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HEARINGS

Before the

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

Washington, D.C.

Thursday, September 22, 1983

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EXECUTIVE SESSION

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THURSDAY, SEPTEMBER 22, 1983

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U.S. Senate
Committee on Finance
Washington, D.C.

The Committee met, pursuant to notice, at 10:30 a.m. in Room SD-215, Dirksen Senate Office Building, Hon. Ed Packwood presiding.

Present: Senators Dole [presiding], Packwood, Danforth, Chafee, Heinz, Wallop, Durenberger, Armstrong, Symms, Grassley, Long, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley and Pryor.

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Senator Packwood [presiding]: The Chair is over on the House side testifying and will be here shortly, and he has asked that we start, and Sheila will go through some of the suggested pending reductions. Sheila.

Senator Durenberger [presiding]: The Chairman will be here shortly. He is testifying on the House side. It is his suggestion we begin the morning session by reviewing the blue book recommendations with regard to health care. So I will turn it over to Sheila Burke to take us through the recommendations in the health function.

1 Ms. Burke: Mr. Chairman, there are three items before
2 the members of the Committee that they might refer to. The
3 first is a duplicate copy of the blue book which should be in
4 front of you, entitled "Background Data and Materials on
5 Fiscal Year 1984 Spending Reduction Proposals."

6 Senator Durenberger: I guess we do not have the blue
7 book.

8 Ms. Burke: It is duplicated, Senator. It should be in
9 white before you.

10 The second item that the members would have before them
11 is an item entitled "Budget Provisions Previously Agreed to
12 by the Senate Finance Committee and Included in S. 951."
13 That is the description of the provisions included in the
14 proposal for health benefits for the unemployed.

15 The third item the Committee should have before them is
16 the materials that were handed out yesterday for the
17 executive session, and included in that is attachment C, and
18 attachment C contains additional reconciliation options that
19 the Committee might want to consider.

20 I would like to begin, if I may, by proceeding through
21 the blue book, the document entitled "Background Data and
22 Materials." If you will refer to page 7 of that blue book.
23 On page 7 of the blue book, the first of the materials
24 describing Medicare proposals, the first is a proposal
25 suggested by the Administration that would alter the current

1 beneficiary cost sharing under the Medicare program and would
2 provide coverage for unlimited hospital days. It would
3 provide a catastrophic benefit.

4 Very briefly, the proposal would restructure the benefit
5 by eliminating patient cost-sharing for any hospital days of
6 care after 60 days during any calendar year. It would impose
7 new cost-sharing requirements on the first 60 days of
8 hospitalization. It would limit the number of times a
9 beneficiary would pay the inpatient hospital deductible to
10 two in each year, and would reduce the present copayment
11 requirements applicable to care provided in skilled nursing
12 facilities.

13 That is on page 7 of the blue book. The three-year
14 savings total as a result of that proposal are \$4.1 billion.

15 Item number two --

16 Senator Durenberger: Does anybody have any question on
17 item one? This is on page 7 of the Xeroxed blue book. This
18 is a big savings item, \$4.1 billion over three years.

19 Our intent is just to go through this and then, if there
20 is any discussion, but not take any action at this time.
21 Would you quickly review it again, now that we have
22 everyone's attention.

23 Ms. Burke: The item listed on page 7 is an
24 Administration proposal which would restructure the current
25 Medicare beneficiary cost-sharing. The proposal would

1 eliminate the current patient cost-sharing for any hospital
2 days of care after 60 days of inpatient services. It would
3 impose new cost-sharing requirements on the first 60 days of
4 inpatient care.. It would limit the number of times a
5 beneficiary would have to pay the inpatient hospital
6 deductible, which is currently \$304, to two times per year,
7 and would reduce the present copayment amount applicable to
8 care provided in skilled nursing facilities.

9 The three-year savings total as a result of that proposal
10 is \$4.1 billion.

11 Item number two, which is noted on page 8, is an
12 Administration proposal that would provide for the
13 establishment of a voluntary Medicare voucher program. This
14 would provide the opportunity to individuals to choose
15 between traditional Medicare coverage or to receive services
16 through a private health benefits plan.

17 The voucher would be calculated to represent 95 percent
18 of the average per-person cost of Medicare coverage towards
19 the purpose of such private protection. The proposal has
20 been estimated by CBC to cost approximately \$100 million over
21 two years.

22 Senator Durenberger: Are there any questions on item
23 two, the voluntary Medicare voucher program?

24 [No response.]

25 Senator Durenberger: If not, why do you not proceed to

1 three.

2 Ms. Burke: Item number three, which is noted on page 8,
3 is an Administration proposal. The Committee previously
4 agreed to a modified version of this proposal which would
5 freeze certain charges for physician fees or payment for
6 certain charges for physician fees as part of S. 951, the
7 health benefits for the unemployed.

8 The original Administration proposal would have postponed
9 the annual updating of both the customary and the prevailing
10 annual updating limits that normally occur in July of each
11 year for one year. During that period of time, charge limits
12 would remain at the levels now applicable or what were
13 applicable in July of 1983.

14 The proposal that was agreed to by the Committee as part
15 of S. 951 would freeze only the prevailing fees for one year,
16 so as a result would not freeze the customary charges.

17 The proposal agreed to by the Committee previously has a
18 three-year savings of approximately \$1.2 billion. The
19 original Administration proposal which is before you, which
20 would have frozen both prevailing and customary fees, had a
21 three-year savings of approximately \$3.1 billion.

22 Senator Durenberger: Just for the benefit of those who
23 are joining us here, you are going to point out as we go
24 through the blue book recommendations, as you just have,
25 those items on which we took some action in connection with

1 the health benefits for unemployed?

2 Ms. Burke: Yes, sir.

3 Senator Danforth: Could I ask you this, Mr. Chairman?

4 We did do this on health benefits for the unemployed. We are
5 now doing it again with respect to the budget, is that
6 right?

7 Senator Durenberger: That is what we are doing here
8 today, right.

9 Senator Danforth: So we cannot use it twice.

10 Senator Durenberger: Well, we may decide that after we
11 go quickly through the list. But I think one of the
12 recommendations that is going to be made is that, rather than
13 using the cuts we have already decided on to finance health
14 care for the unemployed, that they would qualify for our
15 obligations under reconciliation.

16 Senator Heinz: Mr. Chairman, Senator Danforth brings up
17 a good point. I would like to, at the appropriate time,
18 raise the issue and move what you might call a sense of the
19 Committee resolution, that the principal Committee agree with
20 the notion of paying for the health care for the unemployed
21 not through cuts, but through revenue, but through increased
22 revenues. And I anticipate that there will be some support
23 for that.

24 Senator Durenberger: You have support here and I am sure
25 there will be other support.

1 Does that answer your question, Jack?

2 Senator Danforth: Yes.

3 Senator Durenberger: You may proceed.

4 Ms. Furke: Item number four, which is noted on page 9,
5 is an Administration proposal that would no longer include
6 the additional percentage point which was provided for in the
7 reimbursement for hospitals in the calculation of the target
8 rate. If the Committee will recall, under TEFRA, the Tax
9 Equity and Fiscal Responsibility Act, the provisions with
10 respect to hospitals established a three-year target date
11 reimbursement system, which is in effect effectively until
12 prospective payment comes into play.

13 As part of determining that rate, there was a one
14 percentage amount provided for that was to take account of
15 intensity increases and changes that the Committee might not
16 have otherwise been able to provide for in establishing those
17 rates. The Administration proposal would no longer include
18 in calculating the target rate that one percentage point.

19 The three-year savings estimate as a result of this
20 proposal are \$450 million.

21 Senator Durenberger: Would you mind telling us what the
22 objection might be to that particular proposal?

23 Ms. Burke: Mr. Chairman, the concerns as indicated by
24 the industry are that that amount represented, again,
25 percentage for intensity for something that the target rate

1 itself might not provide for or might not be adequate to
2 cover. It is moving room, in a sense, to provide the
3 industry an opportunity in terms of the target rate to
4 provide for some unexpected occurrences that the industry
5 might realize during that period of time.

6 The concern itself is that the target rate might not be
7 sufficient without that percentage.

8 Senator Durenberger: Any questions on number four?

9 [No response.]

10 Senator Durenberger: Let us keep moving.

11 Ms. Burke: On page 10, item number five would modify the
12 timing and rate of increase in the Part B premium. The
13 original Administration proposal recommended that the
14 six-month deferral which was incorporated in Public Law
15 98-21, that effectively that, beginning with the premium
16 increases that were to have taken place and to be held at 25
17 percent, that by calendar year 1988 that premium for Part B
18 of Medicare would increase to a rate equal to 35 percent of
19 the cost of the program for the aged.

20 The provision the Committee had previously agreed to
21 provided for a 25 percent premium rate, which was to phase
22 out, which was effectively to have stopped after two years.
23 This would have increased that percentage in terms of the
24 premium as a percent of program costs and held it at 35
25 percent in future years.

1 As part of S. 951, the Committee agreed to a provision
2 which repealed the limit on the Part B premium increases and
3 for the future held the percentage of program costs paid by
4 the beneficiaries through the premiums at 25 percent. That
5 proposal, which was incorporated into S. 951, had an effect
6 of approximately \$359 million.

7 Senator Durenberger: Have you got any information before
8 you about what the percentage point would bring in over three
9 years if we were to increase it beyond 25 percent?

10 Ms. Burke: I do not, Senator. By percentage we could
11 certainly determine that.

12 Senator Durenberger: Are there any questions on number
13 five?

14 [No response.]

15 Senator Durenberger: All right.

16 Ms. Burke: On page 11, item number six would provide
17 that the deductible for the Part B of Medicare for the
18 program costs would be indexed by the amount of the medical
19 economic index increase each year. Currently that deductible
20 is a fixed deductible and has only been increased twice.
21 This proposal would allow that deductible to increase on an
22 annual basis based on the increases in the medical economic
23 index.

24 The description contained in the blue book gives evidence
25 of what that deductible would increase to. It is estimated

1 that it would increase to \$80 in calendar year 1984, to \$85
2 in calendar year 1985, and to \$90 in calendar year 1986. The
3 savings as a result of that proposal are estimated at \$345
4 million over a three-year period of time.

5 Senator Durenberger: Are there any questions?

6 [No response.]

7 Senator Durenberger: All right, let us go to number
8 seven.

9 Ms. Burke: Item number seven, noted on page 11, like the
10 previous item, is also a resubmittal by the Administration
11 and would provide for a delay in the initial eligibility for
12 Medicare entitlement. As the Committee may recall, this
13 proposal was also discussed last year and was not agreed to
14 in conference, dropped in conference on the budget bill.

15 It has an outlay savings of approximately \$770 million
16 over three years.

17 Senator Chafee: Now, Mr. Chairman, when we discussed
18 this, Sheila, two years ago, I guess, the great concern was
19 what happens in the interim. Did we get that straightened
20 out?

21 Ms. Burke: We worked with the Administration, Senator,
22 to find out if there was any way to protect individuals who
23 might fall through the cracks, who perhaps might not have
24 private coverage that would continue them until such time as
25 Medicare took over. There was no resolution of that issue.

1 There was no suggestion made as to how one might identify
2 those individuals or provide for coverage.

3 Senator Chafee: Thank you.

4 Senator Durenberger: Any other questions on seven?

5 [No response.]

6 Senator Durenberger: All right.

7 Ms. Burke: On page 12, item number 8(a) would provide
8 for the elimination of the requirement for utilization review
9 to take place in hospitals and skilled nursing facilities.
10 The Congressional Budget Office does not assume any savings
11 for this proposal. This was also a resubmittal and was
12 rejected by the Committee in 1982.

13 Item 8(b), which is also a resubmittal by the
14 Administration --

15 Senator Chafee: Well, what is the thrust for 8(a)?

16 Ms. Burke: Under present law, Senator, hospitals and
17 skilled nursing facilities are required to contract and
18 conduct utilization review of services provided, except where
19 that function is performed by other organizations. And in
20 many cases, because of the ESRC's, indeed those organizations
21 perform those functions.

22 The intent in both 8(a) and 8(b) is to remove any
23 requirement for mandatory review to take place. If you will
24 note, 8(b) eliminates the peer review program. So the effect
25 of the two of them is to remove any requirement on

1 institutions to provide for a review of services provided.

2 Senator Chafee: Why?

3 Ms. Burke: We might ask the Administration to comment on
4 that. My understanding was that the Administration
5 historically has not believed that peer review is something
6 that should be required by law and a part of the statute, but
7 rather should be done on a voluntary basis by institutions.

8 Senator Chafee: It seems so peculiar. I know we have
9 been through this before. It seems like such a peculiar,
10 particularly the first one, utilization review. What is the
11 incentive for a hospital to get somebody out the door, or a
12 skilled nursing home to get somebody out the door, if there
13 is a chance to keep a bed filled and no one is going to
14 review it?

15 Ms. Burke: Presumably under the new prospective payment
16 system the institution has an incentive, because of course
17 they are paid an amount which reflects the diagnosis. They
18 are not paid on a per diem basis. Under prior law, where
19 Medicare paid an institution on a day by day basis, there was
20 in fact every incentive for an institution to retain patients
21 as long as possible. Prospective payment presumably would
22 alter that incentive.

23 The Administration, however, felt that neither under the
24 traditional system of cost-based per diem reimbursement nor
25 under prospective payment that reviews were required to be

1 mandated by law, but in effect institutions would do that
2 internally, without requirements by law.

3 We might ask the Administration to comment.

4 Senator Chafee: It might work the other way. Maybe the
5 institutions would be anxious to get them out the door too
6 quickly.

7 Ms. Furke: That has also been a concern, that is
8 correct, Senator. In fact, one of the concerns with respect
9 to the DRGs would be that institutions might discharge
10 patients before the time that they would appropriately be
11 discharged. That was a concern indicated in the conference
12 report, as a matter of fact, on DRGs and a concern that many
13 believe that the PSROs or the new peer review organizations
14 are maintained to try to control that taking place.

15 The Administration representative is here now. We might
16 ask that they specifically indicate their concerns.

17 Senator Chafee: Well, let me just say that I am not for
18 utilization review just to have something there. As a matter
19 of fact, as you know, Sheila, I have a proposal to
20 restructure the physician recertification on the Medicaid,
21 which we have talked of with the staff and seems to have
22 considerable support.

23 So there is no point in having these things just to keep
24 a lot of people busy. But the whole rationale, as I
25 understand, is based on the prospective reimbursement, is

1 that right?

2 Mr. Bourque: Senator, we think it is very important
3 that, particularly with the implementation of our new
4 prospective payments system, that there be both a very
5 significant medical review program and some utilization
6 review. We think that right now there is currently under
7 discussion who ought to be the right organization to do
8 that.

9 As you know, the Congress has indicated that peer review
10 organizations are the right forum, and we certainly would
11 like to get that system up and running and to be doing this
12 kind of review.

13 Senator Chafee: Who, the peer review?

14 Mr. Bourque: Yes, sir.

15 Senator Durenberger: We could just scratch these as
16 Administration recommendations.

17 Senator Chafee: This proposes eliminating it.

18 Mr. Bourque: Yes, proposing to eliminate the requirement
19 for utilization review within an institution, but again
20 recognizing that we would be substituting for that system a
21 peer review system that will look at issues of utilization
22 and certainly quality and medical review.

23 Senator Durenberger: John, I thank you for your
24 contribution.

25 Senator Baucus: Will the Senator yield?

1 Senator Durenberger: The Senator from Montana.

2 Senator Baucus: The Senator from Rhode Island might be
3 interested. This very issue concerns me, too. In fact, I
4 have an amendment to fund PSROs during this transition
5 period, because I think that there has to be a utilization
6 review, for reasons that the Senator suggested, and that is
7 either because there are too many patients in or there are
8 too few patients or the patients are in for too many days or
9 too few days. And both sides of that equation I think have
10 to be addressed.

11 But I personally believe that during this transition
12 period that we have to have some kind of a peer review
13 system. And the PSRO's we have had in the past have had
14 their strong points and their weak points, depending upon
15 what parts of the country they serve. But generally, I think
16 it is a necessary transition system.

17 Senator Chafee: Well, I know OMB has had their guns out
18 for PSRO's for a long time.

19 Mr. Bourque: Senator, if I might comment on that. As I
20 stated, the Administration believes strongly, with the
21 implementation of our new system for prospective payment,
22 that we do need effective controls in place, both on the
23 utilization side and the medical review side. And at this
24 point we believe that PSRO's are the most effective
25 organization to do that in this transition because of the

1 time it would take to get our intermediaries up and running
2 and up to speed to be able to do this.

3 I think it is up to the will of Congress as to how that
4 is done in terms of funding.

5 Senator Baucus: That is what I was going to ask. So far
6 there is no funding, though, for PSROs, is that correct?

7 Mr. Bourque: To the best of my knowledge, although I
8 understand that it is --

9 Senator Baucus: That would be the purpose of my
10 amendment.

11 Senator Chafee: Are you speaking on behalf of the
12 Administration?

13 Mr. Bourque: Yes, sir.

14 Senator Chafee: I find the message confusing.

15 Mr. Bourque: Well, Senator, some of these proposals were
16 proposed before we had a prospective payments system in
17 place. And I think that there has been a change in attitude,
18 recognizing that we have got a new system with some of the
19 concerns that you have pointed out.

