

**ADDITIONAL ENTITLEMENT AND REVENUE OPTIONS**  
(In millions of dollars)

1995-99

**In FY95 Budget**

Impose 8 percent royalty on hardrock minerals removed from Federal lands	346	
Extend railroad safety user fees	169	
Impose Bureau of Alcohol, Tobacco and Firearms fees	194	

**Extension of Current Fees or Sunset Provisions**

Eliminate all sunset dates on Veterans' provisions in OBRA 1993 (FY99)	545	3.3
Extend patent and trademark fees (FY99)	100	.6
Extend NRC fees (FY99)	500	3.0

**From DOL**

Limit \$70,000 exclusion on income earned abroad to 2 years	?	
Apply current AMT to individuals twice → corporate AMT	?	

**GATT Revenue Items**

Distribution of marketable securities to be treated as cash	225	
Cap on tax-deferred annuities per couple, set at \$100,000	800	
Extend superfund tax	2,300	
Permit employers to offer employees tax-free parking or cash, which would be taxable	500	

From CBO Document

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

EXECUTIVE OFFICE OF THE PRESIDENT

23-Mar-1994 01:41pm

TO: (See Below)  
FROM: Isabel Sawhill  
Office of Mgmt and Budget, HRVL  
SUBJECT: Costs and financing ideas

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

Costs (total over 5 years):

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

Offsets

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

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

Distribution:

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

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

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

I. SHAVE THE BASIC PACKAGE

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

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

II. RECAPTURE SAVINGS TO STATES

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

POTENTIAL FEDERAL SAVINGS:

Five Year	740
Ten Year	6,000

### III. CUT BACK WORKING POOR CHILD CARE

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

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

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

### IV. REDUCE DEMONSTRATIONS BY 50 PERCENT

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

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

### V. LIMIT REINVENTING TO ASSET CHANGES

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

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

POSSIBLE VI. (Estimate not included in totals)

### CUTBACK TWO PARENT RESTRICTIONS

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

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

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

(dollars in billions)

5 Years

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

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

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

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

3/28/94 9:42 AM



## Possible Welfare Reform Package--Federal/State Costs

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

@ Conform Food Stamps and AFDC asset limits.

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

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

**Possible Offsets For Welfare Reform  
Federal/State Costs & Savings**

(dollars in billions)

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

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

**Comparison of Tier I Offsets to Welfare Reform Option 1  
Federal/State Costs & Savings**

(dollars in billions)

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

Estimates are unreviewed HHS estimates.

**Comparison of Tier 1 & 2 Offsets to Possible Welfare  
Reform Package  
Federal/State Costs & Savings**

(dollars in billions)

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

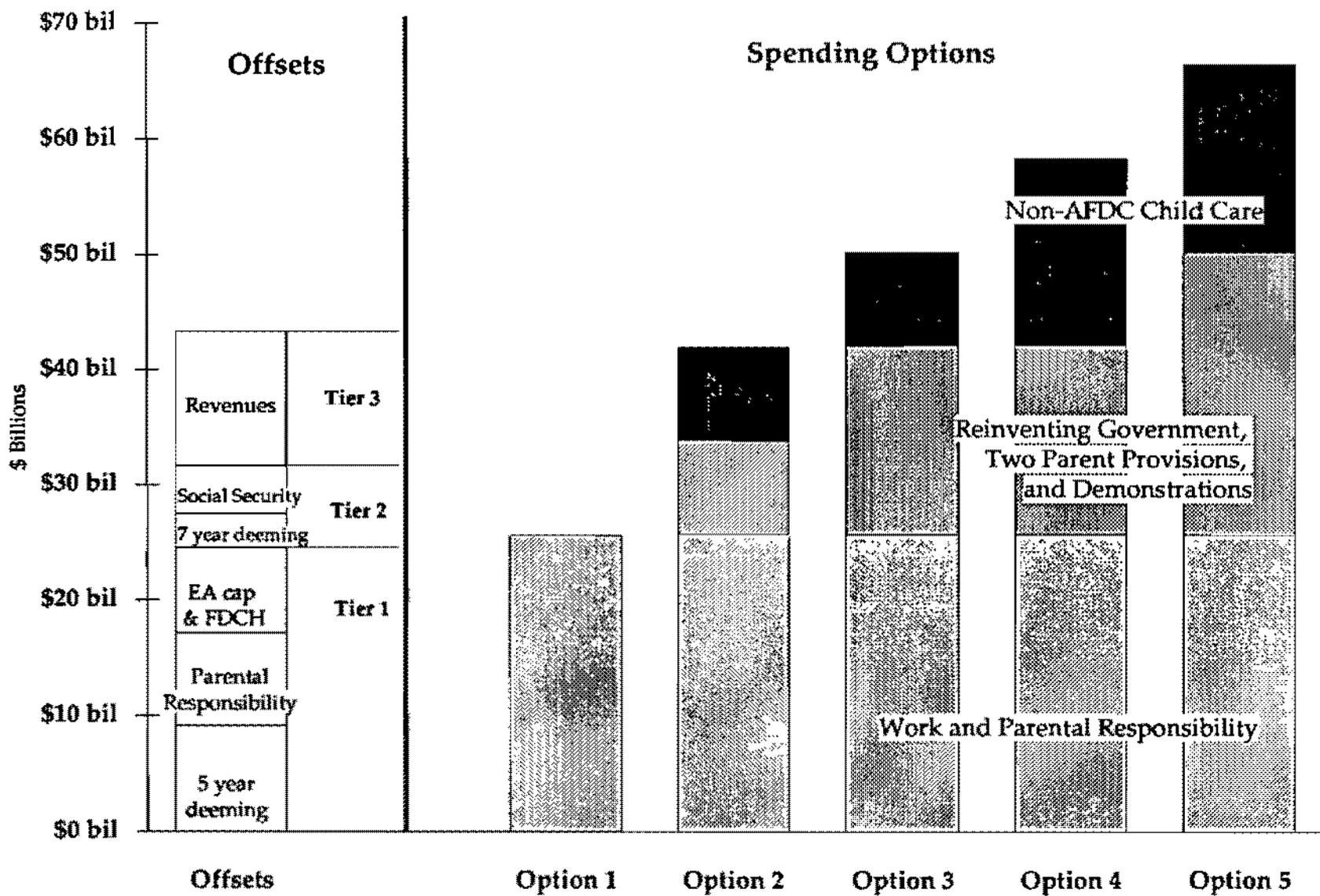
Estimates are unreviewed HHS estimates.

