payments ^a	0	-2,162	-2,487	-2,900	-3,534	-4,121
Food Stamps	0	-1,450	-3,581	-4,393	-5,029	-5,756
Supplemental Security Income	0	-1,297	-4,050	-4,501	-4,855	-5,796
Medicaid	0	-106	-1,600	-1,655	-1,746	-1,832
Child Nutrition Programs ^b	0	-1,292	-2,137	-2,456	-2,783	-3,104
Foster Care/Adoption Assistance and Family Preservation ^c	0	171	-305	-448	-609	-762
Drug Treatment Grant ^d	0	0	45	80	100	100
Total	0	-6,136	-14,115	-16,273	-18,456	-21,271
PROJECTED SPENDING UNDER H.R. 4						
Family Support Payments ^a	18,223	16,382	16,561	16,634	16,598	16,672
Food Stamps	25,120	24,480	23,819	24,507	25,361	26,274
Supplemental Security Income	24,322	23,200	25,844	26,466	31,254	36,953
Medicaid	89,216	99,186	108,421	120,405	133,084	146,284
Child Nutrition Programs ^b	7,985	7,207	6,928	7,209	7,508	7,818
Foster Care/Adoption Assistance and Family Preservation ^c	3,540	4,317	4,203	4,482	4,747	5,047
Drug Treatment Programs ^d	0	0	45	80	100	100
Total	168,406	174,772	185,821	201,783	218,652	239,148

Notes: Details may not add to totals because of rounding.

- ^a Under current law, Family Support Payments includes spending on Aid to Families with Dependent Children (AFDC), AFDC-related child care, administrative costs for child support enforcement, net federal savings from child support collections, and the Job Opportunities and Basic Skills Training program (JOBS). Under proposed law, Family Support Payments would include spending on the Temporary Assistance for Needy Families Block Grant, administrative costs for child support enforcement, and net federal savings from child support collections.
- ^b Under current law, Child Nutrition Programs refer to direct spending authorized through the National School Lunch Act and the Child Nutrition Act. Under proposed law, Child Nutrition Programs refer to direct spending that would be authorized by the School-Based Nutrition Block Grant Program.
- ^c Under current law, Foster Care/Adoption Assistance and Family Preservation refers to direct spending authorized through Titles IV-B and IV-E of the Social Security Act. Under proposed law, Foster Care/Adoption Assistance and Family Preservation refers to direct spending that would be authorized through the Child Protection Block Grant.
- ^d These funds, which are not subject to annual appropriation, would constitute an additional source of funding for two treatment programs that are currently funded wholly through discretionary appropriations.

The direct spending costs of this bill fall within budget functions 500, 550, 600, and 750.¹

AUTHORIZATIONS OF APPROPRIATIONS

H.R. 4 would replace the authorizations of appropriations for existing child welfare services under Part B of Title IV of the Social Security Act and other laws with a discretionary portion of the Child Protection Block Grant. The bill would also increase the authorization of appropriations for the Child Care and Development Block Grant and would repeal three small child care programs. In discretionary child nutrition programs, H.R. 4 would repeal the Special Supplemental Food Program for Women, Infants, and Children (WIC) and federal administration for child nutrition programs and would authorize a new Family Nutrition Block Grant Program. Commodity distribution programs would be consolidated and reauthorized. The following table compares the authorizations stated in the bill with the 1995 appropriations for comparable discretionary programs, or with 1995 appropriations adjusted for inflation.

Section 801(b) of the bill specifies that the discretionary spending limits in the Balanced Budget and Emergency Deficit Control Act of 1985 are to be adjusted each year based on actual appropriations compared to the level appropriated for 1995. Therefore, if appropriations equalled the authorized amounts, the discretionary spending limits would be increased by the difference between the authorization level under H.R. 4 and the 1995 appropriation, as shown in the table.

(by fiscal year, in millions of dollars)

	1995	1996	1997	1998	1999	2000
PROJECTED APPROPRIATION UNDER CURRENT LAW						
1995 Appropriation	5,214	5,214	5,214	5,214	5,214	5,214
Estimated Outlays	5,109	5,456	5,546	5,449	5,209	5,232
1995 Appropriation Adjusted for Inflation	5,214	5,388	5,570	5,773	5,970	6,180
Estimated Outlays	5,109	5,590	5,863	5,963	5,919	6,145
PROJECTED CHANGES						
Compared to 1995 Appropriation*	0	2,383	2,565	2,728	2,917	3,109
Estimated Outlays	0	2,912	2,704	2,562	2,916	3,084
Compared to 1995 Appropriation Adjusted for Inflation	0	2,209	2,209	2,169	2,161	2,143
Estimated Outlays	0	2,779	2,387	2,049	2,206	2,171
AUTHORIZATION LEVEL UNDER H.R. 4						
Estimated Authorization Level	5,214	7,597	7,779	7,942	8,131	8,323
Estimated Outlays	5,109	8,368	8,250	8,012	8,125	8,316

* If appropriations in each year equal the authorized levels, the discretionary spending limits would be increased by these amounts.