20 Senator Chafee: Well, I am for the system.

21 Thank you.

22 Senator Durenberger: Thank you.

23 Any other questions on eight?

24 [No response.]

25 Senator Durenberger: If not, we will go to number nine.

1 Ms. Burke: Item number nine, noted on page 13, would
2 reimburse home health agencies for durable medical equipment
3 at 80 percent of the reasonable cost and permit agencies to
4 bill beneficiaries for the remaining 20 percent. Under
5 current law durable medical equipment, if furnished by a
6 supplier of services rather than by an institutional
7 provider, is indeed paid under the Part B program on the
8 basis of 80 percent being paid by Medicare, 20 percent
9 copayment required by the beneficiary.

10 This proposal would require that home health
11 agency-providing durable medical equipment would be treated
12 in the same fashion as traditional durable medical equipment
13 provided by any other non-institutional provider, whereas
14 Medicare would pay 80 percent and indeed the beneficiary
15 would be required to pay 20 percent, rather than the 100
16 percent which is currently provided for durable medical
17 equipment provided by home health agencies.

18 The three-year savings total as a result of this proposal
19 is estimated at \$55 million.

20 Senator Durenberger: Have we taken any previous action
21 on that?

22 Ms. Burke: No, Senator, we have not.

23 Senator Durenberger: Any questions on number nine?

24 [No response.]

25 Senator Durenberger: All right. Number ten.

1 Ms. Burke: Item number ten is a proposal with respect to
2 competitive procurement of laboratory services, durable
3 medical equipment, and other medical supplies. Under the
4 proposal, all physicians and beneficiaries are free to select
5 their sources of laboratory services, equipment and supplies
6 from all providers available in the community.

7 This proposal would allow the providers to competitively
8 bid, with select providers to provide services in an area,
9 and would limit the availability of providers to be chosen by
10 beneficiaries. The intention is to provide the opportunity
11 for competitive bidding and negotiations with very specific
12 suppliers that might be less costly than dealing with all
13 providers available in a community.

14 The savings as a result of this proposal are estimated at
15 \$43 million over a three-year period of time.

16 Senator Durenberger: Any questions?

17 [No response.]

18 Senator Durenberger: Number 11.

19 Ms. Burke: Item number 11, noted on page 14, would
20 eliminate the current waiver of provider liability for
21 uncovered services. Under current law Medicare pays
22 hospitals and skilled nursing facilities for certain
23 uncovered or unnecessary services provided to beneficiaries
24 if the institution, either a hospital or a skilled nursing
25 facility, could not have known that the payment would be

1 disallowed. The institutions are not held liable for those
2 costs if their total denial rate -- that is, the total number
3 of instances in which Medicare claims were denied -- remains
4 below a certain prescribed level.

5 The Administration proposal would eliminate the waiver of
6 liability in all cases and would not allow institutions to be
7 paid for services that were determined to be unnecessary,
8 regardless of what their historical track record was with
9 respect to denials.

10 The three-year savings of the proposal were not indicated
11 by CBO as to save any money under this proposal.

12 Senator Durenberger: Any questions?

13 [No response.]

14 Senator Durenberger: Number 12.

15 Ms. Burke: Item number 12, noted on page 14, would
16 provide for the assignment of inpatient hospital benefit
17 period deductible and coinsurance in the order of filing of
18 payment requests. This has to do with how one determines who
19 gets paid first when there are a number of providers dealing
20 with a beneficiary.

21 The Administration proposal would assign the responsibility
22 in the order in which the hospitals submitted requests for
23 Medicare payments, rather than the order in which the
24 services were provided. The hospital that provided services
25 after another hospital but submitted its payment request

1 first, of course, would then be responsible for collecting
2 the deductible and be credited with the first 60 days of
3 coverage.

4 The three-years savings total as a result of this
5 proposal are estimated at \$9.9 billion -- excuse me, million
6 dollars, \$9.9 million.

7 Senator Durenberger: Any questions?

8 [No response.]

9 Senator Durenberger: All right. Number 13.

10 Ms. Burke: Item number 13, noted on page 15, is a
11 resubmittal by the Administration and would increase the
12 Secretary's discretion in entering into agreements for
13 Medicare claims processing: one, by eliminating the right of
14 providers of services to nominate intermediaries.

15 Currently, institutions, hospitals, may nominate an
16 intermediary that they wish to deal with. This proposal
17 would remove that right and allow the Secretary to designate
18 an intermediary, in much the same way as they would with a
19 carrier dealing with physician services.

20 Secondly, it would broaden the Secretary's authority to
21 experiment with different kinds of contracts by including
22 contracts other than fixed price or performance incentive
23 contracts, and would also permit the waiver of the
24 competitive bidding requirements that are currently in
25 place.

1 The three-year savings estimate for this proposal are
2 \$11.3 million.

3 Senator Durenberger: Any questions?

4 [No response.]

5 Senator Durenberger: All right. Number 14.

6 Ms. Burke: Item number 14 on page 15 is a proposal,
7 again a resubmittal by the Administration, which would
8 eliminate the funding for the end stage renal disease
9 networks and would make the national ESRD medical information
10 system discretionary with the Secretary. Under current law
11 the Secretary is required to designate networks which are in
12 place and perform a variety of functions in connection with
13 the end stage renal disease program, including developing
14 criteria and standards for quality of patient care.

15 This proposal would eliminate the funding for those
16 networks.

17 Senator Durenberger: Are there any questions?

18 [No response.]

19 Senator Durenberger: All right. Number 15.

20 Ms. Burke: Noted on page 16, is a resubmittal by the
21 Administration and would eliminate the requirement for a
22 Railroad Retirement Board carrier contract. Current law
23 requires that the Railroad Retirement Board contract with a
24 carrier or carriers to handle Medicare Part B payments with
25 respect to Railroad Retirement beneficiaries. The Board has

1 traditionally contracted with the Travellers Insurance
2 Company to serve as their carrier nationwide.

3 This proposal would remove the requirement for a separate
4 carrier and would simply treat the retirees in the same
5 fashion as all other Medicare beneficiaries in terms of their
6 claims, and they would be dealt with by the other carriers
7 throughout the country traditionally used.

8 The savings of this proposal is estimated to be \$4.5
9 million over a three-year period of time.

10 Senator Durenberger: Are there any questions on that
11 proposal?

12 [No response.]

13 Senator Durenberger: If not, there are what, four or
14 five proposals on Medicaid. Why do we not go through those
15 quickly.

16 Ms. Burke: The first, noted on page 17, is a resubmittal
17 by the Administration and would require nominal cost-sharing
18 by Medicaid recipients. Changes were made, if the Committee
19 will recall, in TEFRA with respect to cost-sharing, but would
20 still leave it up to the states to determine whether or not
21 to require cost-sharing.

22 This proposal would mandate the states to impose
23 cost-sharing charges on categorically needy and medically
24 needy patients for physician, clinic and hospital outpatient
25 departments and for inpatient hospital services.

1 Senator Durenberger: Can you tell us what has happened
2 cut there since TEFRA passed? Have any of the states taken
3 action?

4 Mr. Bourque: Our understanding is, Senator, that there
5 are indeed a number of states who are pursuing cost-sharing
6 requirements with respect to beneficiaries. There have been
7 mixed results. In some cases they have felt that they were
8 not useful and in fact were more costly to collect than they
9 were to apply and utilize in terms of discouraging
10 overutilization of services.

11 But indeed, we are seeing an increase in the number of
12 states who are requiring cost-sharing on certain services.

13 Senator Chafee: Sheila, what about the exemptions that
14 we had in TEFRA that are listed up there?

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1 Ms. Burke: That exemption, of course, still applies and
2 prohibits cost sharing on services provided to long term care
3 in-patients, to services provided to pregnant women. That
4 would not, as I understand it -- part of that would be
5 maintained. They would prohibit imposing copayments on
6 services to long term care in-patients or services provided
7 by HMO's to the categorically needy. I do not recall -- Let
8 me just note, they would be provided certain exemptions with
9 respect to pregnant women, but I do not believe there would
10 be a prohibition. There would be no prohibition under the
11 proposal for services with respect to pregnant women. That
12 would be an exemption that would be provided, but not a
13 prohibition.

14 Senator Chafee: Well, Mr. Chairman, as you recall, we
15 debated this rather carefully when we were doing this
16 legislation, and I thought this Committee was unanimous on
17 the exemptions that we had written in there for the children
18 under 18, and particularly for the services to pregnant
19 women. I just think it is self-defeating, some of this.
20 This is a group we want to encourage to come for medical
21 services, certainly, the pregnant women, and I do not know
22 what status we are in in the markup of this legislation right
23 now, but at the proper time, I would like to have that
24 inserted in there.

25 Ms. Burke: My understanding is that the states were also

1 concerned that they not be put in the position of being
2 mandated to apply cost sharing requirements, but rather, they
3 be left in their current situation, which allows them to
4 provide them where they believe to be appropriate rather than
5 be mandated to apply them.

6 Senator Bentsen: At the appropriate time, I will want to
7 take care of the situation of first time pregnancies as the
8 amendment that I proposed on the unemployment health
9 benefits.

10 Senator Durenberger: Any other comments or questions?
11 Why do we not go through the rest of the Medicaid?

12 Ms. Burke: On Page 18, again, really, an administrative
13 change. It would propose -- Item Number 2 would improve the
14 third party payment collections, and would provide for
15 retention of administrative costs associated with third party
16 recoveries for the program and would require as a condition
17 of Medicaid eligibility that an applicant assign his or her
18 insurance rights to the Medicaid agency.

19 Traditionally Medicaid, of course, is a payer of last
20 resort. This really provides the states an opportunity. In
21 effect, 25 states already do require individuals to sign over
22 the rights to any other payer. This would require that as a
23 condition of participation that individual do so.

24 Item Number 3 on Page 18 again in many ways is an
25 administrative issue, has to do with paying 100 percent

1 federal reimbursement for the combined processing of Medicare
2 and Medicaid claims by Medicare contractors. Under current
3 law, claims for duly eligible individuals, eligible
4 individuals for both Medicare and Medicaid are processed by
5 both the Medicaid fiscal agent and the Medicare carrier. The
6 intention of this proposal is to coordinate the processing of
7 those claims and thereby recognize an administrative savings,
8 a three-year savings of \$4 million.

9 Item Number 4, noted on Page 19, would extend the
10 existing reduction and offset provisions in current law with
11 respect to federal Medicaid payments. The reduction rate, as
12 you will recall, two years that was provided for was a
13 three-year reduction. The states would receive an automatic
14 reduction in the payment made by the federal government for
15 the Medicaid services. It was reduced by 3 percent in fiscal
16 year 1982, by 4 percent in fiscal year 1983, and by 4.5
17 percent in fiscal year 1984.

18 So, that three-year reduction expires next year. This
19 proposal would extend the existing reduction at a 3 percent
20 for fiscal year 1985 and beyond. This is an automatic offset
21 in terms of the amounts paid to states for their Medicaid
22 services by the federal government.

23 Senator Durenberger: What is the position of the states
24 on this?

25 Ms. Burke: The states are in opposition to the proposal.

1 Senator Durenberger: And the rationale?

2 Ms. Burke: That they have already put into place as many
3 cost savings as are possible, and it is simply a shifting of
4 responsibility from the federal government to the state
5 government with respect to the cost of services. This would
6 be a \$900 million savings over three years, and they believe
7 it is inappropriate for the federal government simply to
8 arbitrarily reduce what they would otherwise be required to
9 pay.

10 Senator Durenberger: They went from three to four, and
11 they are going to 4.5?

12 Ms. Burke: Yes, sir. As of October the 1st, 1984.

13 Senator Durenberger: Could they live with something less
14 than 4.5?

15 Ms. Burke: This proposal would reduce the proposal to 3
16 percent, and would hold it constant in the out years. It
17 would be a permanent provision.

18 Senator Durenberger: Do you have an opinion as to
19 whether they could live with less than 4.5?

20 Ms. Burke: A number of states have indeed put into place
21 provisions which assisted them in reducing their
22 expenditures, and in fact states have been able to offset the
23 reductions. The original provision provided for four means
24 that the states could offset by 1 percent the amount they
25 would have otherwise been reduced, and in fact a number of

1 states had increased their fraud and abuse collections, have
2 been successful in meeting the incentive payments, which is
3 to come below a certain target rate that was established, and
4 of course these seven states that currently have state rate
5 setting systems, I think the states are in differing
6 positions economically, to be perfectly frank, across the
7 country. I am sure there are some who could tolerate it
8 better than others.

9 Senator Durenberger: All right, number 5.

10 Ms. Burke: If I might also provide for the Committee's
11 consideration, we had costed out alternatives to that
12 proposal. That was a 2 percent reduction rather than 3
13 percent, of 1 percent, and a declining reduction, a three,
14 two, one proposal. A 2 percent permanent reduction would
15 have a three-year cost savings of \$495 million. A permanent
16 1 percent reduction, approximately \$64 million, and a three,
17 two, one, that is, a phase out over three years, \$642.9
18 million. Those are the last of the legislative proposals.
19 The items noted on Page 19 under Item 5 are the effects of
20 other program changes on Medicaid expenditures.

21 The last item with respect to Medicaid is a regulatory
22 initiative being put in place by the Administration, and does
23 not require legislation, and has to do with really the child
24 support enforcement program and the recovery by the states of
25 health insurance costs for individuals who are identified

1 through the child support enforcement agencies. That has a
2 three-year savings to the Medicaid program of \$301 million.

3 The item on Page 21 has to do with the maternal and child
4 health services block grant. The Administration proposed a
5 number of changes in that block grant which are noted on that
6 page, which would remove a number of the requirements
7 currently existing in the block grant, with respect to state
8 assurances, with respect to federal set-asides, and a number
9 of other items.

10 There is no budget effect with respect to those
11 administrative changes that they would suggest.

12 Senator Durenberger: Does that complete our list?

13 Ms. Burke: That completes the list of the Administration
14 proposals. In addition to that, as I noted, the Committee
15 has before it an item identified as the executive session
16 materials, and Attachment C, which is contained in those
17 materials, listed a number of additional reconciliation
18 options, the first of which was the modification of the Part
19 B premium that I described earlier and the Committee agreed
20 to as a part of S. 951.

21 The second item was the physician freeze on charges,
22 payment for charges, which I also described earlier, and was
23 incorporated in S. 951. Item Number 3 is a provision the
24 Committee has not previously considered, and would provide
25 Medicare coverage of the hepatitis B vaccine for end stage

1 renal disease hemodialysis patients. That has a three-year
2 cost savings of \$1.5 million.

3 Item Number 4 noted on that document --

4 Senator Durenberger: Are you recommending that, or where
5 did these come from?

6 Ms. Burke: These were staff recommendations for further
7 consideration by the Committee. Yes, sir.

8 Item Number 4 is a proposal which would increase the
9 Medicaid ceilings for Puerto Rico and the territories. As
10 the Committee may recall, under present law, the federal
11 Medicaid matching rate for Puerto Rico, the Virgin Islands,
12 Guam, American Samoa, and the Northern Marianas, are set at
13 50 percent, unlike the other states, which, of course, have
14 variable matching rates, and they are subject to an annual
15 dollar ceiling. The dollar ceilings currently are \$45
16 million for Puerto Rico, 1.5 for the Virgin Islands, \$1.4
17 million for Guam, and \$350,000 for the Northern Marianas, and
18 \$750,000 for American Samoa.

19 This proposal, which the Committee may wish to consider,
20 would increase the funding to Puerto Rico and the territories
21 by \$20 million in 1984, \$20 million in 1985, and \$20 million
22 in 1986, and that increase would be distributed to those
23 territories basically on the same percentage of their current
24 amounts.

25 Item Number 5 would provide for an increase in the

1 authorization for the maternal and child health block grant
2 program. The present authorization level for the MCH grant
3 is \$373 million. \$105 million in additional appropriation
4 was provided for since that time, and this proposal would
5 permanently increase the authorization level to \$455 million
6 by 1986.

7 As noted, the expenditures resulting from this proposal
8 were assumed in the first budget resolution.

9 Senator Durenberger: Any comments on that?

10 The Chairman: As I understand it, we just sort of have
11 adopted everything up to date?

12 Senator Durenberger: We are just going through the staff
13 recommendations at this point, and will probably adopt it
14 all.

15 Ms. Burke: The last item, if I might describe, is
16 included in the document you have before you, which is
17 entitled The Budget Provisions Previously Agreed to by the
18 Senate Finance Committee and Included in S. 951.

19 The first, of course, is the repeal on the Part B premium
20 increase limitation. The second, of course, is the physician
21 fee prevailing charge level. The third proposal is the
22 proposal Senator Bentsen mentioned a few moments ago which
23 had to do with Medicaid coverage for pregnant women. The
24 provision that was agreed to previously by the Committee
25 would mandate the states for a two-year period beginning in

1 August of 1983 to provide Medicaid coverage with medical
2 determination of pregnancy to every woman who would be
3 eligible for AFDC if the child were born.

