1) Can we figure out 1993 EITC + 1994 poverty combined?

2) What impact minimum wage?

3) Do we have a Medicaid number?

4) Should we enumerate child welfare as separate policy idea on p. 18?

5) Food Stamp declines, 1995

6) ~~Rich - what if standalone + POTUS vetoes?~~

(1) MELISSA:
1) Talking Pts
2) Magaziner quotes - June 14
3) Chronology of our SAPs etc.
4) CSE figure - 500,000?
~~5) Meet the Press transcript - Dole comments~~
6) Key talking pts.
~~7) NDD waiver~~
8) DOT letter

(2) RICK:
1) How many Hill mtgs w/conferees?
2) 5-yr impacts paper
~~3) Poverty Sunset ??~~
~~4) What if stand-alone - POTUS vetoes?~~

Insert (1), p.1

(1) Any serious plan to balance the budget ... key is EITC & child care etc. (Maybe Melissa's 1A)

(2) The policies of this Admin have already reduced poverty.

- 1.4m, 1.2m, Food Stamp rolls
- Min wage

shows how many people who are above the poverty line because of the benefits they receive would fall below the pov. line w/o & relatively in those benefits. Moreover, the pov. analysis is based on

(3) Two definitions. By broadest definition, etc. [illegible] or (p. 16) plus (3A)
- mention endorsement & 46 Sen. Dems.

Unlike the distributional analysis, which shows the entire picture ~~[illegible]~~ of who stands to gain and who loses, the poverty analysis only ~~[illegible]~~

(4) It is important to put these ~~[illegible]~~ ~~est~~ numbers in perspective. ~~They are~~ long-term projections of the various welfare bill's potential impact in the year 200_, ~~[illegible] which do not take into account~~ which ~~by nature cannot~~ do not attempt to predict a number of critical variables ~~[illegible]~~ that far ~~down the road~~ into the future — including ~~economic~~ job growth, marriage and birth rates, ~~[illegible]~~ ~~and [illegible] States will [illegible] the impact of increased and the impact of~~ and the behavioral impact of a fundamental change in the culture of welfare. If welfare reform, tough child support enforcement, and a nat. campaign against teen p. succeed in promoting work and respons. and reduce births outside marriage ~~[illegible]~~, see p.16 [the poverty effects over the long term would be much smaller.] If the country fails to move people from welfare to work and the rate of births outside marriage continues to grow, ~~the poor effects [illegible]~~ the declines in poverty we have seen in the last two years will be reversed.

(5) Throughout the budget & W.R. debate ... (Policy Changes) - p.17

(6) The estimates in this report reinforce the importance of the policy recomms. (p.17) - or Larry
- mention page # [or use Larry's graph]
Do more to highlight?

(7) The current system is unacceptable (Larry) ... Since 93 ... Done right ... (Larry) [or see BR Talk. Pts.]

(8) End w/POTUS quote from radio address

(9) Distribution??

Draft -- Breaux only

TALKING POINTS
WELFARE REFORM
Nov. 7, 1995

GENERAL

* The Administration is not rethinking its commitment to passing welfare reform this year. The President continues to believe that the bipartisan Senate bill is a dramatic improvement over the House bill, which he said he would veto.

* We have made significant bipartisan progress in this debate over the past year. A year ago, some Republican leaders were proposing orphanages. As recently as March, the House voted to cut the child care people need to move from welfare to work. An overwhelming majority of Senators in both parties voted for more child care -- and supported substantial improvements to reward states for performance in placing people in jobs, require states to maintain their own efforts, let states decide for themselves on the family cap, etc.

* As the President said in his Sept. 15 radio address when he praised the Senate action, we want that bipartisan progress to continue: "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."

* In conference, we need to fight to hold onto the improvements the Senate made, and consider other ways to make the final legislation better. The Administration wrote to welfare reform conferees in October reiterating our support for the Senate improvements, and once again recommending further improvements that promote work and protect children and will move the final bill even closer to the Daschle-Breaux-Mikulski bill, which the Administration and every Senate Democrat endorsed. Here are a few:

* More resources for child care: The $3 billion added in the Senate bill as currently drafted would expire after the year 2000, and should be made permanent.

* Stronger contingency fund: The Senate provision is far better than the House, but can be improved without significantly increasing projected federal costs by strengthening the trigger mechanism and the amount of funds in reserve.

* Vouchers for children: The Senate bill has a more reasonable hardship exemption than the House bill, but it could be strengthened further by adopting a provision from the Daschle-Breaux-Mikulski bill that would provide vouchers for children whose parents reach the 5-year time limit and cannot find a job.

POVERTY STUDY

* OMB will complete a distributional analysis of the House and Senate budget bills and a poverty analysis of the House and Senate welfare reform bills later this week. It is too early to speculate on the findings, but not to make the following points:

* The Republican budget plans have an enormous impact on low- and moderate-income families, and produce enormous benefits for the wealthy. The Administration's balanced budget plan distributes cuts and benefits in a more equitable manner.

* The Republican budget plans to cut the EITC will punish work and increase poverty. The EITC is the best anti-poverty policy there is.

* ② * The policies of this Administration have already reduced poverty. The EITC increase that the Administration and Democrats passed into law has helped a vast number of Americans work their way out of poverty. The sustained economic growth of the past 2 1/2 years has also moved an enormous number of families off the welfare rolls and onto the work rolls.

* ① * 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 policies like the EITC and child care are in place to help people work their way out of poverty.

* The OMB study will make a strong case for the improvements the Senate has already made on welfare, and for other changes the Administration has long recommended to make the final bill more like the Daschle-Breaux-Mikulski bill. These changes (more child care, stronger contingency, vouchers for children, etc.) will maximize the prospect that people leave welfare for work, and minimize the risk that children end up in poverty.

* Senator Dole said on Meet the Press this weekend that if the study shows some risk of putting children into poverty, he would certainly be open to making some changes. We should take a look at this study, and work this out together on a bipartisan basis. Republicans and Democrats want welfare reform. Republicans don't want to put children at risk of poverty and neither do Democrats.

DEPARTMENT OF HEALTH & HUMAN SERVICES

Melissa T. Skolfield
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To: Bruce Reed
DPC

Fax: Phone:

Date: 11/7 Total number of pages sent: 5

Comments:

Kathy - pls get to Bruce as soon as you can

Thanks -

200 Independence Avenue, S.W., Bldg. HHH, Room 647-D, Washington, D.C. 20201

Bruce --

I didn't have time to work on this until last night, but I wanted to send it along to you. I've tried to lay this out in a simple way, to force reporters to "get it" even if they don't read the entire report. While this is a tad long for a cover letter, I think it makes our key points. (It's also intentionally long in some places.)

please read it; see what you think; and let's decide how to proceed.

M

DRAFT

Dear:

This is to respond to your request for information about how legislation pending in Congress would affect poverty rates, especially for children.

I have attached our overall assessment of the budget reconciliation bills recently passed by the U.S. Senate and House of Representatives, as well as a poverty impact analysis of the welfare reform bills passed separately by both houses of Congress. As you know, many of the budget cuts passed by Congress are now included in both measures, including proposals to cut Food Stamps, Aid to Families with Dependent Children (AFDC), and the Supplemental Security Income program (SSI).

Our analysis of the Senate's budget reconciliation proposal, like that of the House of Representatives' legislation (previously released on October 13) shows a substantial impact on poor children. Overall, the Senate's benefit reductions would reduce the income of families with incomes below $30,000 by $308, while the House of Representatives' plan would reduce their income by $438. In addition, both bills would make steep reductions in Medicaid, which serves many low- and moderate-income families.

In contrast, the Administration's budget reduction plan would reduce their income by less than $100, and preserve their access to Medicaid and the Earned Income Tax Credit (EITC). While every plan to balance the budget, including that put forward by the Administration, would require reductions in low-income programs, there are substantial differences in the level and distribution of the program cuts contemplated. The Administration's budget proposal, for example, includes $xx in savings because of changes to SSI eligibility for children, Food Stamp program changes, and provisions affecting immigrants. In contrast, the Senate budget reconciliation bill proposes $ xx billion in cuts in these programs, plus $xx billion in cuts in the Earned Income Tax Credit (EITC). The House f Representatives' proposal includes $xx billion in cuts in these programs.

