POTENTIAL POVERTY AND DISTRIBUTIONAL EFFECTS OF WELFARE REFORM BILLS AND BALANCED BUDGET PLANS

Presented by the Office of Management and Budget
Prepared with the Department of Health and Human Services,
the Department of the Treasury, and Other Agencies

November 9, 1995

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POVERTY ANALYSIS OF THE WELFARE REFORM AND BALANCED BUDGET PLANS

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

This analysis is complemented by the study of distributional effects and provides estimates of the various welfare bills' and budget plans' impacts on the number of people below the poverty line. The Office of Management and Budget coordinated an effort in which the Department of Health and Human Services, with the assistance of many other agencies, used computer models to produce these estimates of the poverty effects of various budget alternatives.

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

The following tables compare the potential effects of the House and Senate balanced budget plans on the number of persons and children with incomes below the poverty line, and estimate the effects these proposals have on the size of the poverty gap -- a measure of how short of the poverty thresholds a family's income falls. The tables also show the separate effects of the House-and Senate-passed bills welfare bills and the Senate Democratic welfare reform alternative, which every Democratic Senator supported and the Administration endorsed. The analysis estimates the impact on poverty at full implementation, which will be reached in most program provisions no later than 2005.

How should these results be interpreted?

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

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

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

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

SUMMARY OF RESULTS

Progress since January 1993

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

Effect of 1993 changes. The EITC and Food Stamp changes enacted in 1993 had a significant impact on low income working families. At full implementation, these changes would move 1.4 million persons, including 0.8 million children, out of poverty under the post-tax, post near-cash transfer definition of poverty. (See the first two columns in Table 1.) The current House- and Senate-passed budget plans would repeal significant portions of these expansions.

Economic progress. The Clinton Administration has cut the deficit in half and expanded the economy. The Census Bureau recently reported that in 1994 there were already 1.2 million fewer poor people (including 0.6 million children) than in 1993, under the more comprehensive income measure. Similarly, the Food Stamp rolls have dropped by 2.0 million people since they peaked in March 1994.

House and Senate Welfare Reform Bills

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

Variables not included in poverty analysis. It is important to put these numbers in perspective. The poverty analysis is based on long-term projections that do not attempt to predict a number of important variables far into the future: effect of deficit reduction on job growth; marriage and

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

SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

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

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

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

ALTERNATE ASSUMPTIONS THAT HAVE NOT BEEN MODELED

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

- ***Economic Growth and Unemployment.*** An extended period of strong economic growth would reduce the poverty effects. Since AFDC recipients usually have a harder time than most finding and keeping jobs during a recession, and the House-passed bill in particular has almost no countercyclical protection, the poverty effects would be greater if unemployment rates increased substantially.

- ***State funding for benefits.*** The estimates assume States maintain current State funding levels for benefits until recipients reach the time limit, and then use the time limit savings to fund work programs and child care. Poverty effects would be greater if States reduced their funding in a "race to the bottom" and smaller if States increased their funding to offset the loss of Federal dollars.
- ***Marriage and birth rates.*** Some recent changes in birth rates -- such as the sudden increase in the late 1980's -- were not predicted, and had a tremendous impact on welfare caseloads. If work-based welfare reform, tough child support enforcement, and a national campaign against

teen pregnancy can reduce teen pregnancy, out-of-wedlock births, and/or increase marriage rates, the poverty effects will be smaller. If out-of-wedlock birth rates continue to grow and marriage continues to decline, the poverty effects could be greater.

ALTERNATE ASSUMPTIONS THAT HAVE BEEN MODELED

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

- ***What effect does a time limit have on employment?*** The base estimate for the Senate analysis assumes that 40 percent of parents reaching the time limit will find some kind of employment. The range of hours worked and wages received reflects the predicted earnings for long-term AFDC recipients, based on the earnings of non-AFDC single mothers with similar education, work experience, number of children, and test scores.

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

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

- ***What do States do after the mandatory time limit?*** Waiver requests indicate that a number of States will want to end assistance completely when the time limit ends. Some States, however, may choose to pay cash benefits with State funds or provide in-kind vouchers. If States with two-thirds of the national caseload provided housing and other vouchers worth the children's portion of the AFDC benefit, the number moved below the poverty line would be 0.2 million smaller.

Table 3

SENATE WELFARE BILL SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

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

Simulates effects of full implementation in 1993 dollars

	Optimistic Assumptions	Assumptions Modeled				Pessimistic Assumptions
	States Increase Benefit Funding; Increased Economic Growth; and/or Non-Marital Birth Rates Decline	Two-Thirds of States Provide Child Benefit Vouchers After Time Limit; CBO Projection of Program Growth; Intermediate Labor Supply Effects	CBO Projection of Program Growth Under Current Law	**Intermediate Estimate**	More Conservative Labor Supply Effect of Time Limit	States "Race to the Bottom" and/or Decreased Economic Growth
Children Under 18						
Number in Poverty (Millions)	-?.?	10.9	11.1	**11.2**	11.4	+?.?
Change From Current Law	-?.?	0.9	1.1	**1.2**	1.4	+?.?
Poverty Rate (Percent)	-?.?	15.7	15.9	**16.2**	16.4	+?.?
Change From Current Law	-?.?	1.3	1.6	**1.8**	2.0	+?.?
Families With Children						
Number in Poverty (Millions)	-?.?	18.7	18.9	**19.2**	19.5	+?.?
Change From Current Law	-?.?	1.7	1.9	**2.2**	2.5	+?.?
Poverty Rate (Percent)	-?.?	12.9	13.1	**13.3**	13.5	+?.?
Change From Current Law	-?.?	1.2	1.3	**1.5**	1.7	+?.?
Poverty Gap (Billions)	-?.?	19.2	19.9	**20.6**	21.0	+?.?
Change From Current Law	-?.?	3.0	3.7	**4.4**	4.8	+?.?
All Persons						
Number in Poverty (Millions)	-?.?	30.2	30.4	**30.7**	31.0	+?.?
Change From Current Law	-?.?	2.1	2.3	**2.6**	2.9	+?.?
Poverty Rate (Percent)	-?.?	11.6	11.7	**11.8**	11.9	+?.?
Change From Current Law	-?.?	0.8	0.9	**1.0**	1.1	+?.?
Poverty Gap (Billions)	-?.?	50.9	51.6	**52.3**	52.7	+?.?
Change From Current Law	-?.?	4.1	4.8	**5.5**	5.9	+?.?

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

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

DISTRIBUTIONAL ANALYSIS OF THE BALANCED BUDGET PROPOSALS

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

WHAT IS A DISTRIBUTIONAL ANALYSIS?

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

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

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

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

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

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

RESULTS OF THE DISTRIBUTIONAL ANALYSIS

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

Changes in Taxes

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

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

Reductions in Benefits Affecting Income

Both the House and Senate passed budget plans have proposed very deep cuts in income and other assistance programs for low income families. To balance the budget, improve efficiency and encourage work, the Administration's plan also includes cuts to low-income benefit programs. While the benefit reductions in the Administration's plan for families with income below $30,000 would reduce their average annual income by only $64, these same families would suffer a $411 loss in income under the House plan, and a $252 loss under the Senate plan.
Worse yet, the deepest cuts passed by the House and Senate affect the poorest 20% of families with children (those at or below 121% of poverty). Their average income would decrease by $1,549 (10.8% of income) under the House plan and $825 per year (5.8% of income) under the Senate plan.

Reductions in Health Coverage

The contrast between the Administration plan and the House and Senate passed bills is even sharper when changes in health coverage are considered. The Administration plan would obtain Medicare savings from reform of provider payments and, with respect to Medicaid, would reduce disproportionate share payments and modestly reduce per capita payments. Medicaid would continue as an entitlement, and coverage would continue for everyone who is eligible under current law -- with all poor children covered by 2002. As a result of these policies, there are only modest effects on families (States may reduce some optional services). In addition, the Administration plan would help people continue their health insurance when they lose a job that provides it. Medicare recipients would see their costs drop, as provider payment reforms will reduce co-payments.

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

COMPARISON OF TAX AND BENEFIT CUTS

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

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

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

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

WHAT DO THE RESULTS OF THE DISTRIBUTIONAL ANALYSIS SHOW?

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

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

Table 4

Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Balanced Budget Plans

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$411	-$252	-$64
$30,000 to $50,000	21%	-$122	-$97	-$21
$50,000 to $100,000	27%	-$70	-$92	-$22
Over $100,000	12%	-$55	-$97	-$18
Health Coverage Cuts				
Less than $30,000	40%	-$493	-$496	$22
$30,000 to $50,000	21%	-$172	-$288	$28
$50,000 to $100,000	27%	-$90	-$169	$8
Over $100,000	12%	-$100	-$279	$32
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$904	-$748	-$42
$30,000 to $50,000	21%	-$294	-$385	$7
$50,000 to $100,000	27%	-$160	-$261	-$14
Over $100,000	12%	-$155	-$376	$14
Tax Benefits				
Less than $30,000	40%	$11	-$53	$36
$30,000 to $50,000	21%	$251	$249	$251
$50,000 to $100,000	27%	$648	$700	$473
Over $100,000	12%	$1,613	$1,642	$287
Over $200,000	3%	$3,269	$3,416	$82
Top 1%	1%	$5,422	$5,626	$63

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

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

Table 5

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

House, Senate, and Administration Balanced Budget Plans

Dollars in Billions

Family Economic Income	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$18.0	-$11.0	-$3.2
$30,000 to $50,000	21%	-$2.8	-$2.2	-$0.5
$50,000 to $100,000	27%	-$2.0	-$2.7	-$0.6
Over $100,000	12%	-$0.7	-$1.3	-$0.2
Total	**100%**	**-$23.5**	**-$17.3**	**-$4.7**
Health Coverage Cuts				
Less than $30,000	40%	-$21.5	-$21.7	$1.0
$30,000 to $50,000	21%	-$3.9	-$6.6	$0.6
$50,000 to $100,000	27%	-$2.6	-$4.9	$0.2
Over $100,000	12%	-$1.3	-$3.7	$0.4
Total	**100%**	**-$29.5**	**-$36.9**	**$2.3**
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$39.5	-$32.7	-$2.2
$30,000 to $50,000	21%	-$6.7	-$8.8	$0.1
$50,000 to $100,000	27%	-$4.6	-$7.6	-$0.4
Over $100,000	12%	-$2.0	-$5.0	$0.2
Total	**100%**	**-$53.0**	**-$54.2**	**-$2.4**
Tax Benefits				
Less than $30,000	40%	$0.5	-$2.3	$1.6
$30,000 to $50,000	21%	$5.7	$5.7	$5.7
$50,000 to $100,000	27%	$18.8	$20.4	$13.8
Over $100,000	12%	$21.6	$22.0	$3.8
Over $200,000	3%	$9.1	$9.5	$0.2
Top 1%	1%	$5.9	$6.2	$0.1
Total	**100%**	**$47.0**	**$45.8**	**$24.9**

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

Table 6

Tax Benefits By Quintile

House, Senate, and Administration Balanced Budget Plans

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

Notes: See "Methodology" section of this paper for the definition of family economic income and a description of the methodology and assumptions used in the analysis. Family economic income (FEI) ranks households based on dollar income while adjusted family income (AFI) takes family size into account. As a result, quintile tables based on AFI and FEI should not be added together.

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

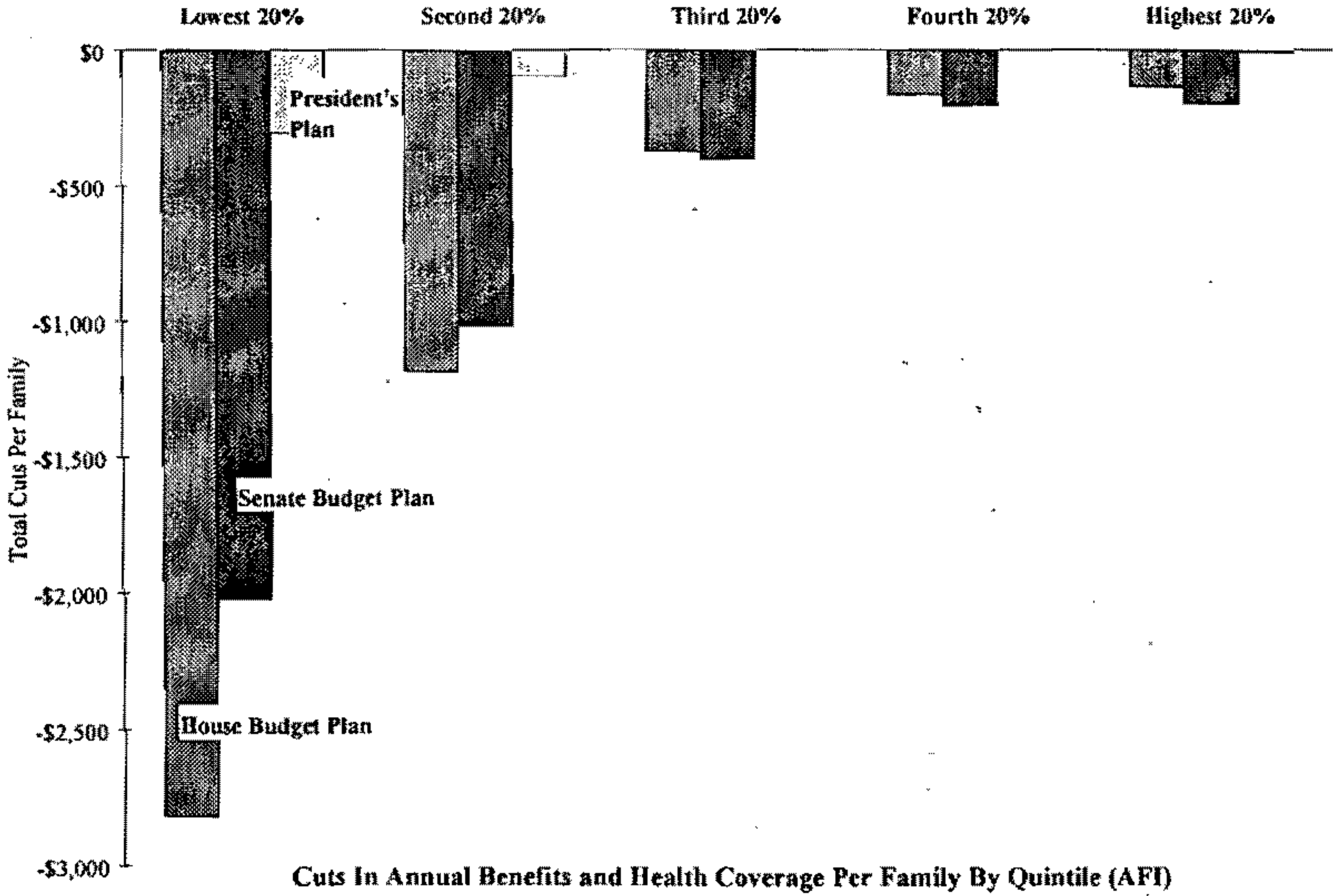

Table 7

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

Average Income and Health Coverage Loss Per Family By Quintile

Adjusted Family Income Quintile	House Budget Plan		Senate Budget Plan		Administration Plan	
	Dollars	% of Income	Dollars	% of Income	Dollars	% of Income
Benefit Cuts Affecting Income						
Lowest	-$1,549	-10.8%	-$825	-5.8%	-$224	-1.6%
Second	-$630	-2.7%	-$385	-1.6%	-$114	-0.5%
Third	-$191	-0.5%	-$160	-0.5%	-$41	-0.1%
Fourth	-$84	-0.2%	-$85	-0.2%	-$20	-0.0%
Highest	-$76	-0.1%	-$97	-0.1%	-$14	-0.0%
Health Coverage Cuts						
Lowest	-$1,271		-$1,199		-$82	
Second	-$558		-$631		$17	
Third	-$181		-$240		$45	
Fourth	-$80		-$118		$25	
Highest	-$60		-$103		$5	
Total Income and Health Coverage Cuts						
Lowest	-$2,820		-$2,024		-$306	
Second	-$1,188		-$1,016		-$97	
Third	-$372		-$400		$4	
Fourth	-$164		-$203		$5	
Highest	-$136		-$200		-$9	

Notes: Adjusted family income (AFI) ranks families based on their income as a percent of the poverty line. These results should not be added to the figures in Table 6 because family economic income does not include family size in the ranking factors. Also, this table includes only families with children, while table 6 includes all households.