4 The two-year costs as a result of this proposal were
5 estimated at \$50 million by CBC. In addition, the Committee
6 may recall that there were a number of Medicare and Medicaid
7 technical amendments which were also included in S. 951 and
8 had no budget effect.

9 Senator Durenberger: That does it?

10 Ms. Burke: Yes, sir.

11 Senator Durenberger: Mr. Chairman, do you like it down
12 there, or would you like to come out here?

13 The Chairman: That completes what, staff
14 recommendations?

15 Ms. Burke: Yes, sir, in the health area. Both the
16 Administration and the staff recommendations have been
17 reviewed.

18 The Chairman: [Presiding] So we have been through the
19 Administration's recommendations and the staff
20 recommendations. If we adopted the staff recommendations,
21 what would the savings be?

22 Ms. Burke: Approximately \$1.6 billion for the two
23 Medicare changes, and that would include the provision with
24 respect to Medicaid coverage for pregnant women. That was
25 the Part B premium, which was the additional staff suggestion

1 considered and agreed to previously, the Part B physician fee
2 proposal. That was also agreed to. That amount does not
3 include an increase in Medicaid ceiling for Puerto Rico and
4 the territories, but would include the hepatitis B vaccine.
5 Those are simply proposals that were considered in addition
6 to the Administration's original proposals.

7 The Chairman: All right. And then if you adopted, if
8 the Administration's proposals were adopted in the form
9 submitted, what would the savings be in Medicare and Medicaid?

10 Ms. Burke: Approximately \$13 billion over a three-year
11 period of time, \$10.8 billion in the Medicare area and \$1.5
12 billion in the Medicaid area. That would include, of course,
13 the two provisions that we subsequently modified, the Part B
14 premium and the physicians. So if you pulled those out and
15 replaced them with the staff provisions, it would be slightly
16 less.

17 The Chairman: Does the Administration still support
18 those recommendations as described?

19 Mr. Bourque: Yes, Senator.

20 The Chairman: Well, I know some members, before we start
21 voting, also have -- Senator Baucus has an amendment, and
22 there may be other amendments, and I indicated we would not
23 get to the voting or amendment stage this morning, but give
24 all members an opportunity to ask questions about staff
25 recommendations, and also Administration recommendations. So

1 I would guess if there are additional questions at this time,
2 or if anybody wants to discuss an amendment they will offer
3 later, we could probably do that now.

4 Senator Bentsen: Mr. Chairman, I will be offering the
5 amendment on the unemployment benefits, and I would like
6 serious consideration to be given to taking off the sunset
7 provision, which limits it to two years, because I think the
8 merits are such that it is justified to be carried on on a
9 continuing basis.

10 The Chairman: What is that on?

11 Senator Bentsen: That is on first time pregnancies,
12 extension of Medicaid. You have a situation there where you
13 have for children that are under the 2,500 grams, say, for
14 example, 1,500 grams, are much more prone to disabilities, to
15 mental handicaps, to death, to all kinds of problems. The
16 studies show that where they have had the prenatal care in
17 those situations, that you have had a much better survival
18 rate, and in addition, children that do not have some kinds
19 of inherent limitations that result from the lack of proper
20 prenatal medical care.

21 The Chairman: Right. I remember that now. We had some
22 discussion of that earlier.

23 Senator Bentsen: And we passed it in the full Committee
24 at that time, and I want to propose it again.

25 Senator Durenberger: Senator, Senator Bradley indicated

1 that we worked out some kind of an arrangement on delaying
2 the implementation of the single payment rate for hospital
3 based skilled nursing facility. I think we agreed to
4 continue that delay until April 1st. I know that was of
5 concern to him.

6 The Chairman: But if there are no more questions in this
7 area, and I do not want to shut off questions, I just want to
8 indicate that we will try to have an explanation of the
9 unemployment compensation proposal before noon, and then we
10 are asking permission to sit this afternoon starting at 2:00
11 o'clock, because we need to do something by the end of this
12 month on unemployment, federal supplemental benefits, so we
13 hope there is no objection on the floor, because time is
14 running out. Are there other questions in this area?

15 Senator Chafee: Yes, Mr. Chairman. I will have an
16 amendment dealing with changes in the Medicaid 60-day
17 recertification by a physician. It has been my understanding
18 that this has become a pro forma action for many of the long
19 term Medicaid patients, and it is at a cost that really does
20 not accomplish much. So therefore I think that we should
21 review that, and restructure that and make some changes. We
22 have discussed that with you, Sheila, and your staff. What
23 comments do you have on that?

24 Ms. Burke: Senator, we believe the proposal is a good
25 one, and the Administration will also agree, and I believe

1 the Committee may wish to consider it favorably. There were
2 no objections in talking with either the industry, with the
3 Administration, or with the minority on that proposal.

4 Senator Chafee: Whether there will be some, I presume,
5 modest savings.

6 Ms. Burke: We have asked CEO to give us those
7 estimates. Yes, sir.

8 Senator Chafee: Okay. The other thing is, we have
9 discussed here in this Committee before, and that is going to
10 some means testing on the Medicare program. Obviously, that
11 is a major step, but no matter what you say, we went to means
12 testing on the social security and with the trust fund in the
13 share it is in, I think we have got to look at that, and Mr.
14 Chairman, I would hope that the staff could give that some
15 consideration and come forward with some recommendations.

16 Senator Durenberger: I would just mention to my
17 colleague that we sensed his encouragement several months
18 ago, and we are already working on how we might incorporate
19 that particularly with regard to Part B, which is not part of
20 the Medicare, traditional Medicare entitlement, and we will
21 have proposals in the very near future on the possibility of
22 income testing.

23 Senator Chafee: Under the current system of
24 reimbursement, a physician who orders an expensive array of
25 technologically intensive diagnostic services is compensated

1 at high levels, but the physician who spends a little time
2 talking with his patient and getting into a detailed patient
3 interview and comes to the decision to send the patient home,
4 he is reimbursed at a much lower level, and it was my thought
5 that if OTA could conduct some study as to how to modify the
6 existing system for determining Medicare allowances, to allow
7 relatively more reimbursement for what you might call
8 cognitive services and less for technological procedures.

9 The Chairman: What was the question?

10 Senator Chafee: The question was, having OTA look at
11 some kind of study of the existing system for determining
12 Medicare allowances to see if there could be less accent on
13 rewarding for technological procedures and a little more for
14 somebody who spends some time with the patient in a personal
15 interview and determining what is best for the patient.

16 Now, I can see this has problems that a physician can
17 wrack up. I had a nice chat with a patient for
18 three-quarters of an hour, and he seems fine, and his
19 mother-in-law is fine, too. But there is no question but the
20 accent now is on rewarding somebody who will order a battery
21 of services, so my suggestion would have OTA look at this and
22 see if they can come up with some suggestions on changing the
23 reimbursement system.

24 The Chairman: I do not see any problem with the
25 proposal, but again, I think if some of these that are no

1 cost involved, we might as well accept, unless there is some
2 objection. I think those where I promised Senator Eaucus and
3 others, they have amendments they would like to present, and
4 they could not do it this morning. I said, we will not act
5 on any amendments, but I think it is fair if nobody objects
6 and there is no cost involved, and this would be one in that
7 category. I think Senator Bradley has one of those. And
8 maybe we might as well go ahead and do the little amendments.

9 Senator Chafee: They fall in a higher category than
10 that, Mr. Chairman.

11 Senator Danforth: Mr. Chairman, Senator Wallace has a
12 speaking engagement at lunch, and he and Senator Boren and I
13 would like to at some point in the next five minutes or so,
14 if we could, bring up the matter.

15 Senator Bradley: Mr. Chairman, I certainly want to
16 accommodate those Senators who have speaking engagements, but
17 I would just like to take ten seconds, and I think maybe
18 Senator Durenberger already took care of it. I just want to
19 make sure that we have dealt with the six-month delay. We
20 have dealt with that?

21 Senator Durenberger: Well, I mentioned that you would
22 have that suggestion.

23 Senator Bradley: Basically, it extends six months the
24 deadline on the effect of the TEFRA provisions, and it
25 provides single rate for skilled nursing homes, whether they

1 are community based or hospital based, and we have asked for
2 a study, and that study is not back, so postpone it six
3 months before it goes into effect. That is basically it.

4 The Chairman: Has the staff had a chance to review that
5 proposal and the Administration, and is there any objection
6 to that?

7 Ms. Burke: Senator, the staff would recommend accepting
8 the provision. I should note that it has a cost over two
9 years of \$35 million. Very honestly, I think Senator Bradley
10 has a good point. The Administration has not completed their
11 report. The hospitals, of course, are going through
12 prospective payment, and have a great deal to bear anyway
13 without a reduction in their payment rates, and in fact the
14 whole question of whether prospective payments should be
15 extended to nursing homes is also obviously under active
16 consideration, and we would recommend support of the
17 proposal.

18 Senator Heinz: Mr. Chairman, in our conference report on
19 this measure, we did give the nursing homes associated with
20 hospitals, hospital based nursing homes an extension. Did we
21 also give community? Senator Bradley wants to include
22 community based nursing homes as well. Is that what we are
23 doing?

24 Ms. Burke: The single limit was for all nursing homes,
25 Senator. It was an extension of the limit in its entirety.

1 Senator Heinz: And we are further extending it?

2 Ms. Eurke: Yes, six months.

3 Senator Heinz: I would support that.

4 Mr. Bourque: Our report, Mr. Chairman, is expected by
5 the end of the year.

6 The Chairman: So you would not oppose the extension then?

7 Mr. Bourque: Well, we are concerned about the cost, Mr.
8 Chairman, and we would prefer to have the single limits go
9 into effect as of October 1, but we also understand the
10 Committee's concerns.

11 The Chairman: The study may not be available to us until
12 about three or four months from now, because we will not be
13 here until February, and I think the cost certainly is of
14 concern, but I really believe that you could round it down.

15 Senator Danforth: Mr. Chairman?

16 The Chairman: So there is no objection to that
17 amendment? Has Senator Armstrong been notified? Why do you
18 not go ahead and present your amendment?

19 Senator Bradley: So we have adopted that amendment?

20 The Chairman: Yes. Senator Boren and Senator Danforth
21 have an amendment they would like to discuss, and again,
22 Senator Moynihan and Senator Armstrong want to be present and
23 participate in the discussion. Maybe you could go ahead and
24 launch your discussion and they will be here.

25 Senator Danforth: Mr. Chairman, thank you very much.

1 The issue that we would like to raise is an amendment or a
2 proposal based on a bill which was introduced earlier in the
3 year by Senators Boren and Wallop and myself. The so-called
4 CPI minus three proposal, the CPI minus three proposal would
5 for a period of between 1985 and 1988 reduce COLA adjustments
6 by 3 percent. That is, indexing for the purpose of both the
7 non-means tested entitlement programs and for the purpose of
8 tax indexing which comes into play in 1985.

9 Indexing would not be of the full CPI between 1985 and
10 1988, but would be a consumer price index minus 3 percent.
11 This would produce about \$117 billion in deficit reduction
12 during that period of time. It would increase revenues by \$57
13 billion. It would reduce spending by \$60 billion.

14 The theory of this proposal, Mr. Chairman, is that the
15 budget deficit is getting out of hand and is out of hand.
16 Right now the national debt stands at \$1.3 trillion. It will
17 reach \$2 trillion by 1986. It will reach \$2.6 trillion by
18 1988. What we have done in increasing the national debt and
19 the interest that we have to pay on the national debt is
20 wiping out all of the budget savings which we labored so hard
21 to put in place in 1981 and 1982.

22 It is, of course, worthwhile to go through Medicare and
23 other programs to see if there are some marginal savings that
24 could be accomplished, but our view is that the deficit is so
25 large that it requires something more than a marginal

1 approach, and for that reason, we offer the CPI minus three
2 approach.

3 Mr. Chairman, I think that a lot of us in political life
4 believe that the public is totally unreceptive to any
5 participation in solving our budget problems. We are so
6 concerned with offending any group, any interest group, that
7 because of that concern and because of vote counting on the
8 next election we refuse to take those steps which are
9 necessary, but my view is that with a broadly based approach
10 which treats everyone the same, and which is viewed as being
11 fair and not singling out one group for special treatment,
12 the American people would welcome such an approach.

13 I have tried the CPI minus three idea on town meetings in
14 my state of Missouri, and the reaction has been
15 overwhelmingly favorable. We are receiving mail on it. The
16 mail is overwhelmingly favorable. I believe, and I think all
17 of us, the three of us believe that the American people are
18 willing to do something which is broad based and fair and
19 which significantly reduces the size of the deficit, and that
20 is what CPI minus three would do.

21 The Chairman: Senator Wallop?

22 Senator Wallop: Mr. Chairman, I endorse everything that
23 Senator Danforth has said, and it is my view and, I think,
24 the view of a lot of other people that you will never make a
25 significant dent in the deficit without balancing

1 expenditures and revenues sort of equitably in a way that is
2 minimal in its effect, and I think one thing Senator Danforth
3 did not explain that should be is that nobody would end up
4 with a reduction in their benefit if the rate of inflation
5 was less than 3 percent. You would not have a minus 1
6 percent the following year. But several things, I think,
7 should be pointed out.

8 One is that federal spending generally has increased from
9 18 percent of the gross national product in 1965 to almost 25
10 percent this year, and our revenues simply have not matched
11 in any way this decline. I think this year the deficits will
12 go as high as about 6.3 percent to the gross national
13 product. It is an intolerable situation for any country
14 which seeks some kind of economic viability in its future.
15 It is important, I think, as well to realize that the direct
16 purchase of goods and services by the federal government has
17 declined from 11 percent of GNP to 7 percent over the past
18 two decades.

19 Federal income transfer programs in that time have more
20 than doubled, from 4 percent of GNP to 10 percent of GNP.
21 Between 1970 and 1988, defense spending will have increased
22 by 36 percent in constant 1983 dollars. Non-defense spending
23 income transfers primarily will increase by 95 percent
24 between 1970 and 1988.

25

1 All of these are with no movement in particular on the
2 part of Congress to deal with it. The problem that we have,
3 I believe, in trying to reduce deficits by solely increasing
4 revenues is that it does not -- we sort of get comfortable
5 with the deficit and simply use the increased revenues for
6 yet another means of keeping it more or less constant. It
7 does not decline.

8 And unless we do something that corresponds with the
9 increase in revenues as a decrease in expenditures, we do not
10 really have any plan that will give some perspective to the
11 American people that we are serious about these.

12 Most of that non-defense spending increase that I spoke
13 of is for income transfers. These programs provide benefits
14 to 50 percent of all the families in America and about 33
15 percent of the population, and that includes both social
16 insurance such as social security, which affects 35 percent
17 of the families in America, and welfare, which affects 15
18 percent of them.

19 I would hope that this Committee and this Congress would
20 take a serious look at trying to do something which is
21 non-punitive either to those who pay revenues or those who
22 receive income transfers from the rest of the country, which
23 does pay them. The penalties involved are really minimal and
24 really hurt less, if you will, and the effect of it in terms
25 of reducing these monstrous deficits is really significant.

1 The Chairman: Could I just interrupt briefly? I know
2 Senator Ecren is one of the principal cosponsors and Senator
3 Wallop has a speaking engagement. I wonder if we might just
4 recognize Senator Bentsen for 30 seconds to bring up the
5 amendment he offered.

6 Senator Bentsen: Surely. I thank the Chairman and the
7 gentleman very much.

8 This is one that applies Medicaid to first-time
9 pregnancies, and you have a very major benefit insofar as
10 children being born without handicaps, of average weight, and
11 without some of the mental problems that come from not having
12 proper prenatal care.

13 I might further add that the cost estimates would be
14 adjusted down substantially because the facts have shown
15 that, instead of 20-some states not affording this, it is
16 only 7 states that do not afford it now. And we also have in
17 the budget resolution \$49 million that was specifically
18 earmarked for that purpose, and I would urge its adoption,
19 with the removal of the sunset provision.

20 The Chairman: This was discussed before and I was
21 involved in that discussion. We were concerned about the
22 cost and we tried to work out some determination. I
23 understand now from staff that we may have overstated the
24 cost substantially. As was pointed out, we thought it
25 covered 20 states and we understand there are 7.

1 We understand the Administration has mild objection. But
2 without objection, the amendment is agreed to.

3 Senator Boren.

4 Senator Boren: Mr. Chairman, that amendment has been
5 handled so well, I thought maybe we might just go ahead and
6 take up Senator Danforth's and Senator Wallop's and my
7 amendment and do it the same way.

8 [Laughter.]

9 Senator Boren: Being noncontroversial as it is.

10 I just want to add my words of agreement with what has
11 already been said by Senator Danforth and Senator Wallop. I
12 think in many ways -- and I heard this so much as I talked to
13 people in our state -- we have been underestimating the
14 intelligence and the patriotism of the American people.

15 I think that there is a broad understanding of what these
16 deficits are going to do, and the estimates I have seen, if
17 we add another trillion dollars to the national debt between
18 now and 1988 we are going to be taking, the range I have
19 seen, between 58 and 68 percent of the available credit in
20 this country by 1988 to finance and service those deficits.

21 Now, I do not think there is anyone in this room that
22 does not understand, if that happens the effects on the
23 American economy are going to be catastrophic, and I do not
24 think we have very long to wait. Some people say we have 12
25 months, some people say we have 18 months.