6.2 Base  
1.1 UP  
1.2 Fed + Dem  

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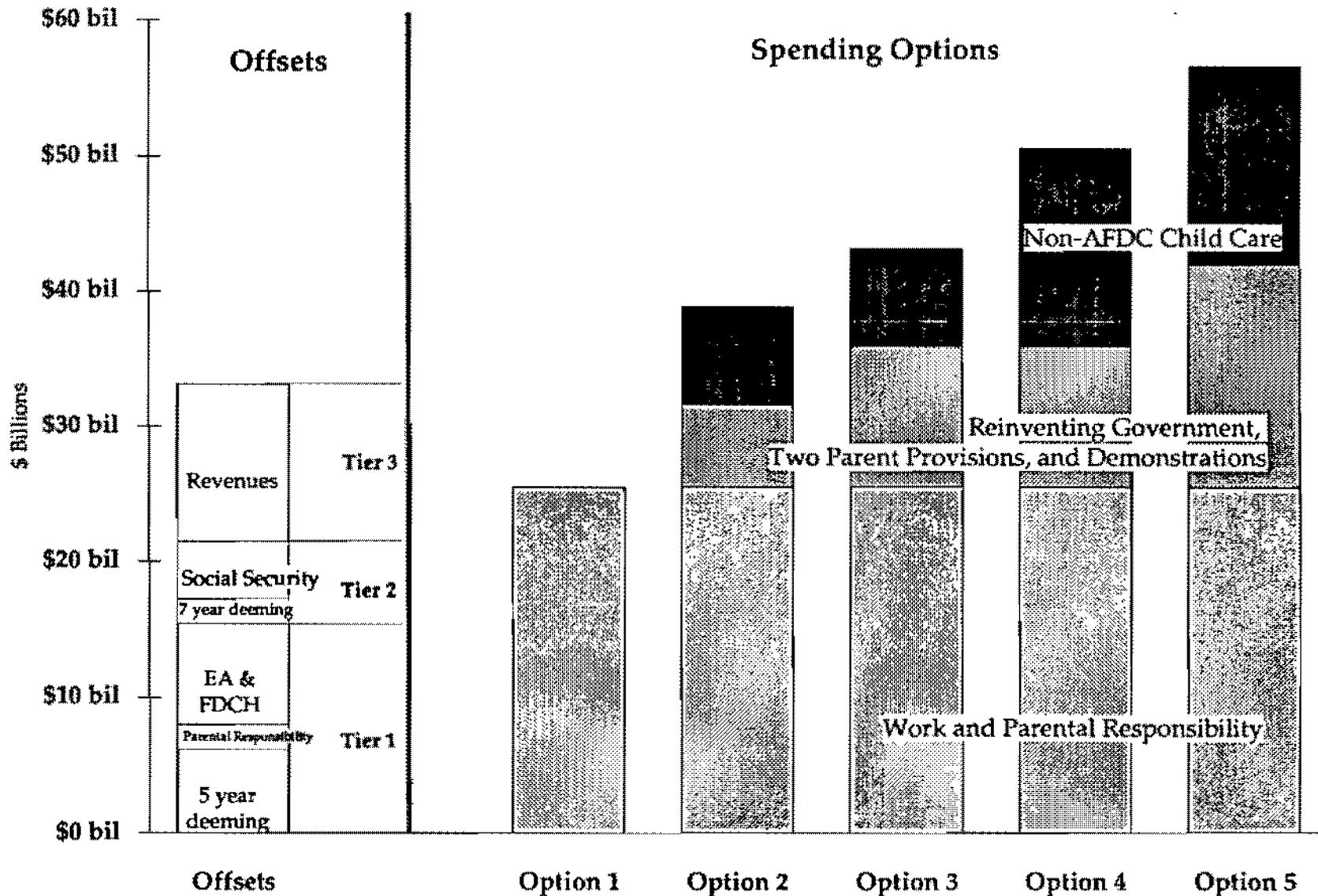
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## Total Offsets For Welfare Reform Compared to Net Costs Over 10 Years

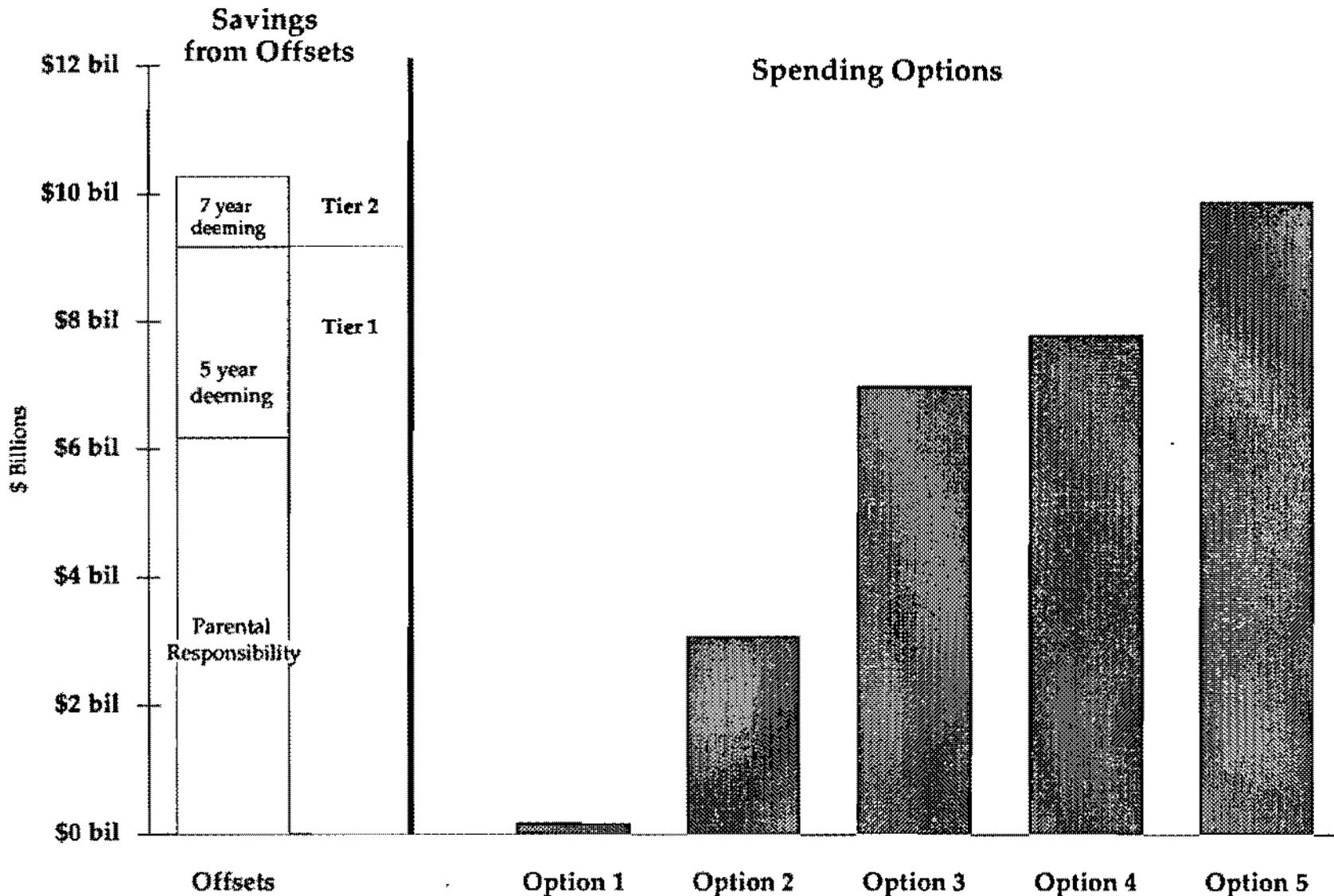


Federal and State Costs and Savings

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



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



## Maintaining Fiscal Shares

- Make full Federal Financial Participation contingent on States moving people into private sector jobs in a timely manner. For example,
  - Over time match rates in JOBS and WORK could decline for people on the rolls for excessive lengths of time to encourage placement of AFDC recipients in private sector jobs.
  - Matching rates could be based on the length of time it takes a State to establish paternity.
- Maintain current matching rates for JOBS and apply the same rates to the WORK program.
- Maintain automation match rates at the standard administrative matching rates to encourage efficient use of federal funds and guard against cost allocation schemes.
- Maintain current law CSE match rates of 66%. Retarget current incentive payments to reward States for achieving desired outcomes.