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

Table 8

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

Aggregate Income and Health Coverage Loss By Quintile

Dollars In Billions

Adjusted Family Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income			
Lowest	-$11.6	-$6.2	-$1.7
Second	-$4.8	-$3.0	-$0.9
Third	-$1.4	-$1.2	-$0.3
Fourth	-$0.6	-$0.6	-$0.2
Highest	-$0.6	-$0.8	-$0.1
Total	**-$19.0**	**-$11.8**	**-$3.1**
Health Coverage Cuts			
Lowest	-$9.5	-$9.0	-$0.6
Second	-$4.3	-$4.8	$0.1
Third	-$1.4	-$1.8	$0.3
Fourth	-$0.6	-$0.9	$0.2
Highest	-$0.5	-$0.8	$0.0
Total	**-$16.3**	**-$17.4**	**$0.1**
Total Income and Health Coverage Cuts			
Lowest	-$21.2	-$15.2	-$2.3
Second	-$9.1	-$7.8	-$0.7
Third	-$2.8	-$3.0	$0.0
Fourth	-$1.3	-$1.6	$0.0
Highest	-$1.1	-$1.6	-$0.1
Total	**-$35.5**	**-$29.2**	**-$3.0**

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

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

METHODOLOGY

RANKING HOUSEHOLDS AND DEFINITIONS OF INCOME

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

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

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

MODELING OF TAX CHANGES

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

MODELING OF SPENDING CUTS

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

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

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

Furthermore, the model makes relatively conservative assumptions regarding state maintenance of effort in the AFDC and Medicaid programs and the labor supply response of persons who lose AFDC benefits. The study assumes that states do not reduce state spending in response to the block granting of AFDC. Instead, it is assumed that states, at first, follow the Federal lead and keep aggregate cash benefits at the 1994 levels implicit in the block grant. The study assumes that later they reduce average benefits per household to offset any caseload growth, and retain the savings resulting from time limits to fund work programs and child care. Under the Medicaid block grant, State funds would be matched up to a Federal cap. The study assumes that States would increase spending only enough to receive their full Federal allotment (this assumption only affects the estimate of the value of health benefits and does not affect the poverty rates).

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

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

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

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

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

ANALYSES OF THE HOUSE PASSED H.R. 4

AFDC

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

SSI

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

Food Stamps

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

Child Support

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

Nutrition Programs

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

ANALYSES OF HOUSE ACTIONS

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

Housing

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

Medicare

- Increase part B premiums from 25% of program costs to 31.5%[2] and eliminate the premium subsidy for high income beneficiaries.
- Reduce managed care benefits for beneficiaries currently enrolled in HMO's

Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $170 billion between 1996 and 2002

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[2]For both the Congressional and Administration plans, the analysis assumes a permanent extension of the Medicare Part B premium at 25% of program costs is part of the baseline. No effects of extending it are included in the numbers. Under current law this provision expires after 1998.

Other Actions

- Eliminate the Low-Income Home Energy Assistance program (LIHEAP)
- Increase Federal employee contributions to pension funds
- Reduce the pension benefits of future Federal retirees
- Reduce direct payments to farmers and cap total acreage in the Conservation Reserve Program
- Combine several child care programs into a block grant and reduce spending

ANALYSES OF SENATE PASSED H.R. 4

AFDC

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

SSI

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

Food Stamps

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

Child Support

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

Nutrition Programs

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

ANALYSES OF SENATE ACTIONS

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

Food Stamps

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

Housing

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

Medicare

- Increase Part B premium to $89 in 2002
- Eliminate Part B premium subsidy for high income households
- Increase the Part B deductible to $210 in 2002
- Reduce managed care benefits for beneficiaries currently enrolled in HMO'S

Medicaid

- Eliminate entitlement and establish a block grant at reduced spending to save $172 billion between 1996 and 2002

Other Actions

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

PRELIMINARY ANALYSES OF ADMINISTRATION'S BUDGET

SSI

- Tighten eligibility criteria for receiving SSI benefits.

Food Stamps

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

Child and Adult Care Feeding Program (CACFP) Subsidies

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

Immigrant Provisions

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

Medicare

- Reduce provider payments.

Medicaid/Health Insurance for the Unemployed

- Continue Medicaid entitlement but reduce total Medicaid spending.
- Provide health insurance protections for who lose coverage as a result of losing their jobs.

ROADMAP FOR CONFEREES ON HOW TO IMPROVE BILL ~~FOR~~ AND ACHIEVE REAL BIPARTISAN REFORM

DOLE ~~[illegible]~~ SAID SUNDAY THAT WE SHOULD LOOK AT THIS + MAKE CHANGES

POWELL SAID HE SUPPORTS WR BLOCK GRANTS BUT LOOK OUT FOR CHILDREN

OUR POSITION HAS BEEN CONSISTENT THROUGHOUT
- SEPT. 16 : POTUS quote (note: wisdom + courage was family cap)
- OCT. 18
- OCT. 26

HE STANDS BY HIS SUPPORT FOR THE SENATE BILL ~~AS THE FOUNDATION~~
IT'S A DRAMATIC IMPROVEMENT OVER THE HOUSE.
WE BELIEVE THIS REPORT WILL BE A ROADMAP FOR CONFEREES
TO HOLD ONTO THOSE IMPROVEMENTS + MAKE OTHERS
ON A BIPARTISAN BASIS.
THE QUESTION now is whether under pressure for budget savings in reconciliation will lead ~~them to~~ Cong. to turn away from the bipartisan Senate approach and back toward the House bill.

Doesn't take into account certain factors that make our case stronger + case for for all overall approach Rep's budget plan weaker
* Econ gains: 1.2m b/w 93 + 94.
* FS rolls since then
* Dramatic change in welfare + behavior [closing ¶ of report]
* EITC - we at poverty in 93 by 800,000. The Senate budget plan → 500,000
* Medicaid

Q: Why doesn't the President just issue a veto threat, given that the welfare reform bills passed by both the House and Senate demonstrably fail the test of protecting children?

A: He has threatened to veto the House bill. And he has made clear that if Congress can't pass a bipartisan bill that is tough on work and fair to children, we will make them try again until they do. But make no mistake: millions of children are stuck in poverty and trapped by the current system right now. We can't afford to maintain the current system and lose another generation. It doesn't reflect our values, and it does nothing to help move welfare recipients from dependence to independence. There is bipartisan progress to be made here, if both sides of the debate accept the need for real change that contains fundamental protections for children. The best protection for children is parents who want them and can support them.

Q: You seem to be saying that he would veto a bill that makes a million children poorer, but could accept something less than that - perhaps 500,000. Is that really your position?

A: This report makes the case we've been making all along, that ~~you've got to adopt incentives for parents~~ to move from welfare to work, and reduce the potential risk to children. And it should remind conferees that we should be careful about the changes we make today, because they could have a real impact ten years from now.

We shd maximize opps to ~~move people~~

But as the ~~President has said from the very beginning, the~~ welfare system today is badly broken, and must be fundamentally changed. ~~He's worried about the~~ millions of children ~~who~~ are trapped on welfare and in poverty right now. Maintaining the current system will not lift these children out of poverty, We believe that if people on welfare are required to work, they will do so -- and they shouldn't receive assistance if they refuse to work. We believe that no one who can work should be able to stay on welfare forever, and it will change behavior if that becomes law. We believe that when society demands that absent parents pay child support, they will do so -- and that they should be forced to if they don't. We believe that if we demand work and responsibility and combat teen pregnancy, it will make an enormous difference and we will see fewer teen pregnancies, fewer births outside marriage, and more parents taking responsibility for their children and their actions.

or keep the next generation from going into poverty.

Straightforward analysis -- Doesn't take into account the potential for dramatic change in culture and behavior if a bipartisan, work-based reform becomes law.

Q: Has the Democratic party really changed so much that a Democratic president could accept a budget that puts hundreds of thousands of children in poverty?

A: As we've said all along, the budget should be balanced -- but there's a right way and a wrong way to do it. The right way is to adopt a budget plan that distributes the cuts and

DRAFT 5

Q: After seeing this study, and realizing that the Senate bill the President endorsed will put one million children into poverty, can the President still sign a welfare bill? Isn't that impossible now?

A: The President's goal has been clear from the very beginning. He wants Congress to pass a welfare reform bill that moves people from welfare to work so they can lift themselves out of poverty. This report reinforces what we have been saying all along: the key to successful welfare reform is creating the right incentives to help people move from welfare to private sector jobs. That's why we fought for the improvements made in the Senate, and why we have consistently urged Congress to keep up the progress by making further improvements that will reward work and protect children.

Q: Has the President been briefed on this report? What was his reaction?

A: He has received the report, and has talked to Alice Rivlin about it. His reaction was consistent with what he's said all along. He believes that the actions in the Senate improved the very extremist bill passed by the House, and he wants that bipartisan progress to continue.

Q: Now that you've seen the report on the Senate bill, haven't the President's views on it changed? Or does he still feel that it's something he can support?

A: Let's be clear -- nothing has changed. The President was pleased with the bipartisan progress made in the Senate. The report confirms that the Senate dramatically improved the House bill, which the President said he would veto. Working together, Democrats and moderate Republicans moved away from the extremist policies put forward by Republicans at the beginning of the year. They increased child care funding instead of cutting it; they provided incentives for states to put people in jobs instead of putting them off; they required states to maintain their financial effort; they maintained the safety net of adoption and foster care for children. But as we've said in our letters to conferees, and as the President made clear in his September 16 radio address, the Senate bill was not perfect. And whether the President will sign the final product depends on whether bipartisan progress continues, or Congress turns back toward the partisan and extremist policies in the House bill.

[NOTE: Alice Rivlin wrote an 8-page White House letter to the conferees on October 18 calling for these changes; Secretary Shalala followed up with a 19-page letter on October 26. Administration officials have communicated these concerns in dozens of meetings with conferees and their staffs.]

benefits equitably. The wrong way is what the Republicans have proposed: steep cuts in programs that help working Americans, and tax cuts for the rich. What we're trying to do is to balance the budget the right way, and to reform a welfare system that everyone agrees is broken. What they're doing is decimating programs that are working, like the EITC, which helps to counteract the perverse incentives of the current welfare system. We have been fighting to protect children throughout the Administration and throughout this Congress, by fighting in the budget process for Head Start, foster care and the school lunch program.

Q: But, yes or no, would the President sign the Senate bill if it were presented to him today?

A: Nothing has changed. The President's view is that good, bipartisan progress was made in the Senate. He wants Congress to pass a welfare reform bill that changes the present system, and he believes the Senate's approach provides a good foundation for a final compromise. He intends to keep fighting for policies that move adults from welfare to work, and that protect children. Whether or not the President will sign the final product depends on whether bipartisan progress continues or whether Congress turns back toward the House bill.

Q: What's going on inside the Administration? One day the President tells Wattenberg the Senate bill shows how his own party is making progress; the next day Ann Lewis is quoted saying he's rethinking his support for the Senate bill.

A: Nothing has changed. The President stands behind the improvements the Senate made, and believes the Senate bill is a strong foundation on which to continue to build this bipartisan progress.

Q: The President told the Trotter Group last week, "I would be very reluctant to sign a bill that I thought was really bad for children." In light of this study, does that commit him to vetoing the Senate bill?

A: The President told the Trotter Group what we have said all along -- that our goal in welfare reform is to overhaul the current broken system to move people from welfare to work so they can lift themselves out of poverty. He told the Trotter Group that we would continue to seek changes in the Senate bill that will build on the bipartisan improvements we have already made to promote work and protect children.

Q: According to Wattenberg and others, welfare reform is an issue where the President is defining himself as a "New Democrat." Is he really willing to do that at the expense of poor children?

A: The President's interest in welfare reform is longstanding, and his views are clear: We've got to dramatically change the system, and try something fundamentally new. The President is very concerned about the millions of poor children who are trapped in poverty by the current system. We have been fighting to protect children throughout the Administration and throughout this Congress. Remember -- not so long ago the Republicans started their welfare reform debate by proposing orphanages. It's the Republicans who have proposed block granting adoption and foster care, cutting the school lunch program, and reducing benefits for disabled kids. And it's the President who has not only opposed those proposals, but has championed a range of programs like Head Start and family leave to make American kids' lives better.

To Bruce and Rahm --

Here's the latest draft. It incorporates Bruce's latest edits, and minor edits from here on the first three questions. Let me know what's up -- I need to call Daschle's office back.

Melissa

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Table I

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

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

Simulates effects of full implementation in 1993 dollars

Numbers Wrong

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

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

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

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Table 2

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Numbers Wrong

Under The Income Definition Used For Official Poverty Statistics

Simulates effects of full implementation in 1993 dollars

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

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

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

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Table 3

SENATE WELFARE BILL SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS

Numbers wrong

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

Simulates effects of full implementation in 1993 dollars

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

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

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

Numbers Wrong

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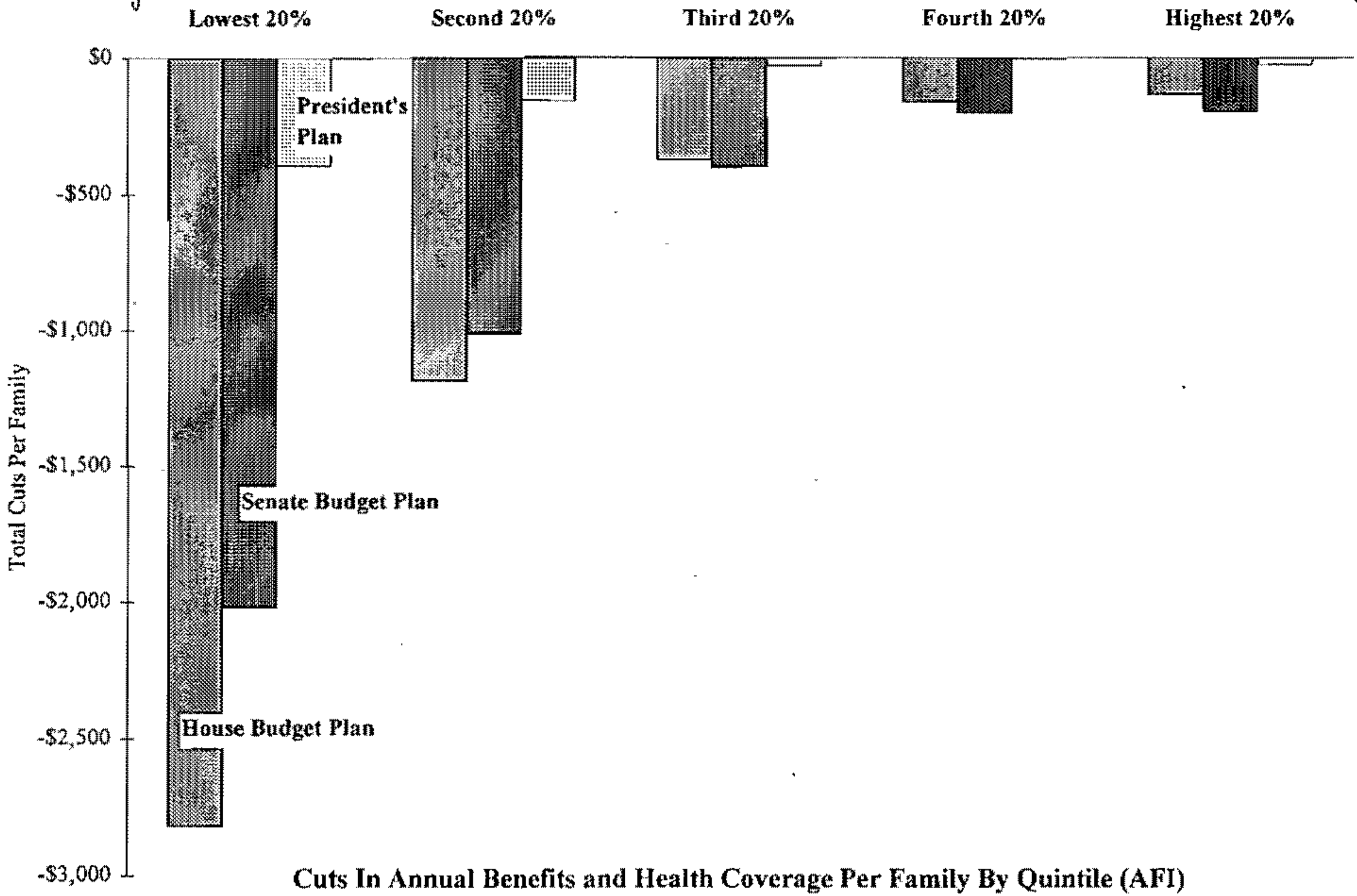
Low Income Families With Children Are Hit Hard By Republican Budget Proposals
Total Income And Health Coverage Cuts Affecting Families With Children