1 As we begin to have an economic recovery and we begin to
2 use up that slack capacity, the demand for private credit
3 increases. We are going to be bumping up against Government
4 borrowing. We are going to have a real crisis that is going
5 to have to be met either by rapidly escalating interest rates
6 or investing in some new equipment that will print the money
7 faster than any equipment that we now have available to us.

8 And I think it is extremely serious. The people that I
9 talk to say over and over again, we are ready to make a
10 sacrifice as long as everybody does it, as long as we have
11 some kind of program that puts all Americans in the same boat
12 together.

13 And I think that this proposal does that. It is not the
14 total solution. We are dealing here with approximately \$120
15 billion of savings between now and 1988. Obviously some
16 other things must be added to that to make the deficit
17 reduction dramatic enough to be effective. But it is an
18 important start.

19 And I think the important thing about it is that it says,
20 whether you are upper income, middle income or lower income,
21 all Americans will be getting in that boat together, making
22 some sacrifice. If you just ask those who are on the
23 receiving end of Government programs to sacrifice, they say,
24 well, why just us, why not those people at the upper end?
25 You just ask those who are paying the bulk of the taxes to do

1 it, they say, why should we just continually be called upon
2 to pay higher and higher taxes when there is no evidence that
3 we are going to restrain spending?

4 So I think this is a balanced proposal. The reason we
5 make it in this Committee is that both elements of it are
6 under the jurisdiction of this Committee: the formulas
7 impacting the growth of entitlement programs and also those
8 affecting tax indexing.

9 So it is a start and I think it is an important start. I
10 hope that we can use this proposal as a basis for building a
11 new bipartisan consensus on getting something done about what
12 -- I do not think there is one member of the Senate that does
13 not believe that these deficits are a ticking time bomb, that
14 are just eating away at the strength of this country. And I
15 think this is a start, it is an important start, and I hope
16 that we will have the gumption to start moving along this
17 line and not just wait until the election.

18 There is always going to be an election some year, and I
19 think we have to be about trying to solve the problems of the
20 country and I hope we can move along these lines.

21 The Chairman: Are there others who want to be heard in
22 support of the amendment?

23 Senator Durenberger: Yes, Mr. Chairman. I will be
24 brief.

25 All of the economic and psychological arguments have been

1 made. I just here recall a fact. As we sat here a couple of
2 years ago making the decision on tax bracket indexing, when
3 it came out of this Committee we did not have an index in
4 it. When it went into law, it was 100 percent of the CPI.
5 From our own experience in Minnesota and I think the
6 experience in other states, 100 percent of the CPI
7 over-indexes on the tax bracket side.

8 So even if I did not believe in it on its merits, which I
9 do, I think it is appropriate to make the adjustment on the
10 tax bracket indexing side to something a little closer to
11 reality.

12 Senator Chafee: Mr. Chairman.

13 The Chairman: Senator Chafee.

14 Senator Chafee: I want to commend the Senators for their
15 proposal. We all worry about these deficits, but nobody
16 seems to do much about them, and here is a concrete proposal
17 we can tinker with.

18 I mean, I would just as soon throw in eliminating all the
19 tax bracket indexing completely. But that did not seem to
20 have much support in this Committee, nor on the floor. But
21 here is a step that does deal with that side of it, plus
22 across the spending side.

23 Now, I know the objections are going to be: We dealt
24 with social security earlier this year and we went that route
25 and we cannot tamper with it any more. But here are the

1 deficits, and apparently no one in this Congress is prepared
2 to undergo -- to foster the cuts that have to be made to
3 handle the deficits.

4 We have no enthusiasm for tax increases, the \$73 billion
5 proposal in the budget. But apparently we are not going to
6 face up to that. So here is a proposal that will in a very,
7 very substantial way reduce those deficits, a deficit of \$200
8 billion, and this will reduce it by \$117 billion, which is a
9 phenomenal step forward.

10 I do not think this is the end of the road, but this is a
11 very, very major proposal, and I think a good one.

12 The Chairman: Senator Moynihan.

13 Let me say, as I have indicated, we are not taking final
14 action on this today because Senator Armstrong is trying to
15 reach the Committee, but he has another conflict. So we will
16 take it up again perhaps on Tuesday.

17 But I know Senator Moynihan is here and wants to be heard
18 in opposition, and we are pleased to hear you.

19 Senator Moynihan: Thank you, Mr. Chairman.

20 And I want to put a large proposition, which may not gain
21 much support. But it seems to me that we are seeing the
22 working out here of one of the major objectives of the
23 present Administration, which the public has never understood
24 and the Administration has never avowed, and the objective
25 was as follows:

1 During the campaign the President repeatedly referred to
2 the Kemp-Roth legislation and the Laffer Curve, and he would
3 say, as he did in Flint, Michigan, on May 21 of 1988: "We
4 will take the increased revenues from the decreased taxes and
5 use that to build up our national defenses." "The increased
6 revenues from the decreased taxes."

7 George Will, his friend and friendly critic, has taken to
8 asking audiences of bankers and such as he speaks to -- he
9 offers them a door prize. He said, I offer a door prize to
10 any person present, one toaster to any person present who can
11 name one social program that Ronald Reagan proposed to
12 abolish during his campaign, just one. He has never lost a
13 toaster.

14 Now, the campaign was over and the inauguration took
15 place, and within 30 days the President had said: We have
16 had a lot of talk about how do you reduce the size of
17 Government and get rid of all those programs and nothing ever
18 happens. So what do you do with a child who will not
19 behave? You cut its allowance.

20 Whereupon, the largest tax cut in history took place,
21 whereas one of the deepest depressions since the 1930's took
22 place, whereupon the largest deficits in history took place,
23 whereupon the iron logic of the strategy begins to enforce
24 itself: You have got to cut those programs because you do
25 not have the money.

1 And whose programs will you cut? Will you cut the
2 defense programs? No. The farms programs? No. They went
3 from \$4 billion to \$22 billion in two years, which is an
4 achievement. We have a tax on milk. We have done that. We
5 have taxed food now. We have a dollar tax on powdered milk.
6 That is the first tax on food that I know about. And now we
7 are going to go after the social security program. Again,
8 after we did something that almost could not be done. We did
9 it.

10 Now, the point, Mr. Chairman -- and I am not going to be
11 much longer on this -- is the social security retirement
12 systems are not adding a penny to the deficit. They are
13 decreasing the deficit. The system is in surplus, and the
14 surplus mounts each month. And we get -- I think all of us
15 here do get a monthly report on the OASDI fund. It goes up
16 each month.

17 It will now go up each month until the year 2026, if you
18 take the actuaries' statements, and that is all we have. I
19 mean, they are actuarial statements. They give us their best
20 judgment. We have 40 years of surplus in this fund coming
21 up.

22 We have statements that the American Association for
23 Retired Persons -- and I am not going to go into this sort of
24 thing -- the American Association of Retired Persons has had
25 a study done by Data Resources, Incorporated, which really

1 does establish that we have -- the one thing we have done
2 about poverty in this country since we have declared war on
3 it 20 years ago is we have almost eliminated it among the
4 aged, but just barely.

5 If you start cutting back these cost of living increases,
6 then they go back down. In terms of the overall levels of
7 poverty, we have got ourselves, in three years of this
8 Administration, back to the level of 1965. The level for
9 children has gone up. What has not changed is older
10 persons.

11 And I am willing to hear any proposals on indexing and
12 things like that. But where you have a trust fund which is
13 in surplus and it is adding to the revenues of the Federal
14 Government -- they do not have to borrow when they get these
15 revenues; they go into the trust fund, but they do not have
16 to borrow -- it seems to me that we did an honorable job for
17 this country and its aged in that Commission, and I do not
18 think that it should be tampered with.

19 And I do not think what I happen to regard as a
20 fiendishly clever tactic for undoing the social programs of
21 the last 50 years -- I do not think that we should do it.

22 The Chairman: Fine. We will put you down as undecided.

23 [Laughter.]

24 The Chairman: Senator Symms.

25 Senator Symms: Mr. Chairman, I appreciate my colleagues'

1 concern about the budget and the deficit. But I would just
2 point out to my colleagues that we are now taxing the
3 American people to the tune of 19 percent of the gross
4 national product. We are spending to the tune of 25 percent
5 of the gross national product.

6 We did a bill in 1982 called TEFRA that was supposedly
7 going to give us one dollar of tax increases and three
8 dollars of spending cuts. Now Treasury is coming back with
9 figures that show that we will get 41 cents in spending cuts
10 for every one dollar in tax increases we had in TEFRA. Now,
11 most of those I think came out of this Committee, as a matter
12 of fact, so I do not think the people on this Committee have
13 to feel too bad about the effort.

14 However, what I would like to see happen is, if we want
15 to do this, let us pass the three percent freeze or reduction
16 on the CCLA's and then come back and talk about the tax
17 increase, because otherwise all we do is just make more room
18 for more spending around here. We are going bankrupt.

19 The deficit is not causing this. We are balancing the
20 budget right now. We balanced the budget. I do not know how
21 many times we have to go over it. It does not make any
22 difference whether you tax people for it or whether you
23 borrow the money or whether you steal it from them by the
24 printing presses, but you end up with the same problem, and
25 that is we are spending 25 percent of the gross national

1 product of this country, and that is what the problem is.
2 That is what is slowing down the rate of recovery in the
3 economy.

4 So I would like to see us get the horse ahead of the cart
5 instead of the cart ahead of the horse. And the only way I
6 can see we can do this, let us see the Congress, let us see
7 the White House stand behind it, and the House of
8 Representatives, instead of having the Senate go out here and
9 try to pass a freeze or a reduction on some of the rate of
10 increases on spending and not ever see it become a reality.

11 I might even vote for this if it was done in a two-part
12 system, if the spending reduction part of this is passed and
13 signed into law by the President and then bring back the tax
14 increase part. And I think you would find a lot of us might
15 support it.

16 But I am sick and tired of supporting bills under the
17 guise that we are going to end up with spending cuts and tax
18 reductions. And I understand from talking to Senator
19 Danforth that this is about a dollar for dollar thing. Two
20 years ago or a year ago we were talking about three dollars
21 for one. Now we have wiped out on that, so now we are
22 talking about one dollar for one.

23 If we do the same ratio, what it will end up here is we
24 will get about a one dollar tax increase and, according to
25 the 41 cents we got when it was supposed to be three for one,

1 we would probably get five cents spending cuts. And I do not
2 think that is a good trade.

3 The Chairman: Thank you, Senator.

4 Senator Moynihan wanted to make one other point.

5 Senator Moynihan: Just a technical point which I would
6 like to ask the staff not to answer, unless Sheila can do so
7 from the top of her head, which is usually the case. But
8 Section 710 of the Social Security Act of 1983, which is
9 entitled "Budgetary Treatment of Trust Fund Operations,"
10 states that the totals of the social security trust fund
11 shall be exempt from any general budget limitation imposed by
12 statute on expenditures.

13 And it would be my judgment that the contemplated
14 proposal -- I do not know whether it has actually or will be
15 presented -- would be in violation of that provision. Could
16 you or would you have a view, or if you do not would you have
17 the kindness to get us one?

18 Ms. Burke: We can certainly look at it between now and
19 the next time we discuss this, Senator. No, I do not have a
20 view off the top of my head.

21 Senator Moynihan: Mr. Stern, do you by chance? Are you
22 aware of the provision? We wrote it in there with something
23 like this in mind.

24 Mr. Stern: I would like to look at the actual language.

25 Senator Moynihan: Section 703 of the Social Security Act

1 of 1983.

2 The Chairman: Senator Armstrong. And let me explain to
3 Senator Armstrong, in your absence we are discussing. This
4 is all we are doing. We are not going to take any action
5 until Tuesday. And we would be very pleased to hear from you
6 if you would like to comment at this time.

7 Senator Armstrong: Well, Mr. Chairman, I was devoting my
8 attention this morning to some other matters, and then I
9 learned that there was a move afoot to cut back on the rate
10 of projected increase in social security benefits and, as one
11 who has had some experience in advocating that cause, I
12 naturally wanted to come right over here.

13 As I understand it, Senator Danforth and Senator Boren
14 have proposed a package the centerpiece of which is to slow
15 down the rate of increase in social security and other
16 non-means tested entitlement programs by deducting three
17 percent from the CPI adjustment.

18 I do not want to argue it at length, although on Tuesday
19 I will be happy to. But I just want to urge my colleagues to
20 be a little cautious. Some will remember that I suggested a
21 much more restrained, a much more restrained approach to the
22 problem when the issue was bailing out social security and
23 preventing the fund from going bankrupt. At that time the
24 Congress made it quite clear there was absolutely no
25 disposition whatsoever to make such a change, even when it

1 might be necessary in order to prevent the social security
2 trust fund from going under.

3 In my opinion, it is unthinkable that we would now do so
4 for the sake of balancing the budget. In fact, I believe
5 that, upon the motion of Senator Moynihan, that the Senate on
6 one occasion at least, and maybe twice, voted 96 to nothing
7 to say that we were not going to use social security to
8 balance the budget at all.

9 And if I understand what is here -- and I speak as one
10 who does not think it is unreasonable to slow down the rate
11 of growth in these entitlement programs. But I will just
12 tell you that we are stirring up a hornet's nest and to no
13 good purpose.

14 Now, the other part of this measure, if I understand it,
15 is to do away with tax indexing, which, as some may recall,
16 is near and dear to my heart. And there is a certain sort of
17 rough justice implied here, that we are going to cut back a
18 little on the spending side, we are going to cut back a
19 little on the taxing side. And somehow that sounds all very
20 equitable.

21 Well, there is nothing equitable about it at all, because
22 the spending side has been indexed for many, many years, and
23 in the case of many of these programs has been overindexed.
24 Some programs, in fact, have been indexed much faster than
25 the rate of increase in inflation as measured by the cost of

1 living.

2 So it is hard for me to see, after you index one side of
3 the equation for 10 or 20 years and even index it 50 percent
4 faster than the CPI, then to say we are going to stop
5 indexing that and not even permit the tax indexing side to go
6 into effect -- it has not started and will not until 1985 --
7 that really is not a very appetizing prospect.

8 Finally, Mr. Chairman, just because I do not think this
9 is the moment to argue it -- I probably will not think
10 Tuesday is, either. I hope that you will think better of
11 bringing this to a vote at any early date.

12 But just to put it in perspective, the working men and
13 women of this country have seen in the last decade their
14 after-tax, after-inflation income decline, and I just hope my
15 colleagues will remember that. America is still thought to
16 be the land of rising expectations, and when the average
17 working man and woman works hard, abides by the American
18 ethic, saves, tries to get ahead, and then finds themselves a
19 decade later with less real income than they had a decade
20 earlier, I just think under those circumstances to talk about
21 doing away with the tax indexing part of it is also pretty
22 far-fetched.

23 And so my own opinion is that this is a proposal that we
24 ought to let sort of age a little before we act on it.

25 The Chairman: Senator Wallop.

1 Senator Wallop: Mr. Chairman, it was not without full
2 awareness of the nature of the opposition that we still went
3 forward with our proposal. I think what we have heard here
4 today is the argument for proceeding in a manner such as
5 this.

6 We have heard some say that we ought to get it out of the
7 spending, and others say that we ought to get it out of
8 taxing. And this Committee can wait for other Committees to
9 be accountable, and they can wait for us to be accountable,
10 and we will never be accountable in Congress.

11 This does not eliminate in any way tax indexing, nor does
12 it eliminate in any way entitlement indexing. It reduces
13 that for a period of three years in a mutually balanced way,
14 to try to do something which is of concern to all Americans,
15 whether they receive income in the form of transfer or pay
16 taxes on whatever income they earn.

17 It is not a large adjustment in anybody's affairs, and it
18 does something that nothing else that we have heard of does.
19 All the other proposals that are in front of this Committee
20 right now are niggling little ones. Some of them have
21 purpose and are useful, but they are all raising relatively
22 small amounts of revenue or saving relatively small amounts
23 of expenditures, and the same thing is true in most of the
24 rest of what is going on.

25 This is one proposal that makes a significant change

1 without a significant harm to either segment, whether they
2 receive income from the Government or pay taxes to it. And I
3 would hope that we would not just abandon it because it is
4 politically difficult. We know that it is. I would hope
5 that we would look seriously at a proposal such as this.

6 Senator Danforth: Mr. Chairman.

7 The Chairman: Senator Danforth.

8 Senator Danforth: Senator Moynihan has made a very
9 excellent argument -- all of his arguments are excellent --
10 for the proposition that we solved the social security
11 problem last year and we should do nothing with respect to
12 social security indexing. Senator Symms and Senator
13 Armstrong have made very excellent arguments, as they always
14 do, that taxes have been going up too high and we should not
15 do anything about taxes.

16 They have made an excellent argument for the status quo.
17 Secretary Regan I think pretty well shares that position. As
18 I understand it, he is not concerned about the size of the
19 deficit. And far from the Ecren-Wallop-Danforth approach
20 being a working out of Administration policy, I think that it
21 turns out that the advocacy of the status quo is a working
22 out of the Administration's policy.