The bill's costs associated with authorizations of appropriations fall within budget functions 500 and 600.

6. BASIS OF ESTIMATE

CBO released a detailed estimate of H.R. 1214, as introduced, in a letter to Chairman Archer on March 20, 1995. CBO estimated that H.R. 1214 would reduce direct spending by \$6.2 billion in 1996, by \$15.1 billion in 1997, and by growing amounts thereafter—culminating in a \$22 billion reduction in 2000.

In floor action later that week, the House adopted several amendments and passed the amended bill (renumbered as H.R. 4). The following table shows projected outlay savings associated with H.R. 1214 as introduced, the changes in estimates due to adoption of floor amendments, and the projected outlays for H.R. 4 as passed by the House of Representatives.

(by fiscal year, outlays in millions of dollars)

	1995	1996	1997	1998	1999	2000
<u>DIRECT SPENDING</u>						
HR. 1214 AS INTRODUCED	0	-6,191	-15,068	-17,208	-19,253	-22,031
<u>FLOOR AMENDMENTS</u>						
Estimates relative to HR. 1214 as introduced	0	55	953	935	797	760
HR. 4 AS PASSED	0	-6,136	-14,115	-16,273	-18,456	-21,271
<u>PROJECTED CHANGES IN DISCRETIONARY SPENDING</u>						
HR. 1214 AS INTRODUCED	0	2,777	2,554	2,412	2,766	2,934
<u>FLOOR AMENDMENTS</u>						
Estimates relative to HR. 1214 as introduced	0	135	150	150	150	150
HR. 4 AS PASSED	0	2,912	2,704	2,562	2,916	3,084

The most significant revision to the estimate stems from an amendment preserving eligibility for federal welfare benefits for certain legal aliens who are physically or developmentally disabled. Legislation passed last October (Public Law 103-416) made it easier for such aliens to become naturalized citizens by exempting them from the English and civics examinations. For this and other reasons, CBO assumed in its estimate of H.R. 1214 that a large fraction of aliens in the Supplemental Security Income program would naturalize in the next five years. The floor amendment would make it less burdensome for such aliens to retain their benefit eligibility; for example, they would not need to apply for naturalization, pay the \$90 fee, and wait for a year or more to complete the process. Therefore, CBO assumes that the amendment would preserve eligibility for SSI benefits for approximately half of those disabled aliens who would otherwise have been barred from the program under H.R. 1214. Savings in the Medicaid and food stamp programs would also shrink. As CBO has emphasized, all estimates of savings from reducing welfare payments to aliens are highly uncertain; in this case, major uncertainties surround future rates of naturalization and the definitions of "physical or developmental disability" that will be used by the Immigration and Naturalization Service and the Social Security Administration as they carry out the law.

Other floor amendments—chiefly one that would deny food stamps to parents who are in arrears on their child support payments and another that would permit states to suspend drivers' licenses in similar situations (thereby spurring parents to catch up on payments)—are expected to save less than \$100 million a year in direct spending.

Another floor amendment added \$150 million a year to the proposed discretionary block grant for child care in 1996 through 2000. The limits on discretionary spending would be adjusted accordingly.

7. ESTIMATE PREPARED BY:

Kathy Ruffing, Dorothy Rosenbaum, John Tapogna, Robin Rudowitz (226-2820)

8. ESTIMATE APPROVED BY:



Paul N. Van de Water
Assistant Director
for Budget Analysis

CONGRESSIONAL BUDGET OFFICE

Human Resources Cost Estimate Unit
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Date: _____

TO: Don O'Connell

Phone: _____

Fax: 690-6562

FROM: _____

PAGES TO FOLLOW:

John T. ... -7
00

COMMENTS: _____

WE ARE NOW DOWN TO 62.13

TO: David Ellwood
 FROM: Wendell Primus and Jennifer Mezey
 DATE: October 17, 1994
 SUBJECT: Revenues for Welfare Reform

The following table provides a summary of the Administration's original revenue estimates, the difference between our estimates and those of CBO and the revenues that have been lost to GATT. The CBO estimates are unofficial. The final column represents the administration's revised estimates if we adopted CBO's revenue estimates and adjusted for the lost funds.