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Numbers Wrong

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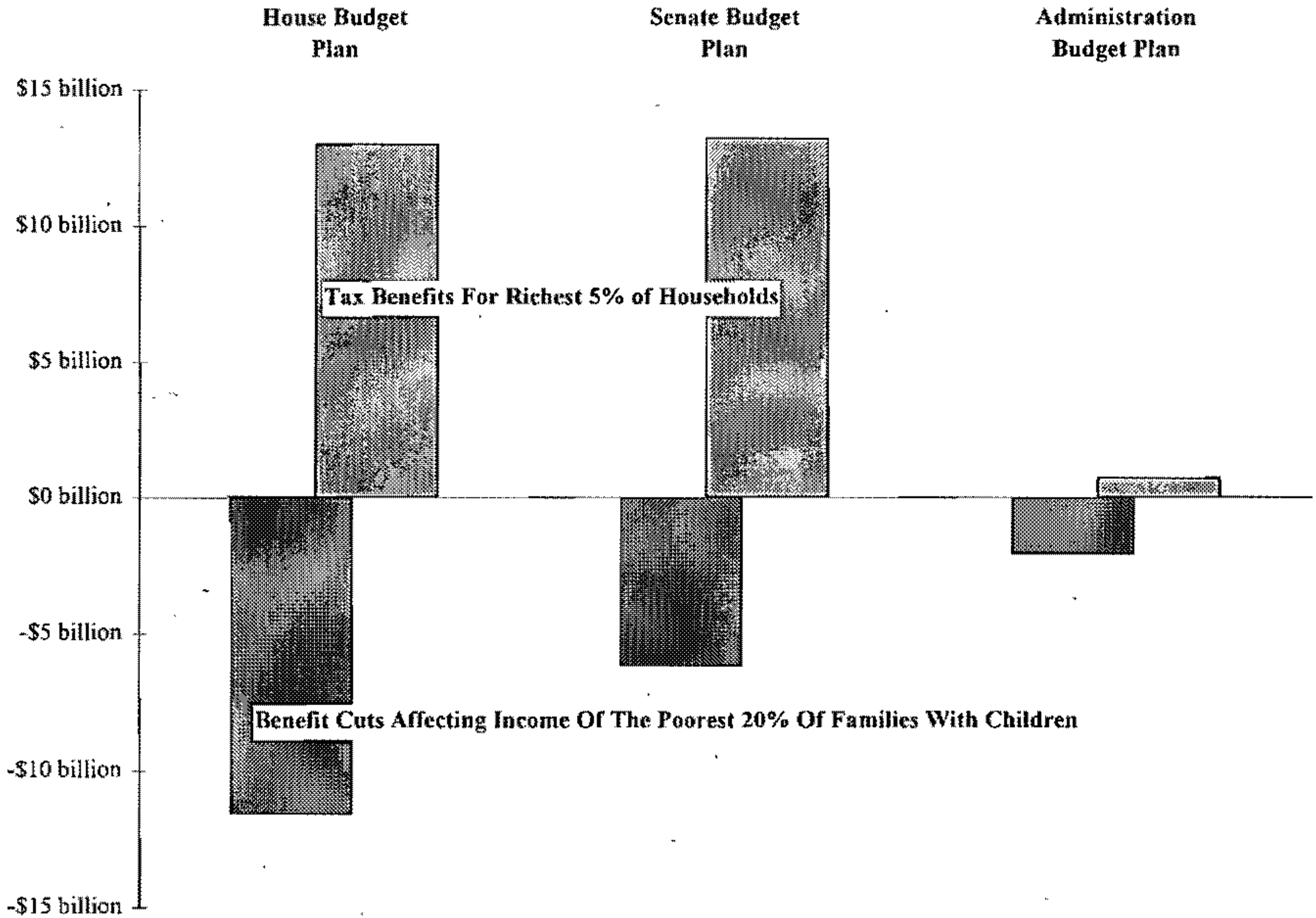
Under Congressional Budget Plans, Tax Benefits For Richest 5% Exceed Benefit Cuts That Reduce Income For Poorest 20% Of Families With Children



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Numbers wrong

Table 4

Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Balanced Budget Plans

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

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

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

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OVERVIEW

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

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

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

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

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

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

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In that spirit, this report recommends:

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

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

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

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

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

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

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

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

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

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

Under the broader definition of poverty, the House welfare reform bill could move 2.1 million children below poverty in the year ____. Improvements included in the Senate bill have cut that number by nearly half, to 1.2 million. The Senate Democratic welfare bill could move 400,000 to 600,000 below poverty.

These numbers, however, do not tell the whole story about poverty:

First, they do not reflect some gains that the Administration's economic policies have made in reducing poverty. For instance, they do not reflect the recent Census Bureau finding that the number of people in poverty fell by 1.2 million between 1993 and 1994, nor the fact that Food Stamp rolls have dropped by another _____ in the first __ months of 1995.

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Second, unlike the distributional analysis, which shows the entire picture of who would gain and who would lose in the various budget plans, the poverty analysis only shows how many people who are near the poverty line because of the government benefits they receive could fall into poverty if those benefits are cut.

Finally, the poverty analysis is based on long-term projections for the year ____, which do not try to predict a number of important variables that far into the future -- e.g., job growth, marriage and birth rates, and the long-term behavioral impact of a fundamental change in the culture of welfare. If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy help promote work and responsibility and reduce births outside marriage, more people will lift themselves out of poverty and fewer will find themselves there in the first place. If we do not enact real welfare reform that moves people from welfare to work and fails to reduce teen pregnancy and slow the growing rate of births outside marriage, the declines in poverty of the last two years will be reversed.

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contingency grant fund and an 80% maintenance of effort requirement. The Administration has sought to maintain and strengthen these improvements through a tightly drawn, permanent maintenance of effort provision and a contingency fund with a more effective trigger mechanism and a greater amount of funds in reserve. The Administration and CBO project that the current Senate contingency fund will run out in a few years even with a growing economy, so it should be strengthened to provide states and families greater protection in a serious recession.

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

B. Other Improvements in Welfare Reform

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

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

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

C. A More Balanced Deficit Reduction Plan and Other Changes

A more balanced deficit reduction plan would leave children much better off than the House- and Senate-passed budget plans. In particular, the following changes would promote work and protect children:

- **Do not cut the EITC.** The House and Senate budget plans would undermine rewards to work by cutting assistance to people who work -- often at low wage jobs. The EITC changes in 1993 led to a significant reduction in poverty, while the EITC cuts in the budget Senate bill could lead to an additional 500,000 children moving below the poverty line.

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- **Cut fewer current SSI recipients from the rolls.** The Senate bill would cut off 160,000 children. Applying changes only on a prospective basis would lessen the poverty impact.

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

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

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

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POLICY RECOMMENDATIONS TO PROMOTE WORK AND MINIMIZE THE IMPACT ON CHILDREN

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

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

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

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

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

- **Child Care.** The poverty effects of welfare changes depend in large part on how many people get jobs. In particular, welfare reform should provide the child care mothers need so they can leave welfare for work. The House bill cuts child care funding. The Senate increased child care funding by $3 billion over the next five years. But the impact of that improvement is not captured in this poverty analysis because the child care funding increase in the Senate bill expires after the year 2000. (This analysis is modeled on full implementation; generally 2002-2005.) Making that increase in child care permanent would reduce the poverty impact in two ways: by improving the prospects for recipients to leave welfare for work, and by reducing the pressure on States to divert money away from benefits in order to pay for child care.

- **Contingency Fund and Maintenance of Effort.** Another critical variable is how States respond, especially in the event of an economic downturn that would increase caseloads and reduce revenues. The House bill includes an inadequate rainy day loan fund and no requirement for states to maintain their effort. The Senate bill includes a $1 billion

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Q: After seeing this study, and realizing that the Senate bill the President endorsed will put one million children into poverty, can the President still sign a welfare bill? Isn't that impossible now?

A: The President's goal has been clear from the very beginning. He wants Congress to pass a welfare reform bill that moves people from welfare to work so they can lift themselves out of poverty. This report reinforces what we have been saying all along: the key to successful welfare reform is creating the right incentives to help people move from welfare to private sector jobs. That's why we fought for the improvements made in the Senate, and why we are continuing to urge ~~urging~~ Congress to keep up the progress by making further improvements that will reward work and protect children.

Q: Has the President been briefed on this report? What was his reaction?

A: He has received the report, and has talked to Alice Rivlin about it. His reaction was consistent with what he's said all along. He believes that the actions in the Senate improved the very extremist bill passed by the House, and he wants that bipartisan progress to continue.

Q: Now that you've seen the report on the Senate bill, haven't ~~hasn't~~ the President's views on it changed? Or does he still feel that it's something he can support?

A: Let's be clear — nothing has changed. The President was pleased with the bipartisan progress made in the Senate. The Senate dramatically improved the House bill, which the President said he would veto. Working together, Democrats and moderate Republicans moved away from the extremist policies put forward by Republicans at the beginning of the year. They increased child care funding instead of cutting it; they provided incentives for states to put people in jobs instead of putting them off; they required states to maintain their financial effort; they maintained the safety net of adoption and foster care for children. But as we've said in our letters to conferees, and as the President made clear in his September 16 radio address, the Senate bill was not perfect. And whether the President will sign the final product depends on whether bipartisan progress continues, or Congress turns back ~~to~~ toward the partisan and extremist policies in the House bill.

[NOTE: Alice Rivlin wrote an 8-page White House letter to the conferees on October 18 calling for these changes; Secretary Shalala followed up with a 19-page letter on October 26. Administration officials have communicated these concerns in dozens of meetings with conferees and their staffs.]

Q: Why doesn't the President just issue a veto threat, given that the welfare reform bills passed by both the House and Senate demonstrably fail the test of protecting children?

A: He has threatened to veto the House bill. And he has made clear that if Congress can't pass a bipartisan bill that is tough on work and fair to children, we will make them try again until they do. But make no mistake: millions of children are stuck in poverty and trapped by the current system right now. We can't afford to maintain the current system and lose another generation. It doesn't reflect our values, and it does nothing to help move welfare recipients from dependence to independence. There is bipartisan progress to be made here, if both sides of the debate accept the need for real change that contains fundamental protections for children.

Q: You seem to be saying that he would veto a bill that makes a million children poorer, but could accept something less than that - perhaps 500,000. Is that really your position?

reduce the potential risk to

A: This report makes the case we've been making all along, that you've got to adopt incentives for parents to move from welfare to work, and ~~reject policies that simply punish~~ children. And it should remind conferees that we should be careful about the changes we make today, because they could have a real impact ten years from now. But as the President has said from the very beginning, the welfare system today is badly broken, and must be fundamentally changed. He's worried about the millions of children who are trapped ~~growing up~~ on welfare and in poverty right now. ~~so~~ Maintaining the current system will ~~is~~ not lift these children out of poverty ~~an option~~. We believe that if people on welfare are required to work, they ~~women on welfare want to work, and~~ will do so ~~if they can find child care for their children.~~ We believe that when society demands that absent parents pay child support, they will do so -- and that they should be forced to if they don't. — and they shouldn't receive assistance if they refuse to work. We believe ~~it's important to end the cycle of dependency which has trapped so many children in poverty. And we believe we can ultimately get to a bill that maximizes the incentives and opportunities for success, and minimizes the risk to children.~~ that if we demand work and responsibility and combat teen pregnancy, it will make an enormous difference and we will see fewer teen pregnancies, fewer births outside marriage, and more parents taking respons. for their children and their actions.

We believe that no one who can work should be able to stay on welfare forever, and it will change behavior if that becomes law.

Q: Has the Democratic party really changed so much that a Democratic president could accept a budget that puts hundreds of thousands of children in poverty?

A: As we've said all along, the budget should be balanced -- but there's a right way and a wrong way to do it. The right way is to adopt a budget plan that distributes the cuts and benefits equitably. ~~minimizes the impact on low-income families with children.~~ The wrong way is what the Republicans have proposed: steep cuts in programs that help working Americans, and tax cuts for the rich. What we're trying to do is to balance the budget the right way, and to reform a welfare system that everyone agrees is broken. What they're doing is decimating programs that are working ~~serve children and working families, and cutting back on work incentives~~ like the EITC ~~that are demonstrably working.~~ which helps to counteract the perverse incentives of our current welfare system. We have been fighting to protect children throughout the Administration and throughout this Congress, by fighting in the budget process for Head Start, foster care and the school lunch program.

Q: But, yes or no, would the President sign the Senate bill if it were presented to him today?

Nothing has changed.

A: The President's view is that good, bipartisan progress was made in the Senate. He wants Congress to pass a welfare reform bill that changes the present system, and he believes the Senate's approach provides a good foundation for a final compromise. He intends to keep fighting for policies that move adults from welfare to work, and that protect children. Whether or not the President will sign the final product depends ~~entirely~~ on whether ~~or not~~ bipartisan progress continues, or whether Congress turns back toward the House bill.

Q: The President told the Trotter Group last week, "I would be very reluctant to sign a bill that I thought was really bad for children." In light of this study, does that commit him to vetoing the Senate bill?

A: The President told the Trotter Group what we have said all along -- that our goal in welfare reform is to (overhaul the current broken system to) move people from welfare to work so they can lift themselves out of poverty. He told the Trotter Group that we would continue to seek changes in the Senate bill that will build on the bipartisan improvements we have already made to promote work and protect children.

Q: According to Wattenberg and others, welfare reform is an issue where the President is defining himself as a "New Democrat." Is he really willing to do that at the expense of poor children?

A: The President's interest in welfare reform is longstanding, and his views are clear: We've got to dramatically change the system, and try something fundamentally new. The President is very concerned about the millions of poor children who are trapped in poverty by the current system. We have been fighting to protect children throughout the Administration and throughout this Congress. Remember -- not so long ago the Republicans started their welfare reform debate by proposing orphanages. It's the Republicans who have proposed block granting adoption and foster care, cutting the school lunch program, and reducing benefits for disabled kids. And it's the President who has not only opposed those proposals, but has championed a range of programs like Head Start and family leave to make American kids' lives better.

Q. What's going on inside the Administration? One day the President tells Wattenberg the Senate bill shows how his own party is making progress; the next day Ann Lewis is quoted saying he's rethinking his support for the Senate bill.

A. Nothing has changed. The Pres. stands behind the improvements the Senate made, and believes the Senate bill is a strong foundation ~~foundation~~ on which to continue to build this bipartisan progress.

Q: Apparently there have been very intense White House discussions about welfare reform in the last few days, with some officials indicating that the President might be rethinking his support for the Senate bill. Has he rethought or changed his position?

A: Nothing has changed; the President's position has been clear and consistent all along. As he said in his radio address on September 16, despite the vast progress made in the Senate, our work isn't done yet. We'll continue to advocate improvements designed to move people from welfare to work, protect children, and give states the resources they need to get the job done.