These differences remain whether the reductions are analyzed as part of budget reconciliation legislation, ~~or as part~~ of congressional welfare reform proposals. Ultimately, reductions in low-income programs should be included in a comprehensive deficit reduction effort; the test of their acceptability is whether they are designed to reward work; minimize the impact on children; and encourage states to redesign programs that foster dependence into programs that reward independence.

* 1A

As you requested, OMB has also specifically examined the effect on congressional proposals on poverty among children. Using the official definition of poverty, the welfare bill passed by the House of Representatives would increase the number of children living in families with incomes below the poverty line by approximately 500,000. In contrast, the welfare reform bill passed by the Senate would impact approximately 300,000 children. These impacts do not include the effect of taxes or of non-cash government assistance programs, which are not counted when measuring poverty. For example, when the EITC is factored in, the impact of welfare reform is offset by the positive impact of the EITC, which, by rewarding work, will raise 800,000 children out of poverty if the Clinton Administration's past improvements are retained.

In order to assess the impact of non-cash programs like the EITC, a different analysis must be developed. Our analysis used a post-tax, post-transfer definition of income which seeks to measure the impact of the EITC, Food Stamps, housing programs, and school meal programs. Using this definition, the welfare reform bill passed by the Senate would affect approximately 1.1 million children, half of whom fall below the expanded definition of poverty because of Food Stamp reductions. The House of Representatives' legislation would impact almost twice as many children -- approximately 2.1 million -- because of its steeper cuts in child care, Food Stamps, the school lunch program and WIC, and eligibility changes which deny benefits to the children of teen mothers, children for whom paternity is not established, and children born to women already receiving cash assistance.

* 3A

Because of the limitations of the computer model used, some provisions of the Senate bill could not be included in our analysis. For example, the Senate bill's requirement that states continue spending 80 percent of the $10 billion they now spend on AFDC means that states will be more likely to provide continued assistance after the five-year time limit using their own funds. (For simplicity's sake the model used assumes that under both the House and Senate bills, states maintain current state funding levels for benefits until recipients reach the time limit, then use the resulting savings to fund work programs and child care. This tends to understate the differences between the two bills because of the Senate's maintenance of effort provision.) The additional child care funding provided in the Senate legislation, particularly if it is reauthorized after the five-year time frame in the bill, also means that states will be more likely to meet work requirements without shifting funds from benefits to work assistance -- and thus means that fewer children will fall before the poverty line.

Similarly, the Senate's maintenance of the Medicaid entitlement for children, although not as comprehensive as the guarantee the Administration prefers, makes it more likely that AFDC recipients will move from welfare to work. And the adoption and foster care entitlements in the Senate bill, also not included in the model, clearly mean that the children of parents who can't or won't work will have the safety net of federal assistance when they are taken in by other families.

The provisions noted above are important ones, although their impact could not be quantified. As the Administration has previously stated, the key to welfare reform is creating the right incentives to help people move from welfare to private sector jobs. That means holding on to the important progress made in the course of Senate deliberations, and continuing that bipartisan action with further improvements. Several of the changes suggested in Administration letters to the welfare reform conferees are especially important in terms of protecting children. These include moderating the cuts in Food Stamps, providing an adequate contingency fund, and allowing states to provide vouchers for children after adults reach the time limit. I would also like to take this opportunity to restate the Administration's support for the EITC, which is itself an important incentive for moving from welfare to work.

As I noted to you in my letter of October 18, done correctly, welfare reform can help people earn a paycheck, not a welfare check. But done wrong, it can cause serious harm. Americans of both parties now agree that real welfare reform is about providing opportunity and demanding responsibility -- not abandoning abused children or taking away poor children's school lunch. The Administration urges you and your colleagues to act in the bipartisan spirit that has marked the better moments of the welfare reform debate.

Sincerely,

ANALYSIS Q AND As

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 means providing child care so people can leave welfare for work, and rewarding states with performance bonuses for job placement. And it means holding onto and reinforcing the improvements the Senate made in other areas as well, such as maintenance of effort, the hardship exemption, and promising key protections like school lunch or child welfare. The suggestions in this report will increase the likelihood that people leave welfare for work, and minimize the risks for 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, 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. 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, the Senate bill was not perfect. And whether the President will sign the final product depends on whether bipartisan progress continues.

[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: 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 child immunization to make American kids' lives better.

Q: Why doesn't he just issue a veto threat, given that the welfare reform bills passed by both the House and the 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, the President 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: 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 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: Is Senator Moynihan right that the President cannot possibly sign a welfare reform bill that puts more people in poverty?

A: This report outlines changes we support that would cut the estimate more than half, to the level of the Senate Democratic bill which Senator Moynihan and the President endorsed here at the White House on June 14.

DRAFT 3
ANALYSIS Q AND As

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– KEEP

The Senate made important improvements over the House bill which would reduce the potential risk to children

It makes a strong case for the holding onto the bipartisan improvements the Senate made over the House bill, which promote work & dramatically reduce the potential risk to children. [e.g.]

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.

The report also ~~suggests~~ ~~[illegible]~~ reinforces the Admin's call for other improvements in welfare budget recon. that

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A: Let's be clear. 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, the Senate bill was not perfect. And whether the President will sign the final product depends on whether bipartisan progress continues, or the Congress turns back toward the House bill

and the Pres. made clear in his radio address, ~~there is~~ there remains room for improvement

[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. what if you don't get those addit. improvements?
A. Right now the conferees look like they're headed in the the dir. toward the House bill

Wattenberg – Ann Lewis – what's going on?

Nothing has changed.

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?

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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, the President 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.

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A: The President told the Trotter Group what we have said all along -- that our goal in welfare reform is 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: But, yes or no, would the President sign the Senate bill if it were presented to him today?

A: That question is not relevant -- there is a ~~conference committee meeting now, and they are working on a new bill.~~ Right now, other direction. 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. 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.

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: As the President has said from the very beginning, the welfare system today is badly broken, and must be fundamentally changed. He's said from the beginning that we ought to demand responsibility of people, and that the welfare system should not be a way of life. We've said all along that if someone refuses to work, refuses to support their children, refuses the offer of help to become independent, then cash assistance should be ended. We've said all along that people who bring relatives into this country should be responsible for them; that people who defraud the Food Stamp program should be punished; and that SSI benefits should go only to those who are really eligible. But we also believe that when a system that fosters dependence is replaced with one that reward independence, there will be a sea change in people's behavior -- if Congress gets the incentives right. And that particularly true if Congress maintains the EITC, which is a real incentive to leave welfare for work.

See my answer

alternate "As"

Q: So you accept the proposition that welfare reform means that hundreds of thousands of children will get poorer?

A: I Think we've been clear about what we believe. No computer model, as useful as they are for helping us sort things out, can predict with 100 percent accuracy how individuals will respond when the system is fundamentally transformed. We believe that many 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. Obviously, we'd prefer that this number be as low as possible, and that's why we've consistently advocated policies to maximize the incentives and opportunities for success, and to reduce the risk to children. That's why we've argued for child care and performance bonuses that create incentives for welfare recipients to move to work. And that's why we've argued against Republican proposals that would simply punish kids -- block granting adoption and foster care, cutting the school lunch program, and reducing benefits for disabled kids, for example.

Q: So you think this analysis is correct?

A: No computer model, as useful as they are for helping us sort things out, can predict with 100 percent accuracy how individuals will respond when the system is fundamentally transformed. So let's remember several things about this analysis. It doesn't account for the Senate bill's maintenance of the child welfare entitlement. It doesn't assume that states step in to provide vouchers for children after the time limit. It doesn't account for the effect an increase in the minimum wage would have -- something we've advocated for months. And it looks at the possible results of these changes ten years from now, when the bill under consideration in Congress only authorizes changes for five years. So again, we'll continue to argue for changes that maximize the chance that people will go to work, and minimize the risks to children. So if the final bill passes this fundamental test, we'll veto it. And if, five years from now, if the incentives are not working the way they should, we'll propose additional changes.