Summary Revenue Table
 (Numbers in Billions)

Revenue Provisions	Administration's Original Estimates	Difference with CBO	Lost to GATT	Adjusted Total Administration Estimate
Emergency Assistance	1.6	-0.8	---	0.8
Immigrants	3.8	-0.4	---	3.4
DA and A	0.8	-0.8 ¹	-0.8	0
Farm Income	0.5	-0.1	---	0.4
EITC	0.3	---	-0.3 ²	0.1
Superfund	1.5	-0.4	---	1.1
Day Care Homes	0.5	---	---	0.5
Other Expiring Provisions	0.3	---	---	0.2
TOTAL	9.3	-2.5	-1.1	6.5

1. The DA and A funds were not included in the CBO estimate because they were not specified in our legislation.

2. The EITC provisions for GATT involve revenue and outlay changes. The revenue portion raises \$.05 billion and the outlay portion saves \$.25 billion.

DRAFT

PROPOSED BUDGET IMPACT OF THE REVISED WORK AND RESPONSIBILITY ACT

Five Year Federal Costs
(Outlays in Billions of Dollars)

CORE PROPOSALS OF THE WORK AND RESPONSIBILITY ACT

Current revised estimate	11.7
Offer states flexibility on phase-in	-0.8
Reorder and change effective date of WRA child support distribution rules	-0.3
W4 - New hire database - mandate use in other programs (UI and Food Stamps)	-0.3
Count AFDC energy assistance as income for Food Stamps	-0.4
Give excess shelter deduction only for expenses paid from counted income	-0.4
TOTAL	\$9.5 billion

CORE FINANCING FOR THE WORK AND RESPONSIBILITY ACT

New alien deeming proposal plus PRUCOL provision	-4.9
Cap on Emergency Assistance (modification of current proposal)	-1.0
EITC provisions	-0.5
Mandate federal tax offset for Food Stamps (AFDC overpayments and other government payments still to be estimated)	-0.2
Allow SSI payments to be recovered from OASDI benefits	-0.2
Child care feeding programs (current proposal)	-0.5
State retention of recovered Food Stamps (current proposal)	-0.1
TOTAL	-\$7.4 billion

FINANCING GAP **\$2.1 billion**

DRAFT

PROPOSED BUDGET IMPACT OF THE REVISED WORK AND RESPONSIBILITY ACT

HHS - Demos - JOBS 0.5
EA 0.5
ETC
SSI

→ undocumented aliens?

STRATEGIES FOR CLOSING GAP

Five Year Federal Cost
(Outlays in Billions of Dollars)

I. Welfare for the Wealthy

Limit farm deficiency payments to those with less than \$100,000 in off farm income (current proposal)	-0.3
Railroad user fees (current proposal)	-0.2
Superfund (current proposal but policy very unclear)	-0.6
Other	-1.2

II. Accountability, Waste, Fraud and Abuse

Extend expiring provisions in collection for primary private insurers before Medicare pays	-3.1
SSI savings (unspecified)	-1.0 to -3.0
Increase EA savings to 1.5	-0.5
Increase EITC savings	NA -0.5
<u>GS</u> Other <i>More deeming</i>	-0.5 to -2.0

III. More State Flexibility and Program Cuts

State Option to conform asset, filing units, car and accounting procedures	-0.8 to -1.5
Cut demos by one-half	-0.2
Cut working poor child care to 1.0 billion over 5 years	-0.6
Increase EA savings to 1.5	-0.5

Caveats:

These numbers represent agency pricing and not official scoring.

These numbers are highly preliminary and are subject to change.

These proposals have not been priced against the new baseline.

Not all policies have been specified or determined.

These policies do not represent a consensus recommendation of the Working Group co-chairs.