→ Bonus

## Welfare Reform Financing Options

Dollars in Billions

5 Year

10 Year

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	Total	Federal	State	Total	Federal	State
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**Summary:**

A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
<b>Total: Financing Options</b>	<b>9.82</b>	<b>9.42</b>	<b>0.40</b>	<b>32.56</b>	<b>30.76</b>	<b>1.80</b>

## Welfare Reform Financing Options

Dollars in Billions

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

## Welfare Reform Financing Options

Dollars in Billions

4/11/94 16:45	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
<ul style="list-style-type: none"> <li>• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities</li> </ul>	0.80	0.80	0.00	1.83	1.83	0.00
<i>Subtotal</i>	2.07	2.07	0.00	4.27	4.27	0.00
<b>C. Extend Expiring Provisions*</b>						
<ul style="list-style-type: none"> <li>• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep</li> </ul>	0.05	0.05	0.00	0.12	0.12	0.00
<ul style="list-style-type: none"> <li>• Fees for Passenger Processing and other Customs Services</li> </ul>	0.00	0.00	0.00	1.04	1.04	0.00
<ul style="list-style-type: none"> <li>• Extend Railroad Safety User Fees</li> </ul>	0.16	0.16	0.00	0.41	0.41	0.00
<ul style="list-style-type: none"> <li>• <del>Veterans:</del> Guarantee the Securities Issued in Connection with VA's Direct Loan Sales</li> </ul>	0.08	0.08	0.00	0.16	0.16	0.00
<ul style="list-style-type: none"> <li>• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment</li> </ul>	0.03	0.03	0.00	0.14	0.14	0.00
<ul style="list-style-type: none"> <li>• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)</li> </ul>	0.14	0.14	0.00	0.78	0.78	0.00
<ul style="list-style-type: none"> <li>• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it</li> </ul>	0.02	0.02	0.00	0.09	0.09	0.00
<ul style="list-style-type: none"> <li>• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers</li> </ul>	0.39	0.39	0.00	2.95	2.95	0.00
<ul style="list-style-type: none"> <li>* Some savings require additional administrative effort which may have discretionary costs.</li> </ul>						

# Welfare Reform Financing Options

4/11/94 16:45	Dollars In Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
<ul style="list-style-type: none"> <li>• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care</li> <li>• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA</li> <li>• Cap means-tested pension benefits at \$90 per month for veterans and survivors who receive Medicaid nursing home benefits</li> <li>• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program</li> <li>• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93</li> </ul>	0.05	0.05	0.00	0.31	0.31	0.00
	0.21	0.21	0.00	1.35	1.35	0.00
	0.19	0.19	N/A *	1.30	1.30	N/A *
	0.64	0.64	0.00	1.98	1.98	0.00
	0.15	0.15	0.00	0.83	0.83	0.00
<i>Subtotal</i>	<b>2.10</b>	<b>2.10</b>	<b>0.00</b>	<b>11.46</b>	<b>11.46</b>	<b>0.00</b>
<b>Total: Financing Options</b>	<b>9.82</b>	<b>9.42</b>	<b>0.40</b>	<b>32.56</b>	<b>30.76</b>	<b>1.80</b>
<b>Possible Alternative</b>						
<ul style="list-style-type: none"> <li>• Gambling Excise Tax at 4%</li> </ul>	3.16	3.16	0.00	7.21	7.21	0.00
<ul style="list-style-type: none"> <li>• This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.</li> </ul>						

## Welfare Reform Financing Options

### A. Program Savings

#### *Limit Emergency Assistance*

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

#### *Tighten Sponsorship and Eligibility Rules for Non-Citizens*

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

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

#### *Income Test Meal Reimbursements to Family Day Care Homes*

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

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

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

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

*Graduated Interest Rates for Early Redemption of Savings Bonds*

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

**B. Enforcement Savings**

*Deny EITC to Non-Resident Aliens*

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

*Require Income Reporting for DOD Personnel, for EITC Purposes*

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

*Increase Withholding Rate on Gambling Winnings*

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

*Withhold 28% From Keno, Bingo and Slot Machine Winnings*

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

### *Information Reporting on Gambling Winnings*

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

### *Limit Tax Deferred Interest Build-Up of Large Annuities*

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

## **C. Extend Expiring Provisions**

### *Hold Constant the Food Stamps Overpayment Recoveries States May Keep*

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

### *Fees for Passenger Processing and Other Customs Services*

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

### *Extend Railroad Safety User Fees*

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

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<sup>1</sup> Preliminary staff estimate, based on extrapolation of prior year savings.

**Veterans:**

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

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

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

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

***Increase Housing Loan Fee by .75 percent***

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

### *Extend VA's Authority to Consider Resale Losses on Loans*

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

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

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

### *Medical Care Cost Recovery Program: Per Diems and Prescription Copayments*

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

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

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

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

- This proposal would make this authority permanent.

#### *VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes*

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

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

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

#### *Maintain Montgomery GI Bill (MGIB) COLA at 50 Percent*

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

## Possible Alternative

### *Excise Tax on Gambling Revenues*

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

April 11, 1994



## Income Maintenance Branch

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

Please route to:

Keith Fontenot  
Bernie Martin  
Belle Sawhill

Subject: Welfare Reform Financing

From:    
Stacy Dean & Chris Ellertson

Decision needed \_\_\_\_\_  
Please comment \_\_\_\_\_  
For your information \_\_\_\_\_  
Per your request \_\_\_\_\_  
Take necessary action

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

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

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

### Attachments

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

## Welfare Reform Financing Options

Dollars in Billions

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

## Welfare Reform Financing Options

Dollars in Billions

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

## Welfare Reform Financing Options

4/11/94 16:45	Dollars in Billions					
	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities	0.80	0.80	0.00	1.83	1.83	0.00
<i>Subtotal</i>	2.07	2.07	0.00	4.27	4.27	0.00
<b>C. Extend Expiring Provisions*</b>						
• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep	0.05	0.05	0.00	0.12	0.12	0.00
• Fees for Passenger Processing and other Customs Services	0.00	0.00	0.00	1.04	1.04	0.00
• Extend Railroad Safety User Fees	0.16	0.16	0.00	0.41	0.41	0.00
<del>Veterans:</del>						
• Guarantee the Securities Issued in Connection with VA's Direct Loan Sales	0.08	0.08	0.00	0.16	0.16	0.00
• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment	0.03	0.03	0.00	0.14	0.14	0.00
• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)	0.14	0.14	0.00	0.78	0.78	0.00
• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it	0.02	0.02	0.00	0.09	0.09	0.00
• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers	0.39	0.39	0.00	2.95	2.95	0.00
• Some savings require additional administrative effort which may have discretionary costs.						

## Welfare Reform Financing Options

Dollars in Billions

4/11/94 16:45	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
<ul style="list-style-type: none"> <li>• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care</li> </ul>	0.05	0.05	0.00	0.31	0.31	0.00
<ul style="list-style-type: none"> <li>• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA</li> </ul>	0.21	0.21	0.00	1.35	1.35	0.00
<ul style="list-style-type: none"> <li>• Cap means-tested pension benefits at \$90 per month for veterans and survivors who receive Medicaid nursing home benefits</li> </ul>	0.19	0.19	N/A *	1.30	1.30	N/A *
<ul style="list-style-type: none"> <li>• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program</li> </ul>	0.64	0.64	0.00	1.98	1.98	0.00
<ul style="list-style-type: none"> <li>• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93</li> </ul>	0.15	0.15	0.00	0.83	0.83	0.00
<i>Subtotal</i>	2.10	2.10	0.00	11.46	11.46	0.00
<b>Total: Financing Options</b>	<b>9.82</b>	<b>9.42</b>	<b>0.40</b>	<b>32.56</b>	<b>30.76</b>	<b>1.80</b>
<b>Possible Alternative</b>						
<ul style="list-style-type: none"> <li>• Gambling Excise Tax at 4%</li> </ul>	3.16	3.16	0.00	7.21	7.21	0.00
<ul style="list-style-type: none"> <li>* This proposal represents a shift from federal VA costs to federal/state Medicaid costs. States would bear the cost of the federal savings.</li> </ul>						

## Welfare Reform Financing Options

### A. Program Savings

#### *Limit Emergency Assistance*

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

#### *Tighten Sponsorship and Eligibility Rules for Non-Citizens*

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

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

#### *Income Test Meal Reimbursements to Family Day Care Homes*

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

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

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

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

*Graduated Interest Rates for Early Redemption of Savings Bonds*

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

**B. Enforcement Savings**

*Deny EITC to Non-Resident Aliens*

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

*Require Income Reporting for DOD Personnel, for EITC Purposes*

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

*Increase Withholding Rate on Gambling Winnings*

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

*Withhold 28% From Keno, Bingo and Slot Machine Winnings*

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

### *Information Reporting on Gambling Winnings*

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

### *Limit Tax Deferred Interest Build-Up of Large Annuities*

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

## **C. Extend Expiring Provisions**

### *Hold Constant the Food Stamps Overpayment Recoveries States May Keep*

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

### *Fees for Passenger Processing and Other Customs Services*

- 5 year Federal savings: \$ 0 B                      10 year Federal savings: \$ 1.04 B
- Extend the flat rate charge for merchandise processing and other U.S. customs services.
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- State lotteries would be exempt from this tax.