POLICY CHANGES THAT WOULD 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 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.

Draft -- Breaux only

TALKING POINTS
WELFARE REFORM
Nov. 7, 1995

GENERAL

* The Administration is not rethinking its commitment to passing welfare reform this year. The President continues to believe that the bipartisan Senate bill is a dramatic improvement over the House bill, which he said he would veto.

* We have made significant bipartisan progress in this debate over the past year. A year ago, some Republican leaders were proposing orphanages. As recently as March, the House voted to cut the child care people need to move from welfare to work. An overwhelming majority of Senators in both parties voted for more child care -- and supported substantial improvements to reward states for performance in placing people in jobs, require states to maintain their own efforts, let states decide for themselves on the family cap, etc.

* As the President said in his Sept. 15 radio address when he praised the Senate action, we want that bipartisan progress to continue: "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."

* In conference, we need to fight to hold onto the improvements the Senate made, and consider other ways to make the final legislation better. The Administration wrote to welfare reform conferees in October reiterating our support for the Senate improvements, and once again recommending further improvements that promote work and protect children and will move the final bill even closer to the Daschle-Breaux-Mikulski bill, which the Administration and every Senate Democrat endorsed. Here are a few:

  * More resources for child care: The $3 billion added in the Senate bill as currently drafted would expire after the year 2000, and should be made permanent.

  * Stronger contingency fund: The Senate provision is far better than the House, but can be improved without significantly increasing projected federal costs by strenthening the trigger mechanism and the amount of funds in reserve.

  * Vouchers for children: The Senate bill has a more reasonable hardship exemption than the House bill, but it could be strengthened further by adopting a provision from the Daschle-Breaux-Mikulski bill that would provide vouchers for children whose parents reach the 5-year time limit and cannot find a job.

POVERTY STUDY

* OMB will complete a distributional analysis of the House and Senate budget bills and a poverty analysis of the House and Senate welfare reform bills later this week. It is too early to speculate on the findings, but not to make the following points:

* The Republican budget plans have an enormous impact on low- and moderate-income families, and produce enormous benefits for the wealthy. The Administration's balanced budget plan distributes cuts and benefits in a more equitable manner.

* The Republican budget plans to cut the EITC will punish work and increase poverty. The EITC is the best anti-poverty policy there is.

* The policies of this Administration have already reduced poverty. The EITC increase that the Administration and Democrats passed into law has helped a vast number of Americans work their way out of poverty. The sustained economic growth of the past 2 1/2 years has also moved an enormous number of families off the welfare rolls and onto the work rolls.

* 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 policies like the EITC and child care are in place to help people work their way out of poverty.

* The OMB study will make a strong case for the improvements the Senate has already made on welfare, and for other changes the Administration has long recommended to make the final bill more like the Daschle-Breaux-Mikulski bill. These changes (more child care, stronger contingency, vouchers for children, etc.) will maximize the prospect that people leave welfare for work, and minimize the risk that children end up in poverty.

* Senator Dole said on Meet the Press this weekend that if the study shows some risk of putting children into poverty, he would certainly be open to making some changes. We should take a look at this study, and work this out together on a bipartisan basis. Republicans and Democrats want welfare reform. Republicans don't want to put children at risk of poverty and neither do Democrats.

1ST DRAFT

PREFACE

As we address the economic challenges of creating more jobs and raising future living standards, we need a welfare system that contributes, not detracts, from our efforts. The welfare system should provide Americans with a second chance, not a way of life. It should provide incentives for people to work, and it should make work pay; no one who works should have to live in poverty.

But, 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 adequate 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.

Done right, welfare reform will move people 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.

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

Throughout the budget and welfare reform debates of the last two-and-a-half years, the Administration has proposed measures that will maximize the opportunities for families to work off of welfare and out of poverty, and minimize the potential risk to children if they don't. The Senate-passed welfare bill includes some of these improvements, and the Administration has recommended others in its letters to Congress on welfare reform and budget reconciliation.

As Congress proceeds on welfare reform, it can improve the legislation still further by taking the following steps: provide for the child care needs of mothers, so they can leave for work; give states adequate resources to protect families in the case of serious recessions; require that states put adequate funds into

1st DRAFT

their own welfare programs; protect children whose parents reach the time limit by providing the children with "vouchers," ensuring that they receive adequate housing and other necessities; and protecting the Earned Income Tax Credit, which gives families who work a better chance of leaving of poverty.

Welfare reform alone, however, will not be enough to ensure that recipients move off welfare and into decent jobs. We also have to provide children and workers with the education and training to assume jobs in today's economy. Thus, we must have not only welfare reform, but also a budget plan that prepares Americans for the future.

DEPARTMENT OF HEALTH &

Melissa T. Skolfield
Acting Assistant Secretary for Public Affairs
Phone: (202)690-7850 Fax: (202)690-5673

To: Bruce Reed
DPC

Fax: Phone:

Date: Total number of pages sent: 2

Comments:

Some language that might be helpful for the cover letter and/or report.

Also, I want to tell you about a call from Daschle's press secty.

M

200 Independence Avenue, S.W., Bldg. HHH, Room 647-D, Washington, D.C. 20201

DRAFT

Dear:

(paragraphs about the overall budget reconciliation analysis)

As you requested, OMB has also specifically examined the effect on congressional proposals on poverty among children. Using the official definition of poverty, the welfare bill passed by the House of Representatives would increase the number of children living in families with incomes below the poverty line by approximately 300,000. In contrast, the welfare reform bill passed by the Senate would impact approximately 300,000 children. These impacts do not include the effect of taxes or of non-cash government assistance programs, which are not counted when measuring poverty.

In order to assess the impact of those programs, a different analysis must be developed. Our analysis used a post-tax, post-transfer definition of income which seeks to measure the impact of the Earned Income Tax Credit, Food Stamps, housing programs, and school meal programs. Using this definition, the welfare reform bill passed by the Senate would affect approximately 1.1 million children. The House of Representatives' legislation would impact almost twice as many children -- approximately 2.1 million -- because of its steep cuts in AFDC, child care, the school lunch program and xxxxxxx.

Because of the limitations of the computer model used, some provisions of the Senate bill could not be included in our analysis. For example, the Senate bill's requirement that states continue spending 80 percent of the $10 billion they now spend on AFDC means that states will be more likely to provide continued assistance after the five-year time limit. The additional child care funding provided in the Senate legislation, particularly if it is reauthorized after the five-year time frame in the bill, means that states are more likely to meet work requirements without shifting funds from benefits to work assistance -- and thus means that fewer children will fall before the poverty line.

Similarly, the Senate's maintenance of the Medicaid entitlement for children, although not as comprehensive as the guarantee the Administration prefers, makes it more likely that AFDC recipients will move from welfare to work. And the adoption and foster care entitlements in the Senate bill, also not included in the model, clearly mean that the children of parents who can't or won't work will have the safety net of federal assistance when they are taken in by other families.

As the Administration has previously stated, the key to welfare reform is creating the right incentives to help people move from welfare to private sector jobs. That means holding on to the important progress made in the course of Senate deliberations, and continuing that bipartisan action with further improvements. Several of the changes suggested in Administration letters to the welfare reform conferees are especially important in terms of protecting children. These include (list from the report)

DRAFT

date

Honorable Daniel Patrick Moynihan
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senator Moynihan:

I am pleased to transmit to you the enclosed analyses of the distributional effects, and the impact on poverty, of the House, Senate, and Administration plans to balance the budget. Also enclosed, as you requested, is an analysis of ~~how~~ (the potential impact of the) House and Senate welfare reform bills ~~will affect~~ on poverty.

As you know, 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. We 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, we 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, we opened new markets across the globe for U.S. goods. Because no working family should have to live in poverty, we sought to "make work pay" by expanding the Earned Income Tax Credit (EITC), which rewards work over welfare. And because government should provide a hand up, not a hand out, we ~~proposed a dramatic plan to "end welfare as we know it."~~ have worked through state experiments and national legislation to reform this country's broken welfare system.