23 My point is very simple. If we do not do something like
24 this, we are going to have \$200 billion deficits every year,
25 and it does not matter what kind of recovery we have and it

1 does not matter what we do with the defense budget. We are
2 committing ourselves as a matter of policy to \$200 billion
3 deficits forever.

4 And I believe that that is bad policy for the country. I
5 believe that it hurts America. I believe that it hurts
6 America in the short term and that it hurts America in the
7 long term.

8 When we have to spend every year thereafter an additional
9 \$20 billion or so to pay the increased interest in the
10 national debt caused by one year's \$200 billion deficit, we
11 are passing on a legacy to our children. And I do not know
12 how we are going to get out of this situation, but I cannot
13 believe that these deficits are good for the country, and I
14 cannot believe that there is any chance of getting the
15 deficits to a manageable size unless we have a bipartisan
16 effort such as this is, in which almost everybody in the
17 country except the very poor people can contribute something
18 to solving the deficit.

19 And if we do not want to ask them to do it, if we do not
20 want to ask the recipients to help, and if we do not want to
21 ask the working people and the taxpayers to help, fine. Then
22 we have made that decision, and the decision we have made is
23 weakness for America forever.

24 And I might say, it not only affects our country, it
25 affects the rest of the world as well. When we went to the

1 Williamsburg conference and hosted the Williamsburg
2 conference, what were we hearing about? We were hearing
3 about interest rates in the U.S. and the value of the dollar
4 and the size of our deficit.

5 So what we decide in the Congress of the United States
6 has consequences worldwide and it has consequences not only
7 for now but for years and years to come. We are talking
8 about the legacy that we are passing on to the future. I
9 think it is irresponsible. I think that it is just
10 hopelessly irresponsible to run up deficits this size.

11 And I say to the Senator from New York and the Senator
12 from Idaho and the Senator from Colorado that unless we are
13 willing to take serious steps it is mathematically
14 impossible, mathematically impossible, to get the deficit
15 below say \$150 billion.

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1 Senator Armstrong: Would you yield for just a moment?

2 Senator Danforth: Certainly.

3 Senator Armstrong: I think all of us would agree with
4 you about the seriousness of the deficit issue, but you are
5 not suggesting, are you, that this is the only serious or
6 thoughtful proposal to do something about it? In other
7 words, I have the impression that you think this is the
8 only --

9 Senator Danforth: No, I am saying a lot of things have
10 to be considered. This for example, does nothing about
11 Medicare, which is scheduled to go broke. This does nothing
12 about appropriated accounts. This is not a total answer to
13 everything, but I do say this, that but for this or something
14 like it, with some give on the tax side and some give on the
15 entitlement side, there is no chance ever of getting the
16 deficit below, say, \$150 billion.

17 Senator Symms: Would my colleague yield for one question?

18 Senator Danforth: Certainly.

19 Senator Symms: I mentioned earlier we got 41 cents in
20 spending cuts for every dollar in tax increases. Would we
21 consider on this thing that we go two four one?

22 Senator Danforth: The Senator from Idaho can consider
23 anything he wants.

24 Senator Symms: You have a \$7 trillion unfunded liability
25 staring us in the face with these pension programs, et

1 cetera, \$7 billion. That has something to do with the long
2 term capital markets. Now, if we want to really do
3 something, we are not going to be able to raise taxes enough
4 to make the difference.

5 Senator Danforth: My view is this, that I am sure there
6 are any number of proposals that can be made, but the only
7 way that I can see to get the American people on board is to
8 treat everybody the same, and that is what this proposal is
9 all about.

10 The Chairman: I would like to recognize Senator Bradley.

11 Senator Bradley: I would like to thank you for letting
12 me have a view of the Republican caucus. It is very
13 interesting. I always wondered what happened.

14 [General laughter.]

15 The Chairman: Well, we talk a lot about deficits.

16 [General laughter.]

17 The Chairman: Senator Moynihan?

18 Senator Moynihan: Well, I almost wanted to say the same
19 thing, first of all, to Senator Danforth. I share his views
20 exactly, that this is an extraordinary problem, the deficits,
21 and the doubling of the debt from \$1 trillion to \$2 trillion
22 in five years, the highest merchandise trade deficit in the
23 history of the nation. All of these things he knows. What I
24 miss over there is some sense that they happened during the
25 incumbency of the present President, and the majority of the

1 present party over there. This is not 1979. You are not
2 just going on about those crazy Democrats and their
3 deficits. We ran up deficits -- my God, there was one a
4 deficit as high, I think, as \$30 million, and boy, would we
5 not love to get back to those Democratic deficits?

6 [General laughter.]

7 Senator Moynihan: And we got -- it took us from
8 Alexander Hamilton to Michael Elocmenthal to get a \$1
9 trillion debt. It will happen in Ronald Reagan's -- I mean,
10 in Donald Regan's incumbency, I think, to go to \$2 trillion,
11 but there is some reflection, and I am not asking, but there
12 is some reflection that, did we not do something wrong on
13 this side in the Budget Committee and this Committee? We
14 were pleading in 1981 that the Federal Reserve was tightening
15 money supply to the point where it would choke the economy to
16 death. It raised interest rates to the highest level in real
17 history. Helmut Schmidt came over here and said, they are
18 the highest interest rates since Jesus Christ, which is
19 wrong, because a few kings of Spain used to charge a somewhat
20 higher rate.

21 But we did this, and those are the policies that brought
22 it about, not the extravagant living of 68-year-old women on
23 social security, and the social security, Jack, I want to say
24 to you, and we will be careful about words like "responsible"
25 and "irresponsible," because we all do not want to go away

1 from these things in any less than the friendship that we
2 come into them with.

3 We took a lot of hard blows in that Social Security
4 Commission, and everybody gave up things. Things have been
5 given up by these people, and I offer you the thought that
6 are you talking about other programs? I listen to you on
7 them, sure. Are you talking about indexing? Yes, I will
8 listen to you on that, sure. But if we are going to have
9 interest rates going up again because of monetary policy, it
10 does not make a bit of difference what we do here, if we are
11 going to have a general economic policy which looks upon 9.5
12 percent unemployment as an achievement. It will not make
13 much difference here.

14 But I do make the final and gentle point that I ask some
15 reflection on the other side, is this the working out of the
16 President's plan? That if you dismantle the FSC, you must
17 accordingly dismantle the social security of the FSC
18 previously supported? Was this the plan, not that you are
19 part of the plan, you would not be part of the plan, but is
20 this what was put before us? I say to you it was. And I
21 also add that with respect to social security, the trust
22 funds are in surplus, and go up every month. And the deficit
23 goes down accordingly.

24 But I would like an answer. Is this part of the plan?
25 The cutting of the allowance.

1 Senator Danforth: Is what?

2 Senator Moynihan: Is the large plan at work dismantle
3 the Federal FSC, dismantle its revenues, and therefore you
4 will have to dismantle its programs?

5 Senator Danforth: I want to tell you something, Senator
6 Moynihan. The problem is, there is not any plan. The
7 problem is that we fly by the seat of our pants, hoping to
8 sail by the next election. That is the problem. There is no
9 long-term view of anything. Yes, we cut taxes. If you want
10 me to say my mea culpa about the tax cuts, I have done it
11 before in this room.

12 Senator Moynihan: I will join you.

13 [General laughter.]

14 Senator Danforth: And I will do it again.

15 Senator Moynihan: You are the priest in this Committee.
16 I will confess to you.

17 [General laughter.]

18 Senator Bradley: Mr. Chairman, I understand very well
19 why there is a real need for repentance here.

20 [General laughter.]

21 Senator Danforth: You know, I can tell you, we can laugh
22 our way through it, really. I enjoy the humor. We can
23 really make light of it. We can laugh our way to the
24 porchouse. It is the opposite of laughing your way to the
25 bank. I just have to say this, that, yes, I think in

1 retrospect we overdid it. Not that taxes in the aggregate
2 are now any lower than they were three years ago, because
3 they are not. We made up the tax cuts by the social security
4 tax increases, the gasoline tax increases, the ratcheting
5 fact of inflation, but I think that we went too far back in
6 1981, in retrospect. I think that the deficits, although I
7 am an old tax cutter, I think that the deficits are of
8 primary importance, and everything else has to be viewed as
9 secondary to solving the problem of the deficit, but I think
10 there is plenty of room for blame to be spread around. I
11 think it can be spread to Democrats and Republicans.

12 But is that the question? Is the real issue who is going
13 to make the best points in order to set ourselves up for the
14 next election? Because I say to the Senator from New York
15 that is about all we have been doing in this Congress. We
16 have been setting ourselves up for the next election. We
17 have been so timid about making the wrong move and so cunning
18 about making the right move that the effect of it is that we
19 have built in deficits of this size.

20 And I do not believe that we are going to get out of this
21 situation unless there is a true spirit of bipartisanship,
22 and that is why I think it is so important that Senator Boren
23 is part of this effort, and unless there is give by virtually
24 everybody throughout the country. This kind of proposal
25 offers that.

1 Senator Moynihan: Can I just say, in equal seriousness,
2 and a little humor does not hurt much, and you know that,
3 Jack, you say there is no plan. I say there has been a
4 strategy at work which would inevitably bring about the
5 considerations and concerns which you honestly and
6 legitimately hold. I may be wrong in this, but I held it to
7 be so, and have said it to be so for the last year and a
8 half.

9 As far as sacrifices are concerned, in social security we
10 did what had to be done, and we have produced a satisfactory
11 result, and we can keep at this, and I am perfectly willing
12 to keep at it, but a little consultation, I mean, I am
13 ranking member of the Subcommittee on Social Security. I
14 have not heard anything about this resolution.

15 Senator Danforth: I talked to you about it months ago.

16 Senator Moynihan: We have talked generally about it,
17 about entitlements. But I mean, what is the intention with
18 respect to social security? What would the numbers be? It
19 cannot be an abstract proposition. It has to be a concrete
20 one. That is how we reached agreement in social security,
21 with concrete, specific numbers.

22 The Chairman: I think this is a matter of some great
23 interest, as has been already expressed, but I want the
24 record to show that this Committee has not done too badly as
25 far as spending restraint is concerned. Over the four-year

1 period from fiscal year 1982 to fiscal year 1985, it amounts
2 to about \$6.2 billion, and you add one additional year and it
3 is \$91.2 billion in spending reduction. Trade adjustment
4 assistance over a four-year period reduced \$3.1 billion.
5 Social security reduced \$18.5 billion. Unemployment
6 compensation reduced \$15.7 billion. AFDC and child support
7 enforcement, \$4.8 billion. Social services block grant, \$200
8 million. Title 20, \$3.1 billion. Medicare, \$15.1 billion.
9 Medicaid, \$3.9 billion. Debt service, \$1.8 billion.

10 And those figures, of course, grow when you add the
11 additional year. The only point I would make --

12 Senator Moynihan: Mr. Chairman, that is what I referred
13 to as the plan.

14 The Chairman: We have not completed the plan, but the
15 plan is to try to save the economy, and I think this
16 discussion demonstrates that everyone is concerned about the
17 deficits, and I think the only reason for citing these
18 figures is to indicate that at least we have tried to respond
19 to some of the concerns. I think we have acted carefully in
20 most every instance, so we have not impacted upon some
21 vulnerable group, and where that has happened, we have tried
22 to come back and correct any area that we have done.

23 But as Jack Danforth says, we can all talk about the
24 deficits, but somebody has to do something, and perhaps this
25 discussion will even reach as far as 1600 Pennsylvania

1 Avenue. Maybe somebody there will hear the comments of
2 members on both sides who are concerned about the deficits.

3 In my view, we cannot accomplish anything without the
4 Administration's support, and without the support of the
5 Speaker of the House. When they are participating, anything
6 is possible, whether it is a War Powers Resolution or whether
7 it is social security. Without their participation, I am not
8 certain if anything is possible. But I hope that this
9 Committee, when we meet again on this subject, probably early
10 next week, will keep in mind our concern about the deficit,
11 and we may get a chance to vote on some of the spending
12 restraint. Certainly we can do more than \$1.6 billion over a
13 three-year period in this Committee, and if we can address
14 the specific spending restraints, then the need for an across
15 the board approach, I think, would be much less.

16 But I appreciate the discussion. I happen to believe you
17 cannot go back and fix social security. We have just fixed
18 it. At least we have told everybody in the Rose Garden we
19 fixed it. And I said we fixed it.

20 Senator Moynihan: Mr. Chairman, the monthly report of
21 the trust fund shows steady growth. Not Medicare. We know
22 that.

23 The Chairman: There are other ways we could modify or at
24 least address the concern, but we have permission now to set
25 it to a clock. I would hope between 12:30 and 2:00 we could

1 get together staff members who have responsibility for
2 unemployment compensation and go over that in general, and we
3 will come back at 2:00 o'clock, and the only thing we are
4 going to take up this afternoon for the convenience and
5 comfort of others who may be here for other areas will be the
6 federal supplemental benefits and unemployment compensation,
7 no taxes, no leasing, no votes on Medicare. So all of those
8 who have that in mind cannot show up.

9 [Whereupon, at 12:30 p.m., the Committee was recessed, to
10 reconvene at 2:30 p.m. of the same day.]

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1 AFTERNOON SESSION

2 The Chairman: Do we have the Administration?

3 Mr. De Arment: Yes, Mr. Chairman.

4 The Chairman: Let me say at the outset I know other
5 members are coming, and I do think there is some urgency in
6 getting this matter reported out of the Committee onto the
7 Senate floor, because I can see a lot of matters that Senator
8 Baker feels must be addressed before the end of this month,
9 that some may not make it because of other complications that
10 are developing in the process.

11 What I have instructed the meeting with Secretary Donovan
12 and Mr. Stockman two or three or four days ago, since the
13 hearing last Friday, to sit down and try to find some
14 reasonable proposal that would bury the Administration's
15 proposal, and we have attempted to come up with a program
16 that would, and we have outlined and will be outlined
17 momentarily the current law of the Administration proposal
18 and the suggested compromise, and it seems to me that it is a
19 fair compromise. I must confess it has not been fully
20 explained to any Senator, including the Chairman, and I think
21 staff has probably had time to discuss it, and I am certain
22 that some will find fault with it. It is a very complicated
23 and very necessary program.

24 So, I wonder -- we can start the discussion as other
25 Senators come in. We may have to back up, but I think that

1. for the sake of the record, we -- who is going to sort of
2. outline the proposal? Sidney, do you want to do that?

3. Mr. Olson: Senator, I believe they are passing out the
4. packages right now that describe the compromise proposal.
5. Briefly, under current law, the FSC program is scheduled to
6. expire on September 30th, 1983, and has been in effect since
7. September 3rd, 1982, when it was enacted as part of TEFRA.
8. There are currently four tiers of basic benefits provided
9. under the FSC program available to unemployed workers in the
10. states after they have exhausted their regular benefits and
11. any extended benefits that may be available.

12. Fourteen weeks of benefits are provided in the states
13. with insured unemployment rates of at least 6 percent; 12
14. weeks in states with IUR's of at least 5 up to 6; ten weeks
15. in states with an IUR of at least 4 percent but less than 5;
16. and eight weeks in all other states.

17. Additional benefits are available to people who exhausted
18. earlier FSC benefits and transitional benefits were available
19. to people receiving benefits under the old program when the
20. new program was enacted at the end of March. Phasecut
21. benefits are available if the program is not extended to
22. people currently receiving FSC at one-half of their usual
23. duration. Therefore, no one's benefits will end instantly on
24. October 1st if the program is not extended.

25. The cost of the current program is estimated at \$5.6

1 billion, and benefits have gone to about five million
2 people. The proposed extension, which is described in the
3 package that Mike handed out, I believe, is for an 18-month
4 extension, which means the program would expire March 31st,
5 1985. There would be four tiers of benefits available in the
6 states. Twelve weeks of benefits would be available in
7 states with insured unemployment rates equal to or greater
8 than 5 percent; ten weeks of benefits in states with IUR's
9 greater than or equal to 4 percent but less than 5; eight
10 weeks of benefits in those states which have IUR's equal to
11 or greater than 3 percent but less than 4; and six weeks of
12 benefits in all other states.

13 The current program is modified so that additional
14 reachback benefits are not available. There will be no
15 phaseout benefits at the end of the program. There will be
16 no restrictions on the extent to which benefit durations
17 could be reduced or increased in the state as the IUE moves
18 up and down except that a state's duration could not be
19 adjusted more often than once every three months.

20 We additionally have two provisions to deal with states
21 that have experienced unusually high unemployment for a long
22 period of time. First, the maximum weeks of benefits or 12
23 weeks would be payable regardless of current insured
24 unemployment rates in a state. If that state is likely to
25 have an unusually high number of exhaustees because of the

1 long high unemployment, this would be measured by taking an
2 average of the IUR for a 12-month period beginning January
3 1st, 1982, for the most recent quarter. If that average IUR
4 is equal to 6 percent or exceeds 6 percent, then that state
5 is eligible for the highest level of benefits or 12 weeks.

6 Also, any state which is currently receiving 14 weeks of
7 benefits under the present law and qualifies for 14 weeks of
8 benefits at the end of the current program, September 30th,
9 could continue to receive 14 weeks of benefits as long as
10 they meet the criteria in current law.