## WELFARE REFORM FINANCING OPTIONS

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

### A. Program Savings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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<sup>2</sup> The subsidy rate for lunch served in family day care homes is \$1.48 in the 1994 school year. The subsidy rate for a child care center lunch is \$1.87 in the 1994 school year.

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

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

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

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

*Limit Deficiency Payments to Those Making \$100,000 or More From Off-Farm Income Per Year* USDA farm programs are criticized for unfairly supporting large farms and wealthy producers rather than smaller farms and lower-income farmers. The Congressional Office of Technology Assessment concluded that most big farms "do not need direct government payments and/or subsidies to compete and survive." One option is to make producers receiving \$100,000 or more in off-farm adjusted gross income ineligible for Commodity Credit Corporation (CCC) crop subsidies (price support loans and income support payments). The proposed targeting of subsidies would direct farm payments to smaller, family farms, which deserve Federal financial help more than large agricultural enterprises. It would

cause an estimated 1-2 percent of program participants to drop out of USDA farm programs. Most of these wealthiest participants include corporations and individuals for whom farming is not a primary occupation or source of income.

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

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

## B. Enforcement Savings

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

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

account, the additional information reporting would enhance compliance with the EITC rules. The proposal is supported by DOD.

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

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

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

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

the provision is insurance agents, who stand to lose the tax inducement for a lucrative product.

### **C. Extend Expiring Provisions**

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

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

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

#### *Veterans Provisions:*

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

sustain the current higher price paid to VA for their direct loans sold to the secondary market.

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

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

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

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

*Medical Care Cost Recovery Program: Third Party Health Insurance*

*Reimbursements.* In 1986, VA received permanent authority to collect reimbursement for the cost of care from health insurers of non service-connected veterans. OBRA 1990 expanded this authority to allow VA to collect reimbursement from health insurers of service-connected veterans for treatment of non service-connected conditions. OBRA 1993 extended this authority through FY1998. This proposal would permanently extend collection authority beyond FY1998.

*Medical Care Cost Recovery Program: Per Diems and Prescription Copayments*

OBRA 1990 authorized VA to collect hospital and nursing home per diems and outpatient prescription copayments from certain veterans for treatment of their non service-connected conditions. OBRA 1993 extended this authority to the end of

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

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

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

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

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

## Possible Alternative

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

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**Welfare Reform Financing Options**

4/11/94 16:45

Dollars in Billions

	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
<b>Summary:</b>						
A. Program Savings	5.64	5.24	0.40	16.83	15.03	1.80
B. Enforcement Savings	2.07	2.07	0.00	4.27	4.27	0.00
C. Extend Expiring Provisions	2.10	2.10	0.00	11.46	11.46	0.00
<b>Total: Financing Options</b>	<b>9.82</b>	<b>9.42</b>	<b>0.40</b>	<b>32.56</b>	<b>30.76</b>	<b>1.80</b>

## Welfare Reform Financing Options

Dollars in Billions

4/11/94 16:45

5 Year

10 Year

	Total	Federal	State	Total	Federal	State
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### A. Program Savings

• Limit Emergency Assistance	1.50	1.50	0.00	4.00	4.00	0.00
• Make Current 5 Year SSI Deeming Rules Permanent and Extend to AFDC and Food Stamps. After 5 Years, Continue Deeming for those Sponsors with AGI > 40K for 10 years or Citizenship. Limit Assistance to PRUCOLs.	2.20	1.80	0.40	8.70	6.90	1.80
• Income Test Meal Reimbursements to Family Day Care Homes	0.57	0.57	0.00	1.72	1.72	0.00
• Limit Deficiency Payments to Those Making \$100K or More from Off-Farm Income per Year	0.61	0.61	0.00	1.31	1.31	0.00
• Fair Transaction Costs with Graduated Interest Rates for Early Redemption of Savings Bonds	0.31 0.76	0.76	0.00	.65 1.10	1.10	0.00
<i>Subtotal</i>	5.64	5.24	0.40	16.83	15.03	1.80

### B. Enforcement Savings

#### EITC:

• Deny to Non-Resident Aliens *	0.13	0.13	0.00	0.33	0.33	0.00
• Require Reporting for DOD Personnel	0.16	0.16	0.00	0.40	0.40	0.00

#### Gambling:

• Increase Withholding on Gambling Winnings > \$50K to 36%	0.52	0.52	0.00	0.78	0.78	0.00
• Withholding Rate of 28% on Keno, Bingo, Slots	0.25	0.25	0.00	0.32	0.32	0.00
• Require Information Reporting on Winnings > \$10K from Gambling	0.22	0.22	0.00	0.61	0.61	0.00

\* Treasury currently reviewing this estimate.

## Welfare Reform Financing Options

Dollars in Billions

4/11/94 16:45	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
<ul style="list-style-type: none"> <li>• Limit Tax Deferred Annuity Interest Build-Up of 100K/50K per Year Annuities</li> </ul>	0.80	0.80	0.00	1.83	1.83	0.00
<i>Subtotal</i>	2.07	2.07	0.00	4.27	4.27	0.00
<b>C. Extend Expiring Provisions*</b>						
<ul style="list-style-type: none"> <li>• Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Keep</li> </ul>	0.05	0.05	0.00	0.12	0.12	0.00
<ul style="list-style-type: none"> <li>• Fees for Passenger Processing and other Customs Services</li> </ul>	0.00	0.00	0.00	1.04	1.04	0.00
<ul style="list-style-type: none"> <li>• Extend Railroad Safety User Fees</li> </ul>	0.16	0.16	0.00	0.41	0.41	0.00
<ul style="list-style-type: none"> <li>• <del>Veterans:</del> Guarantee the Securities Issued in Connection with VA's Direct Loan Sales</li> </ul>	0.08	0.08	0.00	0.16	0.16	0.00
<ul style="list-style-type: none"> <li>• Increase the Housing Loan Fee to 3% for Multiple use of the guaranteed home loan program when there is less than a 5% downpayment</li> </ul>	0.03	0.03	0.00	0.14	0.14	0.00
<ul style="list-style-type: none"> <li>• Increase the Housing Loan Fee on most guaranteed Loans by .75% (i.e., no downpayment loan fee increased from 1.25% to 2.00%)</li> </ul>	0.14	0.14	0.00	0.78	0.78	0.00
<ul style="list-style-type: none"> <li>• Extend VA's Authority to Consider Resale Losses in Determining Whether VA Should Pay the Guarantee or Buy the Foreclosed Property and Resell it</li> </ul>	0.02	0.02	0.00	0.09	0.09	0.00
<ul style="list-style-type: none"> <li>• Collect the Cost of Treating Service Connected Veterans for Non-service Connected Conditions from Health Insurers</li> </ul>	0.39	0.39	0.00	2.95	2.95	0.00
<ul style="list-style-type: none"> <li>• Some savings require additional administrative effort which may have discretionary costs.</li> </ul>						

90 Form bill

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## Welfare Reform Financing Options