Our distributional and poverty analyses complement one another, but the former provides a more comprehensive picture than the latter about how pending legislation will affect Americans of different incomes. The poverty analysis, for instance, does not illustrate *how much* is lost, under the budget plans, by those who fall below poverty, much less by those who do not. Nor does the poverty analysis account for the effects of health care changes, which would have dramatic impacts on low-income families far beyond any changes in AFDC. Nevertheless, both types of analyses provide vital information.

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 the wealthy 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. (These findings mirror those of our preliminary analysis of the House budget plan, which we released on October 13.)

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.

This Administration's policies have already led to a significant reduction in poverty.

~~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.

WR bills
Sen bill
Dem

The House budget plan ~~would~~ could ~~push~~ leave 1.7 million children in ~~to~~ poverty; the Senate plan ~~would~~ could ~~push~~ leave 2.3 million. The Administration's plan ~~would~~ could ~~push~~ leave 500,000 -- less than ~~will~~ are mov~~e~~ out due to the 1993 EITC and Food Stamp changes alone. The ~~effects~~ potential impacts of the Administration's plan are small enough that continued job growth in the coming years could offset them.

CAVEATS:
1. 2 definitions of poverty.
2. Behavioral impacts from other changes.
3. Any balanced budget plan
4. Sen Dem plan, which you can't have at the WH
5. In the yr. 2005

~~The issues of poverty and welfare reform are inextricably linked.~~ The President is committed to finding ways to move more people off welfare and into productive work. Since early 1993, he 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.

Done right, welfare reform will move people 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.

With a House-Senate conference committee trying to iron out differences between the House and Senate welfare reforms bills, we stand at an important moment in this debate.

Our analysis of how these bills would affect the number of children entering poverty only accentuates that point. We must work together to build on improvements that the Senate made, not turn back toward the House legislation.

[Paragraph on poverty/welfare bills...]

In letters to Capitol Hill, we have suggested steps through which Congress can improve welfare legislation. 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, we can lessen its potential impact on children and increase the number of Americans who move into productive jobs. We look forward to working with you on this important endeavor.

Sincerely,

Alice M. Rivlin
Director

(1) 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 plan, the Administration has sought to make sure ~~the~~ 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 ~~[illegible]~~ off welfare and out of poverty, and minimize the potential risk to children if they do not.

(2) ~~The following polic~~ A number of policy changes which the Admin. has called for throughout this debate would significantly ~~reduce~~ lessen the potential impact on children, and increase the prospect that people will ~~leave welfare for~~ lift their families out of poverty through ~~[illegible]~~ work. Many of these changes were included in the Senate-passed bill. Others have been recommended repeatedly by the Admin in letters to Congress on welfare reform and balanced budget plans.

A. Maintain and Strengthen Improvements in the Senate Bill

Points to make in Conf letter

- Distribution
- EITC
- Medicaid

- Maintain & strengthen improvements in Senate bill
  1. C. care
  2. Contingency Fund / MOE Incentives for States
  3. Perf Bonus
  4. Other stuff adoption & foster care
- Moderate budget cuts
  - Overall
  - EITC
  - FS
  - SSI
- Addit. suggestions
  - Vouchers
  - 50 ~~m~~ pass thru
- Medicaid — both ways

Cynthia Rice - 224 9741
Frosby - 862-9221
3:30 w/ Harold + Don

Reed
Edits

POTENTIAL POVERTY EFFECTS OF CONGRESSIONAL WELFARE REFORM BILLS AND BUDGET PLANS AS WELL AS THE DISTRIBUTIONAL IMPACT OF CONGRESSIONAL AND ADMINISTRATION BUDGET PROPOSALS

DRAFT DRAFT DRAFT

November 8, 1995

TABLE OF CONTENTS

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.

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, Food Stamps, 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 1970's, 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 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. Improvements included in the Senate bill have cut that number by nearly half, to 1.2 million. The Senate Democratic welfare bill could move 100,000 to 500,000 below poverty.

These numbers, however, 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 2.0 million since March 1994.

No one, of course, can predict the future of poverty with any precision. The Administration's poverty analysis is based on long-term projections for full implementation of the changes, 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, however, 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.

5-7763

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 by~~ between the ~~year~~ 2002 and 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 the next table.) 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, under the more comprehensive ~~pre-tax cash~~ definition of income, ~~used for official poverty statistics~~, there were already 1.2 million fewer people, including 0.~~4~~6 million children, below poverty in 1994 than in 1993. ~~Under the more comprehensive definition of income, there were 0.6 million fewer poor children in 1994 that in 1993. (The change for all persons was 1.2 million.)~~ Similarly, the Food Stamp rolls have dropped by 2.0 million people [illegible] 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].

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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.

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 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 move themselves out of poverty and fewer people will find themselves there to begin with.

House and Senate Budget Plans

Number of children in poverty. The House budget plan could move 2.3 million children into poverty. The Senate Budget plan could move 1.7 million children into poverty -- as many as 0.4 million as a result of deep cuts in the EITC. 0.5 ?

Health care cannot be included in poverty analysis. The House and Senate budget plans would put millions of poor children at risk of losing medical coverage. These effects are not included in the poverty analysis but they would make millions of children worse off.

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.) 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 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 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. The overall budget cuts in both the House and Senate welfare bills far exceed the level of cuts in the President's balanced budget plan. Moderating these cuts and enacting 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 0.4 million children moving below the poverty line. Retaining the current EITC rewards work and reduces poverty.

- *Cut fewer current SSI recipients from the rolls.* The Senate bill would cut off 160,000 children currently receiving SSI; the House bill would cut even deeper. 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~~ raise 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.

Table 1

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

	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. Numbers may not add due to rounding.

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

*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.

Table 2

THE IMPACT OF CONGRESSIONAL PROPOSALS ON POVERTY

Under The Pre-Tax Money 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. Numbers may not add due to rounding.

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

* 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 and teen pregnancies, ~~divorces~~, 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, ~~as some fear~~, 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 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 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", ~~as some fear,~~ 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 40 percent of parents reaching the time limit find some kind of employment. The range of hours worked and wages received is 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 used to price 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 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 the 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, ans 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 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 the majority of its savings from reform of provider payments, and would expand coverage beyond everyone who is eligible under current law -- covering all poor children 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 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 $1,549 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 a tax break 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.