Farms 0.3
Deeming 1.0
EA/EITC 0.5
Prog. Cuts 1.6-2.3
Belle SSI
JOBS cap 0.3

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



PHONE: (202) 690-7507 FAX: (202) 690-6562

Date: 12-6-94

From: Wendell Primus

To: Bruce Reed

Division: _____

Division: _____

City & State: _____

City & State: _____

Office Number: _____

Office Number: _____

Fax Number: _____

Fax Number: 456-7028

Number of Pages + cover 3

REMARKS: _____

DRAFT**PROPOSED BUDGET IMPACT OF THE REVISED WORK AND RESPONSIBILITY ACT****CORE PROPOSAL OF WORK AND RESPONSIBILITY ACT**

Current revised estimate	11.7
Offer states flexibility on phase-in	-0.8
Reorder and change effective date of child support distribution rules	-0.3
W4 - New hire database - mandate use in other programs (UI and Food Stamps)	-0.3
Count AFDC energy assistance as income for Food Stamps	-0.4
Give excess shelter deduction only for expenses paid from counted income	-0.4
TOTAL	\$9.5 billion

CORE FINANCING FOR THE WORK AND RESPONSIBILITY ACT

New alien deeming proposal	-4.9
Cap on Emergency Assistance	-1.0
Provisions to stem EITC abuse	-0.5
Mandate federal tax offset for Food Stamps (AFDC overpayments and other government payments still to be estimated)	-0.2
Allow SSI payments to be recovered from OASDI benefits	-0.2
Child care feeding programs (current proposal)	-0.5
State retention of recovered Food Stamps (current proposal)	-0.1
TOTAL	-\$7.4 billion

FINANCING GAP \$2.1 billion

DRAFT**PROPOSED BUDGET IMPACT OF THE REVISED WORK AND RESPONSIBILITY ACT****STRATEGIES FOR CLOSING GAP****I. Accountability, Waste, Fraud and Abuse**

Extend expiring provisions in collection for primary private insurers before Medicare pays	-3.0
SSI savings (unspecified)	-1.0 to -3.0
Increase EA savings to 1.5	-0.5
Increase EITC savings	NA
Increase alien deeming	-1.0 to -2.0

II. Welfare for the Wealthy

Farm deficiency payments cut off \$100,000 total	-1.2
Non-farm deficiency payments cut off \$100,000 total	-0.3
Railroad user fees (current proposal)	-0.2
Superfund	-0.6

III. More State Flexibility and Program Cuts

State Option to conform asset, filing units, car and accounting procedures	-0.8 to -1.5
Cut demos by one-half	-0.2
Cut working poor child care to 1.0 billion over 5 years	-0.6
Increase EA savings to 1.5	-0.5

NOTES FOR REVISED COST TABLE

General

1. These estimates are all preliminary. We will have new baselines in a few weeks which will change many of our revised estimates. We are also still examining our assumptions and estimating techniques. The revised numbers have not been reviewed by OMB.
2. Column 1 represents our original five year federal estimates for the 1994 WRA.
3. In column 2 the estimates are revised to correct mistakes in our original estimates, adjust baselines, and incorporate CBO scoring methodology when appropriate.
4. Column 2 uses AFDC and Food Stamp estimates from the FY95 baselines and Medicaid per capita from estimated FY96 baseline.

Column 2

Parental Responsibility

1. The minor mothers estimate decreases because the Medicaid per capita costs decrease.
2. The child support enforcement estimates change for the following reasons:
 - moving the baseline from FY1995-1999 to FY1996-2000. This increases the caseload numbers;
 - reductions in Medicaid per capita costs decreases the savings due to caseload reductions and medical support enforcement;
 - increases in regular ADP costs to account for capacity increases needed in existing state systems, many of which pre-date the Family Support Act requirements;
 - corrections to the universal services and administrative authority provisions estimates to account for activities already taking place under current law (reduced savings);
 - correction in the Food Stamp costs to estimate on implementation of the Leland Amendments. The original estimate overestimated costs because current law child support collections were not included.
 - estimate (for the first time) the interaction between the Federal tax offset changes and the lump sum AFDC rules. The five year federal costs estimated at \$150 million (including Food Stamp savings).

CBO's cost estimate is still believed to be about \$230 million higher than ours since CBO does not anticipate as much increase in child support collections from paternity establishment efforts as are assumed in the HHS estimate.

Making Work Pay

1. The cost of child support and earned income disregards decreases because of the decrease in Medicaid per capita. However, the overall costs of the disregard have increased. This is to correct an error in the original Administration cost estimate. In the original cost estimate, it

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was intended that states with half of the AFDC caseload would implement a policy that was equivalent to removing the time limit on the \$30 and 1/3 disregards, and that the remaining states would maintain current law. However, the cost estimate reflected a policy where states with half of the caseload would remove the time limit on the \$30 and 1/3 disregards, and that the remaining states would disregard only the new federal minimum. This was not intended, and has been corrected in the column 2 estimate.