Dollars in Billions

4/11/94 16:45	5 Year			10 Year		
	Total	Federal	State	Total	Federal	State
<ul style="list-style-type: none"> <li>• Collect Per Diems and Copayments from Certain Veteran's for Non-service Care</li> </ul>	0.05	0.05	0.00	0.31	0.31	0.00
<ul style="list-style-type: none"> <li>• VA pensions and Medical Care Cost Recovery. Verify veteran's self-reported income data with the IRS and SSA</li> </ul>	0.21	0.21	0.00	1.35	1.35	0.00
<ul style="list-style-type: none"> <li>• Cap means-tested pension benefits at \$90 per month for veterans and survivors who receive Medicaid nursing home benefits</li> </ul>	0.19	0.19	N/A *	1.30	1.30	N/A *
<ul style="list-style-type: none"> <li>• Round down monthly benefit levels and provide reduced COLAs to beneficiaries grandfathered into the new survivors program</li> </ul>	0.64	0.64	0.00	1.98	1.98	0.00
<ul style="list-style-type: none"> <li>• Maintain GI benefit COLAs at 50%, which was to have been a full COLA in 1994 but was eliminated and reduced by 50% in 1995 in OBRA93</li> </ul>	0.15	0.15	0.00	0.83	0.83	0.00
<i>Subtotal</i>	2.10	2.10	0.00	11.46	11.46	0.00
<b>Total: Financing Options</b>	<b>9.82</b>	<b>9.42</b>	<b>0.40</b>	<b>32.56</b>	<b>30.76</b>	<b>1.80</b>

### Possible Alternative

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

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

## Welfare Reform Financing Options

### A. Program Savings

#### *Limit Emergency Assistance*

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

#### *Tighten Sponsorship and Eligibility Rules for Non-Citizens*

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

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

#### *Income Test Meal Reimbursements to Family Day Care Homes*

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

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

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

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

*Graduated Interest Rates for Early Redemption of Savings Bonds*

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

**B. Enforcement Savings**

*Deny EITC to Non-Resident Aliens*

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

*Require Income Reporting for DOD Personnel, for EITC Purposes*

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

*Increase Withholding Rate on Gambling Winnings*

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

*Withhold 28% From Keno, Bingo and Slot Machine Winnings*

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

### *Information Reporting on Gambling Winnings*

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

### *Limit Tax Deferred Interest Build-Up of Large Annuities*

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

## **C. Extend Expiring Provisions**

### *Hold Constant the Food Stamps Overpayment Recoveries States May Keep*

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

### *Fees for Passenger Processing and Other Customs Services*

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

### *Extend Railroad Safety User Fees*

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

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<sup>1</sup> Preliminary staff estimate, based on extrapolation of prior year savings.

*Veterans:*

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

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

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

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

*Increase Housing Loan Fee by .75 percent*

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

*Extend VA's Authority to Consider Resale Losses on Loans*

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

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

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

*Medical Care Cost Recovery Program: Per Diems and Prescription Copayments.*

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

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

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

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

- This proposal would make this authority permanent.

#### *VA Pension Benefits for Veterans and Spouses in Medicaid Nursing Homes*

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

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

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

#### *Maintain Montgomery GI Bill (MGIB) COLA at 50 Percent*

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

## Possible Alternative

### *Excise Tax on Gambling Revenues*

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



# NATIONAL WOMEN'S LAW CENTER

April 21, 1994

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

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

Dear Secretary Shalala:

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

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

- Susan D. Berman  
Marcia D. Greenlee  
National Women's Law Center
- Deborah L. Gandy  
Woodsley Branch  
Atlanta, GA
- Traline G. Harter  
Vice President, Corporate Relations  
Potomac Electric Power Co.
- Richard L. Heatic  
Simpson Thacher & Butterfield
- Nancy D. Hirschfeld  
Elizabeth I. Coleman  
Smith & Coleman  
Chairman, Mendenhall, Inc.
- Donna de Varona  
Chair, Board of Governors  
Women's Sports Foundation
- Marcia D. Greenlee  
Anna Hernandez  
President and General Counsel  
Medicare America Legal Defense  
and Educational Fund
- Anita F. Hill  
Professor of Law  
University of Oklahoma School of Law
- Elaine R. Jones  
Director, Counselor  
N.W.P. Legal Services &  
Educational Fund, Inc.
- Margaret A. Kohn  
Attorney at Law
- Judith A. Maynes  
Vice President and  
Assistant General Counsel  
AFL-CIO
- Gerald W. McInnes  
President  
American Federation of State,  
County and Municipal Employees
- Marilyn Mordant  
Secretary for  
National Education Association
- Mama S. Tucker  
Tebbelman, Tucker, Lerner, Judd & Blank
- Ada Wasserman  
Wasserman & Hines
- Nebraska Center for  
Social Justice
- Sandra S. Wachs  
Deputy Director  
Boston Science
- Edna Solan Epstein  
Law Offices of Edna Solan Epstein  
Chicago, Illinois
- Elizabeth R. Siner  
Simpson Thacher & Butterfield  
Kansas City, Missouri
- Maria D. Unmuer  
Marian Phelps & Phillips  
Los Angeles, California
- J. Hunter Schneider  
Jeffrey, Schneider & Woodruff  
New Orleans, Louisiana
- Sheila Rindman  
Sadden, Myers, Sade, Mezzanero, Chan  
New York, New York
- Judith L. Marber  
AFL-CIO  
New York, New York
- Pamela Jaschke  
Sullivan, Rose, H. & Jones City  
Portland, Oregon
- Karen Harve Williams  
Craveth & Mott  
Washington, DC

WR Financing

Honorable Donna Shalala  
April 21, 1994  
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Limiting favorable tax treatment for other work-related expenses would be more profitable than targeting the credit and would not have an adverse impact on women and their families. Phasing out the credit at incomes above \$90,000 would result in approximately \$800 million in savings over five years. Targeting meals and entertainment or other work-related deductions for taxpayers at even higher income levels would generate similar revenues. For example, in 1988 Senator Bill Bradley (D-NJ) proposed phasing out the meals and entertainment deduction for individuals with family incomes over \$360,000, to finance the Family Support Act. Senator Bradley's proposal would have raised an estimated \$800 million over five years at that time by just focusing on the upper one-tenth of one percent of taxpayers. Lowering the income ceiling for this deduction to \$250,000 would likely result in similar savings today, despite the fact that the deduction for these expenses was reduced in 1993 from 80 percent to 50 percent. Thus, by focusing on other work-related expenses and on those taxpayers at the highest income levels, additional revenues can be found without cutting a tax benefit that legitimately recognizes the importance of child care to working families.

WR-  
#

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

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

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

The proposal under consideration amounts to financing welfare reform and its important child care components at the expense of another significant child care program. Focusing upon the Dependent Care Tax Credit is inequitable, particularly in light of the

Honorable Donna Shalala  
April 21, 1994  
Page 3

plethora of work-related tax benefits not presently subject to an income ceiling. To limit this credit while allowing taxpayers to continue to take full deductions for luxurious office furnishings, for example, marginalizes the importance of child and dependent care. We urge you consider other more equitable means of financing this important initiative.

Sincerely,



Nancy Duff Campbell  
Co-President



Verna L. Williams  
Senior Counsel

On behalf of:

American Association of University  
Women  
American Federation of State, County, and  
Municipal Employees  
Association of Junior Leagues International  
BPW/USA  
Center for Advancement of Public Policy  
Center for Research on Women at  
Wellesley College, School Age Child  
Care Project  
Center for Women Policy Studies  
Child Care Action Campaign  
Child Care Law Center  
Child Welfare League of America  
Early Childhood Policy Research  
Federally Employed Women  
National Association for the Education of  
Young Children

National Association for Female  
Executives  
National Association of Child Care  
Resource and Referral Agencies  
National Black Child Development  
Institute  
National Council of Jewish Women  
National Organization for Women  
National Political Congress of Black  
Women  
National Women's Law Center  
National Women's Political Caucus  
NOW Legal Defense & Education Fund  
Older Women's League  
The Children's Foundation  
Wider Opportunities for Women  
Women's Legal Defense Fund

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

Roy Beck  
Author-Lecturer-Journalist  
1126 N. Frederick St.  
Arlington, VA 22205  
(703) 524-6820

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

Earned Income Tax Credit: Another Benefit For Illegal Aliens

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

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

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

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

THE CONTRADICTION: Congress and its laws suggest a public stance against illegal immigration. They say that:

1. a citizen of another country must not enter the U.S. without official U.S. permission;
2. a foreign citizen with official permission to enter the U.S. may not stay longer than a visa allows;
3. foreign citizens who violate #1 or #2 may not hold a job in the U.S.