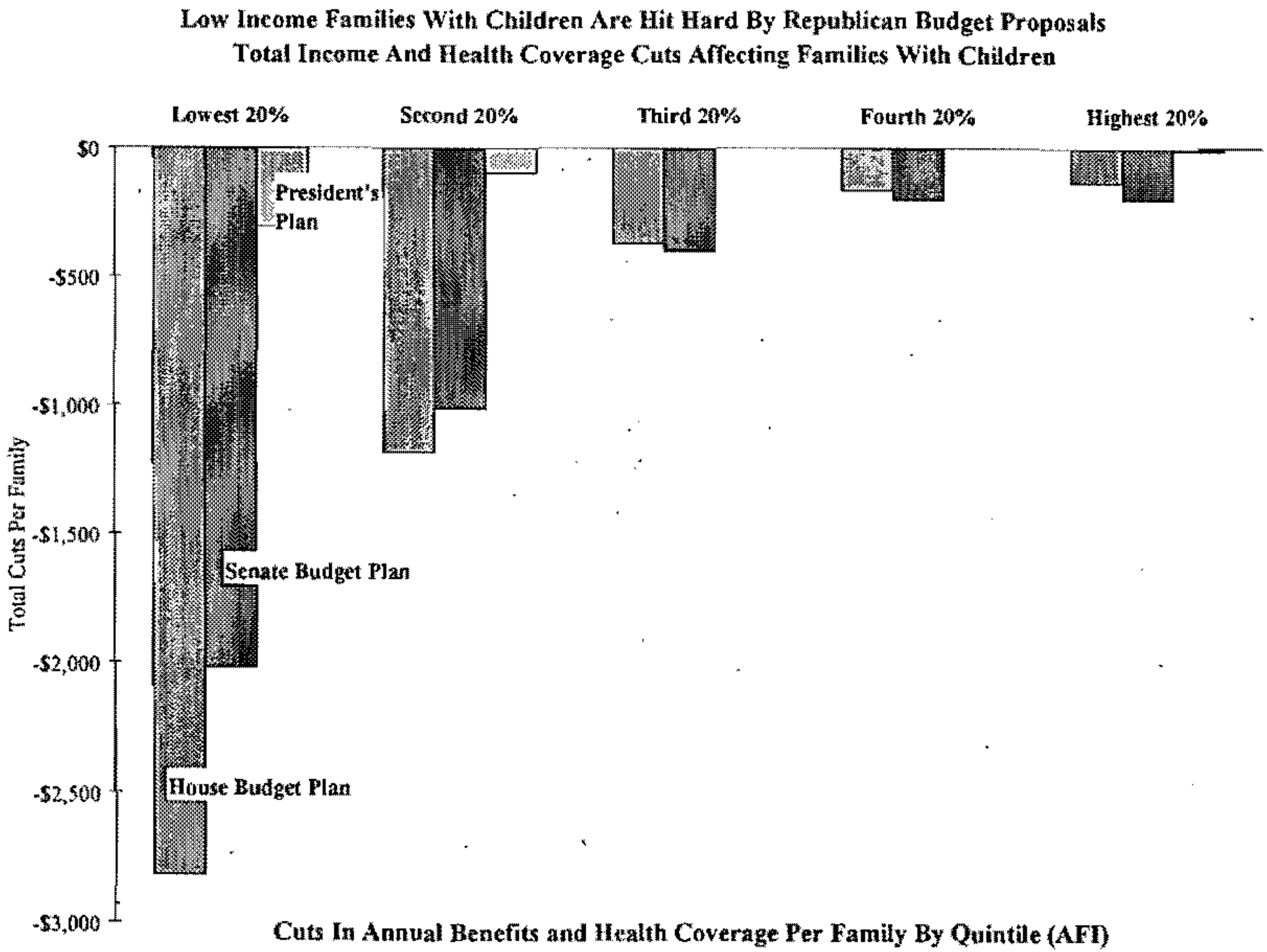
Table 6

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
Lowest 20%
Second 20%
Third 20%
Fourth 20%
Highest 20%
$0
-$500
-$1,000
-$1,500
-$2,000
-$2,500
-$3,000
Total Cuts Per Family
President's Plan
Senate Budget Plan
House Budget Plan
Cuts In Annual Benefits and Health Coverage Per Family By Quintile (AFI)

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

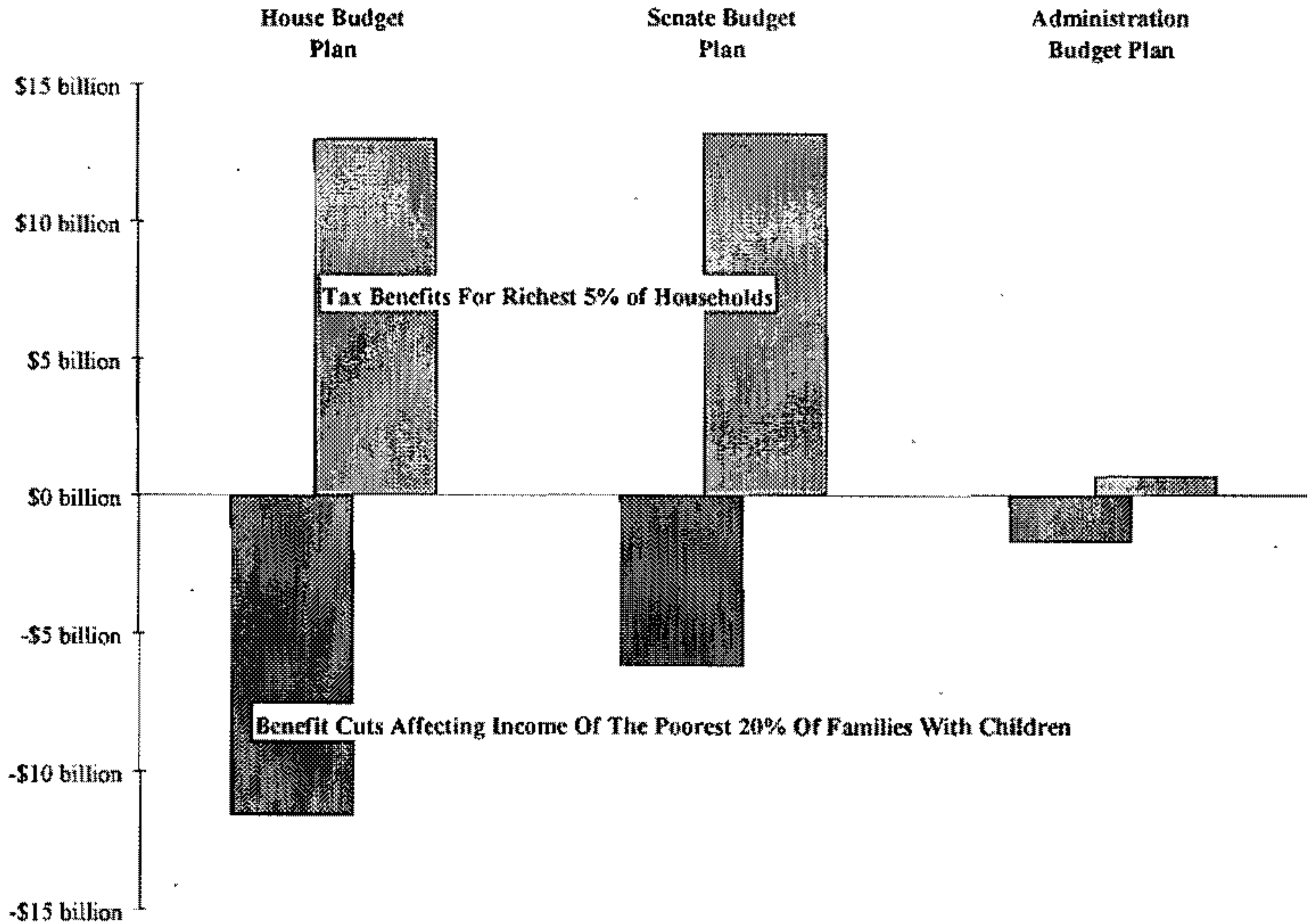


Table 7

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 1-3 which include changes in tax benefits are based on Family Economic Income (FEI), which does not include an adjustment for family size. Tables 4-5 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. An FEI quintile table includes 20% of all families in each quintile, and ranks them by the absolute dollar level of 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, it 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 entitlements with 7 percent reduction in total Medicaid spending from the CBO baseline.
- Provide health insurance protections for who lose coverage as a result of losing their jobs.

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Questions and Answers
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1. Measure of poverty

What measure of poverty is used in this analysis?

This analysis uses an expanded definition of income and compares this income to the poverty thresholds used by the U.S. Bureau of the Census in calculating the official poverty count. This definition is consistent with the measure of income used for many years by the House Committee on Ways and Means in reporting poverty statistics in the Green Book. The definition expands on the Census' official poverty definition by including most cash and near-cash income, as well as federal taxes, when determining income. That is, this definition of income counts all cash income as Census does, but adds the value of food stamps, school lunches, the Earned Income Tax Credit, and housing assistance and deducts from income the employee portion of Social Security (FICA) and federal income taxes. In 1993, the year utilized in this analysis, the annual poverty threshold for a family of three was $11,522 and for a family of four, it was $14,763.

This definition of income captures more fully the effects of government policies on economic well-being.

In addition to being consistent with the measure of income used by the Ways and Means Committee and often by the Congressional Budget Office, this measure of income is closely related to one alternative (definition 14a) used by the Census Bureau. The Census Bureau publishes poverty statistics using this alternative to measure poverty after the effects of taxes and transfers.

2. Definitions of family income

Family economic income and adjusted family income: What are they?

The tables report both Family Economic Income (FEI) and Adjusted Family Income (AFI). The tables reporting tax and outlay changes together use FEI because that is how the Department of Treasury reports tax policy changes. FEI uses the family unit rather than the tax return unit, it includes nonfilers, and is a comprehensive measure of income. It counts all forms of income reported on individual tax returns plus estimates of certain income not reported on tax returns.