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DISTRIBUTIONAL IMPACT AND POTENTIAL
~~POTENTIAL~~

ANALYSIS OF THE ~~DISTRIBUTIONAL AND~~ POVERTY ~~AND DISTRIBUTIONAL~~ EFFECTS OF CONGRESSIONAL AND ADMINISTRATION BUDGET AND WELFARE REFORM PROPOSALS

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November 7, 1995

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EDITS TO "WHAT THIS REPORT IS ABOUT"

[Insert at the top of page 1]

WHAT THIS REPORT IS ABOUT

Poverty Analysis

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

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

Throughout the welfare reform debate, the Administration has called for measures that will maximize the opportunities for families to work their way off welfare and out of poverty, and minimize the risks to children if they do not. The President endorsed the welfare reform bill sponsored by Senators Daschle, Breaux, and Mikulski, which every Democrat in the U.S. Senate supported. When that alternative failed, the Administration worked with Senators in both parties to secure a number of important improvements in the final Senate bill. In letters to Congress on welfare reform and budget reconciliation, the Administration has consistently called for other improvements as well. As the President said in his Sept. 16 radio address when he praised the bipartisan improvements the Senate made,

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

This report includes an analysis of the potential long-term impact on poverty of the House and Senate welfare reform bills and the Senate Democratic welfare reform alternative. Also included is an analysis of the distributional effects of the House and Senate budget plans.

Any serious plan to balance the budget over the next decade will include some program cuts that affect low-income Americans. The key is to make sure that the cuts and benefits are distributed equitably, and that the reforms are designed to reward work and independence so that people can lift themselves and their children out of poverty.

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

By the broader definition of poverty, the House welfare reform bill could move 2.1 million children below poverty in the year ____. Improvements included in the Senate bill cut that number by nearly half, to 1.2 million. The Senate Democratic welfare reform bill could move 0.4 to 0.6 million below the poverty line.

It is important to put these numbers in perspective. First, they do not reflect some of the gains the Administration's economic policies have made in reducing poverty. The expansion of the EITC and Food Stamps in 1993 -- which will move 800,000 children out of poverty -- is included in the table. But the report does not reflect the recent Census Bureau finding that the number of people in poverty declined by 1.2 million between 1993 and 1994 -- nor the fact that Food Stamp rolls have dropped by another _____ in the first __ months of 1995.

Second, unlike the distributional analysis, which shows the entire picture of who stands to gain and who stands to lose in the various budget plans, the poverty analysis only shows how many people who are near the poverty line because of the government benefits they receive could fall below the poverty line if those benefits are reduced.

Finally, the poverty analysis is based on long-term projections for the year _____ (2005?), which do not attempt to predict a number of important variables that far into the future -- including job growth, marriage and birth rates, and the long-term behavioral impact of a fundamental change in the culture of welfare. If work-based welfare reform, tough child support enforcement, and a national campaign against teen pregnancy succeed in promoting work and responsibility and reducing births outside marriage, more people will lift themselves out of poverty and fewer people will find themselves there in the first place. If the country fails to enact real welfare reform that moves people from welfare to work and fails to reduce teen pregnancy and slow the growing rate of births outside marriage, the declines in poverty we have seen in the last two years will be reversed.

Nevertheless, the estimates in this report make a strong case for the improvements the Senate has already made, and for other improvements the Administration has consistently recommended in letters to Congress. These policies could significantly decrease any potential impact on children, and increase the prospect that people will lift their families out of poverty by going to work. The report recommends:

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

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

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

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

Distributional Analysis

[Go back to the 4 paragraphs about this on page 1.]

INSERT POVERTY SECTION

WHAT THIS REPORT IS ABOUT

of the House and Senate budget plans,

potential

~~This report includes an analysis of the distributional effects, and the impact on poverty, of the House, Senate, and Administration plans to balance the budget. Also included is an analysis of how House and Senate welfare bills will affect poverty.~~

Distributional Analysis

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

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

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

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

Poverty has been a particularly important concern of this Administration. In 1993, the President worked with the last Congress to enact EITC and Food Stamp expansions that, when fully implemented, will lift 1.4 million Americans (including 800,000 children) out of poverty. In addition, in generating strong growth, the President's larger economic program has helped to reduce the number of people in poverty. Not long ago, the Census Bureau reported that the number of Americans in poverty in 1994 was 1.2 million less than in 1993.

Due to the House budget plan, an additional 1.7 million children would fall into poverty; under the Senate plan, 2.3 million would fall into poverty. Under the Administration's plan, 500,000 would fall into poverty -- less than will move out due to the 1993 EITC and Food Stamp changes. The effects of the Administration's plan are small enough that continued job growth in the coming years could offset them.

The issues of poverty and welfare reform are inextricably linked. The President is committed to finding ways through which people can move off welfare and into productive work. Welfare reform must provide opportunities for welfare families to escape poverty. But these reforms must have a minimal impact on children.

Since early 1993, the President has worked aggressively to make welfare a second chance, not a way of life: He cut taxes for working Americans by expanding the EITC; he sent Congress the most sweeping welfare reform plan that any Administration has ever presented; he signed an Executive Order to crack down on Federal employees who owe child support; he has granted 35 States the freedom to experiment with initiatives to move people from welfare to work; and he directed that Federal regulations be strengthened to prevent welfare recipients who refuse to work from getting higher food stamp benefits when their welfare checks are docked.

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Done right, welfare reform will help people move off the welfare rolls so they can earn a paycheck, not a welfare check. Done wrong, it could cause enormous harm. Most Americans, without regard to party, agree that real welfare reform is about requiring people to work, not simply cutting them off the rolls; about demanding responsibility from young mothers and fathers, not abandoning abused children or taking away poor children's school lunches; and about strengthening families, not penalizing children who deserve a better life.

As Americans across the broad political spectrum now agree, today's welfare system fails to serve the taxpayers who pay for it and the people trapped in it. For the taxpayers, it does not provide adequate accountability for the funds allotted. Nor does it adequately protect against waste, fraud, and abuse. For the recipients, it does not provide adequate incentives for work. Nor does it assist those who want to work, such as with sufficient child care resources. Though welfare should be temporary, today's welfare system encourages long-term dependency, with debilitating effects for both recipients and the society at large.

With House-Senate conference committees trying to iron out differences between the House and Senate welfare reforms bills, and the House and Senate reconciliation bills, we stand at an important moment in this debate. The Administration's analysis of how these bills would affect the number of children entering poverty only accentuates that point. The Administration and Congress must work together to build on improvements that the Senate made in welfare reform, not turn back toward the House legislation.

In letters to Capitol Hill, the Administration has suggested steps through which Congress can improve welfare legislation and reconciliation. They include: providing vouchers for children after the time limit for welfare benefits expires; assuring adequate funding for benefits under Aid to Families with Dependent Children (AFDC); offering performance bonuses to States with good work programs; adequately funding child care and work programs; protecting child support that AFDC families receive; moderating Food Stamp cuts; limiting cuts to current SSI recipients; and protecting the EITC against cuts.

By building on the Senate welfare bill, Congress can lessen its impact on children and increase the number of Americans who move into productive jobs. Welfare reform alone, however, will not be enough to ensure that recipients move off welfare and into decent jobs. Congress also has to provide children and workers with the education and training to assume jobs in today's economy. Thus, the nation must have not only welfare reform, but also a budget plan that prepares Americans for the future.

Distributional Analysis of the Balanced Budget Proposals DRAFT

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

What is a Distributional Analysis?

This analysis provides detailed estimates of the various budget plans' impacts on individuals' incomes and health coverage. The Office of Management and Budget coordinated an effort in which the Department of Treasury and the Department of Health and Human Services used detailed models of the budget alternative to produce these estimates. Many other agencies also contributed to the analyses of the provisions included in these models.

The analysis describes how these effects would be distributed across families with a wide range of incomes -- essentially illustrating which income groups will benefit and which will lose under the various budget plans. The analysis is based on fully-implemented policy changes, and is presented in 1996 dollars.

What Is Included and What is Not Included in the Distribution?

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

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

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

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Results of the Distributional Analysis

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

- Taxes

The Administration's plan provides tax relief to middle income families while the Republican Congressional plans target upper class families. One comparison makes this clear. All three plans -- House, Senate and Administration -- provide about $250 in tax benefits for families with incomes between $30,000 and $50,000. However, the Republicans give 40 times as much as the Administration to those above $200,000. The Administration plan provides three times as much tax relief to those between $30,000 and $50,000 as it gives to those over $200,000. The Republican plans, on the other hand, give 13 times as many tax benefits to those above $200,000 as they give to those between $30,000 and $50,000.

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

- Reductions in Benefits Affecting Income

Both the House and Senate passed budget plans have proposed very deep cuts in income and other assistance programs for low income families. To balance the budget, improve efficiency and encourage work, the Administration's plan also includes some necessary cuts to low-income benefit programs. While the benefit reduction in Administration's plan for families with income below $30,000 would reduce their annual income by less than $100, these same families would suffer a $438 loss in income under the House plan, and a $308 loss under the Senate plan. The deepest cuts passed by the House and Senate affect the poorest 20 percent of families with children (those at or below 121% of poverty). Their average income would decrease by $1,521 (11.4% of income) under the House plan and $781 per year (5.4% of income) under the Senate plan.

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- Reductions in Health Coverage

The contrast between the Administration plan and the House and Senate passed bills is even sharper when changes in health coverage are considered. The Administration plan would obtain the majority of its savings from reform of provider payments, and would continue coverage for everyone who is eligible under current law -- covering all poor children by 2002. In addition, it would help people who lose their jobs maintain their employer-based health insurance As a result of these policies, there are only modest effects on families (States are likely to reduce some optional services). Medicare recipients would see their costs drop, as provider payment reforms will reduce co-payments.

The Republican Congressional plans, on the other hand, will increase costs for Medicare recipients and end Medicaid coverage for many low income children, disabled, and elderly. The Senate-passed bill would reduce health coverage by $356 for the average household below $30,000 -- and $823 for the lowest quintile of families with children (those below 121% of poverty). The House-passed cuts are even deeper -- reducing the value of health coverage by $556 for the average household with income below $30,000, and $1,662 for families with children below 121% of poverty.

Comparison of tax and benefit cuts

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

Families below $30,000. The House-passed plan gives these families an average tax break of $11 while cutting income and health assistance by $1,004. The Senate actually raises taxes on the average family in this income range, while cutting health and income assistance by $599.

Families between $30,000 and $50,000. Both the Administration and Republican Congressional plans would give these families $249 to $251 in tax relief. However, the Senate-passed plan would cut their income and health assistance by almost the same amount -- $246 -- and the House-passed plan would cut it more -- $331. And there are a lot of service cuts -- such as education and training -- that are not included in the analysis.

Households above $100,000. The House-passed plan would give these households $1,620 in tax benefits, and the Senate-passed plan $1,650. At the same time, they would reduce their income and health coverage only $286.

What Do the Results of the Distributional Analysis Show?

This study illustrates that the cuts in the Republican budget plans disproportionately affect low and middle income families -- especially families with children. This imbalanced impact is especially striking when looking at the cumulative impact of the tax and benefit cuts across different income levels. An overall picture of the House and Senate passed budget plans reveals that cuts in benefits are deeper as one looks at families with lower and lower incomes. Alternately, the tax breaks get larger as one goes up the income scale. For example, 20% of families with children with the lowest incomes would lose an average of $1,521 in annual income and $1,662 in annual health coverage under the House budget plan -- for total benefit cuts of $3,183. Under the same plan, families with income over $200,000 would receive an average of $3,269 in annual tax breaks. So while low income families with children lose over $3,000 in assistance, those with high incomes are given $3,000+ more.

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

Table 1

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Average Tax, Income, and Health Coverage Changes Per Household

House, Senate, and Administration Budget Plans

Annual Family Income (FEI)	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$422	-$243	-$95
$30,000 to $50,000	21%	-$128	-$97	-$38
$50,000 to $100,000	27%	-$73	-$83	-$26
Over $100,000	12%	-$91	-$77	-$20
Total	100%	-$226	-$155	-$55
Health Coverage Cuts				
Less than $30,000	40%	-$566	-$356	-$22
$30,000 to $50,000	21%	-$196	-$149	-$4
$50,000 to $100,000	27%	-$120	-$104	$0
Over $100,000	12%	-$195	-$209	$14
Total	100%	-$323	-$227	-$8
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$988	-$599	-$117 ok
$30,000 to $50,000	21%	-$324	-$246	-$42
$50,000 to $100,000	27%	-$193	-$187	-$26
Over $100,000	12%	-$286	-$286	-$6
Total	100%	-$549	-$382	-$63
Tax Benefits				
Less than $30,000	40%	$11	-$54	$36
$30,000 to $50,000	21%	$251	$249	$251
$50,000 to $100,000	27%	$647	$699	$472
Over $100,000	12%	$1,620	$1,650	$288
Over $200,000	3%	$3,269	$3,416	$82
Top 1%	1%	$5,422	$5,626	$63
Total	100%	$430	$418	$227

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

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Table 2

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

House, Senate, and Administration Budget Plans

Dollars in Billions

Income Group (FEI)	Percent of Families	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income				
Less than $30,000	40%	-$18.4	-$10.6	-$4.1
$30,000 to $50,000	21%	-$2.9	-$2.2	-$0.9
$50,000 to $100,000	27%	-$2.1	-$2.7	-$0.8
Over $100,000	12%	-$1.2	-$1.2	-$0.3
Total	100%	-$24.7	-$16.9	-$6.0
Health Coverage Cuts				
Less than $30,000	40%	-$24.7	-$15.6	-$1.0
$30,000 to $50,000	21%	-$4.5	-$3.4	$0.0
$50,000 to $100,000	27%	-$3.5	-$3.0	$0.0
Over $100,000	12%	-$2.6	-$2.8	$0.2
Total	100%	-$35.4	-$24.8	-$0.9
Total Income And Health Coverage Cuts				
Less than $30,000	40%	-$43.1	-$26.2	-$5.1
$30,000 to $50,000	21%	-$7.4	-$5.6	-$0.9
$50,000 to $100,000	27%	-$5.6	-$5.7	-$0.8
Over $100,000	12%	-$3.8	-$4.0	-$0.1
Total	100%	-$60.1	-$41.7	-$6.9
Tax Benefits				
Less than $30,000	40%	$0.5	-$2.3	$1.6
$30,000 to $50,000	21%	$5.7	$5.7	$5.7
$50,000 to $100,000	27%	$18.8	$20.4	$13.8
Over $100,000	12%	$21.6	$22.0	$3.8
Over $200,000	3%	$9.1	$9.5	$0.2
Top 1%	1%	$5.9	$6.2	$0.1
Total	100%	$47.0	$45.8	$24.9

Notes:

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Table 3

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House, Senate, and Administration Balanced Budget Plans
Tax Benefits By Quintile

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

Treasury footnotes?