BUT . . . .

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

### IMAGES:

◆ Cover of IRS EIC publication with noted irony that the words apply equally to U.S. citizens and illegal aliens.

Title: "Did you Know? The Government May Owe You Money!!"

Copy in cover box: "In 1993, if You . . .

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

You may qualify for the Earned Income Credit"

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

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

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

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

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

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

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

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

There is a slight hitch. Because most illegal aliens obtain jobs by using phony Social Security cards, the names and Social Security numbers on their tax returns don't match in the federal

computer. After a short delay, however, the IRS works things out by assigning the illegal aliens a temporary, legal number and paying them their cash credit.

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

### THE DETAILED STORY

1. **Source: Amanda Michancyk, spokeswoman for the Internal Revenue Service**  
In the office of Public Affairs  
202-622-4050  
Interviews on 11MAR94 and 14MAR94.

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

Notes from Amanda Michancyk comments:

#### A. Tax Rules & Illegal Aliens

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

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

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

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

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

(\*\*\*) (ROY'S NOTE: I doubt viewers would contest the idea that the IRS doesn't want to scare illegal aliens away from paying their taxes. Obviously, that is what would happen if the IRS actually asked people to note that they are illegal aliens. Most Americans probably also would

agree with the IRS that it has an ethical obligation to send refunds that illegal aliens have coming to them from over-withheld income taxes. The controversial move, however, comes with the Earned Income Credit because it is federal money given to a person not only from taxes paid by that person but above those taxes.)

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

If an illegal alien:

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

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

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

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

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

#### B. Fake Social Security Numbers

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

- ◆ All tax forms are cross-checked with Social Security computers to make sure the SS number and the name match in the computers.
- ◆ If the name and SS number don't match (and those of illegal aliens are unlikely to), the tax forms are sent to the IRS's Unpostable Unit. The job of the unit is to make certain that a taxpayer's contributions to Social Security are credited to the proper account.
- ◆ If the Unpostable Unit is unable to resolve the discrepancy (often it is just a matter of the taxpayer having transposed numbers), a letter is sent to the illegal alien.
- ◆ If the illegal alien is unable to provide documentation to clear up the discrepancy between name and number, the Unpostable Unit assigns the illegal alien a Temporary Identification Number. This comes from a long list of unused numbers provided by the Social Security Administration. The temporary number is not technically a Social Security number but acts the same way, providing an official account and number for the illegal alien's Social Security contributions to be credited to.
- ◆ The Unpostable Unit sends the new legal national identification number to the illegal alien

and signals the IRS computer to send the Earned Income Credit check to the illegal alien.

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

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

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

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

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

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

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

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

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

502-244-9869 (Simcox phone in Louisville)

202-466-8185 (Center for Immigration Studies)

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

concerning this issue.

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

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

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

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

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

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

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

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

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

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

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

The comparable average for illegal aliens was found to be \$337 into Social Security and more

than \$1,000 in Earned Income Credits.

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

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

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

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

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

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

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

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

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

WR-<sup>1</sup>  
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## ENTITLEMENT REFORM OPTIONS TO FINANCE WELFARE PROPOSALS

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

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

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

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

Cost (millions)    \*\*ACF Estimates\*\*

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

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

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

- A. Family day care homes located in low-income areas (e.g., census tracts where a third or half of the children are below 200% of the poverty line) would not have to use a means test and would receive reimbursement for all meals at reimbursement rates equivalent to those provided for "free meals" served to low-income children in schools and day care centers.
- B. All other homes would have a choice. They could elect not to use a means-test; if they elect this option, they would receive reimbursement for all meals at rates equivalent to the "reduced price" rates provided to schools and day care centers for meals provided to children with incomes between 130% and 185% of the poverty line. Alternatively, a family day care home could administer a simplified, two-part means-test. Meals served to children below 185% of the poverty line would be reimbursed at the higher rate. Meals served to children above 185% of the poverty line would be reimbursed at the "reduced price" rate.
- C. The administrative payment rates provided to the family day care home sponsoring organizations would remain at the same level as under current law for homes in non-low-income areas. For homes in low-income areas, these payment rates would be raised significantly. The purpose would be to provide an incentive for sponsors to enlist and serve day care homes in low-income areas.

Cost (millions)

**\*\*USDA is reviewing\*\***

<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
-\$160	-\$210	-\$230	-\$270	-\$300

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

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

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

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

Since the current deeming rules--in comparison to this proposal--are relatively generous to families that have income, the proposal may be perceived as penalizing working families with

disabled children. On the other hand, the proposal would ensure that one-parent and two-parent families of the same size are treated equally, unlike under current law.

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

Cost (millions) \*\*ASPE Estimates\*\*

<u>FY 1995</u>	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
-\$175	-\$190	-\$210	-\$230	-\$250

Mandated Re-application for Most Likely to Improve SSI Cases.

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

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

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

months before the expiration of the benefits, a notice would again be sent stating the date of benefit termination and providing information about re-application.

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

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

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

<u>FY 1995</u>	<u>FY1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
-\$72	-\$156	-\$264	-\$372	-\$492

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

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

recipients, almost 85 percent--or 89,510 individuals--applied for benefits based on age.

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

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

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

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

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

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

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

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

Cost: (millions)	**ASPE Estimates**				
	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Program					
SSI	-\$9	-\$26	-\$42	-\$57	-\$71
AFDC	-\$5	-\$5	-\$5	-\$5	-\$5
Medicaid	-\$25	-\$55	-\$85	-\$115	-\$155
Total	-\$39	-\$86	-\$132	-\$177	-\$231

Improve EITC Targeting and Related Tax and Transfer Policies.

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

WR - \$

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

1. Description of dynamic model and behavioral impacts
2. Comparison of OMB and HHS assumptions
3. Coordination of tax and transfer systems
4. Deadline for financing options
5. Other

# WELFARE REFORM MODELLING

## JOBS, WORK AND CHILD CARE

1. MODELLING ISSUES:	STEADY STATE IMPACTS	PHASE-IN IMPACTS
BASELINE:		
EITC	5-10%	0
HEALTH CARE	8-10%	0
TREATMENT EFFECTS:		
JOBS IMPACT	7-10%	7-10
WORK IMPACT		
TIME LIMIT	<5%	<5%
CHILD SUPPORT	<5%	0-5%
2. SAVINGS:		
AFDC		
FOOD STAMPS		
MEDICAID		
3. NEXT STEPS - PHASE IN STRATEGIES AND SYSTEM CAPACITY		

AFDC CASELOAD AND JOBS

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

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

PHASE-IN PLUS CURRENT PROJECTIONS

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

31-Jan-94

from January 25 slide show - cases

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

Notes:

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

31-Jan-94

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

**Notes:**

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

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

Line Item No	Other Adult		Tax		Mother & Children		Other Adult		Combined	Reduction in Combined Disposable Income						
	In filing unit for:		Filing Status		AFDC +		Earnings		Disposable	Benefits	Benefits	25% Claw Back	25% Claw Back	25% Claw Back	25% Claw Back	
	AFDC	Kind	Other Adult	Mother	Food Stamps	Housing Subsidy	Earnings	EITC	Income	Taxed & EITC Reduced	Taxed & EITC not Reduced	of AGI + EITC + Total Benefits - TaxThreshold	of AGI + Total Benefits - TaxThreshold	of AGI + EITC + Total Benefits - 1.25*PovertyThreshold	of AGI + Total Benefits - 1.25*PovertyThreshold	
1	-	-	S	dnf	9,420	0	5,000	286	4,403	13,823	0	0	0	0	0	0
2	-	-	HH	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	195	0	0	0
3	-	-	J	dnf	9,420	0	5,000	2,000	6,118	15,538	0	0	205	0	0	0
4	-	X	S	dnf	9,180	0	5,000	286	4,403	13,583	0	0	0	0	0	0
5	-	X	HH	dnf	9,180	0	5,000	2,000	6,118	15,298	0	0	155	0	0	0
6	-	X	J	J	9,180	0	5,000	2,000	6,118	15,298	0	0	145	0	0	0
7	X	X	J	J	7,608	0	5,000	2,000	6,118	13,726	0	0	0	0	0	0
8	-	-	S	dnf	9,420	0	10,000	0	7,643	17,063	0	0	0	0	0	0
9	-	-	HH	dnf	9,420	0	10,000	3,272	11,507	20,927	1,747	567	1,570	945	1,269	451
10	-	-	J	dnf	9,420	0	10,000	3,272	11,507	20,927	1,759	573	1,779	955	1,077	259
11	-	X	S	dnf	7,980	0	10,000	0	7,643	15,623	0	0	0	0	0	0
12	-	X	HH	dnf	7,980	0	10,000	3,272	11,507	19,487	1,400	429	1,330	705	1,029	211
13	-	X	J	J	7,980	0	10,000	3,272	11,507	19,487	1,334	357	1,413	595	717	0
14	X	X	J	J	2,940	0	10,000	3,272	11,507	14,447	270	0	153	0	0	0
15	-	-	S	dnf	9,420	0	15,000	0	11,454	20,874	0	0	0	0	0	0
16	-	-	HH	dnf	9,420	0	15,000	2,362	14,783	24,203	2,265	942	1,570	1,570	2,292	1,701
17	-	-	J	dnf	9,420	0	15,000	2,362	15,158	24,578	2,646	1,323	2,355	2,205	2,100	1,509
18	-	X	S	dnf	6,924	0	15,000	0	11,454	18,378	0	0	0	0	0	0
19	-	X	HH	dnf	6,924	0	15,000	2,362	14,783	21,707	1,665	692	1,154	1,154	1,876	1,285
20	-	X	J	J	6,924	0	15,000	2,362	15,158	22,082	1,921	949	1,731	1,581	1,476	885
21	X	X	J	J	1,740	0	15,000	2,362	15,158	16,898	415	171	435	285	180	0

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

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

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

Notes: EITC fully implemented to the 1996 levels. Work expense equals 10% of earnings up to a cap of \$68 per month. No child care expenses are assumed. The AFDC benefit assumes a \$120 income disregard. When no housing subsidy is available, the food stamp benefit calculation assumes a \$100.50 excess shelter cost deduction, 50% of the maximum. The housing subsidy benefit calculation assumes a 45th percentile FMR of \$819 per month for New York. When the tax threshold is the basis of the benefit claw back, the maximum benefit reduction equals 25% of total benefits; when 125% percent of the poverty threshold is used, 100% of benefits can be clawed back.

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

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

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

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

L i n e	Number of Months Worked	Current Law					Reduction in Disposable Income					
		Annual Earnings	AFDC	Food	Housing Subsidy	Disposable Income	Benefits Taxed & EITC Reduced	Benefits Taxed & EITC not Reduced	25% Claw Back of AGI + EITC + Total Benefits - TaxThreshld	25% Claw Back of AGI + Total Benefits - TaxThreshld	25% Claw Back of AGI + EITC + 1.25*PovThreshld	25% Claw Back of AGI + Total Benefits - 1.25*PovThreshld
1	0	0	6,924	2,124	7,894	16,942	666	666	1,111	1,111	617	617
2	6	5,000	3,462	1,866	7,433	18,879	1,009	769	1,815	1,315	1,322	822
3	8	5,000	2,884	2,132	7,606	18,740	959	768	1,781	1,281	1,287	787
4	10	5,000	3,124	2,064	7,534	18,840	995	783	1,806	1,306	1,312	812
5	12	5,000	3,360	1,992	7,464	18,934	1,029	797	1,829	1,329	1,335	835
6	12 w/o bnfts	5,000	--	--	--	6,118	--	--	--	--	--	--
7	6	10,000	3,462	1,062	5,933	21,964	3,253	1,194	2,614	1,989	2,313	1,496
8	8	10,000	2,308	980	6,279	21,074	2,932	1,060	2,392	1,767	2,091	1,273
9	10	10,000	1,154	1,294	6,626	20,581	2,754	986	2,268	1,643	1,968	1,150
10	12	10,000	0	1,608	6,972	20,087	2,576	912	2,145	1,520	1,844	1,026
11	12 w/o bnfts	10,000	--	--	--	11,507	--	--	--	--	--	--
12	6	15,000	3,462	1,062	4,433	23,740	3,230	1,344	2,239	2,239	2,961	2,371
13	8	15,000	2,308	708	4,779	22,579	2,811	1,169	1,949	1,949	2,671	2,080
14	10	15,000	1,154	354	5,126	21,417	2,392	995	1,658	1,658	2,380	1,790
15	12	15,000	0	408	5,472	20,663	2,120	882	1,470	1,470	2,192	1,601
16	12 w/o bnfts	15,000	--	--	--	14,783	--	--	--	--	--	--
17	6	20,000	3,462	1,062	3,947	26,069	2,579	1,271	2,118	2,118	3,826	3,499
18	8	20,000	2,308	708	3,279	23,893	2,253	944	1,574	1,574	3,282	2,955
19	10	20,000	1,154	354	3,626	22,731	1,851	770	1,283	1,283	2,992	2,665
20	12	20,000	0	0	3,972	21,570	1,432	596	993	993	2,701	2,374
21	12 w/o bnfts	20,000	--	--	--	17,598	--	--	--	--	--	--

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

2.5 (1)

16000

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

**Number of units taking the EITC**  
(in thousands)

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

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

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

**Average amount of the EITC**  
(current dollars)

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

**Actual Data:**

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

**TRIM2 Data:**

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

EITC - 120 (5)

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

1. A complex household is one in which (a) there are one or more people receiving AFDC/SSI in the baseline, and (b) there is at least one person not receiving AFDC/SSI, but receiving some other type of income. Overall we estimate there are about 3.5 million complex households.
2. The three subsets of complex are (a) one unrelated person of opposite sex plus or minus ten years of age living with AFDC/SSI recipients, (b) one or two grandparents living with AFDC/SSI unit, where both child and grandchild(ren) are present, and (c) all other. We estimate that about 11% of complex households (235 thousand) are type (a), about 16% (338 thousand) are type (b), and the large majority (73%, 2.6 million) are type (c).
3. The first panel in the table shows the distribution of complex households by income received in non-transfer unit. This gives an indication of how many non-transfer receiving people in complex households might be gaming taxes.
4. The next two panels show our estimates of the maximum number of households where gaming might be occurring, and the possible dollar value. We pseudo-simulated using the following rules: all non-transfer unit members jointly filed a head of household return, claiming all household members as exemptions. The EITC is computed using the non-transfer unit earned income, with 1996 rules deflated to 1991 dollars. (We messed up! Not having the number of kids on our extract meant we had to assume all complex households could take the EITC -- we need a new extract with presence of children indicated so we can screen some more people out) If the new computed tax was actually higher than the TRIM2 baseline, we assumed no gaming -- something was going on that caused taxes to be lower than what the pseudo-simulation could measure.