Transitional Assistance Followed by Work

1. Additional JOBS spending decreases because, with the increase in the estimate for enhanced teen case management, states will not be able to serve as many people in the JOBS program as we had previously believed. The teen case management estimate has been corrected because we had originally assumed that more people were covered under the baseline than actually are under current law.
2. The cost of providing child care to JOBS and WORK participants increases because we have increased our unit costs to take account of the new ACF-108 data and CBO estimates. We are also estimating the total number of participants instead of just the net number as we had previously done. The Transitional Child Care estimate also increases because of the increased unit costs and baseline shifts. The Child and Adult Care Feeding Program cost increases as the child care cost increases.
3. The AFDC caseload reduction savings decrease because we no longer take AFDC savings for the increase in the number of part-time workers.
4. The Food Stamp savings decrease because we lose some savings from the part-time workers and because of a technical correction in the Food Stamp methodology.
5. The Medicaid savings decrease because of the per capita adjustments.
6. The EITC outlays decrease because we no longer have earnings associated with AFDC part-time workers.

Improving Government Assistance

1. AFDC UP costs have increased since our original estimate. In the original administration cost estimate, California was taken out of the analysis because the state has relaxed the 100-hour rule under a cost neutral demonstration. However, that demonstration expires in FY 99. Therefore, costs have increased in the fifth year (FY 00) to account for inclusion of California.
2. CBO did not score any saving for the "Fill the Gap" proposal. CBO felt that the legislative language did not achieve the policy intent, and would not result in any AFDC savings. Therefore, in "column 2," we remove roughly \$75 million per year in AFDC savings attributed to this proposal.
3. Other minor cost changes may be included in a final estimate of the Administration's bill; however, these adjustments have not been completed at this time.

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PRELIMINARY DRAFT

FEDERAL COST ESTIMATES OF ADMINISTRATION'S WELFARE REFORM PROPOSAL FOR ELEMENTS OF A WELFARE REFORM PROPOSAL

	Original 5 Year Federal	Revised 5 Year Federal
PARENTAL RESPONSIBILITY		
Minor Mothers	(105)	(95)
No Additional Benefits for Additional Children	(45)	(45)
Teenage Parent Educational Attainment	10	10
Comprehensive Demonstration Grants	100	100
Teenage Pregnancy Prevention Grants	300	300
Access and Visitation Grants	40	40
Child Support Assurance Demonstrations	140	140
Child Support Enforcement		
Net Effect of Child Support Proposal	240	620
Medicaid Savings from Caseload Reductions	(325)	(270)
Computer Costs	285	285
NET	200	635
SUBTOTAL, PARENTAL RESPONSIBILITY	640	1,085
MAKING WORK PAY		
At-Risk Child Care Expenditures (includes R and E TAP)	1,600	1,600
State Demonstration Projects for Advanced Payments of EITC	50	50
State Flexibility on Earned Income and Child Support Disregards	615	765
SUBTOTAL, MAKING WORK PAY	2,265	2,415
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK		
Secretarial Fund	300	300
Additional JOBS Spending	1,990	1,565
WORK Operations and Employer FICA	825	825
Work Expenses	220	220
Administrative Costs	75	75
Additional Child Care Spending for JOBS	1,680	2,610
Child Care Spending for WORK	365	610
Transitional Child Care	295	405
Child Care Monitoring and Licensing	60	60
Child and Adult Care Feeding Program (all child care)	225	290
Non-Custodial Parent JOBS/WORK (Gross)	325	325
Non-Custodial Parent JOBS/WORK (Savings)	(140)	(140)
Enhanced Teen Case Management	320	745
ADP Federal and State Systems	825	825
Enhanced Administrative Efficiency	(290)	(290)
Caseload Reduction and Sanctions	(1,035)	(650)
Food Stamp Savings	(495)	(140)
Medicaid Savings	(470)	(350)
EITC Outlays	540	335
SUBTOTAL, TRANSITIONAL ASSISTANCE	5,615	7,620
IMPROVING GOVERNMENT ASSISTANCE (IGA)		
Remove Two Parent (UP) Restrictions	710	735
IDA/Microenterprise Demonstrations	50	50
Generally Conform Resource Limit and Exclusion Rules to those of Food Stamps	330	330
Increase by 25% Territories' Caps and Adjust for Inflation	105	105
All Others	(105)	5
SUBTOTAL IGA	1,090	1,225
Tribal TAP (JOBS/WORK)	160	160
Research and Evaluation TAP (J/W)(At-Risk included above)	130	130
Outlay effect	(530)	(710)
GRAND TOTAL	9,370	11,925
CBO GRAND TOTAL		11,800

Note 1: Parentheses denote savings.