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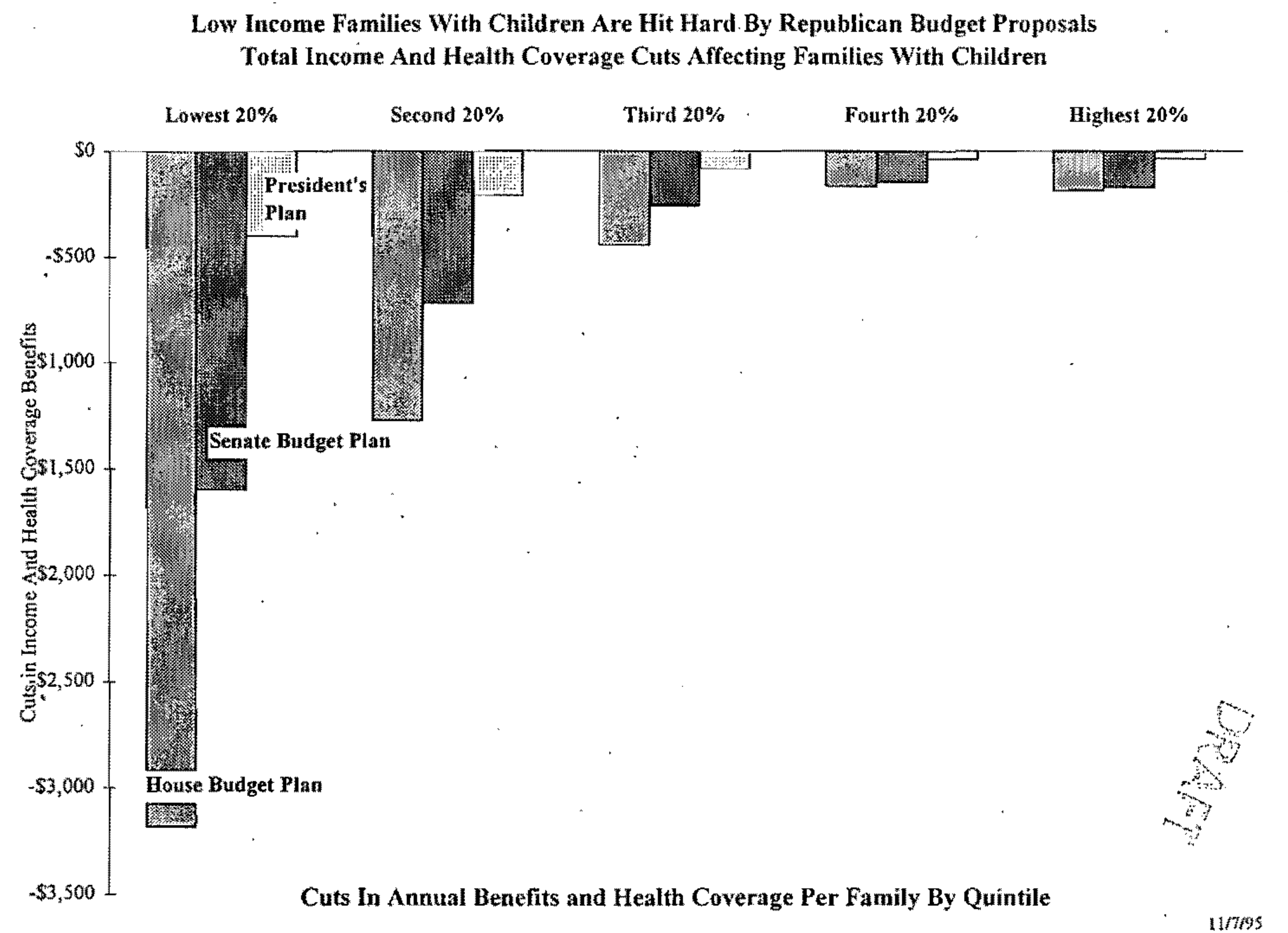

Low Income Families With Children Are Hit Hard By Republican Budget Proposals
Total Income And Health Coverage Cuts Affecting Families With Children
Lowest 20%
Second 20%
Third 20%
Fourth 20%
Highest 20%
$0
-$500
-$1,000
-$1,500
-$2,000
-$2,500
-$3,000
-$3,500
Cuts in Income And Health Coverage Benefits
President's Plan
Senate Budget Plan
House Budget Plan
Cuts In Annual Benefits and Health Coverage Per Family By Quintile
11/7/95
Draft

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

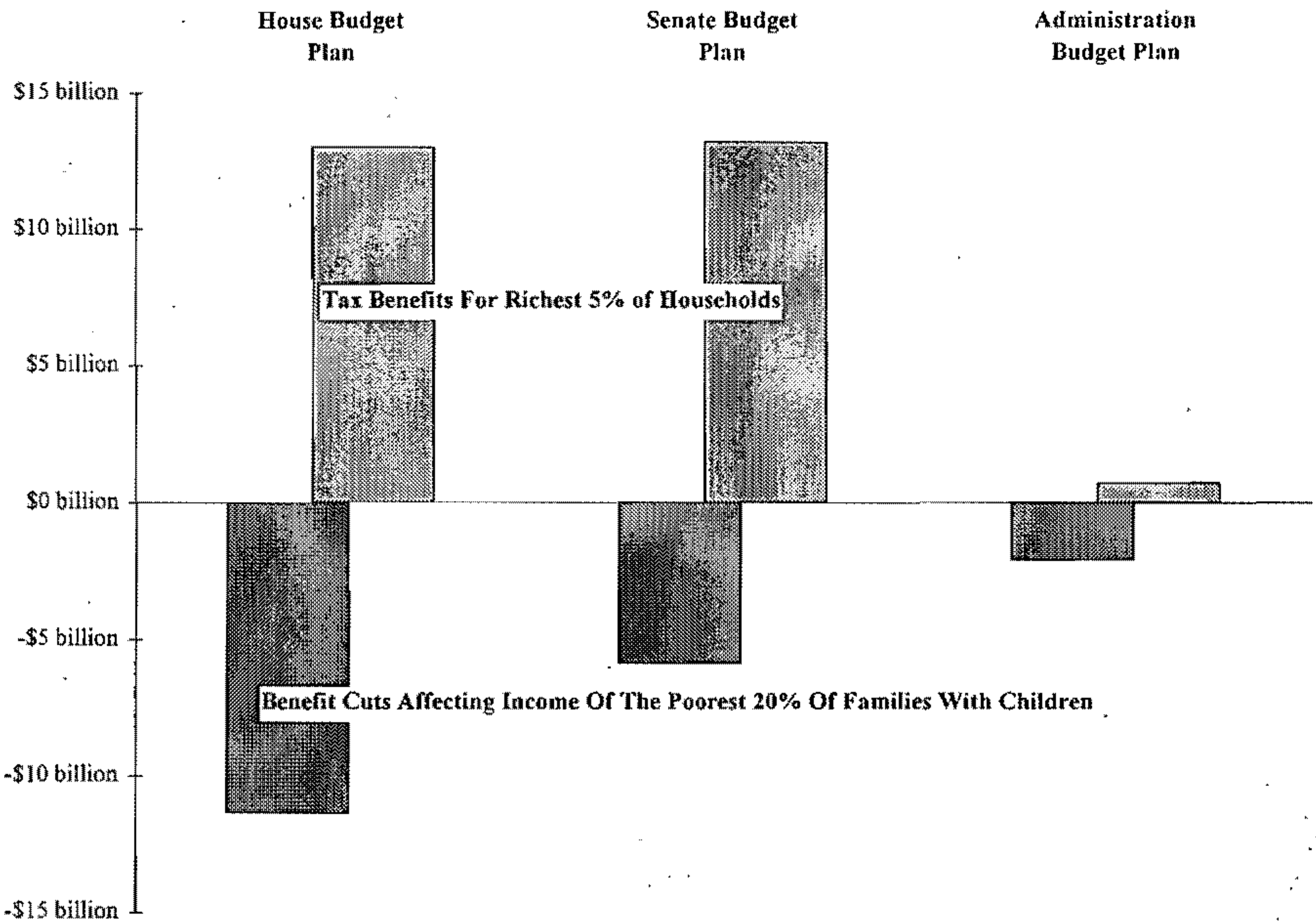

Table 4

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

Average Income and Health Coverage Loss Per Family By Quintile

AFI Income Quintile	House Budget Plan Dollars	House Budget Plan % of Income	Senate Budget Plan Dollars	Senate Budget Plan % of Income	Administration Plan Dollars	Administration Plan % of Income
Benefit Cuts Affecting Income						
Lowest	-$1,521	-10.6%	-$781	-5.4%	-$276	-1.9%
Second	-$599	-2.5%	-$381	-1.6%	-$123	-0.5%
Third	-$249	-0.7%	-$160	-0.5%	-$55	-0.2%
Fourth	-$89	-0.2%	-$85	-0.2%	-$15	-0.0%
Highest	-$107	-0.1%	-$97	-0.1%	-$6	0.0%
Health Coverage Cuts						
Lowest	-$1,662		-$823		-$90	
Second	-$678		-$343		-$36	
Third	-$200		-$100		-$11	
Fourth	-$80		-$64		-$4	
Highest	-$80		-$76		-$3	
Total Income and Health Coverage Cuts						
Lowest	-$3,183		-$1,604		-$366	
Second	-$1,277		-$723		-$159	
Third	-$449		-$260		-$66	
Fourth	-$169		-$149		-$19	
Highest	-$187		-$173		-$9	

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

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

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Table 5

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

Aggregate Income and Health Coverage Loss By Quintile

Dollars In Billions

AFI Income Quintile	House Budget Plan	Senate Budget Plan	Administration Plan
Benefit Cuts Affecting Income			
Lowest	-$11.4	-$5.9	-$2.1
Second	-$4.6	-$2.9	-$0.9
Third	-$1.9	-$1.2	-$0.4
Fourth	-$0.7	-$0.6	-$0.1
Highest	-$0.8	-$0.8	$0.0
Health Coverage Cuts			
Lowest	-$12.5	-$6.2	-$0.7
Second	-$5.2	-$2.6	-$0.3
Third	-$1.5	-$0.8	-$0.1
Fourth	-$0.6	-$0.5	$0.0
Highest	-$0.6	-$0.6	$0.0
Total Income and Health Coverage Cuts			
Lowest	-$23.9	-$12.1	-$2.8
Second	-$9.8	-$5.5	-$1.2
Third	-$3.4	-$2.0	-$0.5
Fourth	-$1.3	-$1.1	-$0.1
Highest	-$1.4	-$1.4	$0.0

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

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

child_agg.afi

Poverty Analysis of The Welfare Reform and Balanced Budget Plans

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

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

balanced budget ~~[illegible]~~

The following tables compare the potential effects of the House and Senate~~, and Administration Balanced Budget~~ plans on the number of persons and children with incomes below the poverty line, and estimate the effects these proposals have on the size of the poverty gap -- a measure of how short of the poverty thresholds a family's income falls. The tables also show the separate effects of the House-and Senate-passed bills welfare bills ~~(which equal about 10% of the outlay cuts in the Senate budget plan and 17% of the outlay cuts in the House budget plan)~~ ← too confusing and the Senate Democratic welfare reform alternative, which every Democratic Senator supported and the Administration endorsed. The analysis estimates the impact on poverty at full implementation, which will be reached in all programs by the year 2002. — ? [House bill WR bill not till 2003. Food Stamp cuts modelled in 2002 or 2005?] ← Keith

How should these results be interpreted?

~~Measuring poverty is important because it provides an estimate of, and focuses attention on, the number of people who are not even meeting certain minimal living standards in our Nation's rich and expanding economy. Therefore, a~~ [Don't need it in] A poverty study complements the distributional analysis -- but it cannot provide as much information. There are several reasons why a distributional analysis provides a more comprehensive picture:

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

- Estimating the change in the poverty gap gives some information on how far below the poverty line people's income moves. However, policies that affect those who are 10% to

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25% above the poverty line will not have an appreciable effect on the poverty gap -- but will be highlighted by a distributional analysis. (which are ~~also~~ dramatic in both the House + Senate budget plans)

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

SUMMARY OF RESULTS

The policies of this Admin. ~~since 1993~~ ~~in the past~~ have already reduced poverty in America ~~accomplishments~~ ~~Two important~~ ~~successes~~ and will help to ~~minimize~~ offset the potential ~~negative~~ impact on poverty of ~~possible~~ possible cuts ~~in~~ that could be enacted as ~~part~~ part of ~~welfare reform~~ any effort to reform welfare and balance the budget.

Progress since January 1993

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

[If raising the minimum wage would help, we should say so here.]

Economic progress. The Clinton Administration has cut the deficit in half and expanded the economy. The Census Bureau recently reported that, under the pre-tax cash definition of income used for official poverty statistics, there were already 1.2 million fewer people below poverty in 1994 than in 1993. [Under the Census Bureau's family of alternative income definitions, the reduction in poverty ranges from 0.8 million to 1.7 million individuals.]

Keith – is the post-tax definition 1.7m? If so, we should ~~mention~~ say so. Any luck on the kids' number? Also, is there any way to tell how much of the 1.2 (or 1.7) is over and above the 1.4 in the previous graf

The Food Stamp rolls have dropped by another ____ in the first ____ months of 1995.

House and Senate ~~Passed Budget Plans~~ Welfare Reform Bills

Number of children in poverty. Under the broader definition of income, the House ~~and Senate-passed budget plans would increase the number of children below poverty by 1.7 million (Senate) to 2.3 million (House). Most of this results from the cuts in low-income programs that were also passed separately as part of welfare reform -- 1.2 million in the Senate and 2.1 million in the House.~~ welfare reform bill could move 2.1 million children below poverty. Improvements included in the Senate bill cut that number by nearly half, to 1.2 million. The Senate Democratic welfare reform bill could move 0.4 to 0.6 million below pov

Variables not included in poverty analysis. It is important to put these numbers in perspective. The poverty analysis is based on long-term projections that do not attempt to predict a number of important variables that far into the future — including job growth, marriage and birth rates, and the long-term behavioral impact of a fundamental change in the culture of welfare. If ~~work-based~~ welfare reform, tough child support enforcement, and a national campaign against teen pregnancy succeed in promoting work and responsibility and reducing births outside marriage, ~~the prospect of ... fewer people will land in poverty and more will be able to lift themselves and their children~~ more people will lift themselves out of poverty and fewer people will find themselves there to begin with. If the country fails to move people from welfare to work and the rate of ~~out~~ births outside marriage keeps growing, the declines in poverty we have seen in the last two years will be reversed.

MOVE TO (A), p. 17

families would need to
ill, the poverty gap for
ıld increase the
ı, with substantial

ːal programs contribute
ıows how cuts in the
~~line by~~ the Senate
0.8 million children
uts ~~are responsible for~~ could put
ıch as in child nutrition
rty line.

ild nutrition move people above poverty?]

House and Senate Budget Plans

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

Since it's not our bill, we don't need to give it a separate section. The less said the better.

Administration's Budget Plan and Senate Democratic Welfare Reform Bill

The potential poverty impact of the Senate Democratic welfare reform bill ...

Number of children in poverty. ~~The Administration's balanced budget plan would move children below the poverty line, but the number~~ -- about ~~0.5~~ 400,000 million -- ~~is less than~~ a quarter of the number of children affected by the House ~~plan~~ welfare bill and ~~less than a third of~~ the number affected by the Senate ~~passed plan~~ passed bill. Even with these changes, the potential number of children in poverty would still be lower than when the Administration took office because of the EITC and Food Stamp changes enacted in 1993, ~~Also, unlike the House- and Senate-passed plans that cut the EITC for low-income workers, these figures~~ and are low enough that they might be more than offset by continued job growth.

Size of poverty gap. These cuts would increase the poverty gap by about 9%, less than a fifth of the effect of the House budget plan.

~~House and Senate Budget Plans~~

Health care cannot be included in poverty analysis.

Do we have a Medicaid number?

~~*Differences that cannot be included in poverty analysis.*~~ ~~The Administration's~~ balanced budget ~~plan ensures that all poor children have access to health coverage by the year 2002, and that all children under age 6 and below 133% of poverty remain eligible for Medicaid.~~ The House and Senate budget plans would put ~~these~~ millions of poor children at risk of ~~not having~~ losing medical coverage. These effects are ~~included in the distributional analysis, which provides a more comprehensive picture.~~ not included in the poverty analysis, but they would make millions of children poorer.

INSERT (A) from p. 16

POLICY ~~CHANGES THAT WOULD~~ RECOMMENDATIONS TO PROMOTE WORK AND MINIMIZE THE IMPACT ON CHILDREN

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

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

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

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

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

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instead adopting the following measures to promote work and protect children:

- **Child Care.** The poverty effects of welfare changes depend in large part on how many people get jobs. In particular, welfare reform should provide the child care mothers need so they can leave welfare for work. The House bill cuts child care funding. The Senate increased child care funding by $3 billion over the next five years. But the impact of that improvement is not ~~measured~~ captured in this poverty analysis because the child care funding increase in the Senate bill expires after the year 2000. (This analysis is modelled on 2002.) or 2005? Making that increase in child care permanent would reduce the poverty impact in two ways: by improving the prospects for recipients to leave welfare for work, and by reducing the pressure on states to divert money away from benefits in order to pay for child care.

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

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

B. Other Improvements in Welfare Reform

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

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

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

C. ~~Moderating the Overall Level of Budget Cuts~~ A More Balanced Deficit Reduction Plan

A more balanced deficit reduction plan would leave children much better off than the House- and Senate-passed budget plans. Adopting the Administration~~'s~~ balanced budget plan ~~would~~ eliminate three-quarters of the child poverty effect of the House budget plan and two-thirds of the child poverty effect of the Senate budget plan.

In particular, the following changes would promote work and protect children:

- **Do not cut the EITC.** The House and Senate budget plans not only cut assistance to people who cannot find jobs, but also cut the EITC that rewards people who choose work over welfare. As the analysis shows, the EITC changes in 1993 led to a significant reduction in poverty, while the EITC cuts in the Senate bill could lead to an additional 500,000 children falling below poverty. Rewarding work by retaining the current EITC will give families that go to work a better chance of moving above poverty.