Adjusted Family Income (AFI) uses the family unit and is a similar comprehensive measure of income to FEI, but it is adjusted for family size. The definition of income is similar to that used by the Census Bureau in calculating the official poverty count, but captures more fully the effects of government policies. Cash and near-cash income as well as taxes are counted when determining income. That is, the measure includes all cash income as Census does, but adds the value of food stamps, school lunches, and housing assistance and deducts from income the employee portion of Social Security (FICA) taxes and federal income taxes, accounting for the Earned Income Tax Credit (EITC) and any other tax credits. Then this income amount is divided by the family's poverty threshold to account for the effect of household size on well being.

AFI accounts for the differing needs of families with different sizes and compositions. For example, a couple with one child with an income of less than $14,074 per year would fall into the first quintile, while a couple with two children with an income of less than $17,731 would fall into that same quintile. Both families have an AFI of 121 percent of the poverty threshold.

3. Current law impacts on children in poverty

How can children be moved above poverty under current law?

Since the total combined value of AFDC and food stamp benefits are below poverty in all states, how are families moved from poverty under current law? Current law benefits provide cash and near-cash benefits to many families that have low earnings, enabling them to have total income above poverty. Additionally, some families are employed for part of the year, and then lose their jobs. Current law programs provide income during these unemployment spells and enable the family to have income above the poverty threshold. Here are several ways that a family can be moved from poverty by current law programs:

a. A single mother with two children. She works 40 hours a week at a fast food restaurant, earning the minimum wage. Her total wages put her and her family well below the poverty threshold. However, under current law, this mother would receive a modest income from EITC and AFDC, as well as food stamp benefits each year. Using a definition of poverty that includes the value of transfer programs, these income support programs, along with services like Medicaid and child care, will move this family from poverty and enable the mother to work full-time.

b. A two-parent family where both father and mother can only find part-time work. By working split shifts, they are able to avoid high child care expenses, but their total wages are low so that they are still poor. The combination of EITC and food stamps will increase this family's income and move them from poverty.

c. A two-parent family with two children, where one child was disabled in an accident and confined to a wheelchair. Both parents earn modest annual incomes, but neither qualify for health insurance coverage through their jobs. Without other assistance, the maintenance and medical expenses of the disabled son would impoverish this family and leave them little money for anything else. Because of the son's SSI and Medicaid benefits and the family's EITC, this family's income is above poverty.

4. Characteristics of children

What are the characteristics of children moved above poverty under current law?

HHS estimates that more than 8 million children, living in 4 million families, are moved from an expanded definition of poverty as a result of current law income support programs such as the Food Stamp Program, Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), housing assistance and the Earned Income Tax Credit (EITC), combined with other sources of family income. A total of 1.5 million children are moved from poverty as a result of the EITC program and nearly 770,000 of them were moved from poverty by the Clinton Administration EITC and food stamp changes enacted in 1993.

Nearly all the children live with their parents and the average age of the parents is over 30. The families tend to be larger than average. About 40 percent of the children live with only 1 adult. About two-thirds of the children are white and a little under a third are African-American.

In addition to transfer income, three-quarters of the families of the children moved from poverty under current law have earnings through wages or self-employment. Consistent with this fact, about three quarters of the families receive EITC. Three quarters of the children live in families that receive food stamps. A little over half the children live in families receiving AFDC, and a little over a fifth are in families receiving SSI.

5. Characteristics of children under Senate welfare bill

What are the characteristics of children who become poor under the Senate welfare bill?

An estimated 1.2 million children become poor by the Senate welfare bill's provisions, using a definition of poverty that counts food stamps, housing and EITC income. On average these families are more disadvantaged than the average family moved from poverty under current law. The families are slightly bigger, somewhat fewer of the adults have earnings, and a larger share of income comes from transfer programs. Nearly all the children live with their parents and two thirds of the childrens' parents are age 30 or over.

Sixty percent of the families who become poor under the Senate welfare bill have earned income and about half of the children live in families that receive EITC. Nearly all the children live in families that receive food stamps. Three fourths of the children live in families that receive AFDC and 30 percent live in families that receive SSI.

6. Range of impacts on families

The quintile analysis included in the study indicates that families with children lose on average $780 dollars per year as a result of all Senate action in the bottom quintile. Do some families lose substantially more or less?

There are 7.5 million families with children in the poorest 20 percent of the population living in families with children. By definition, they have income below 121 percent of poverty. Considering only the welfare bill, and not taking into account any health insurance changes, the estimated impacts have the following approximate distribution:

- 275,000 families gain income,
- 2.3 million families have no loss of income,
- 350,000 families lose less than $250 per year,
- 1.3 million families lose between $250 and 500 per year,
- 1.7 million families lose between $500 and $1,000 per year,
- 1.6 million families lose over $1,000 per year, and
- over 800,000 families lose over $2,000 per year.

Some of these losses are sustained by families above poverty and do not place the family into poverty. Other losses takes some families below poverty further away from the poverty threshold.

In percentage terms, 1.2 million of these families lose over 10 percent of their income and over 600,000 of these poor or near poor families lose over 20 percent of their income as a result of the Senate welfare bill.

7. Senate welfare versus all Senate action

What policy changes are primarily responsible for poverty differences between Senate welfare and all Senate action?

Reductions in the EITC program are the single most significant policy change influencing the poverty differences between the Senate welfare and Senate budget action proposals. Policy changes in the Senate budget action include repeal of the EITC for individuals without qualifying children; elimination of the 1996 increase for families with two or more children; increase in the phaseout rates; and modification of the definition of adjusted gross income used for phasing out the credit. House budget action also reduces the EITC, but to a lesser extent for families with incomes near poverty.

8. **Senate welfare versus House welfare**

What policy changes are primarily responsible for poverty differences between Senate welfare and House welfare?

Differences in policy changes in the AFDC are primarily responsible for the poverty differences between the Senate and House welfare proposals. In particular, the House bill denies AFDC cash benefits to parents younger than 18 with children born/conceived out-of-wedlock as well as to children born or conceived while the mother received AFDC. The House welfare bill has no maintenance of effort requirement for states, has no contingency fund, and funds the block grant at a lower level than the Senate bill. Policy changes in the Food Stamp and SSI programs also contribute to the poverty differences. The House bill freezes the food stamp standard deduction at 1995 levels; limits annual increases of the maximum benefit food stamp to 2 percent per year; reduces; and freezes the excess shelter expense deduction; and requires single childless adults to work after 3 months of food stamp receipt. In addition, the House welfare bill denies cash disability benefits to children and establishes a block grant for services to SSI children who meet the medical listings; continues SSI cash benefits only for those current recipient children who meet the medical listings; and makes cash and Medicaid available only to those children who meet the medical listings and are in institutions.

9. House welfare versus all House action

What policy changes are primarily responsible for poverty differences between House welfare and House action?

Reductions in the EITC program and energy and housing assistance are the most significant policy changes influencing the poverty differences between the House welfare and House budget action proposals. The EITC policy changes in House budget action include repeal of the EITC for individuals without qualifying children; increase in the phaseout rate; and modification of the definition of adjusted gross income used for phasing out the credit. The House budget action housing policy changes include imposition of a minimum rent of $50; an increase in the proportion of income paid for rent from 30 percent to 32 percent for Section 8; a reduction in the Fair Market Rent from the 45th percentile to the 40th percentile; and elimination of Section 8 certificates. It is also assumed that, since no additional amounts were included for housing assistance subsidies, households that lose income as a result of other provisions would not receive increased housing assistance. The House budget bill also eliminates the LIHEAP program.

10. Methodology behind Senate estimate

How was the estimate of the number of children moved into poverty as a result of the Senate welfare bill derived?

This analysis shows that an additional 1.2 million children are moved into poverty as a result of the Senate welfare bill. This effect is generated from an analysis that estimates the impact of policy changes on families and individuals. The results are based on an HHS microsimulation model, a well-recognized model based on a nationally representative sample of the non-institutionalized U.S. population that has been used to produce estimates for more than 20 years. The model computes the value of income, benefits, and taxes for each family under alternative policy scenarios and then aggregates the effects of these program changes on an expanded definition of poverty to determine the national impact of the policy change. Since this model used 1993 population characteristics, the proposals are simulated to show what their effect would be on the 1993 U.S. population, if the provisions had been fully implemented then.