Note 2: Five Year Federal estimates represent the following state match rates: services at 67% (JOBS match+5) in 1999, 69% (JOBS match+7) in 1999, and 71% (JOBS match+9) in 2000; benefits at current match rates; comprehensive demonstration grants, teenage pregnancy prevention grants and IDA/Microenterprise demonstrations are matched at 100%; and other demonstrations are matched at 90%.

Note 3: Totals may not add due to rounding.

Note 4: See attached pages for more detailed notes.

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NOTES FOR REVISED REVENUE TABLE

General

1. Column 1 represents the Administration's original revenue estimate.
2. Column 2 shows these estimates after revenues were lost to GATT and adjusted to match CBO scoring.
3. Column 3 shows further modifications on these estimates for technical corrections or other assumptions.

Column 2

1. CBO's estimate of the decrease in Emergency Assistance was \$.8 billion, Immigrants was \$3.4 billion, farm income was \$.4 billion, and Superfund was \$1.1 billion. Column 2 is adjusted to take these estimates into account.
2. The money raised by DA and A provisions (\$.8 billion) was put into GATT. Also, the EITC provisions were put into GATT. The revenue portion raises \$.05 billion and the outlay portion saves \$.25 billion.

Column 3

1. The new Administration estimate for the Emergency Assistance cap is \$1.5 billion over five years. We believe that the cap on Emergency Assistance will be scored between \$.1 billion and \$1.5 billion. We do not know what CBO's estimate will be.
2. The revised immigrant estimate of savings from the two noncitizen proposals included in the original WRA shows the following changes: (1) the reference to PRUCOL in the Social Security Act is deleted and the specific immigration statuses that would be eligible for benefits under AFDC, SSI, and Medicaid are listed; and (2) sponsor-to-alien deeming is maintained and extended to 5 years under SSI, AFDC, and Food Stamps, and all sponsored immigrants whose sponsors' income exceeds the median family income measure from year 6 until citizenship are made ineligible.

**PRELIMINARY DRAFT
REVISED REVENUE TABLE FOR WRA 1995
(Numbers in billions)**

Revenue Provisions	Original Estimate	GATT+ CBO Revised Estimate	Modified Estimate
Emergency Assistance	1.6	0.8	1.0-1.5
Immigrants	3.8	3.4	4.0
DA and A	0.8	0.0	0.0
Farm Income	0.5	0.4	0.4
EITC	0.3	0.0	0.0
Superfund	1.5	1.1	0.0
Child Care Feeding Program	0.5	0.5	0.5
Other Expiring Provisions	0.3	0.3	0.3
TOTAL	9.3	6.5	6.2-6.7
TOTAL without farm income			5.8-6.3

2.5 alpha shares

See attached page for notes.

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DIFFERENCES WITH CBO

PRELIMINARY REVISED COST ESTIMATES OF WRA	
Original Administration Estimate	\$9.3 billion
Revised Administration Estimate (making technical adjustments to estimates and using CBO scoring).	\$11.9 billion
CBO Estimate	\$11.8 billion
HSP Preferred Estimate (same as revised Administration estimate above with net savings for increased part-time work effort. Also we believe that our immigrant and emergency assistance scoring is better.)	\$11.7 billion