11 The Chairman: Which states are we talking about?

12 Mr. Olson: The only state that currently qualifies would
13 be West Virginia. They are at 14 weeks, and are expected to
14 be at 14 weeks at the end of the program presently. The
15 Department of Labor has estimated the cost of this program to
16 total \$3.75 billion over the 18-month period, with \$2.58
17 billion being spent in fiscal year 1984.

18 The Chairman: Now, in addition to the brief outline we
19 have had of the compromise, the Administration proposal
20 current law, we have also on the agenda an amendment on
21 disability insurance and foster care. Are you going to cover
22 those, Sidney?

23 Mr. Olson: I could skip to foster care while Carolyn is
24 coming forward. There is a provision in the foster care law
25 which would expire at the end of September unless

1 reauthorized. That is a provision that allows for the
2 voluntary placement of children in foster care without a
3 judicial determination for a six-month period. We propose to
4 extend that voluntary placement provision until September
5 30th, 1984, and the cost of that is negligible.

6 We are awaiting a complete report from the Secretary of
7 HHS on the use of this provision.

8 The Chairman: Then the disability insurance -- let me
9 just say for the record I know other Senators want to be
10 heard on some of these areas, and we are just trying to
11 establish a record, but I have discussed the disability
12 insurance extension with -- or through staff with Senator
13 Long, and I know Congressman Pickle has a very extensive
14 proposal. Has that passed the House? It has not passed the
15 full Committee yet, has it?

16 Mr. Clsca: No.

17 Mr. Stern: It was acted on by the Subcommittee, but not
18 by the Ways and Means Committee yet.

19 Mr. De Arment: They have only had one markup session on
20 that.

21 The Chairman: And there was some thought, at least,
22 Congressman Pickle expressed an interest in whether we could
23 do that by the end of the month. Obviously, we cannot do
24 that by the end of the month. There are a number of Senators
25 who would prefer that we act on that in the next 45 days, and

1 would want a 45-day extension. I can only say to those
2 Senators, and also having a personal interest in this area,
3 we are not going to wait six months to address the problem,
4 but it would seem to me to be the wise choice to adopt this
5 six-month extension, and we will go to work on it as quickly
6 as we can, and we will have an opportunity to hear Senator
7 Heinz, Senator Cohen, Senator Levin, Senator Riegle, Senator
8 Metzenbaum, myself, and I know I have omitted some who have a
9 direct interest in this legislation.

10 Carolyn, if you could sort of tell us what we do in the
11 six-month extension, and why that is about the best choice at
12 this time.

13 Ms. Weaver: What this amendment would do, it would allow
14 individuals who are terminated from the DI benefit rolls, who
15 are terminated any time within the six-month period after
16 October 1, and prior to April 1, 1984, to continue to be able
17 to elect to receive continued DI benefits and Medicare
18 coverage pending their appeal to an Administrative Law Judge.

19 Under present law, that authority would terminate on
20 October 1, and this would protect beneficiaries terminated
21 within the following six months.

22 The Chairman: And this would not affect any of the
23 administrative changes made or any other changes Congress
24 made in the past few months?

25 Ms. Weaver: That is correct.

1 The Chairman: So what we then do is, we -- well, we do
2 not have to wait, but we see what happens on the House side,
3 and act accordingly on the Senate side.

4 Does anybody have any question on either the foster care
5 extension of authority to fund voluntary placements for one
6 year, which is negligible cost, or on the six-month extension
7 of continued payments during appeal, which I think is
8 important that we do? You indicated that if we do not do it,
9 it expires the 30th of September, right?

10 Ms. Weaver: Yes, so that people who become terminated
11 from the benefit roles on October 1 or later would then have
12 to pursue an appeal without continued benefits.

13 The Chairman: And what is the cost of the extension?

14 Ms. Weaver: It has fiscal year 1984 cost of \$50 million,
15 and the cost fiscal year 1984 to 1988, the five-year cost of
16 \$110 million.

17 The Chairman: There would still be some cost.

18 Ms. Weaver: Right.

19 Senator Moynihan: Mr. Chairman, may I simply say that I
20 think these are good things to do?

21 The Chairman: I know Senator Long endorses -- is that
22 right, Mike -- endorses the six-month extension?

23 Mr. Stern: I discussed it with him this morning. And he
24 said that seemed reasonable to him.

25 The Chairman: Senator Heinz, I think, wants a shorter

1 extension, and we will wait to hear from him. Senator Pryor
2 is here, and he has an amendment to the unemployment
3 portion.

4 Senator Moynihan: And I have one.

5 The Chairman: Well, we will hear from you. Oh, wait a
6 minute. Excuse me just a second.

7 I just wanted the record to note that we have heard from
8 Senator Moynihan on the extension, that there is a bill
9 pending which Senator Moynihan and Senator Boren and Senator
10 Bradley and Senator Mitchell, Senator Matsunaga, and Senator
11 Sasser have sponsored which would provide a three-month
12 extension. This would provide a six-month extension. If we
13 can finish our work within three months, obviously, we will
14 try to do that, and the five-year cost of the Pickle bill,
15 which has not yet been finally -- well, it has not been
16 agreed upon even at the Subcommittee level -- is about \$4
17 billion.

18 So, we have been doing a lot of things the past year and
19 a half at the instance of a number of Senators. We hope that
20 the six-month extension does not indicate we are backing away
21 from our commitment.

22 Senator Moynihan?

23 Senator Moynihan: Mr. Chairman, I would like to propose
24 an amendment, but I do not want to sort of dump it on the
25 Committee without a chance for everyone to look at it, but it

1 goes to the question of how do we measure unemployment, and
2 the question is, what is the data base for the states. In
3 1970, when we first adopted extended benefits, we used as the
4 basis by which they would trigger in at different levels the
5 insured unemployment rate. That had the advantage of being a
6 very concrete number. You could state with precision what
7 that number was, because it was an administrative matter.
8 And also, it was a fact then that unemployment overall,
9 unemployment rates by state were not universally available,
10 or it was still being developed. Samples were not as good as
11 they needed to be, and so forth.

12 If I can just say as an old Assistant Secretary of Labor
13 nominally in charge of the Bureau of Labor Statistics, it is
14 worth recalling that we ultimately published, I think, the
15 first unemployment rate published as an official number was
16 1947. We used to collect the unemployment rate during the
17 Census, and we went through the whole of the 1930's
18 Depression never knowing what the unemployment rate was, but
19 now we have got better and better at this, and we know what
20 the rates are for the individual states, and while the choice
21 between the insured rate and the real rate in many recessions
22 would not have a different impact on different states.

23 In the present one, it does, for the simple reason that
24 there are any number of states where unemployment has been of
25 such duration that persons have been -- have received

1 benefits, and then have exhausted their benefits, and
2 remained unemployed, but they are not recorded in the insured
3 unemployment rate. They are not part of that number. And
4 the result is, we are using a faulty data base, and which
5 does some real injustice in areas where things are so bad
6 that people have dropped out at the other end of the term,
7 and we act as if they are not unemployed when in fact they
8 are severely unemployed.

9 And what I would like to propose to do, which is what the
10 House has done, is to make a state eligible by considering
11 both rates, saying that the specific thing is that we will
12 keep to our idea of 14, 12, and 8, and state that a state
13 would be eligible if its insured rate was 6 percent for the
14 14 weeks, or above 6 plus, or if its total rate was 10
15 percent plus, and then 5.9, 9, and then it would go down that
16 way, and ten weeks would be 4.4 to 4.9 for the insured and 8
17 to 8.9 for the total, and then eight weeks for all of the
18 remaining states.

19 I think this would be good legislation, Mr. Chairman. It
20 would resolve the question of whether there was unequal
21 treatment, in which, in a situation where we would be
22 achieving almost the opposite of our intention, which is to
23 say in states with the most prolonged unemployment we would
24 be reporting them as having less unemployment than states
25 which in fact were not as seriously affected, and I would

1 just like to offer that for consideration of the Committee,
2 and see what our staff thinks.

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1 The Chairman: Let me call on someone from the
2 Administration. But first let me suggest that I discussed --
3 this is the TUR?

4 Senator Moynihan: Yes, Mr. Chairman.

5 The Chairman: And I am not so certain that that may be
6 the perfect answer, either. So what we asked and what was
7 suggested by the Labor Department, Secretary Donovan -- maybe
8 there is some way they can blend, come up with some blended
9 program that would accomplish what those like Senator
10 Moynihan seek to accomplish without getting into some of the
11 uncertainties.

12 So maybe Mr. Van Erden or whoever is here from Labor
13 might discuss generally where you think the weaknesses in the
14 TUR program are and what you did to try to accommodate some
15 of the concerns.

16 Senator Moynihan has to leave for about 15 minutes. So
17 why do we not just wait until he comes back and then we can
18 discuss it more fully. I know Senator Pryor has an amendment
19 that I think may be acceptable, so maybe we ought to address
20 that.

21 Senator Heinz: Mr. Chairman, is the parliamentary
22 situation that you have offered your amendment? Has Senator
23 Moynihan advanced his proposal?

24 The Chairman: Yes, but he needs to be gone for about 20
25 minutes, so we are going to set it aside.

1 Senator Heinz: Was yours costed out yet?

2 Senator Moynihan: No.

3 Ms. Clson: Senator, did you propose the House Public
4 Assistance Subcommittee bill?

5 Senator Moynihan: I believe that is the scale here,
6 yes.

7 Ms. Clson: We do have the cost of that bill.

8 Senator Heinz: Well, Mr. Chairman, I would like to be
9 heard on this issue.

10 The Chairman: Pat has to be gone for about 15 minutes,
11 maybe, since it is the same area. He has to brief Senator
12 Baker on something and be back at about ten after 3:00. So
13 if we can resolve -- we are going to have to have a vote on
14 that in any event, I assume, and Senator Pryor has an
15 amendment we can accept, and then, with Senator Heinz here,
16 we can go back and discuss the disability insurance and see
17 if we can work that out.

18 Senator Pryor: Also, Mr. Chairman, I would like to have
19 the right to join with Senator Heinz. I think I know what
20 his request is, if we could approach this, I think, this
21 noncontroversial amendment, Mr. Chairman.

22 On August 24th the General Accounting Office completed a
23 report and submitted it to me, and I have made it available
24 in the last several days, relative to the number of federal
25 employees and military employees who are retired who are

1 drawing both pensions, their pensions and unemployment
2 benefits.

3 The general law reads that pensions must be deducted from
4 the unemployment benefits. We have found in cases in the
5 District of Columbia that there is a gross abuse of this
6 whole situation. The reason we targeted the District of
7 Columbia is because of the accessibility of the GAC to the
8 immediate area. The staff was available to do this study of
9 a pilot nature.

10 And in addition to this, we have found somewhere between
11 30 and 50 prisoners in the D.C. jails who are drawing
12 unemployment benefits.

13 My amendment very simply -- and I offer this amendment in
14 behalf of Senator Dole and myself. This amendment simply
15 reads -- it is only two lines: "The Secretary of Labor and
16 the Director of the Office of Personnel Management and the
17 Attorney General are directed to enter into arrangements to
18 make available to the states computer data regarding current
19 and retired federal employees and prisoners so that states
20 may review the eligibility of these individuals and take
21 action where appropriate. The Secretary is to submit a
22 report to the Congress by December 31, 1983." "The Secretary
23 of Labor," that should be.

24 We can clean up this amendment a little bit. I think
25 there are some wordage problems. But I think out in the

1 country that we will see the same abuses existing, and this
2 amendment simply is to attempt to correct that and to have a
3 report made available to the Congress by December the 31st.

4 The Chairman: Does anybody want to be heard from the
5 Administration on that?

6 Ms. Golding: Yes, I would like to say that the Office of
7 Personnel Management and the Secretary of Labor do have
8 working agreements to accomplish the kinds of cross-matches
9 that you have described for federal retirees and federal
10 employees, and the cross-matches that have gone on in other
11 parts of the country detected beneficiaries and collected
12 overpayments in those cases.

13 Neither the Secretary nor the Director of OPM would have
14 the kind of information that you are seeking on prisoners.
15 And so if you wish to include people who are incarcerated in
16 such a cross-match, I mean, you have got the wrong parties.
17 I think our general feeling is that we have adequate
18 authority between what states can do and what we can do to
19 accomplish the kind of cross-matches that you are talking
20 about.

21 Now, we would certainly be happy to report back to you on
22 what state experience has been in that area.

23 Senator Pryor: Well, how do we reach the issue of
24 prisoners drawing unemployment benefits, if you would give me
25 a little lecture here? I am not quite sure how we do it.

1 Ms. Golding: Well, I am not sure. I think that can be
2 reached. But if you are talking about prisoners in state
3 prisons, that is not information that is available at the
4 federal level. That would have to be accomplished using
5 state data cross-matched with state data on who is receiving
6 the UI benefits. That is within the authority of the states
7 to do now.

8 I think there is an issue, and I am not sure how this
9 would be dealt with, prisoners on work-release programs who
10 are actually -- could conceivably be accruing some benefits.

11 Senator Pryor: Well, if the prisoner is on a
12 work-release program it is assumed he has a job.

13 Ms. Golding: But he may have been covered.

14 Senator Pryor: Also, we did in this -- we have added the
15 Attorney General because we thought that would reach or have
16 a broader scope into the federal prisoner concept. And the
17 Justice Department has already indicated they are willing to
18 prosecute some of these cases. I am not saying -- the
19 prisoners or some of the retirees who are drawing pensions
20 plus unemployment without deducting their pension.

21 But, Mr. Chairman, I would submit this amendment at this
22 time, and hopefully we could see a report December the 31st,
23 by that time, on the progress that we are making.

24 If you have a system now, I must say, in all respect, it
25 is not working.

1 The Chairman: Why do we not go ahead, and if you see
2 some -- if you have some suggested changes in the language of
3 the amendment, I am certain that Senator Pryor would have no
4 objection if we need to change it. But I think if you have
5 the authority, that is fine. This would indicate the intent
6 of the Committee and the Congress to exercise it and give us
7 some information, which you could probably do without the
8 amendment.

9 But if you can figure out some way we can reach the
10 prisoners, too, that would be helpful.

11 The disability insurance proposals, whether or not we
12 have a three-month extension or a six-month extension. And
13 Senator Long and I hoped we could have a six-month
14 extension. We still do not have anything on the House side.
15 We have a \$4 billion estimate on the Pickle bill.

16 We have been working with this matter personally for the
17 last year and a half. We have made a number of changes, and
18 it just seems to me that as soon as we can we are going to
19 take a look at the system, whether or not it should be
20 changed, whether it should be modified. It will depend upon
21 what this Committee determines. But I would hope there is no
22 objection to the six-month extension.

23 Senator Heinz: Mr. Chairman, I have got to express some
24 very strong reservations about that. I think obviously we do
25 want to extend the payments through the Administrative Law

1 Judge appeal. But the issue of the amount of time concerns
2 me.

3 We have been delaying the confrontation of this issue as
4 a Congress for over a year, and in the process we have seen
5 some utterly stupid things happen, such as the
6 discontinuation from the disability rolls of people who were
7 mentally impaired, people who were mentally disabled, not to
8 mention those who were wrongly adjudged to be physically
9 capable of working across the board.

10 Now, I frankly am rather concerned that, notwithstanding
11 the fact that the House bill may prove to have a high price
12 tag, that by agreeing to a six-month extension here we are
13 agreeing to a six-month delay on reforming the overall
14 program. I do not say we have to take the House bill, but
15 delay in forcing the House and Senate together to face up to
16 the entire issue is to my mind no longer an attractive or
17 terribly responsible option.

18 It is fair to say that the Administration has dragged its
19 feet on straightening out the problems they created, with
20 great injury to a lot of innocent disabled Americans. And
21 frankly, I am sick and tired of this kind of
22 procrastination. I mean, when a Congressional Medal of Honor
23 winner who is physically disabled is stricken from the rolls,
24 in spite of the fact that he still has a lot of shrapnel in
25 his chest cavity, it is just to me time to get down to the

1 basic issue.

2 Now, we can patch up the program all we want for those
3 people who are coming under CDI by continuing Administrative
4 Law Judge payments here. But I have to tell you, I think
5 that if we agree to a six-month extension it is not
6 responsible and I am going to oppose it very strongly.

7 The Chairman: Well, we will vote on it.

8 Senator Fryer: Mr. Chairman, could I say a word on
9 that?

10 The Chairman: The problem is we have got a bill
11 introduced by six members on this side of the aisle for a
12 three-month extension, which is December. We are not going
13 to be here in December.

14 Senator Heinz: Want to bet?

15 The Chairman: Yes, I am willing to bet.

16 And we will be lucky to complete it in January, February,
17 March of next year.

18 Now, had we not been responsive to the problem in this
19 Committee and had the Chairman not been responsive, I would
20 not mind listening to the speeches from the Senator from
21 Pennsylvania. But we have as much interest in this problem
22 as he has, as do other Senators. And it just seems to me to
23 be realistic that we ought to give us a chance for the
24 Committee to do its work.

25 I do not have any -- it is not the Administration. I

1 know what the Administration's position is. But I do know
2 that it is an area that is not easy to deal with. And as a
3 member of a group of Senators who have been meeting on this
4 for the past year and a half, I do not need to be lectured to
5 by the Senator from Pennsylvania.