Is this number realistic?

Yes, the estimate of 1.2 million additional poor children is the best that can be made with current information and also a conservative measure of the impact of the Senate welfare bill.

The number is conservative because not all of the spending reductions in the welfare plan are included in the model. Some of these are in programs that affect families' well-being, but cannot be attributed to families' disposable incomes. Spending reductions in these types of programs, such as Head Start, are not included in the analysis. Additionally, some spending reductions that do affect family income are not included because it is difficult to identify families in the model that would be affected by the loss in benefits. Examples of spending reductions not included for this reason are the savings resulting from the optional food stamp block grant.

The model is conservative because it assumes relatively generous state behavior, the overall economic picture remains constant, and includes optimistic assumptions about the ability of long-term AFDC adult recipients to respond to a time limit and earn income. Under an entitlement system, families that lose income during recessions will qualify for benefits. The model does not adjust for the fact that under a block grant, no additional funds are available to serve these families. If states do not have the funds to meet the increased needs during economic downturns, there would be a greater poverty effect. The lack of a state match creates an incentive for states to lower benefits relative to current law. Under current law if a state reduces what it spends for AFDC, it loses federal matching dollars. Under the Senate welfare plan, the absence of federal matching dollars means that states lose nothing by reducing benefits. Because of the interaction between AFDC and Food Stamps, if states increase spending on AFDC benefits, they will actually bring fewer federal dollars into the state. This analysis also assumes that states are able to meet the work requirements put into effect by the Senate welfare plan without taking money away from cash benefits. Finally, the amount by which states lower cash AFDC benefits must be viewed in the overall context of the other reductions in federal programs. For example, there will be greater political pressure to compensate for the lack of health insurance dollars.

Under current law, 18.2 million children live in poverty before taking into account any income from transfer programs. Additional income from social insurance programs, cash transfers, food and housing benefits, and the EITC removes 8.1 million children from poverty (this number also takes into account federal taxes paid). In comparison, these same programs still remove 7.0 million children from poverty after the provisions of the Senate welfare bill are implemented. The 1.2 million children moved back into poverty represent about one-eighth of the total number of children that are moved out of poverty as a result of income from transfer programs under current law.

11. Reasons for changes from prelimary estimate

A preliminary analysis showed that an additional 1.1 million children would become poor under the Senate welfare bill. The current estimate is that 1.2 million children would become poor under the bill. What changed?

The initial estimate of 1.1 million additional poor children was the result of preliminary estimates of the impact of the Senate welfare bill. The current estimate of 1.2 million children reflects a more comprehensive analysis of the bill. The current estimate includes provisions that were not included in the preliminary analysis, and reflects some technical improvements to the model. In general, the additional provisions offset each other; some of the changes reduced the poverty impacts, while others increased the poverty impacts. While the current and preliminary estimates are of the same general magnitude, the current estimate does show a slighter greater increase in poverty among children.

The preliminary analysis did not include the impact of child support provisions and a lower hardship exemption. Inclusion of these policies in the current analysis likely results in a marginal reduction in child poverty. For example, the current analysis estimates that child support collections for AFDC families will increase by 18 percent. However, virtually all of that increase would be offset dollar for dollar by reductions in AFDC benefits, yielding only marginal increases in income.

The preliminary estimate did not include Food Stamp Program changes for which estimates were not available at the time. These additional provisions, which include new Administration estimates of the effects of immigrant provisions, result in substantial reductions in Food Stamp benefits for families with children. This loss in Food Stamp income explains much of the increase in child poverty.

Finally, the current estimate reflects updated and more optimistic estimates on the work efforts of families with children that are affected by the time limit in the Senate welfare proposal. The net effect of all of these changes to the model did not substantially change the magnitude of Administration's estimates of the Senate welfare bill on child poverty.

12. Sensitivity of analysis to measures

Is an analysis of the number of children and families in poverty important when for some families it is only necessary to lose small amounts of income to fall below instead of above an arbitrary poverty threshold?

Counting the number of children moved into poverty is only a part of the analysis. It is also useful to examine other measures as well which this study does. For example, the poverty gap illustrates the dollar loss to families who become poor as well as families who are poor and who lose additional dollars. The Senate welfare bill increases the poverty gap for families with children by $4.4 billion; an increase of 27 percent. The number of individuals in families with children who become poor is estimated to be 2.2 million; an increase of 13 percent. This illustrates that the poverty count analysis presents a more optimistic picture of the impact of the bill than the poverty gap analysis.

13. Assumptions about State behavior

States pay a significant portion of current AFDC and related programs and Medicaid. Are changes in state spending included in the analysis? What assumptions were made regarding state behaviors?

Yes, the model includes state behavior regarding spending and time limits for AFDC related programs and the Medicaid Program.

State spending on AFDC benefits is assumed to follow the federal lead; that is, states will freeze their benefit spending at nominal 1994 levels. To do this, states will reduce benefits paid to all recipient families by the amount necessary to maintain spending (within the budget of 1994 nominal dollars). There are several reasons to believe that this assumption is warranted. First, the Cash Assistance Block Grant freezes federal spending at 1994 levels and states will be hard pressed to increase benefit spending. This will be especially true in light of the high cost of implementing the work requirement and federal funding reductions in other areas. Second, other block grants contained within the House welfare bill, most notably the Child Protection Block Grant, will reduce federal spending in areas where states may feel they have considerably less discretion in making cuts. Thus, states are likely to shift spending from welfare benefits to maintain needed child protection services. As recently as last week, the *Washington Post* reported that Maryland was considering plans to cut its budget for next year by $25 to $50 million (4 to 8 percent) because of projected shortfalls under the House welfare block grant.

Also, under both the Senate and House welfare bills, states will lose federal food stamp dollars if they increase AFDC benefit levels. Conversely, their low-income residents will gain federal food stamp and housing assistance if the states reduce AFDC benefit levels. In addition, states might, in light of reduced federal spending in other social programs such as Medicaid, shift state expenditures to these politically more popular programs.

With regard to time limits for AFDC the model assumes that no state would institute a shorter time limit, such as two years and out, although this is permitted in the House welfare Bill. The model also assumes that all States would take full advantage of the 10 percent hardship exemption to the federally imposed five year limit. This may force the states to increase their expenditures of benefit dollars and also to put more dollars into meeting the work requirement (which effectively requires that for every two families a state exempts from the time limit it must put one additional family in the work program). There are substantial benefit savings from the time limit but at the same time states will be hard pressed to support a work program with its high participation rates, high hour requirement, and substantial increases in needed child care. The model assumes that no state would use state only dollars to support families who are denied federally supported benefits including those subjected to the family cap, teen parent prohibition, and the federally imposed five year limit.

For the Medicaid Program, states are assumed to spend only enough in Medicaid to draw down their full federal allotment. Because of changes in the federal match rate included in the House proposal, states need to spend less than they would have under current law to receive their full federal allotment. As a result, total program spending (federal and state) is assumed to be reduced by 35 percent below projected baseline levels in 2002.

14. AFDC and poverty estimates

The analysis estimates that 3.3 million children will lose AFDC eligibility, yet 1.2 million children are estimated to move into poverty as a result of the Senate welfare bill. Why is there a difference in the number losing AFDC and the number moved into poverty?

The Senate welfare bill would result in an additional 1.2 million children living in families with income below the poverty threshold. The reason that more of the 3.3 million children losing AFDC eligibility would not move into poverty is because they already live in families with below-poverty incomes.

Estimating the change in the number of children below the poverty line gives only a partial picture of the impact of the Senate welfare bill--it only tells how many of those currently above the poverty line move below it. It does not measure the impact for those who already live in families with income below poverty. Measuring the poverty gap, which is the amount of income that would be needed to bring all families up to the poverty line, is another way of measuring the effect of the Senate welfare bill on families with children. Under the bill, the poverty gap would increase by $4.4 billion dollars. As a result, not only would 1.2 million children be moved into poverty, but those in families who are already poor would become poorer.