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SAVINGS PROPOSALS

	Five Year Savings (in billions)	
1. Increased Efficiency and Reduced Fraud and Abuse		
Mandate federal tax offset for Food Stamps (AFDC overpayments, and other government payments still to be estimated).	0.2	
Allow SSI payments to be recovered from OASDI benefits.	0.2	
EITC abuse - undocumented aliens.	0.8	} 0.5
EITC abuse (EITC adult must be the same as AFDC adult).	0.4	
EITC abuse (Paternity establishment).	2.1	
W4 - New hire database - mandate use in other programs (UI and Food Stamps).	0.3	
Extend Medicare secondary payer provisions.	3.0	-445 # 0.2 -Treasury 0.5 <hr/> 1.2-4.2
2. Benefit Coordination and State Flexibility		
For children of undocumented aliens only, change the benefit to that provided as the difference between a one and two person family. <i>Constitutional?</i>	0.1	
Eliminate AFDC payments to families above Food Stamps income eligibility level in a three generation household.	1.5	?
<u>State option</u> to have AFDC program adopt Food Stamp filing unit.		
SSI units	NA	
Other units	NA	
Increased enforcement of medical support.	NA	
State option to conform assets, car and accounting provisions.	(0.1)	
Count AFDC energy assistance payments as income for Food Stamps.	0.4	
Count cash energy assistance payments as cash in calculating excess shelter deductions.	0.4	
Eliminate Food Stamp shelter deduction if receiving housing benefits.	NA	1.0
3. Current Plan Changes (JOBS/WORK/Child Support Enforcement)		
Allow complete phase-in flexibility in phase-in (must cover 1/3 of all recipients) thereby reducing child care costs.	0.6	-1.0
Cover those born after 1975 and complete flexibility beyond that.	0.6	
Fees for non-custodial parents.	NA	
Reorder child support distribution rules.	0.2	
Change effective date of distribution.	0.1	
Reduce working poor child care increase to \$1.0 billion over five years.	0.6	1.0-1.6
Allow CWEP instead of work for wages.	0.1	
Take credit for payments to Social Security by changing accounting rules.	0.1	
4. Aliens		
Current proposal.	4.0	
Alternative proposal including Medicaid (10 year deeming - Medicare buy-in).	4.9	0.9
Alternative proposal including Medicaid (10 year deeming with Medicare buy-in but allow aliens to get Medicaid long-term care services).	3.9	
5. SSI Kids		
Change deeming rules (no medicaid savings, start phase out at 66% of poverty).	1.1	
Reduce benefits to level when living in a household of another (1/3 reduction).	4.2	
Pre Zebley.	NA	
McCrery/Santorum amendment to convert all children to voucher.	NA	
Convert 1/3 of cash payment to voucher.	NA	

2.7
4.9
1.8
9.4

8.5

Welfare Reform

New costs = 11.7

Offsets

Efficiency, waste, fraud, abuse, targeting

Tax offset for overpayments .2

SSI increases .2

EITC abuse .5

W-4 new hire data base .3

EA caps 1.0

Child care feeding targeting .5

* Medicare secondary payer 3.0

5.7

New alien deeming 4.9

Benefit coordination, state flexibility

Citizen children .1

Count every assistance .8

.9

Plan charges

Flexible phase-in .6

CSE charges .3

.9

12.2

Proposed Budget Impact of the Revised Work and Responsibility Act (WRA)

Revised Estimate of Proposals in Current Bill 11.7

Changes in Policy

Change phase-in strategy to cover those born after 1975 and give states complete flexibility with a requirement on what percent of the caseload is subjected to the time limit	-0.8
Reorder and change effective date of child support distribution rules	-0.3
Increased enforcement of medical support	NA
State option to conform asset, car and accounting provisions	0.3
Count AFDC energy assistance as income for Food Stamps	-0.4 -0.8
Mandate federal tax offset for Food Stamps (AFDC overpayments and other government payments still to be estimated)	-0.2
Allow SSI payments to be recovered from OASDI benefits	-0.2
W4 - New hire database - mandate use in other programs (UI and Food Stamps)	-0.3
For children of undocumented aliens only, change the benefit to that provided as the difference between a one and two person family	-0.1
Cap on Emergency Assistance (like the current proposal but with a less binding cap)	-1.0
Provisions to stem EITC abuse	-1.0 0.5
Alternative aliens proposal including Medicaid (10 year deeming - Medicare buy-in)	-4.9
Child care feeding programs (current proposal)	-0.5
State retention of recovered Food Stamps (current proposal)	-0.1

BALANCE ~~2.2~~ ~~2.4~~ 2.0

Preferred Options To Cover Remaining Gap (in order of priority)

1. Extend Medicare secondary payer provisions	-3.0
2. SSI savings (unspecified)	-3.0
3. Sum of provisions specified below	-2.2
Money from Emergency Assistance cap increase to -1.5 billion (current proposal)	-0.5
Commodity program income ineligibility (current proposal)	-0.3
Railroad User Fees (current proposal)	-0.2
Count cash energy assistance payments as cash in calculating excess shelter deductions	-0.4
Take credit for payments to Social Security by changing accounting rules	-0.1
Reduce At-Risk Child Care increase to \$.9 billion over five years	-0.7

TOTAL BUDGET IMPACT OF REVISED WRA - Option 1 -0.8
TOTAL BUDGET IMPACT OF REVISED WRA - Option 2 -0.8
TOTAL BUDGET IMPACT OF REVISED WRA - Option 3 0.0

Low Income Package

SSI kids	1.0
EA	1.0
Alien Deeming	5.0
Count Energy Assistance	0.8
Childcare Feeding	0.5
Fraud Stuff (.5 EIC, .3 W-4, .2 FTROP, .2 SSI recovery)	1.0
	9.3