6 Senator Heinz: Well, I would say to my friend from
7 Kansas, I am not lecturing him. I am lecturing the
8 Congress. I did not mention his name. I do not intend to,
9 because he has been very helpful. Every time I made a
10 comment, it was with respect to the Congress.

11 We are, however, a part of that process. We are a part
12 of the Congress. And whether or not the Senator from
13 Pennsylvania or the Senator from Kansas or anybody else has
14 been helpful, a six-month extension will not be.

15 The Chairman: It is not a delay. That is the point I am
16 making. If we can do it before the six months expires,
17 obviously we will do it. But there are some very strong
18 feelings on the other side, including my colleague Senator
19 Long, who want to be heard on this issue before we say, well,
20 we are going to pass this bill or that bill.

21 And I am just trying to establish some reasonable
22 extension that will permit us to work it out. If we cannot
23 work it out, I assume we will be extending it again. But as
24 soon as we have enough people here we will vote on it.

25 Senator Pryor: Mr. Chairman.

1 The Chairman: Senator Pryor.

2 Senator Pryor: Mr. Chairman, I do not in any way want to
3 be interpreted as lecturing you or any of my colleagues. But
4 I think I would be remiss if I did not at this point support
5 the concept that Senator Heinz has espoused. I do support a
6 shorter time period.

7 I think if we delay to the six-month period, I think what
8 we are doing is basically confirming or condoning what is
9 going on by intent possibly being read into what we are
10 doing, the intent that we are postponing another half a year
11 before we really come to grips with the complexities of the
12 disability system. And I would once again, with all due
13 respect to you, Mr. Chairman -- you have been very, very
14 active in many of these deals and many of these reforms, and
15 I want to salute you.

16 But at the same time, I want to say that I feel a
17 six-month delay is too long.

18 The Chairman: Well, again, it is a matter of judgment.
19 I think Senator Long would want to be heard on this. And
20 again, I know what I think we can do and when we can do it.
21 We have got Senator Heinz, I guess, wants a 45-day
22 extension. There is no way we are going to get around to
23 this in 45 days, whatever the House may do, that I can see,
24 with reconciliation and an October recess of seven or eight
25 days, that the Committee can make it.

1 But the Committee can make any decision it wants. But I
2 would like to reserve on that until Senator Long is here.

3 Are there other amendments? What about, does anybody
4 object to the foster care extension of authority to fund
5 voluntary placements for one year? We have enough members
6 here to act on amendments. If not, do you want to touch on
7 that again, Cindy, because some of the members were not
8 here.

9 Ms. Olson: Yes. That is an extension of the current
10 temporary provision to fund through the matching system
11 voluntary placements for children in foster care where there
12 has not been a judicial determination that the child should
13 be removed from the home. We will extend that funding for
14 the voluntary placements for one year while we await an HHS
15 study of the number of children who are being placed under
16 the provision.

17 The Chairman: Is there any objection to that amendment?

18 [No response.]

19 The Chairman: If not, we will agree to that amendment,
20 and we will agree to the amendment of Senator Pryor, subject
21 to maybe some revision in the language. And if it is all
22 right, we will wait until Senator Long arrives.

23 Maybe, Senator Heinz, you might discuss -- you have a TUR
24 amendment?

25 Senator Heinz: Well, Mr. Chairman, yes, I do, and I do

1 intend to offer it, because I do not think the reliance on
2 the IUR is an acceptable measure of measuring the difficulty
3 of finding a job. I think that is the central philosophical
4 issue here.

5 It is significant to me that over in the House the
6 Republicans propose using the TUR. I do not think there is
7 anything un-Republican about suggesting the TUR, even though
8 I guess the Administration would rather stick with the IUR.

9 I guess I do not have to remind my colleagues how people
10 are triggering off of various benefits, various levels,
11 because of the drop in the IUR. It is obviously a very poor
12 measure when you have a recession that has gone as long as
13 this one has, and in states like mine and other northern
14 industrial states that have gotten into this recession
15 earlier and are coming out of it slower the IUR is a
16 particular unsatisfactory measure.

17 And while perhaps one might concede, without conceding
18 very much, frankly, the TUR is not working either, it is a
19 much better measure of the difficulty of finding a job than a
20 rate, the IUR, where people are automatically dropped after
21 they have been counted for 26 months, come hell or high water
22 in their case.

23 I have a specific proposal, but I guess I would like to
24 wait to present it until some of the other members of the
25 Committee. I have the same problem you do, Mr. Chairman. I

1 do not want to get into an issue and then go over it again.

2 The Chairman: Well, maybe we could have --

3 Senator Heinz: Could I ask, Mr. Chairman, could we have
4 a little clearer explanation from the staff of the way the
5 trigger would work here?

6 Mr. Van Erden: This is on the Finance Committee
7 proposal?

8 The Chairman: I might say to Senator Heinz and others
9 that we are aware of the TUR proposal. We knew about the
10 House action. I asked Mr. Stockman and the Secretary,
11 Secretary Donovan, to see if they could take a look at each
12 approach and see what they might be able to do. So there has
13 been some change and it has not yet been explained to me. So
14 maybe this would be a good time to go over what you have done
15 in an effort to try to blend and address the concerns, the
16 proper concerns that Senators have, and still not dump the
17 IUR in the process.

18 Mr. Van Erden: Yes, sir. The proposal before you,
19 Senator Heinz, is a four-tiered program. We would provide
20 for 12 weeks of benefits when the insured unemployment rate
21 was about 5 percent in the state, 10 weeks when it was
22 between 4 and 5 percent, 8 weeks when it was between 3 and 4,
23 and 6 weeks if the IUR was below 3.

24 For those states that have had high unemployment over a
25 long period of time and those people that would have

1 exhausted their benefits, have no longer been counted in the
2 IUR, there is a provision that would allow the IUR to be
3 computed over an 18-month period. This IUR, if it exceeded
4 six percent, would automatically trigger the states that met
5 that criteria to the maximum duration.

6 So it meets some of the objections, I think, that you
7 pointed out earlier, that the exhaustees are no longer
8 counted.

9 Senator Heinz: So it is a very simple calculation. All
10 you do is you look at 18 months of IUR's previously.

11 Mr. Van Erden: Yes, sir.

12 Senator Heinz: And average that out statistically, take
13 the mean, the arithmetic mean. And if you are above six
14 percent --

15 Mr. Van Erden: You get the maximum duration.

16 Senator Heinz: Which is 12.

17 Mr. Van Erden: In this case, yes, sir.

18 Senator Heinz: Can anybody get more than 12 weeks?

19 Mr. Van Erden: There is a special provision that Cindy
20 explained earlier, that a state that is now on 14 weeks
21 duration could receive 14 weeks duration under the new
22 program.

23 Senator Heinz: I am a little confused. Why is there
24 that special statutory exception? Why should not the state
25 that has got 12 percent unemployment, which is for all

1 intents and purposes just as bad as 14 percent, why should it
2 not just continue on?

3 Ms. Olson: Senator, to reduce the cost of the program we
4 lowered the top tier, which is now 14, to 12 weeks.

5 Senator Heinz: But you still have another tier. You
6 have got a 14-week tier.

7 Ms. Olson: We do, but there is only one state.

8 Senator Heinz: Why is that not pointed out here?

9 Mr. Van Erden: It is, on the last point.

10 Ms. Olson: The last point, under "Other Modifications."

11 Senator Heinz: All right. I am glad you pointed out
12 what that meant. Thank you.

13 Senator Bradley: May I ask a question about this, if I
14 could? Under the Administration proposal that extends it
15 back 18 months, how many states now qualify?

16 Ms. Olson: The Administration proposal has benefits for
17 every state.

18 Senator Bradley: For every state?

19 Ms. Olson: Yes, sir.

20 Senator Bradley: What if we reached back, instead of 18
21 months, 24 months? How would that affect it?

22 Mr. Van Erden: The reach-back is not an 18-month
23 reachback. It is a proposal to have FSC continue for the
24 next 18 months.

25 Senator Bradley: Well, what about -- how far do you look

1 back at an IUR averaging?

2 Mr. Van Erden: In the IUR averaging for the proposal
3 that the Finance Committee is looking at now, not the
4 Administration's proposal, we would look at a period January
5 of 1982 through June of 1983. That is an 18-month period.
6 And what it really would be is the 18 months for which we
7 have the most recent quarterly data available.

8 Senator Bradley: That determines what the IUR is as to
9 whether they qualify?

10 Mr. Van Erden: For the six percent provision, yes, sir.

11 Senator Bradley: So my question, then, is what if you
12 reached back 24 months instead of 18 months? How many more
13 states would qualify?

14 Mr. Van Erden: We looked at it briefly this morning,
15 sir, and I do not believe we would add any states if we went
16 back six more months.

17 Senator Bradley: What about a year? Not that that is a
18 possibility.

19 Mr. Van Erden: Again, looking at all of your calendar
20 year 1981, we do not believe we would add any additional
21 states.

22 The Chairman: Could I ask, because I do not understand
23 this fully, compared to what has been recommended by some and
24 by Senator Heinz, and I think maybe by Senator Moynihan, and
25 what current law is, what you have done, is that sort of a

1 mid-correcticn? I mean, is it somewhere between what they
2 are recommending and what the present law is?

3 Mr. Van Erden: Yes, sir. I think the provision that
4 looks back longer in determining the IUR does take into
5 accunt those people who would have been in the IUR last
6 year, but had exhausted their benefits and are no longer
7 counted.

8 So when we average back over a longer period of time, we
9 are picking up in some sense those exhaustees.

10 The Chairman: Now, without this change what would be the
11 -- what would happen?

12 Mr. Van Erden: Well, the states that are affected by
13 that would be getting lower duration under any proposal.

14 The Chairman: I mean, does it help the states that
15 Senator Heinz and Senator Moynihan and others -- well, Ohio,
16 Pennsylvania, Michigan, Illinois? I mean, has that been the
17 effect of it, to increase the benefits for those states?

18 Mr. Van Erden: It would not help all the states you
19 mentioned, but it does help some. Pennsylvania is one state,
20 Oregon, West Virginia, Secretary, Alaska and Idaho.

21 Senator Bradley: Let us take Michigan, though.

22 Mr. Van Erden: And Michigan, I am sorry.

23 Senator Bradley: So it makes up the difference between
24 14 percent TUR and what, 3 percent IUR?

25 Mr. Van Erden: Yes, it would trigger Michigan to the

1 maximum duration, where the current IUR would trigger them to
2 the minimum.

3 Senator Heinz: Mr. Chairman, what I am worried about is
4 that we are going to end up in Pennsylvania with a continuing
5 kind of 11 percent or even 12 percent unemployment rate -- we
6 do not know where we are going to be -- a TUR up in that
7 level. And let us assume we are up there.

8 If our IUR drops precipitously -- and it is; we triggered
9 off of extended benefits on August 6th -- we are going to be
10 there. We are going to be left holding the bag, and I am
11 going to be left holding the bag as a member of this
12 Committee.

13 And it is not that what is being proposed is
14 unreasonable. It is reasonable, but it does not make one
15 feel terribly secure, because I cannot project. I do not
16 have the statistical competence to project what is going to
17 happen to the IUR over the next 6 to 12 months versus the
18 TUR. Maybe Mr. Van Erden does.

19 I might say, on behalf of Senators, Republicans and
20 Democrats, from high unemployment northern states, like
21 Louisiana --

22 [Laughter.]

23 Senator Heinz: And does West Virginia have any industry
24 left in it? Well, they are taken care of here.

25 But the Robert Byrd amendment I think is really that fine

1 print at the bottom of page 1.

2 The Chairman: How do you address his concerns?

3 Mr. Van Erden: Well, Senator, any kind of a forecast is
4 difficult. At the present time Pennsylvania's insured rate
5 is now, I think, 5.6 percent.

6 I would also point out that this period of the year, this
7 time of the year, is traditionally the low point of the
8 year. If you are looking at any reasonable forecast, you
9 would assume that Pennsylvania's rate would start up again,
10 probably in mid-October, late October.

11 Now, if you talk about the six percent provision that we
12 talked about, that locks you in at least for the next
13 quarter. When that goes, when we recompute that, the IUR in
14 Pennsylvania should be well above six percent. And I think
15 in any reasonable economic forecast, whether you use DRI,
16 Chase, the Administration's, and you look at Pennsylvania's
17 relative share of that, a five to six percent rate in the
18 next 18 months is certainly a reasonable forecast, which
19 would keep it at the maximum duration. That is the point.

20 Senator Heinz: You are saying that our IUR is not going
21 to go up, while our TUR remains the same?

22 Mr. Van Erden: No, sir.

23 Senator Heinz: You are saying our TUR is going to go up
24 along with our IUR?

25 Mr. Van Erden: No, sir. The other day, remember, we

1 were talking about this --

2 Senator Heinz: Is the IUR going to go up while the TUR
3 goes down?

4 Mr. Van Erden: The TUR you are looking at is seasonally
5 adjusted in your state, the IUR is not. So there is a normal
6 seasonal pattern. For any level, the IUR will go up relative
7 to the TUR because one is seasonally adjusted and the other
8 is not.

9 Senator Heinz: I understand that. I understand what you
10 are saying about the seasonality and non-adjustment of the
11 IUR.

12 I wonder if anybody has looked at the cohorts, though, of
13 beneficiaries on the basic benefits program who are
14 triggering off of basic benefits over the next six months,
15 let us say, each month for the next six months. I mean, it
16 is half the people -- well, a large number of the people --
17 who are on, who are being counted on the IUR now or who are
18 going to be counted one or two months from now are already on
19 the program.

20 Mr. Van Erden: In any period of time, there are always
21 people who will exhaust the benefit program. Even in the
22 best of times, over 20 percent of the people exhaust. That
23 is going to continue.

24 The Chairman: We have a vote in progress. I might just
25 tell you, if there is anything you can visit with the staff

1 members. We hope we can come back and have enough here to
2 vote on some of the amendments that are going to be offered,
3 because we do have a time problem in getting this on Senator
4 Baker's calendar before the deadline.

5 So we will come right back.

6 [Recess.]

7 The Chairman: Let us see, where were we, or were we
8 anywhere?

9 I guess -- well, Senator Heinz is not here. But I urged
10 all members to return to the Committee because we are going
11 to have a number of votes. And I do not think it will take
12 long to dispose of this package. We have gone over it for
13 the benefit of the members that have been here.

14 I know that Senator Moynihan and Senator Heinz have an
15 amendment. We have adopted two noncontroversial amendments.
16 Senator Heinz and I have a difference of opinion on when we
17 can deal with the disability matter. I still think six
18 months is a reasonable time. We will have to vote on that.
19 He thinks 45 days.

20 I think, if you just take a look at the calendar, it is
21 not a question of who may be right, it is a question that we
22 have a calendar to deal with. And hopefully we will be out
23 of here by November 15th and not back until the 1st of
24 February. And if you have got a week's recess in October,
25 you know there is not any time. So we hope we can prevail on

1 the six-month extension.

2 Senator Chafee.

3 Senator Chafee: Well, Mr. Chairman, I have something I
4 just wanted to return to that we touched on this morning. If
5 there is a hiatus here, I will proceed.

6 The Chairman: I guess there is a hiatus.

7 Senator Chafee: All right. Well, Mr. Chairman, this
8 morning, as you know, we had a discussion of the
9 Danforth-Boren program to put restraints on the federally
10 indexed programs, including the indexing of the federal
11 income tax, and this was a program for three years, in order
12 to reduce the federal deficits.

13 I would just like to add some more thoughts to that while
14 we are waiting here. My initial reaction to that program was
15 I thought it was worthy of consideration. It seems to me,
16 however, that the flaw in the proposal is that it penalizes
17 some Americans -- that is, those dependent on the indexed
18 programs -- in return for doing something that I think we
19 ought to do right away, which is to repeal the federal tax
20 indexing, and furthermore, to do what we can to face up to
21 the revenue shortfall, which of course means raising some
22 taxes and also some other cuts.

23 Now, Mr. Chairman, my view toward the social security
24 fund has always been that it always ought to be locked on as
25 an entity; and if there are problems within the fund, then we

1 ought to raise money within the fund; and if there are not
2 problems within the fund, then let us leave the fund alone.
3 And of course, that is the approach we took early this year
4 when we made the reforms in the social security system.

5 It seems to me that what we ought to be doing -- and I
6 know this is easier said than done, and you as Chairman of
7 this Committee have given a lot of attention to it. But we
8 do have this budget resolution over us which sets out the
9 task for the Congress, not only this Committee but for the
10 Congress, to raise some \$73 billion. And I want to help in
11 doing that, and that is the route I am for, rather than going
12 after the indexed programs.

13 So, Mr. Chairman, for those reasons I would oppose and
14 vote against the Danforth-Boren amendment.

15 The Chairman: Well, thank you, Senator Chafee.

16 I understand we can take action. Senator Grassley is
17 here. Senator Heinz and Senator Danforth are on their way.

18 Did you want to go back and discuss -- Senator Heinz did
19 discuss his proposal, which is somewhat different from
20 yours. As I understand, your proposal would be in effect to
21 adopt the bill passed by -- what Committee in the House?