15. Disaggregating data for families under 30,000 is difficult

Do you have breakouts for families below $30,000? Why are 40 percent of families lumped together?

Even with only four income groups, the implications of the analysis are clear. The number of income breaks on the combined tax and spending cut tables are limited to help ensure the accuracy of the analysis. The analysis merges output from two different models -- HHS's "Transfer Income Model" (TRIM2) and Treasury's tax model. Each was originally designed to answer separate questions, and has different information on income. For example, capital gains is an important part of tax modeling, but is not particularly important for the programs HHS administers. So the tax model has detailed information on capital gains, while TRIM2 focuses on other sources of income that are more common among lower and middle income families. Accurately matching information from the two models is complicated and time consuming. As analysts continue to develop the linkage between the two models, it is possible that more detail will be available.

16. Program reductions included in the analysis

Are all the spending reductions affecting families included in this analysis? If not, how did you decide which ones to include and which ones to leave out?

This analysis is a conservative estimate of the spending reductions that affect family income because it does not capture all of the effects of program reductions to families. For example, the total amount of benefit reductions does not include billions in spending reductions in non-defense discretionary service programs. Additionally, the analysis does not include $52 billion of reductions to providers in the Medicare program, $16 billion of reductions to providers and the institutionalized population in the Medicaid program, and $6 billion in reductions in non-health entitlement spending (see table on previous page).

Some of the spending reductions not included are in programs that affect families' well-being, but cannot be attributed to families' disposable incomes. Spending reductions in these types of programs, such as Head Start, are not included in the analysis.

Additionally, some spending reductions that do affect family income are not modeled because it is difficult to identify families in the model that would be affected by the loss in benefits. Examples of spending reductions not included for this reason are elimination of SSI benefits to drug addicts and alcoholics, and reductions resulting from states taking advantage of the option to block grant the Food Stamp Program.

17. Estimates regarding higher income families

Why are a few families in the upper quintiles of the income distribution affected by reductions in means-tested programs, such as Medicaid, SSI, and AFDC?

The main reason why some families in the upper quintiles are affected by reductions in mean-tested programs is that these programs often deliver benefits to subfamilies within larger households whose total income places them in a higher quintile. For example, a teen mother and child living with her family would be eligible for AFDC under current law and would be affected by the House provision denying benefits to teen mothers and their children. Similarly, SSI and SSI children's disability benefits can go to families with higher incomes as well. For instance, an aged mother living with her children can receive SSI. Outright denial of these benefits could cause families to change living arrangements to the detriment of family welfare.

The primary provisions that reduce these families' benefits include denying benefits to immigrants, eliminating AFDC benefits to teen mothers and their children, eliminating AFDC benefits for mothers who have additional children born or conceived while the mother is receiving AFDC, and denying SSI disability benefits to many SSI children.

In addition, family composition and income are dynamic. Over the course of the year, families form, break up, or add members, and families begin and end jobs and get benefits for part of the year. Since the data set on which the analysis is based records family composition at a single point in time and records income and program participation for the entire year, some families appear to have inconsistencies. For example, a non-working, single-mother receiving AFDC for most of the year marries a plumber earning $40,000. Such a family will appear to receive AFDC with income way beyond the eligibility limit. Similarly, since most programs use monthly accounting periods to determine eligibility and benefits, when the primary earner is between jobs she may legitimately receive various benefits. Since the model uses annual income, she will appear to have significant earnings during the same year she receives welfare benefits.

Note that some families in the upper quintiles are affected by House actions directly. Some proposals affect higher income people: cutbacks in retirement benefits for Federal retirees, increases in pension contribution and health premiums for Federal employees, and increases in Medicare premiums.

18. Medicare and Medicaid reductions

Are all the Medicare reductions included in this analysis? If not, what portion are?

About 12 percent of the year 2002 Medicare reductions are included in this analysis. This represents a very conservative estimate of only the most direct and easily measured effects of the House proposal on Medicare beneficiaries. The House proposal makes massive changes in the Medicare program and HHS has not yet completed its assessment of the overall impact of these changes on Medicare beneficiaries. These reductions only affect the income distribution analysis and are not reflected in the poverty analysis.

What portion of the Medicaid reductions are distributed in this analysis? Are effects on nursing home residents included?

About 49 percent of the year 2002 Medicaid reductions are distributed in this analysis. The analysis assumes that 75 percent of the Medicaid reductions would fall on beneficiaries. However, 35 percent of these reductions would fall on nursing home residents who are excluded from this analysis because the TRIM2 model does not include the institutionalized population. These reductions only affect the income distribution analysis and are not reflected in the poverty analysis.

What are the beneficiary impacts that you modeled for the House, Senate and Administration proposals for Medicare and Medicaid?

For the Medicaid block grant in the House and Senate bills, 50 percent of the savings are assumed to be achieved through reductions in coverage and 25 percent of the savings are assumed to be achieved through reductions in services. The Administration's proposal for Medicaid is a per capita cap on spending which results in no coverage loss, but could result in service cuts. The model uses a parallel assumption that 25 percent of the savings will be achieved through service cuts.

For Medicare the beneficiary impacts are slightly different for each proposal. In the House, the analysis models the change in premium costs, change in managed care benefits and the change in coinsurance that results from provider payment changes. In the Senate, the analysis models the change in the premium, change in managed care benefits, the change in coinsurance and the effect of the deductible increase. For the Administration's proposal, the analysis models only the change in coinsurance.

19. Differences from previously released House numbers.

Why have the House health numbers changed since the previously released distributional analysis?

The original House numbers released contained Medicaid and Medicare estimates of the Chairman's Mark for the Ways and Means Committee. Since that time, the House has completed action on Medicare and Medicaid. The provisions in the House-passed bill include a lower Part B premium increase, higher income thresholds for the income-related premium, and lower Medicaid savings. Together these changes reduce the loss in health value compared to the previously released analysis.

20. Difference Between Amounts Shown in Distribution Tables and Revenue Estimates

How do the amounts shown in distribution tables and the amounts shown in tables of revenue estimates for tax proposals differ?

The amounts shown in the distribution and revenue estimate tables prepared by the Treasury Department differ in the following ways.

- The Treasury's distribution tables show the annual change in tax burdens due to a tax proposal, whereas the Treasury's revenue estimate tables show the year-by-year changes in tax receipts due to the proposal.

  -- Tax burden changes due to a provision may differ substantially from the change in tax receipts due to the provision. For example, a capital gains tax cut may induce investors to realize additions gains, reducing the revenue loss for the cut shown in the revenue estimate table. However, the full benefit of the cut -- the reduction in taxes on gains that would have been realized under current law -- would be included in Treasury's distribution table.

  -- Another example is an IRA provision. Treasury's distribution table would include the present value of the tax savings on one year's additional IRA contributions due to the provision. The revenue estimate table would show each year's loss in tax receipts due to the provision.

- Distribution tables show the effect of provisions when fully phased in, while revenue estimates tables show the effect on receipts in each year as the provision is phased in.

- Distribution tables generally omit temporary provisions (those that would expire before the end of the budget period), whereas revenue estimate tables include all such provisions.

- Distribution tables omit provisions which change the timing of tax receipts but not the timing of tax liabilities (such as changes in the timing of estimated tax payments), while revenue estimate tables include all such provisions.

- Distribution tables measure tax burden changes on a calendar year basis, while receipts estimates are on a fiscal year basis.

21. Relationship of tax and spending cuts

Can we add the tax, income, and health cuts together?

The analysis does not add them together for several reasons. First, adding them together might give the wrong impression that these are the only cuts that hurt families, and that's not true. The analysis focuses on three things -- the changes in tax benefits, changes in family income, and changes in health coverage. A lot of cuts which impact families are not included because they do not directly reduce income -- such as cuts in student loans, job training, and Head Start.

Second, the information is from two separate computer models -- one designed for tax analysis and one designed to analyze outlay programs. While considerable work has been done to integrate the models as closely as possible, the linkage is not completely perfect. Consequently, the tax and income changes are not added in the interest of maintaining analytical purity.