What are we saying here?

- **Cut fewer current SSI recipients from the rolls.** [Is this primarily SSI kids or immigrant kids?]

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

- **Do not block grant Medicaid.** While proposed changes in Medicaid do not show up in the poverty tables, the distributional analysis points out that they could have dramatic impacts on children in low-income families, far beyond the cuts in AFDC. [Insert whatever the number is.] The Administration's plan, which rejects a Medicaid block grant, achieves a balanced budget in a more equitably way and minimizes the impact on children.

Do we have a number?

— [redacted]

Table 6

THE IMPACT OF ~~CONGRESSIONAL~~ PROPOSALS ON POVERTY

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

Simulates effects of full implementation in 1993 dollars

Sen. Dems

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Administration Budget Plan
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	10.8	10.0	12.3	12.1	11.6	11.2	10.6
Change From Current Law			2.3	2.1	1.7	1.2	0.5
Poverty Rate (Percent)	15.5	14.4	17.6	17.4	16.8	16.2	15.2
Change From Current Law			3.3	3.0	2.4	1.8	0.8
Families With Children							
Number in Poverty (Millions)	18.3	17.0	20.9	20.6	19.9	19.2	18.0
Change From Current Law			3.9	3.7	2.9	2.2	1.0
Poverty Rate (Percent)	12.6	11.7	14.4	14.3	13.8	13.3	12.4
Change From Current Law			2.7	2.5	2.0	1.5	0.7
Poverty Gap (Billions)	17.6	16.2	24.8	24.3	21.5	20.6	17.6
Change From Current Law			8.6	8.1	5.3	4.4	1.4
All Persons							
Number in Poverty (Millions)	29.5	28.1	32.6	32.1	31.6	30.7	29.3
Change From Current Law			4.5	4.0	3.5	2.6	1.2
Poverty Rate (Percent)	11.3	10.8	12.6	12.4	12.2	11.8	11.3
Change From Current Law			1.7	1.6	1.3	1.0	0.5
Poverty Gap (Billions)	48.6	46.8	57.4	56.2	54.0	52.3	48.7
Change From Current Law			10.6	9.3	7.2	5.5	1.9

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

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

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Table 7

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Under The Income Definition Used For Official Poverty Statistics

Simulates effects of full implementation in 1993 dollars

	Effect of 1993 Changes		House Budget Plan		Senate Budget Plan		Administration Budget Plan
	Prior Law	Current Law	Entire Plan	Welfare Bill	Entire Plan	Welfare Bill	
Children Under 18							
Number in Poverty (Millions)	15.5	15.5	16.0	16.0	15.8	15.8	15.6
Change From Current Law			0.5	0.5	0.3	0.3	0.0
Poverty Rate (Percent)	22.3	22.3	23.1	23.1	22.8	22.8	22.4
Change From Current Law			0.7	0.7	0.5	0.4	0.1
Families With Children							
Number in Poverty (Millions)	26.5	26.5	27.5	27.5	27.2	27.2	26.6
Change From Current Law			1.0	1.0	0.7	0.6	0.1
Poverty Rate (Percent)	18.3	18.3	19.0	19.0	18.8	18.8	18.4
Change From Current Law			0.7	0.7	0.5	0.4	0.0
Poverty Gap (Billions)	41.6	41.6	50.6	50.6	47.0	46.9	42.2
Change From Current Law			9.0	9.0	5.4	5.3	0.6
All Persons							
Number in Poverty (Millions)	38.8	38.8	39.9	39.9	39.6	39.6	38.9
Change From Current Law			1.1	1.1	0.9	0.8	0.1
Poverty Rate (Percent)	14.9	14.9	15.4	15.4	15.3	15.2	15.0
Change From Current Law			0.4	0.4	0.3	0.3	0.0
Poverty Gap (Billions)	76.3	76.3	85.9	85.9	82.9	82.5	77.1
Change From Current Law			9.6	9.6	6.6	6.2	0.8

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

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

pov_off.wpd

Table 8

Poverty Effect By Program

Additional Number of Children In Poverty Under Alternative Proposals

In Millions

Sen. Dem bill

	Senate Plan		Administration Plan
	Welfare Bill	Entire Plan	
Food Stamps	.6	.6	.4
SSI	.2	.2	.1
AFDC, Other Than Time Limit	.3	.3	
AFDC Time Limit	.2	.2	
Other Changes (Labor Supply, Child Nutrition)	-.1	-.1	
EITC		.5	
Total	**1.2**	**1.7**	.5

0.4-0.6

Shouldn't these columns be reversed (to match Table 6 + Table 7)

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Sensitivity of Poverty Estimates to Technical Assumptions

The table on the next page shows how the estimates of the poverty effects of the Senate welfare bill vary under three alternate technical assumptions.

Estimates of the effects of the cuts in Food Stamps, SSI, and the Earned Income Tax Credit are not very sensitive to technical assumptions. As the last table in the poverty analysis shows, much of the poverty effect of the Senate bill results from these cuts. The effects of these cuts vary primarily by the population growth and economic assumptions that underlie the estimate of the budget savings -- and Administration and CBO estimates of these savings are similar.

While a significant portion of poverty changes related to AFDC are a simple function of Federal budget cuts, the total AFDC estimate is rather sensitive to alternate assumptions. All the sensitivity on the following table results from alternate assumptions related to AFDC changes. While the base estimate of the number of children moving below poverty due to AFDC changes in the Senate welfare bill is 0.6 million, the modifications in technical assumptions on the table could vary this estimate from 0.3 to 0.8.

ALTERNATE ASSUMPTIONS THAT HAVE BEEN MODELED

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

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

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

- ***What would AFDC look like under current law in 2002 and 2005?*** CBO's baseline projects slower program growth under current law than the Administration's baseline includes. These types of projections are inexact. Were CBO's program growth assumptions incorporated into these estimates, the estimate of the number of children moved below the poverty line would be 0.2 million fewer.

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

ALTERNATE ASSUMPTIONS THAT HAVE NOT BEEN MODELED

The AFDC poverty effects are also sensitive to a number of other assumptions for which variations have not been modeled. These include:

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

- ***State funding for benefits.*** The base estimate assumes States maintain current State funding levels for benefits until recipients reach the time limit, and then use the time limit savings to fund work programs and child care. Poverty effects would be greater if States reduced their funding, and smaller if States increased their funding to offset the loss of Federal dollars.

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

Table 9

SENSITIVITY OF POVERTY ESTIMATES TO TECHNICAL ASSUMPTIONS
Senate Welfare Bill

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

Simulates effects of full implementation in 1993 dollars

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

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

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

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Methodology

RANKING HOUSEHOLDS AND DEFINITIONS OF INCOME

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

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

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

MODELING OF TAX CHANGES

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

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

MODELING OF SPENDING CUTS

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

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

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

The study also incorporates a labor supply response to the time limit. For estimating the effects of the House proposal, the labor supply response (i.e. the subsequent work effort of persons who lose benefits) assumes that 20 percent of cases denied AFDC because of the time limit will go to

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work part-time at a wage rate equal to the median wage of women who formerly received AFDC and then went to work. These assumptions are based the limited skills and work experience, low scores on tests of aptitude, and chronic health and other problems of these long-term recipients.

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

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

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

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

Analyses of the House Passed H.R. 4

AFDC

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

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

SSI

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

Food Stamps

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

Child Support

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

Nutrition Programs

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

Analyses of House Actions

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

Housing

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

Medicare

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

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Medicaid

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

Other Actions

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

Analyses of Senate Passed H.R. 4

AFDC

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

SSI

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

Food Stamps

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

Child Support

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

Nutrition Programs

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

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Analyses of Senate Actions

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

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

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

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

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

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

Analyses of Administration's Budget

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

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

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Child and Adult Care Feeding Program (CACFP) Subsidies

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

Immigrant Provisions

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

Medicare

- Reduce provider payments

Medicaid

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

. 53-46 vote, that would have scaled back Medicare to $89 billion.

"reconciliation" bill before the House and centerpiece of Republicans' effort to balance the which until now has been waged piecemeal through 13 annual appropriations bills. However, spending cuts in se measures do not affect federal entitlements such as edicare and welfare, which automatically provide benefits for nyone who qualifies. Entitlement spending can be controlled nly through changes in the programs' structure, and that is the heart of the reconciliation bill. The bill incorporates several measures already approved by the House, including legislation to cut $270 billion from the growth of Medicare, which was approved by the House last week and welfare reform plans approved earlier this year.

(Optional add end)

The bill's tax provisions are a remarkable monument to how much the terms of fiscal debate have changed since Republicans took control of Congress. In this bill, unlike past deficit reduction efforts, Republicans not only refused to consider tax-rate increases; they insisted on tax cuts for businesses and individuals.

However, the bill also would increase the tax burden on many working class families because it would scale back the Earned Income Tax Credit, which goes to families earning up to about $27,000 to help keep them from falling into poverty.

Almost eclipsed by those proposals are scores of other provisions that, at another time, would be considered major policy changes. The bill would eliminate an entire student loan program; establish new tax breaks to encourage savings for medical expenses; overhaul and reduce federal housing subsidies; require federal employees to contribute more toward their retirement funds; consolidate several foreign policy agencies including the Agency for International Development; and open Alaska's Arctic National Wildlife Refuge to oil and gas drilling. Clinton has said the oil-drilling provision alone would be enough for him to veto the entire budget reconciliation bill.

Every Cause Has a Champion on Capitol Hill (Washn) By Edwin Chen= (c) 1995, Los Angeles Times=

WASHINGTON Never before, perhaps, have so many heroes championed so many causes all at once.

As the House neared a showdown vote Thursday on a massive GOP budget measure, members of Congress seemed to lurk at every turn, indoors and out, self-righteously defending the interests of a dizzying array of claimed constituencies: senior citizens, college students, hard-working middle-class stiffs, the unemployed underclass, helpless infants even the Alaska porcupine caribou.

Shamelessly, in nonstop news conferences and speech-making, enlivened by colorful charts and occasionally imaginative props, Republicans and Democrats vied for the limelight, presenting themselves as the genuine protectors of the elderly, the young, the dispossessed, the unborn while portraying the opposition as dastardly cowards unwilling to level with the public.

The carnival atmosphere and heated rhetoric showed how difficult it can be in politics to know who your true ally is. This was especially the case when it came to America's seniors.

All year, the overarching point of contention in the battle of the budget has been the Republicans' seven-year plan to wring $270 billion in savings from Medicare, largely by reducing the annual rate of growth in spending from 10 percent to 6.5 percent.

Even though that means an increase in the annual per-capita spending from the current $4,800 to $6,700, Democrats have doggedly characterized them as cuts because of the increasing numbers of people who will go into the program.

Little wonder then that, when Sen. Tom Daschle, D-S.D., and Rep. Richard A. Gephardt, D-Mo., leaders of the congressional Democrats, appeared at an outdoor rally Thursday, they deployed a rocking horse and a rocking chair as props to drive home their point.

For those slow on the uptake, there was this accompanying placard: "Rocking Horse to Rocking Chair: GOP Budget Will Hurt Americans of All Ages." (Among the spending reductions proposed by the GOP are $10 billion in student loans.)

As Daschle and Gephardt spoke, supporters gathered around in a semi-circle holding up signs that said, for example, that GOP stands for "get old people." A second protest sign demanded the preservation of the Arctic National Wildlife Refuge in Alaska "birthing ground of the porcupine caribou herd" which the Republicans would open to oil drilling.

Another sign read, in part: "No New Taxes; No Newt Axes" a reference to the Democratic contention that the Republican Medicare reductions are designed largely to pay for a $245 billion tax cut.

(Optional add end)

"Sometimes revolutions claim millions of lives!" Gephardt thundered in the brilliant sunlight as tourists walked by with quizzical expressions.

But Republicans were not about to be out-maneuvered on style or substance.

A small mob of GOP representatives and senators assembled early in the morning to announce yet another good deed for seniors. They promised enactment this year of legislation to allow working Social Security recipients to keep more of their earnings.

"For every $3 they earn over the $11,160 limit, they lose $1 in Social Security benefits," fumed Sen. John McCain, R-Ariz. "This earnings cap is a serious threat to the well-being of low- or fixed-income senior citizens," he said. The GOP would raise the limit to $30,000 over a seven-year period.

"This is a defining issue" between Republicans and Democrats, said Rep. Tillie Fowler, R-Fla.

Study: Senate Welfare Bill Harmful to Many Children By Elizabeth Shogren= (c) 1995, Los Angeles Times=

WASHINGTON A sweeping welfare reform plan approved by the Senate and embraced by President Clinton would push an estimated 1.1 million American children into poverty and make conditions worse for children already under the poverty line, according to a Clinton administration analysis not released to the public.

The White House received the study, conducted by the Department of Health and Human Services, before Clinton signaled that he would not veto any final welfare measure that looks like the Senate package. Since then, the findings have been carefully guarded by the White House for fear it would reflect badly on the president if made public, according to sources in the administration involved with welfare reform.

A copy of the analysis stamped with the word "draft" and dated Sept. 14 was made available to the Los Angeles Times. It shows that the Senate measure, which is not quite as tough as a competing House welfare reform bill, would create new hardships on many children.

The Senate measure, which passed 87-12 with broad bipartisan approval, would end the 60-year federal guarantee of cash assistance to poor mothers with children and give states lump-sum block grants to create their own programs. Federal spending would be frozen for five years, recipients would be required to work after two years and would be limited to five years of assistance in a lifetime.

"The severity of the impact of (the Senate welfare bill) on poor families exacerbates the deteriorating economic situation for these families," according to the analysis.

At the first official meeting this week of the joint House-Senate committee that will reconcile the difference between each chamber's reform package, Sen. Daniel Patrick Moynihan, D-N.Y., who opposes the Senate measure, chastised the administration for refusing to release its analysis even to Democrats on Capitol Hill.

"HHS has done a report of the Senate bill on the impact on children, but the White House will not release it," Moynihan said. "Those involved will take this disgrace to the graves. The children alone are innocent."

Moynihan and other Democratic members of the committee wrote to Alice Rivlin, director of the administration's Office of Management and Budget, on Thursday requesting any relevant analysis of the welfare bills. They said they did so as to ''meet the president's objective of ensuring that welfare reform not punish children." An administration official said that OMB would reply.

Asked about the analysis obtained by The Times, administration officials said there was no effort to conceal the assessment. ''I do not know of anything that was considered to be in final form that the White House has refused to allow to come out," said Lawrence Haas, spokesman for OMB.

An administration official at the Department of Health and Human Services familiar with the analysis said: ''It's a very preliminary look at some of the policies in the Senate bill."

The official, who spoke on the condition of anonymity, added that it was completed before the final passage of the welfare measure and does not reflect the last amendment, which added money to pay for child care for welfare recipients and increased the number of welfare recipients who can be exempted from the five-year time limit.

Budget analysts said that amendment would alter the findings only marginally.

(Optional add end)

According to the administration analysis, in addition to pushing 1.1 million more children into poverty increasing the poverty rate for children under 18 from 14.5 percent to 16 percent the Senate measure would also force harder times on children already living in poverty.

For this study, children were considered poor if their families' incomes including the value of foodstamps, housing subsidies, school lunches and the earned income tax credit were below the poverty line. For a family of three the poverty line is about $12,000 a year.

According to the analysis, the extent of the change is reflected in a measurement of the ''poverty gap' the amount necessary to raise people below the poverty line to the poverty line. Under the plan, the gap for families with children would increase from $16 billion to $20 billion, or 25 percent.

In recent weeks, senior administration officials repeatedly told the Times that no such analysis existed. On Tuesday, one HHS official acknowledged that the administration had begun an assessment but interrupted its work to prepare for the conference committee.

Since Clinton began speaking favorably about the Senate welfare reform bill, the White House has been silent about it's impact on poor women and children. The administration had produced detailed analyses of the House measure before and after passage, and of the original Senate legislation before it was amended on the floor.

The White House on Monday released a detailed state-by-state report of the impact on children of the Republican Budget cuts that avoided any mention of Senate welfare bill.

President Clinton, in his radio address Sept. 16, congratulated the Senate for showing ''wisdom and courage" in rejecting some of the tougher provisions in the House plan. He said the action brought the country ''within striking distance of transforming the welfare system."