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

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

a) EITC claimed  
b) 897 0275

Child away from home  
Trade children  
Self  
EITC claimed

Table 1, REVISED  
Complex Households<sup>1</sup>: Percent Distribution By Non-Transfer Unit<sup>2</sup> AGI

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

Table 2  
Complex Households<sup>1</sup>: Percent Who Might Be Gaming

	# Households (Thousands)	< \$5,000	\$5,000- 9,999	\$10,000- 14,999	\$15,000- 19,999	\$20,000- 24,999	\$25,000- 29,999	\$30,000- 34,999	\$35,000- 39,999	\$40,000- 44,999	\$45,000- 49,999	\$50,000	ALL
All Complex	(A) 3,529	15.0%	36.1%	37.7%	40.7%	21.7%	20.7%	24.9%	20.6%	14.8%	4.7%	5.5%	23.6% (B)
Opposite-sex unrelated <sup>1</sup>	383	27.8%	55.8%	50.6%	48.6%	37.2%	60.8%	73.3%	0.0%	0.0%	n.a.	0.0%	44.3%
Grandparent <sup>4</sup>	554	15.4%	44.3%	30.9%	40.1%	15.3%	28.1%	20.9%	20.1%	12.5%	0.0%	5.5%	21.7%
Other complex	2,592	13.6%	30.2%	35.7%	39.3%	20.0%	14.0%	17.4%	22.3%	17.2%	5.2%	5.5%	20.9%

Table 3  
Complex Households<sup>1</sup>: Average Gaming Amount

	# Households (Thousands)	< \$5,000	\$5,000- 9,999	\$10,000- 14,999	\$15,000- 19,999	\$20,000- 24,999	\$25,000- 29,999	\$30,000- 34,999	\$35,000- 39,999	\$40,000- 44,999	\$45,000- 49,999	\$50,000	ALL
All Complex	3,529	\$703	\$1,732	\$1,899	\$1,364	\$1,110	\$791	\$889	\$549	\$936	\$1,154	\$1,577	\$1,345.3 (C)
Opposite-sex unrelated <sup>1</sup>	383	\$904	\$2,495	\$2,825	\$1,965	\$914	\$1,145	\$1,112	n.a.	n.a.	n.a.	n.a.	\$1,989
Grandparent <sup>4</sup>	554	\$873	\$1,600	\$2,455	\$865	\$1,337	\$616	\$282	\$184	\$639	n.a.	\$830	\$1,188
Other complex	2,592	\$630	\$1,430	\$1,475	\$1,332	\$1,147	\$752	\$939	\$667	\$1,006	\$1,154	\$1,876	\$1,179

<sup>1</sup> Complex households are defined as households in which there is transfer income received and there is other taxable income received by a household member outside of the transfer unit.

<sup>2</sup> Non-transfer unit refers to the members of the household not receiving transfer income.

<sup>3</sup> Opposite-sex unrelated households are those in which the non-transfer unit is headed by an unrelated person of the opposite sex of the head of the transfer unit, if the head of the transfer unit is unmarried.

<sup>4</sup> Grandparent households are those in which the transfer unit contains an adult and his/her child, and the non-transfer unit contains a parent of the transfer unit adult.

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

(A) \* (B) \* (C) = \$1.1 billion

Bill:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: Bureau of the Census.

MEMORANDUM

Date: February 2, 1994  
From: John Karl Scholz  
To: Wendell Primus  
Subject: Reducing the Amount of EITC Benefits on Self-employment Income

Background:

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

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

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

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

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

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

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

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

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

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

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

Note to: Alicia Munnell  
Eric Toder

February 2, 1994

From: Wendell Primus

re: IRS data to Census

Background:

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

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

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

Request:

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

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

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

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

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

Thank you for your assistance on this matter.

WR - \$

AGENDA  
WELFARE REFORM FINANCING MEETING  
February 1, 1994

GOALS:

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

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

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

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

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

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

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

Department of the Treasury  
 Office of Tax Analysis

WR-1

wf \$

### Limit the Growth in Emergency Assistance

The little known AFDC/Emergency Assistance program has been largely invisible until the past couple of years. Expenditures had been constant at a relatively modest at roughly \$100 million for many years. Yet recently States have discovered that the program can be used to fund a wide range of activities formerly funded almost entirely out of state funds, especially child welfare services and some homeless services, that may not be consistent with the original intent of EA, but which are legal under the extremely vague wording of current law. As a result the program is projected to grow from \$200 in FY1992 to \$1.0 billion in FY1999. Especially with the passage of Family Support and Preservation last year, this entitlement growth and cost shifting ought to be checked. The proposal would cap each State's EA expenditures at 3% of AFDC benefits. The few states such as New Jersey and New York which already exceed this level would be grandfathered at their current expenditure level.

Savings in 1999: \$0.5 billion

Five year savings: \$2.1 billion

### Deem Sponsor's Income Until Citizenship for New Immigrants

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

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

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

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

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

#### Eliminate the Late Baby Bonus for Social Security Retirees

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

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

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

#### Coordinate Tax and Transfer Systems

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

Closer coordination of tax and transfer systems would allow both more appropriate rules regarding the EITC and measures to reduce fraud in that program. One could determine that children had to be treated the same for the AFDC program and EITC, for example. And it would allow a policy whereby a portion of transfer benefits would be "reclaimed" in cases

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

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

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

AMERICA WORKS

WR - #

DATE: \_\_\_\_\_

TO: BRUCE REED

COMPANY: THE WHITE HOUSE

FAX #: 202 456 7739

FROM: PETER COVE

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

OUR FAX #: (212) 244-5628

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

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

NUMBER OF PAGES: \_\_\_\_\_ (INCLUDING THIS COVER SHEET)

## WELFARE TO WORK DEMONSTRATION

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

### PURPOSE -

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

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

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

- Stimulate private capital investment into welfare to work programs.

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

### BACKGROUND -

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

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

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

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

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

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

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

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

#### RECOMMENDATIONS -

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

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

\*For each welfare recipient placed into a job a calculation of

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

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

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

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

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

#### IMPLICATIONS -

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

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

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

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

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

*File:  
Welfare -  
Funding*



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

Date: 6/10/93

From: Wendell Primus

To: Bruce Reed

Division: DHHS/OS/ASPE/HSP

Division: The White House

City & State: DC

City & State: DC

Office Number: 690-7409

Office Number: 456-6515

Fax Number: 690-6518

Fax Number: 456-7739

Number of Pages + cover 11

REMARKS: \_\_\_\_\_

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\_\_\_\_\_



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

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

FROM: Wendell E. Primus

SUBJECT: Welfare Demonstrations

JUN 10 1993

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

**Option 1 - Drop budget neutrality**

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

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

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

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

**Option 2 - Seek Congressional Authority**

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

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

**Option 3 - Fund the Boren Demonstration**

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

**Option 4 - Fund a Different Demonstration**

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

### Option 5 - Lower the state match in JOBS

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

### Conclusion

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

### Attachment

### The Boren Amendment

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

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

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

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

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

#### CONFERENCE AGREEMENT

The conference agreement follows the Senate amendment.

#### *2. Additional use of Parent Locator Service information*

##### PRESENT LAW

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

##### HOUSE BILL

No provision.

##### SENATE AMENDMENT

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

*Effective date.*—October 1, 1992.

#### CONFERENCE AGREEMENT

The conference agreement follows the Senate amendment.

#### D. COMMUNITY WORKS PROGRESS DEMONSTRATIONS

#### *1. Community works progress demonstration projects*

##### PRESENT LAW

No provision.

##### HOUSE BILL

No provision.

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## SENATE AMENDMENT

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

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

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

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

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

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

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

Participants who are receiving benefits under the unemployment compensation and AFDC programs would receive, in addition to those benefits, compensation in an amount equal to 10 percent of the average (as estimated by the organization conducting the project) of the amount of AFDC and unemployment compensation paid to recipients of these benefits in the area served by the project. Agencies administering AFDC or unemployment compensation benefits are allowed to transfer funds to the project to enable participants to receive compensation in the form of a single check.

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for wages rather than in the form of separate benefit checks. Individuals not receiving either unemployment compensation or AFDC would be compensated in an amount equal to the Federal minimum wage, or the applicable State minimum wage, whichever is greater.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the rate of pay be less than 125 percent of the Federal or applicable State minimum wage.

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

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

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

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

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

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

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

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

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

Remedies for a grievance filed include: (1) prohibition of the placement; (2) reinstatement of the participant to the position; (3) payment of lost wages and benefits; (4) reestablishment of other relevant terms, conditions, and privileges of employment; and (5)

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equitable relief as is necessary to correct any violation or to make the participant whole.

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

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

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

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