W for W Package

Farm deficiency payments cut off \$100,000 total	1.5
Target School Lunch and CC feeding Superfund (C&I)	3.0
Original Alien Proposal (above median income not eligible after year 5)	1.5
	3.4
	9.4

Fraud/Abuse Package

Alien deeming	5.0
Count Energy Assistance	0.8
Fraud Stuff	1.0
Medicare Secondary Payor	3.0
	9.8

Railroad, Farmers, i.S EA = 1.0

State flex. package
- Filing mit

→ Illegal aliens - housing, deems to citizens
→ Housing for minor mothers

CSA 140
Access 40
Teen 300
Teens 100
NCPs 180
Teen 100
Case mgmt

ABUSE

1. Medicare 2^d 3.0
2. More aliens/deeming
3. More EITC or SSI
4. EA

Low Income

1. SSI kids
2. More EA

WELL FOR WEAL.

1. Farmers
2. User Fees
3. School lunch
4. Superfund

REDUCED PACKAGE

1. Child care
 2. State flex
- [JOBS, Demos, Teen case mgmt]

Welfare Reform Financing Possible Themes

o Option One: "Our welfare reform saves money" (because it is overfinanced and includes mostly poor people's programs as offsets).

o Option Two: "Our welfare reform cuts welfare for the wealthy to reform welfare for the poor" (would need to include farm and corporate subsidies, etc.).

o Option Three: "Our welfare reform is financed by eliminating fraud and abuse" (would need to include Medicare secondary payer extender, EITC abuse, tightening up on sponsor responsibility for aliens, and some smaller items).

o Option Four: "Our welfare reform is paid for" (set of ad hoc cuts; no theme; keeps financing out of picture as much as possible).

EXECUTIVE OFFICE OF THE PRESIDENT

31-Oct-1994 06:27pm

TO: Alice M. Rivlin
FROM: Isabel Sawhill
Office of Mgmt and Budget, HRES
CC: Matthew L. Miller
William A. Halter
SUBJECT: Welfare Reform

This is some background for your meeting tomorrow. If time permits, we should discuss before meeting.

First, the numbers:

o Original proposal 9.3 B (5 years)

Financing:

o Lost to GATT
DA&A
EITC (2) - 1.1 B

o CBO scoring - 1.7 B

o Remaining Offsets 6.5 B

Program Cost:

o CBO scoring - 2.5 B

o Adjusted Cost 11.8 B

Total Gap (11.8 - 6.5) 5.3 B

Options:

o Pay for entire gap by finding new offsets of 5.3 B.

o Absorb CBO scoring difference by adjusting program or legislative language to equal \$9.3 B. Find new offsets of \$3.8 B. to cover the gap on the financing side.

- o Propose a significantly less ambitious program that doesn't require new offsets.

Possible Offsets:

- o Extend deeming of sponsor income to citizenship instead of for 5 years (3.8 B additional) - SSI Alien Medicaid
- o Conform AFDC to FS 130% pov. eligibility (\$7 B.)
- o Deny EITC to parents with no established paternity (?)
- o Other EITC fraud abuse (?) \$100-200m/yr.
- o Limit DCTC to those with incomes under \$110K (781 m)
- o SSA Debt Collection (\$160 m) SSI Reform/disabled children (Leon likes)
- deem more of parents income
- But: Disability Comm

Possible Program Savings:

- o Phase in more slowly - Medicare 2nd payer provision (+3B)
EA - \$1B Farmers - \$500m
Clean Feeding - \$500m
- o Put cap on AFDC childcare so CBO will rescore - Food Stamps - Job Search reqts
Child only - deem illegals
- o Reduce or eliminate spending on childcare for poor working
Energy allowance
Housing allowance of AFDC
- o Include tougher sanctions for those who are "fired" from WORK job - No housing for minor mothers
\$3B from child nutrition over
\$50K

Possible Legislative Strategy:

- o Assume must do on bipartisan basis. SSI exclusion - 20-15 = \$3.9B
Nutrition Targeting - \$3.2B
Food Stamp de minimis \$10 - \$300m
- o Talk to moderates (conserv. Dems/liberal Reps) about what they most like/dislike about our bill. Get clear on where they agree with us on principals and where there are issues we need to be ready to compromise on after bill reintroduced.
- o Submit bill without any major changes but with rhetoric that leaves open possibility of compromise on above issues and drives our opponents on right further right to point where they lose credibility with public (as in Contract with America).