A letter from Rivlin to the members of the House-Senate welfare conference committee said the White House will welcome a final measure that reflects the ''bipartisan common ground" reached in the Senate package.

Whitewater Committee Issues 49 Subpoenas for Documents By Robert L. Jackson= (c) 1995, Los Angeles Times=

WASHINGTON The Republican-controlled Senate Whitewater Committee, with the grudging approval of Democrats, voted Thursday to issue 49 subpoenas for documents belonging to the White House, federal regulatory agencies and potential witnesses in the Whitewater affair.

Sen. Alfonse M. D'Amato, R-N.Y., the chairman, said the materials would be used in the next phase of the panel's hearings to start early next month. The committee plans to recall Hillary Rodham Clinton's chief of staff, Margaret Williams, and Mrs. Clinton's close friend Susan Thomases to testify next Thursday, D'Amato announced.

Democrats on the panel led by Sen. Paul S. Sarbanes, D-Md., who complained earlier that the subpoenas were too broad, went along with the move after D'Amato agreed to limit the document requests. But they said the move was unnecessary and overly dramatic because most of the material already had been furnished.

D'Amato said the subpoenas would underscore the importance of turning over all relevant documents. White House aide Bruce Lindsay had submitted 1,000 pages of documents earlier this week, bringing to 8,500 pages of material already provided by the White House.

Approved by a unanimous voice vote, the subpoenas cover financial records from President and Mrs. Clinton's former accountant who handled their investment in an Arkansas real estate development named Whitewater, as well as documents held by Betsey Wright, a longtime aide while Clinton was governor.

In addition, the committee is seeking materials dealing with the Resolution Trust Corp.'s investigation into Madison Guaranty Savings & Loan of Little Rock, a firm linked to Whitewater Development Co., and records of long-distance telephone calls from the White House to Arkansas in the Clinton administration's first year.

Next week's witnesses Williams and Thomases are expected to be asked about conversations with the first lady hours before then-White House counsel Bernard Nussbaum refused to let law enforcement officials examine the files of his deputy, Vincent Foster Jr., after Foster's suicide in July 1993. Foster's files included personal financial records of the Clintons.

D'Amato has said he wants to determine if Mrs. Clinton requested White House officials to keep police away from Foster's records on July 22, 1993.

Whitewater was a failed Arkansas real estate project jointly owned by the Clintons and James McDougal, who also owned Madison Guaranty Savings & Loan, an Arkansas thrift that was seized by federal regulators in 1989. Investigators are looking into whether federally insured deposits from Madison were siphoned off through Whitewater to benefit Clinton's 1984 gubernatorial campaign. They are also investigating the suicide of Foster.

Clinton to Sign Bill That Keeps Stiff Sentencing for Crack By David G. Savage and Paul Richter Los Angeles Times

WASHINGTON One week after President Clinton decried the ''disproportionate percentage" of young black men going to prison, he has decided to sign into law a bill that maintains the unusually stiff prison sentences for those who are caught with small amounts of crack cocaine.

The legislation blocks a move by the U.S. Sentencing Commission to equalize the prison terms for violations involving crack and powdered cocaine. While virtually all of those prosecuted for crack are black, powdered cocaine is used more by whites.

Speakers at last week's Million Man March blamed racially biased federal drug laws for filling up the nation's prisons. The Congressional Black Caucus told Clinton this week that the drug-law issue marks the ''first test" of whether the administration wants to end racism in the criminal justice system.

Currently under federal law, persons who are caught with just 5 grams of crack must be sentenced to five years in prison, but it takes 500 grams of powdered cocaine to get the same five-year sentence.

White House aides say Clinton will preserve the harsher penalties for crack cocaine because he believes it takes a greater toll on communities through violence and gang activity.

However, at the same time Clinton signs the bill into law, he will emphasize he supports its provision calling for further study to see whether sentences for crack cocaine should be adjusted downward.

Aides say Clinton may quietly sign the bill into law as early as Friday.

''This is a total political call on their part," said an official with the Sentencing Commission. ''They are not going to do anything that will make the president look bad on the crime

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The Preliminary Impact of the Senate Republican Welfare Proposal on Children

The Work Opportunity Act of 1995 (S. 1120)

The Impact on Poverty and Income Distribution

On Child Poverty:

- S. 1120 will push 1.1 million more children into poverty, an increase of almost 11 percent in the number of children living below the poverty line.
- The child poverty rate will rise from 14.5 percent to 16.1 percent. (See methodology for a description of the poverty measure used.)

On Poverty in Families:

- An additional 1.9 million persons in families with children will fall below the poverty line.
- The poverty gap for families with children will increase $4.1 billion, or 25 percent. As a result, a total of $4.1 billion in additional income will be required to bring these families up to the poverty threshold.

On Income Distribution:

- The poorest families will face the largest program cuts under S. 1120. In families with children, those in the lowest income quintile will lose an average of almost $800 of their annual income, or 6 percent.
- Eleven percent of families with children in the lowest income quintile will face significant losses in annual income of 15 percent or more. For families in the lowest quintile, who have an average income of $13,400, this represents a loss of more than $2,000 in annual income.
- The severity of the impact of S. 1120 on poor families exacerbates the deteriorating economic situation for these families who have lost a greater share of their income in the past 15 years than families with higher income. Income for families with children in the lowest income quintile has declined by 20.7 percent over the period 1979 - 1990, compared to 24 percent growth for families in the highest income quintile.

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Table 1
THE IMPACT OF THE SENATE WELFARE REFORM PROPOSAL ON CHILD POVERTY
Simulates effects of full implementation in 1993 dollars

	Current Law	Senate Proposal	Change Option
Children Under 18			
Number of people in poverty (in millions)	10.1	11.2	1.1
Poverty rate (in percent)	14.5%	16.1%	1.6%
Families with Children			
Number of people in poverty (in millions)	17.1	19.0	1.8
Poverty rate (in percent)	11.8%	13.2%	1.5%
Poverty gap (in billions)	$16.5	$20.4	$4.0
All Persons			
Number of people in poverty (in millions)	28.2	30.5	2.3
Poverty rate (in percent)	10.9%	11.7%	0.8%
Poverty gap (in billions)	$46.9	$52.0	$5.1

Notes: Senate Republican welfare reform proposal simulations include the impact of S. 1795, as amended, on AFDC, SSI, and Food Stamps. Model incorporates [illegible]

This definition of poverty [illegible] of income that includes [illegible] income, plus the value of food stamps, [illegible], housing programs, and the EITC, [illegible] to the poverty [illegible].

Source: TRIM2 model, based on data from the March 1994 Current Population Survey.

September 14, 1995

from Shogren

Methodology

These preliminary results are based on the TRIM2 microsimulation model, using data from the March 1994 Current Population Survey. Overall, these estimates tend to be a conservative measure of the impact of S. 1120 on poverty and income distribution. The analysis assumes that states will continue to operate the program like the current AFDC program (i.e., they will service all families eligible for assistance); that states will maintain their 1994 spending levels; and that recipients are not cut off from benefits prior to the five year limit. Additionally, the results are conservative because not all provisions are included and because the data do not identify all persons who would potentially be affected by the program cuts. The model also assumes dynamic change in the labor supply response for those affected by the time limit provision, based on the best academic estimates of labor supply response.

The results compare the impact of the Senate Republican welfare reform proposal with current law. The computer simulations include the impact of the fully implemented provisions in S. 1120, as amended, on AFDC, SSI, and the Food Stamp Program in 1996 dollars and population. S. 1120 will decrease spending on AFDC-related programs by $8.8 billion, in 1996 dollars. Spending on children formerly eligible for SSI will decline by $1.5 billion. The Food Stamp Program will be reduced by $1.5 billion.

The poverty analysis is displayed in 1993 dollars. The definition of poverty in this analysis utilizes a measure of income that includes cash income plus the value of food stamps, school lunches, housing programs, and the EITC, less federal taxes. This income is then compared to the Census Bureau's poverty thresholds, adjusted for family size. For example, a family of three today (1995) is living in poverty with income below $12,183; a family of four with income below $15,610.

The following are the specific provisions of S. 1120 that were modeled (these provisions may not reflect the final version of the Senate welfare reform bill): ?

AFDC:

- Reduce AFDC spending as a result of the block grant
- Limit receipt of AFDC benefits to five years with a 15 percent hardship exemption
- Deny benefits to immigrants
- Eliminate $50 child support disregard

SSI:

- Deny benefits to immigrants
- Deny benefits to some children formerly eligible because of changes in the definition of disabilities

Food Stamps:

- Reduce the standard deduction
- Reduce benefits to eligible households from 103 percent of the cost of the Thrifty Food Plan to 100 percent
- Include energy assistance as income in determining a household's eligibility and benefits
- Eliminate indexing for one- and two-person households
- Lower age cutoff for disregard of students' earned income from 21 to 19 years
- Require single, childless adults to work

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Table 2
THE IMPACT OF THE SENATE WELFARE REFORM PROPOSAL ON FAMILY INCOME
by Income Quintiles and Family Type
Simulates effects of full implementation in 1996 dollars

	Total Reduction in Income (in billions)	Average Income Under Current Law	Average Income Reduction Per Family	Percent Change	Percent of Families Losing 15% or More of Their Income
Families with Children					
Lowest	-6.0	13,441	-798	-5.9	10.9
Second	-3.2	21,696	-422	-1.9	4.2
Third	-1.1	32,016	-150	-0.5	0.9
Fourth	-0.4	45,666	-60	-0.1	0.0
Highest	-0.4	79,154	-52	-0.1	0.0
Total	-11.2	38,735	-292	-0.8	3.2

Notes: The comparison shown is between the Senate Republican Leadership welfare reform proposal and current law. The simulations include the impact of the provisions in S. 1120, as amended, on AFDC, SSI, and Food Stamps. Model incorporates a labor supply and state response.

The definition of quintile in this analysis uses adjusted family income and sorts an equal number of persons into each quintile. Adjusted family income is derived by dividing family income by the poverty level for the appropriate family size.

Source: TRIM2 Model, based on data from the March 1994 Current Population Survey.

TABLE 6.—POVERTY RATES BY FAMILY TYPE, 1982–91, AND PERCENTAGE OF FAMILIES AND UNRELATED INDIVIDUALS BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD, 1991 [1,2]

	Poverty rate, 1982–91									Percentage distributions by ratio of total income to poverty threshold, 1991							1991 total (in thousands)
	1982	1983	1985	1986	1987R	1988	1989	1990	1991	Under 0.50	0.50 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	
Total:																	
Families	12.5	12.6	11.6	11.2	11.0	10.8	10.6	11.1	11.8	4.8	7.1	3.8	4.2	9.0	18.7	52.4	67,842
Unrelated individuals	23.1	23.4	21.4	21.6	20.4	20.6	19.2	20.7	21.1	7.5	13.6	7.4	6.9	11.5	17.9	35.2	36,845
No members age 65 or over:																	
Families		13.5	12.7	12.3	11.9	11.6	11.5	12.2	13.0	5.5	7.6	3.7	3.9	8.3	17.5	53.5	54,906
Unrelated individuals	21.4	22.1	19.8	20.2	19.1	19.3	18.1	19.1	19.6	9.1	10.6	5.0	5.8	9.9	18.3	41.4	26,606
Any member age 65 or over:																	
Families	9.0	8.8	7.1	6.8	7.2	6.9	6.6	6.4	6.7	1.8	4.9	4.3	5.6	12.1	23.7	47.6	12,936
Unrelated individuals	27.1	26.5	25.6	25.2	23.9	24.1	22.0	24.7	24.9	3.3	21.7	13.7	9.9	15.5	17.0	19.0	10,240
Families with children:																	
Female headed family, no husband present	48.2	47.8	46.0	46.9	46.3	45.5	43.7	45.3	47.6	23.5	24.0	7.3	6.7	10.4	14.8	13.3	8,514
Male present families	10.2	10.5	9.3	8.5	8.1	7.7	8.0	8.5	9.0	2.9	6.1	4.3	4.5	10.4	21.7	50.2	26,969

[1] Based on Census ("Orshansky") poverty levels.

[2] Unrelated subfamilies are treated as separate families; related subfamilies are not treated as separate families but as members of the family with whom they reside.

Note.—1987 revised, 1988, 1989, and 1990 estimates are not comparable to prior years due to processing changes in the CPS.

Source: March Current Population Survey for selected years. Table prepared by CRS.

1316-19

Poverty Under Alternative Measures of Income and Price Inflation

The Census Bureau publishes data that reflect two adjustments in the official definition of poverty. The first of these is an alternative inflation adjustment. The official poverty line is based on a procedure developed in 1965 with yearly adjustments for inflation using the Consumer Price Index (CPI). The Consumer Price Index, in turn, is based on the yearly change in prices of goods used by most Americans. Prior to 1983, the CPI measured housing prices using a procedure that included changes in the asset value of owned homes. Because the asset value of houses was growing so much faster than the consumption value, the inflation rate that included asset values was excessive.

In 1983 the Bureau of Labor Statistics began using a rental equivalence approach to measuring the value of housing. The official CPI–U inflation rate, then, is based on the asset value of housing prior to 1983 and rental equivalence in 1983 and thereafter. To provide a consistent time series, the Bureau constructed an experimental series called the CPI–U–X1 for 1967 through 1982 based on rental equivalence.

The general effect of using the CPI–U–X1 is to lower inflation in past years which in turn has the effect of lowering poverty thresholds for those years. A lower threshold means that fewer people are poor. As can be seen by comparing the first two columns in table 7, adjusting the poverty threshold using the CPI–U–X1 reduces the official poverty rate by an average of about 1.5 percentage points (or 11 percent) per year between 1979 and 1991. Using the CPI–U–X1 to adjust the poverty threshold each year from 1967 to 1991 results in 3.8 million fewer poor people in 1991.

The second adjustment in the official poverty rate made by the Census Bureau is to expand the definition of income to take into account some noncash income, including Government benefits. Under the procedures by which the official poverty rate is calculated, only cash, including Government benefits, is counted in determining whether a family is poor; income from cash welfare programs counts, but benefits from food programs, medical care, social services, education and training, and housing are not included in the calculation. Moreover, because Government spending on means-tested noncash benefits has increased more rapidly than spending on means-tested cash benefits over the years, ignoring noncash benefits may be an increasingly serious omission if we want a broad picture of the impact of Government programs on poverty.

The question of how to value noncash benefits raises a variety of substantive and technical issues. The Census Bureau has been working on these issues for nearly a decade, consulting with academic experts, sponsoring conferences, and issuing technical reports. In 1992, the Bureau published a consistent historical data series, covering the years 1979 to 1991, to trace the impact of an impressive variety of taxes and noncash benefits on both poverty and income. The measurement of noncash benefits extended beyond Government spending for the poor to include Government spending programs such as Medicare that are not means-tested as well as to employer contributions to employee health plans.

To examine the impact on income and poverty of various State and Federal taxes, Government noncash programs, employer-provided benefits, and so forth, the Bureau has adopted a framework that includes 15 definitions of income. By comparing income under these multiple definitions, it is possible to estimate the impact of the various income sources on the average income and the poverty rates of American individuals and families.

Income definition 14 is of interest to those concerned with the impact of Government means-tested, noncash benefits on poverty rates. Unlike the official poverty rate, which includes only cash Government benefits, definition 14 includes the effects of State and Federal taxes, employer-provided benefits, non-means-tested Government benefits, and means-tested noncash benefits including Food Stamps, housing, school lunch, and the fungible value of Medicaid.

By comparing the official poverty rate with the definition 14 poverty rate, we can determine the impact on poverty of noncash benefits and Government taxes. The fifth column in table 7 is the poverty rate for years 1979 through 1991 based on defintion 14 and using the CPI-U-X1 deflator. Compared with the rate based on CPI-U-X1 (column 2), including taxes and noncash benefits (and a few other types of income that have little impact on poverty) in the poverty calculation reduces the poverty rate by an average of 2.6 percentage points or nearly 21 percent per year between 1979 and 1991. In 1991, noncash benefits reduced poverty by 2.8 percentage points or nearly 7 million people.

The combined impact of using the CPI-U-X1 and including noncash benefits can be determined by comparing the poverty rate in column 5 with the official rate in column 1. On average, the two Census Bureau adjustments reduce the poverty rate by over 4 percentage points or nearly 30 percent across the years 1979–91 and by 4.3 percentage points or nearly 11 million people in 1991.

Columns 3 and 4 show the poverty rate using the CPI-U price index. Column 3 includes all means-tested cash benefits, as well as nearcash food and housing benefits. Column 4 adds to these benefits Federal taxes. Health benefits are not included in either of these two measures. In 1991, the poverty rate using the CPI-U and including food and housing benefits is 12.4 percent; accounting for Federal taxes brings the poverty rate up slightly, to 12.6 percent. Between 1979 and 1991, poverty increased by 29.2 percent when all governmental benefits, including means-tested and nearcash food and housing benefits, are taken into account. Including Federal taxes yields a 27.3 percent increase in poverty over this time period.

The question of whether or not to include medical benefits when measuring poverty has great implications on poverty rates. The valuation of medical benefits is particularly difficult. Medical coverage should not by itself raise poor individuals above the poverty line or constitute a major portion of the poverty threshold. The development of the poverty thresholds did not take into account medical costs. Although poor persons are clearly better off with medical coverage, such benefits cannot be used by recipients to meet other needs of daily living. Also, since health insurance costs are not imputed to the incomes of those above poverty, it seems inappropriate to count health benefits as income for those below the poverty line.

Table 7 illustrates that regardless of what measure of income or which price inflator is used, the trend is the same: poverty has increased substantially over the last decade. Using the official CPI–U definition, the poverty rate increased by 21.4 percent between 1979 and 1991. Using the CPI–U–X1 inflator and factoring in all noncash benefits (including health benefits), poverty has increased by 25.3 percent. Between 1979 and 1989, two peak years in the economic cycle, the increase in poverty has been smaller. Using the CPI–U–X1, the poverty rate has increased by 7.5 percent over this time period. Including all noncash benefits yields a poverty increase of 12.7 percent, while using the CPI–U and excluding health and including taxes yields a 19.2 percent increase in the poverty rate between 1979 and 1989. The fact that the poverty rate has increased more according to measures that include means-tested Government benefits, illustrates that the antipoverty effectiveness of Government programs benefiting the poor has decreased in recent years. This topic will be explored in subsequent sections of this print.

TABLE 7.—POVERTY UNDER ALTERNATIVE MEASURES OF INCOME AND PRICE INFLATION, 1979–91

Year	Poverty rate					Percentage reduction in official poverty associated with:			
	Official (CPI–U)	Using CPI–U–X1	Official w/ food & housing [1]	Official w/ food, housing and Fed. taxes [2]	CPI–U–X1 w/ noncash benefits [3]	CPI–U–X1	Official w/ food & housing [1]	Official w/ food, housing and Fed. taxes [2]	CPI–U–X1 w/ noncash benefits [3]
1979	11.7	10.6	9.6	9.9	7.9	9.4	17.9	15.4	32.5
1980	13.0	11.5	11.1	11.6	8.6	11.5	14.6	10.8	33.8
1981	14.0	12.2	12.2	13.2	9.8	12.9	12.9	5.7	30.0
1982	15.0	13.2	13.3	14.2	10.6	12.0	11.3	5.3	29.3
1983	15.2	13.7	13.7	14.6	11.0	9.9	9.9	3.9	27.6
1984	14.4	12.8	12.9	13.9	10.4	11.1	10.4	3.5	27.8
1985	14.0	12.5	12.5	13.5	10.1	10.7	10.7	3.6	27.9
1986	13.6	12.2	12.2	13.1	9.8	10.3	10.3	3.7	27.9
1987	13.4	12.0	12.0	12.6	9.5	10.4	10.4	6.0	29.1
1988	13.0	11.7	11.6	12.0	9.5	10.0	10.8	7.7	26.9
1989	12.8	11.4	11.2	11.8	8.9	10.9	12.5	7.8	30.5
1990	13.5	12.1	11.8	12.3	9.5	10.4	12.6	8.9	29.6
1991	14.2	12.7	12.4	12.6	9.9	10.6	12.7	11.3	30.3
Percent change:									
1979–89	9.4	7.5	16.7	19.2	12.7	NA	NA	NA	NA
1979–91	21.4	19.8	29.2	27.3	25.3	NA	NA	NA	NA

[1] Includes means-tested benefits and food and housing benefits.
[2] Includes means-tested benefits, food and housing benefits and Federal taxes.
[3] Includes means-tested benefits, food and housing benefits and Federal taxes, as well as income from capital gains and employer-provided health benefits.

Source: U.S. Bureau of the Census, Current Population Reports, Series P–60, No. 182RD, "Measuring the Effect of Benefits and Taxes on Income and Poverty: 1979 to 1991.", and Congressional Budget Office.

From: DON OELLERICH (DONO)
To: reubens,allisonl,wendellp,cantap
Date: Thursday, November 2, 1995 1:32 pm
Subject: move the senate run:where we are going???

the following is what i understand to be the plan for moving the senate welfare bill to be kinder and gentiler and how we might model the changes --

1. add Dodd level child care dollars to the block grant -- no modelling

2. expand the hardship definition to include caring for a disabled child or caretaker is disable PLUS 20% -- to model we could exempt those families with kids on ssi and parents on ssi (this gets about 7% in trim .. so total will be about 27%.

3. noncash voucher for families who exceed the time limit and do not work -- set at 2/3 of former cash grant and treat as income for other programs. -- this would allow f.s. and housing to fill part of the 1/3 cut -- is that what we want?

4. reinstate the $50 child support pass-thru/disregard

5. change the budget constrant to include new/additional federal cash benefit dollars. these dollars include (a) 160m from converting EA to contingency money; (b) 400m from adding performance bonus money from outside the blockgrant; (c) x.x billion from raising the basic block grant level to hit cbo savings estimate on admin baseline - assume all goes to benefits. -- we will assume NO INCREASE in state benefit dollars to go with the more generous fed money.

6. do we want to include administration's f.s. or ssi changes as part of this 'make it better' package? Shelter FS ads,

does this all sound right? -- don

No time limit on adults
Less in standard deduction

SSI kids - prospective only

?. Immigrants - deem
- Grandfather

Tomorrow night

From: WENDELL PRIMUS (WENDELLP)
To: CANTAP, DONO, KARINM
Date: Wednesday, November 1, 1995 10:25 am
Subject:

Here are all the ideas that might reduce child poverty impacts and improve the quintile table--

Mentioned in the views letters:

1. Increase exemptions from time limit
2. Provide mandatory vouchers
3. Just plain more AFDC
dollars -- contigency fund, performance bonus in addition to basic grant (not clear how under our current methodology we would incorporate these)
4. Minimize SSI children's and immigrants hits
5. Keep food stamp hits to minimum

Outside views letter

1. Providing eitc to work program participants
2. Provide a refundable child tax credit
3. Maintain current financial structure of AFDC with more state flexibility
4. Provide AFDC matching funds for work incentives or child support disregards or passthroughs
5. Don's alternative for funding vouchers
6. MOE on cash benefits only

Have I missed any??

CC: PETERE

Modeling the Administration's Policies 9 37-38 billion

We assumed no change from Clinton baseline in the following programs:

AFDC
social insurance
child support
farm income
school lunch
housing
EITC

The following changes to the baseline were modeled:

SSI Kids Program
Assumed same policy changes as in the Senate welfare bill, resulting in savings of $1.65 billion in 1996 dollars. Do only prospectively

SSI Other
Assumed immigrant deeming provisions like proposed in WRA. These amounted to savings of $1.3 billion in 2002, deflated to $1.08 billion in 1996 dollars. These savings were distributed across quintiles like the distribution of cuts to this program in the run modeling the Senate welfare bill.

Food Stamps
Assumed overall savings in 2002 of $3.7 (from the President's midterm budget) or $3.0 billion in 1996 dollars. We subtracted from this number the savings modeled in CACFP (see below), for total food stamps savings of $2.4 billion. This was distributed across the quintiles according to the distribution of income from food stamps in the baseline.

CACFP
In the Administration estimates we included the House action provision, which is a child nutrition block grant. It resulted in savings of $.66 billion, in 1996 dollars. (Note that the Senate provision eliminates subsidies to children in family day care homes from families with income above 185 percent of poverty, resulting in savings of $.15 billion, however, the Senate provision was not yet modeled at the time we modeled Administration action. It may be a more appropriate policy to use, however.)

Energy Assistance
In order to follow the assumption that funding would continue in the outyears in the current law level, we reduced funding by 25 percent from the baseline (per Lester's instructions). This amounted to $.24 billion in savings in 1996 dollars.

Health
Assumed savings in Medicaid of $1.7 billion and increased income in Medicare (from premium reduction?) of $.81 billion. Talk to Holly to get further details about the policy changes.

POLICY CHANGES THAT COULD MINIMIZE THE IMPACT ON CHILDREN

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

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

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

A. Maintain and Strengthen Improvements in Senate Welfare Reform Bill

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

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

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

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

B. Other Improvements in Welfare Reform

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

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

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

C. Moderating the Overall Level of Budget Cuts

A more balanced deficit reduction plan would leave children much better off than the House- and Senate-passed budget plans. Adopting the Administration's balanced budget plan would eliminate three-quarters of the child poverty effect of the House budget plan and two-thirds of the child poverty effect of the Senate budget plan.

In particular, the following changes would promote work and protect children:

- **Do not cut the EITC.** The House and Senate budget plans not only cut assistance to people who cannot find jobs, but also cut the EITC that rewards people who choose work over welfare. As the analysis shows, the EITC changes in 1993 led to a significant reduction in poverty, while the EITC cuts in the Senate bill could lead to an additional 500,000 children falling below poverty. Rewarding work by retaining the current EITC will give families that go to work a better chance of moving above poverty.

- **Cut fewer current SSI recipients from the rolls.** [Is this primarily SSI kids or immigrant kids?]

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

- **Do not block grant Medicaid.** While proposed changes in Medicaid do not show up in the poverty tables, the distributional analysis points out that they could have dramatic impacts on children in low-income families, far beyond the cuts in AFDC. [Insert whatever the number is.] The Administration's plan, which rejects a Medicaid block grant, achieves a balanced budget in a more equitably way and minimizes the impact on children.

in the Admin plan

Size of poverty gap. These cuts ~~/~~ would increase the poverty gap by about 9%, less than a fifth of the effect of the House budget plan.

* Make health care a separate section that points at that proposed changes in Medicaid could dwarf welfare reform

Differences that cannot be included in poverty analysis. The Administration's plan ensures that all poor children have access to health coverage by the year 2002, and that all children under age 6 and below 133% of poverty remain eligible for Medicaid. The House and Senate plans would put these children at risk of not having medical coverage. These effects are included in the distributional analysis, which provides a more comprehensive picture.

POLICY CHANGES THAT COULD MINIMIZE THE IMPACT ON CHILDREN

Insert ① + ②

* Make EITC separate section

A more balanced deficit reduction plan ~~would leave children much better off than the Congressional plans~~. Adopting the Administration's balanced budget plan would eliminate three quarters of the child poverty effect of the House budget plan and two thirds of the child poverty effect of the Senate budget plan. ~~In addition, the Administration has repeatedly recommended improvements to the welfare proposals of Congress to enact real welfare reform that is tough on work, not on children. These policies were recommended by the Administration in both the welfare and balanced budget proposals, and in letters from the Administration to Congress. Some of these recommended improvements include:~~

4. Do not cut the ETTC.

3. ***Vouchers for children.*** The Senate Democratic welfare bill, which the Admin endorsed, provided vouchers for children whose parents had reached the 5-year time limit. Children need to be protected if their parents cannot find a job when a time limit ends. ~~Providing vouchers~~ Providing vouchers in the amount of the child's benefit after time limits could ensure they receive adequate housing and other necessities.

- *Adequate funding for AFDC benefits.* The poverty effects will be much worse than estimated if the economy moves into recession or States reduce their benefit funding more than estimated. CBO and the Administration project that the Senate's small contingency funding will run out and end in a few years even with a growing economy -- so it clearly is not adequate to handle a recession. Adequate contingency funding is needed to protect children from unexpected changes in the economy and increases in unemployment.

  Also, the bills allow States to significantly reduce their cash assistance funding while still receiving full Federal funding -- which would move even more children below the poverty level. (A "race to the bottom" is <u>not</u> assumed in this analysis.) The Administration has sought stronger maintenance of effort requirements and incentives for States to continue their financial contribution to poor children.

- ***Performance bonuses for States.*** When the Senate added performance bonuses for States with good work programs, they funded them by cutting the block grant funding available for cash assistance. Adding money for performance bonuses -- rather than reducing the block grant to pay them -- would reduce the number of children moved below the poverty line.

- ***Adequate funding to move families from welfare to work.*** The poverty effects of welfare changes depends in large part on how many people get jobs. States need money for work programs, and single mothers need child care to go to work. However, both House and Senate bills underfund child care at full implementation. Even with the funding added on the Senate floor, the Senate bill would fund less child care in 2002 than under current law.

More work program and child care funding is needed first to help ensure that the labor supply estimates included above are not too optimistic, and to relieve financial pressure States might otherwise feel to cut even cash assistance even more to pay work and child care costs.

- ***Do not cut child support received by AFDC families.*** Now, children on AFDC receive the first $50 of child support their absent parents pay. The House and Senate bills would eliminate this provision.

- ***Moderate Food Stamp cuts.*** The House cuts Food Stamps __ by 2002; the Senate__. Both would end assistance to many single persons and childless couples who cannot find jobs. Moderating the cuts to the level in the Administration's plan would substantially reduce the poverty effects.

- ***Do not cut so many current SSI recipients from the rolls.*** Implementing proposed changes in the definition of disability for children would enable ___ children to continue receiving assistance. The Senate bill would also remove __ immigrants from the rolls.

move up

- ***Do not cut the EITC.*** The Congressional budget plans do not just cut assistance to people who cannot find jobs, they also cut the EITC that would assist those who can find a job, but not one that pays well. Retaining the current EITC gives families that get jobs a better chance of moving above the poverty line.

Without these policy changes, the Congressional welfare and budget plans may move even more children below the poverty line than projected. Incorporating all of them would make the budget plans more balanced, and minimize the number of children moved below the poverty line.

Welfare study

Caveats:

* Economic growth: Since 1993, a growing economy has led to >>> fewer children in poverty. Continued growth of xx% will lead to a further reduction of yyy over the next x yrs.

* EITC/Medicaid:

* Behavioral response (work): It is almost imposs. to predict how indiv. will respond when the current system is fundamentally transformed. We do not know how many people will decide to leave the rolls voluntarily or be deterred from going on in the first place. ~~We can project how many people will leave off~~ ~~Four of these~~ welfare. Certain provisions ~~will~~ such as a five-year time limit will push eventually push recipients off welfare. ~~whether they end up in~~ ~~difficult to project whether these recips will end up~~ whether they end up in a job or in poverty depends on ~~their own ability~~ a number of factors, from indiv. initiative to avail. of jobs and child care. This report is therefore based on ~~highly~~ extremely conservative estimates of how individuals will respond to work requirements. If states truly transform their welfare systems to focus on placing people in jobs and keeping them there (and provide child care to do so), that would ~~make~~ lead to a significant dramatic ~~difference~~ increase in the number of people leaving welfare and poverty for work and self-sufficiency.

* Behavioral response (marriage): Because of research uncertainty over the impact of welfare reform on marriage and birth patterns.

* Child support: 800,000

* Senate Dem bill/Admin's assumption: Any serious plan to balance the budget will require budget cuts ~~that~~ in entitlement programs. The report ~~will~~ underscores the importance of distributing these cuts equitably. The Admin's balanced budget plan, with the key assumptions of the Senate Democrats' welfare bill, which you and the Pres. endorsed at the White House — . ~~The~~ A few key changes — cut the poverty rate in half to the level of the Senate Dem bill and the Admin BB plan.

CHRONOLOGY

Sandy Levin 11.3.95

- SSI
- Food block grants
- Immigs.

I won't sign a bill that block grants anything else

AFDC
- exemptions
- vouchers
- work $

Focus on work

Conferees must work with us on bipartisan basis to reduce these impacts.

Accept AFDC bg, but not others

House has to move toward Senate, + together they have to move toward me.

We have to be careful here