22 Ms. Olson: The Public Assistance Subcommittee of the
23 Ways and Means Committee.

24 Senator Moynihan: Mr. Chairman, I do not -- I would not
25 want to be seen as that sort of rigid on the proposition.

1 But I am concerned with it, and I wonder if the Committee
2 just does not agree. I know that any number of our
3 colleagues are in this present situation, that the insured
4 unemployment, which in previous recessions has been a
5 reliable indicator of the overall unemployment, in the
6 present situation is not.

7 When we adopted the insured unemployment rate for
8 extended benefits, that was the only rate available. We now
9 have good overall rates and we have the specific situation.
10 I was just talking to Senator Dixon and Senator Levin. In
11 both of those states, I believe, and I stand to be corrected,
12 the insured unemployment rate is going down and the
13 unemployment rates really are at historic levels for the
14 postwar period, 14 percent. And that is just the phenomenon
15 of people exhausting even their extended benefits.

16 So I would like to ask us to reason together on how we
17 could put together a better measure. And I wonder if the
18 Department of Labor has not thought about it or if anybody
19 else has thought about it.

20 The Chairman: Let me just ask Mr. Van Erden or Cindy or
21 someone, because again I think Senator Moynihan raises, and
22 Senator Heinz, a legitimate question, particularly in those
23 states where they have had heavy unemployment and it has been
24 long and persistent.

25 And again, going back to the discussion we had the other

1 day in my office with Mr. Stockman and Mr. Donovan and others
2 who are here to represent the Labor Department and my own
3 staff, we said, is there some way you can satisfy the
4 concerns expressed in the House-passed bill, expressed in the
5 concerns Senator Heinz and Senator Levin had raised to me and
6 others had raised to me?

7 And I believe, as I understand it, we have come to some
8 midpoint. Maybe it is not perfect. Maybe it can be, between
9 now and the time we take action on the floor, refined,
10 modified to some extent.

11 But Jim, would you give us a sort of a rundown of what
12 you did that changes current law to help some of these
13 states, and why you did not go all of the way to TUR?

14 Senator Moynihan: Would the Chairman allow me to say
15 that New York is not one of these states?

16 The Chairman: I understand that.

17 Mr. Van Erden: Yes, sir. To recap just for a moment,
18 what is in the Finance proposal, the Finance Committee
19 proposal, is to use the IUR to trigger states' duration, as
20 we have in the past, but in addition to add a new measure
21 which would look back or reach back over a longer period of
22 time in order to pick up those individuals who were counted
23 in the insured unemployment rate during periods of high
24 unemployment and who now have exhausted their benefits, so
25 they are no longer counted.

1 By reaching back over a longer period of time, we do take
2 those people into account in determining the rate. We then
3 set a new trigger level, which is six percent, and compare
4 the rate computed over this long period of time to six
5 percent. If the state is above that, they would qualify for
6 the maximum duration.

7 We believe this is a better measure. It is a more stable
8 measure of long-term unemployment, in the fact that we are no
9 longer counting the exhaustees in the current IUR.

10 With respect to the total unemployment rate, I think the
11 problems there are just enormous for -- first of all, let me
12 talk just for a moment about the TUR. The TUR and the IUR
13 measure different things, okay. The IUR is simply a count of
14 the number of individuals who come into a local office and
15 say, I was unemployed last week. So we have an actual count
16 of those individuals.

17 It is true, when they are no longer drawing benefits they
18 are no longer counted. But they are counted all of the time
19 they are drawing, and if you talk about an exhaustee as
20 someone who draws 26 weeks, he is counted as a claimant for
21 26 consecutive weeks before he drops off. Therefore, if you
22 get some bulge or something like that, these people are
23 counted for a long period of time before they are dropped off
24 and they would count towards triggering the higher duration.

25 With respect to the total unemployment rate, the total

1 unemployment rate is subject to a lot of variation. It is
2 subject to the same seasonality. In the 43 states that are
3 not computed directly off the CPS, it is subject to a lot of
4 estimating and factoring kinds of problems. As I said
5 earlier, it measures different things.

6 The components in the TUR consist of those individuals
7 who are drawing claims in the UI program who meet the
8 definition of unemployment, that is, in the CPS or the
9 current population survey which generates the TUR. In
10 addition to those individuals who are in the unemployment
11 insurance program, there is an estimate made for the number
12 of individuals who have exhausted their benefits and are
13 still in the labor force.

14 This estimate is a very -- I hate to use the term, but it
15 is -- a crude estimate, in that they look at the number of
16 people who exhaust, make a general determination about how
17 many remain in the labor force without actually knowing, and
18 estimate that component based upon what we call survival
19 rates.

20 There is also a component in the TUR that deals with
21 delayed filers and never filers. These are people who would
22 not come into the insured unemployment rate or come in on a
23 delayed basis.

24 There is another component in there that deals with new
25 entrants and re-entrants. Again, all of these individuals

1 are individuals who would not be counted in the insured rate,
2 but they also would not qualify for benefits.

3 Okay. So what we are talking about is what measure
4 targets the benefits, and the IUR measures those individuals
5 who have qualified for unemployment insurance and who have
6 drawn it. If you talk about new entrants and re-entrants,
7 you could possibly trigger on a state to higher duration or
8 trigger on the EB or whatever, because you have a component
9 of the labor force that would not, more and more people in
10 there, who would not be eligible for benefits once they
11 trigger on.

12 If you start talking about the TUR as a measure of labor
13 market tightness, then you also have to answer the question,
14 what component of the labor force are you trying to address?
15 If you are talking about how tight is it, you are really
16 saying how tight is it for those individuals who qualify for
17 benefits, and the TUR again, because all of these estimates,
18 may not measure that.

19 The ELS, the people who actually compute the TUR, they
20 indicate in their own publications that the TUR on a state
21 basis is subject to a lot of change and variation. What we
22 see if we look at the data over the year is quite large
23 revisions. A TUR may be published at 13.5 percent and next
24 month revised back to 13.1.

25 Now, the question is, what happens if you trigger a state

1 on a 13.5 and next month you find out it is 13.1? Do you go
2 back to a lower duration? How do you write the language?

3 Senator Heinz: What would the answer be to have a moving
4 average? That would eliminate that kind of problem.

5 Mr. Van Erden: A moving average would reduce that
6 problem. It would not necessarily eliminate it, because all
7 you are doing is saying, if I have a difference of
8 four-tenths I would average over the three months instead of
9 one month, and so it would be a tenth difference instead of
10 four-tenths.

11 The Chairman: In the hearings last Friday, we had rather
12 extensive at least preliminary testimony from Senator Byrd
13 and comments by Senator Heinz and others concerning the
14 comprehensive Heinz-Byrd or Byrd-Heinz proposal we are going
15 to be considering, and I do not think there is any suggestion
16 from either principal sponsor that that is something we
17 should move on or can move on this quickly.

18 And it was indicated at the hearing that -- that is, I
19 believe this is one of the components, that if we could go
20 ahead and extend the program, that certainly we are going to
21 -- I would think everybody feels there probably is a need for
22 changes in the whole structure of the program.

23 It is my hope that we take this modified blended
24 approach, which does focus on some of those concerns
25 expressed by the states, obviously Ohio, Pennsylvania,

1 Michigan, other states, where we have had high sustained
2 unemployment, and then see what we can work out with the
3 House.

4 Senator Moynihan: Mr. Chairman, I think that certainly
5 is responsive, but I guess I do not quite know what it is we
6 are proposing. The proposal is to get a better feeling for
7 those persons who have exhausted their insurance and somehow
8 include them in the IUR. That is the idea.

9 Mr. Van Erden: We are not going to take the number of
10 exhaustees and include them. We are implicitly including
11 them by averaging the IUR over a long period of time. We are
12 not proposing to put exhaustees back into the calculation.
13 We are saying that if you look at a long period of time,
14 because they were counted in the insured rate before they
15 exhausted, they are in that calculation.

16 Senator Bradley: That would work as long as unemployment
17 does go down, right? At some point, if you continue to have
18 persistently high levels of unemployment, even though you
19 reach back 18 months, there would be a time after which you
20 would still have people out of work without unemployment
21 benefits and an IUR that had dropped far below what would
22 reflect the number of people who were out of work, right?

23 So it becomes a question of degree more than anything
24 else, how far back do you reach if you choose to go that
25 route.

1 Mr. Van Erden: That is true.

2 Senator Moynihan: I would have to say that I sure would
3 like to look at tables that would represent historic
4 experience here.

5 And Mr. Chairman, do we have to decide this this
6 afternoon, or can we? I do not think you have got all of the
7 bugs out of this.

8 The Chairman: Well, I think that is a problem of going
9 onto some whole new system. Obviously, we do not have any
10 experience at all with TUR. We have some with IUR. And I
11 guess what you have done is simply go back.

12 Mr. Van Erden: If I could make one point on Mr.
13 Bradley's point, the way the proposal is written, we will
14 lock into the January through July period, January of '81
15 through July of '82. Then when we move one more quarter
16 down, we will just add that in. So you still will have those
17 high months in the calculation.

18 And remember, we are talking about this only for an
19 18-month program. We are not talking about it for three or
20 four years out.

21 Senator Bradley: So that the 18 months triggers from
22 this point forward, and the IUR number would include the IUR
23 of the past 18 months?

24 Mr. Van Erden: Yes, sir. It would go 18, 21, 24, yes,
25 sir.

1 The Chairman: I would like to move ahead with the bill.

2 Senator Moynihan: All right. Could we ask the staff to
3 look at all of this and to talk to us? And if we really come
4 up with a better idea than 18 months as a reliable idea, then
5 we might put it on the floor.

6 The Chairman: We are not locking the docr.

7 Senator Moynihan: This is a technical matter more than
8 any other. I do not think we would disagree on that.

9 Senator Heinz: Mr. Chairman, I think that is not a bad
10 way to proceed. I might just throw out an idea for
11 consideration here, though. And I think, although I am
12 reasonably satisfied that the 18-month proposal may work in
13 my home state of Pennsylvania, I think there is nonetheless
14 nervousness on the part of the high unemployment states that
15 something might happen that they did not foresee or that we
16 could not, despite our best objectives, project and the
17 discrepancy somehow between IUR and the total unemployment
18 rate would widen and present a difficult, insoluble
19 problem.

20 And one way to address that would be to introduce a dual
21 trigger for the highest unemployment states, those that would
22 get the 12 weeks of benefits, where, for example, they would
23 either qualify under the modified Dole-Administration formula
24 or get on some suitable either lagged or moving average,
25 qualify if their total unemployment rate was ten percent or

1 up.

2 But I would like to know whether there are any problems
3 with that?

4 Mr. Van Erden: Well, I would just go back to the same
5 thing I said on the TUR before, that I think there is a
6 problem of just introducing the TUR into the process.

7 Senator Heinz: It would give us a chance to try it out.

8 The Chairman: Is there some other way to protect without
9 getting into the TUR, in other words?

10 Mr. Van Erden: Well, I think the proposal would protect
11 certainly Pennsylvania, it protects West Virginia, it
12 protects Michigan.

13 The Chairman: You do not see any problem in the next 18
14 months in Pennsylvania, then?

15 Mr. Van Erden: No, sir.

16 Senator Heinz: I do not think there is either, Mr.
17 Chairman. I would agree with that. But I wanted to put this
18 option on the table in case there are people whose concerns
19 would be less well met.

20 Senator Moynihan: What if we come up with a better piece
21 of paper between now and the time we go to the floor?

22 The Chairman: We are willing to do that, I am certain.
23 The Labor representatives, we have been working the last two
24 or three days. We have added about \$400 million to the
25 Administration's proposal. I am not certain they share that

1 view.

2 But if there is no objection, what we could do is report
3 out the bill, the proposed compromise.

4 Ms. Olson: Senator, I have promised the Department of
5 Labor representatives that we would raise a technical
6 amendment they would like to discuss at this time which we
7 might include.

8 Senator Heinz: Could we have one substantive amendment
9 before we get to the technical one?

10 The Chairman: Sure.

11 Senator Heinz: Mr. Chairman, that is the question of a
12 reachback. I do not believe we have discussed a reachback.
13 I would urge -- and I know it is going to cost more money,
14 but I would urge that we include at least a modest reachback
15 of four weeks.

16 I am told that would increase the cost. I am told it is
17 about \$160 million. Is that right?

18 Mr. Van Erden: That is the CBO estimate. Our estimate
19 was \$270 million.

20 Senator Heinz: That is a big difference between CBO and
21 the Administration.

22 Mr. Van Erden: It is a question of how many individuals
23 you think are still out there ready to come back in.

24 Senator Heinz: This would be a reachback that only
25 applied to people since March 31st?

1 Mr. Van Erden: Yes, sir. If you reach back for all of
2 the individuals, you are talking for four weeks about \$500
3 million.

4 Senator Heinz: The reason for a reachback, Mr. Chairman,
5 is that there are -- we are going to have two different
6 groups of people out there in the same state, one of whom
7 will be getting -- in the months ahead, they will be getting
8 the additional 12 weeks. There are others who will not be
9 getting that additional 12 weeks or anything like it.

10 And we are not proposing to give them all the 12 weeks.
11 We are proposing to give them four weeks.

12 The Chairman: Again, we discussed this and it seemed to
13 us that, in my discussion with the Secretary, there were
14 other things we might do that might be more helpful. So we
15 have added additional -- in fact, I think our proposal is
16 probably more expensive than the one proposed by the Senator
17 from Pennsylvania.

18 But what we did is make certain that every state receives
19 some benefits. Maybe that is not the way it should be
20 approached, but every state has somebody out of work and if
21 they are out of work there are some benefits available under
22 our compromise. And I think we got to the point of, how much
23 additional cost can we carry, and this added about \$300
24 million or \$400 million.

25 I would certainly want to hear from the Administration.

1 Senator Heinz: Mr. Chairman, I wonder how it would work
2 if we cut those states that are less than three percent IUR
3 from six weeks to five weeks. Would that pay for the
4 reachback of four weeks which their people would get?

5 Mr. Van Erden: We would have to look at it. I do not
6 think a cut that small would pay for it. I think you would
7 have to cut more than that.

8 The Chairman: Well, there may be some of these
9 variations I would not object to if we could work them out.
10 We could either vote on the amendment or try to figure out
11 what we might do by the time we reach the floor. The
12 reachback is in the House bill, as I understand, at least the
13 Committee bill, is that correct? How far?

14 Mr. Van Erden: The Ways and Means bill has an
15 eight-week, if it were passed 45 days, has an eight-week
16 reachback, a maximum of eight weeks, with each individual
17 eligible to receive three-fourths of his original
18 entitlement. In some states, because of the 45-day extension
19 there is only seven weeks, so technically the reachback is
20 only seven weeks. That would mean that in many states
21 individuals could get a maximum now of 72 weeks of benefits.

22 And I would remind the Committee that during the '74-'75
23 recession when we had the FSB program the maximum number of
24 weeks available to any individual at that time was 65 weeks.
25 So we would be going to a new high.

1 The Chairman: Do I understand the Administration opposes
2 a reachback?

3 Mr. Van Erden: Yes, sir.

4 The Chairman: But I also understand if we can figure out
5 some better mousetrap between now and the time it is on the
6 floor, that that objection would still be there?

7 Ms. Manthos: We would be happy to look at it, Senator
8 Dole. But our bill, our proposal, does not contain a
9 reachback and we are opposed to a reachback.

10 Senator Heinz: But you will support, the Administration
11 will support, the Dole bill?

12 Ms. Manthos: Senator Heinz, it is my understanding that
13 the compromise does fall within the general parameters
14 discussed by the Director and the Secretary and the
15 Chairman. I will take the specifics back to my Secretary and
16 see what he thinks. But my understanding is that it is
17 within the general parameters of the discussion, pricewise in
18 particular.

19 The Chairman: That is my understanding. Now, we may
20 have gone a bit too far, but I do not think so.

21 Senator Heinz: Mr. Chairman, I think what I will do is
22 reserve the right to offer the reachback on the floor.

23 Senator Moynihan: Can we have a general understanding
24 that if we figure out a better mousetrap --

25 Senator Heinz: If we can find a better mousetrap,

1 hopefully we could have a Committee amendment.

2 The Chairman: What about the technical amendment?

3 Mr. Van Erden: Mr. Chairman, we have a technical problem
4 with the account from which we loan money to the states to
5 pay benefits. This account is called the federal
6 unemployment account or FUA for short. It has in the law
7 right now a statutory limit at the end of the fiscal year.
8 That limit is about \$1.7 billion.

9 Because of all of the repayments that we are getting now
10 from the states, Senator Heinz' State of Pennsylvania and so
11 on, we are going to exceed that limit on September 30th. The
12 current law requires us to take the excess amount and deposit
13 it in the Employment Service Administration account. The
14 money that is coming back in is money that is needed or
15 designed to repay general revenue advances, and under current
16 law we have no way to make a direct payment to general
17 revenues of these repayment loans.

18 So what we need is a sentence in there that authorizes
19 the Secretary to transfer the money directly from the FUA
20 account to the general revenue of the Treasury. That is
21 where the money came from in the first place and we are
22 obligated to repay it. As it exists now, if we do not get
23 that language about \$5.5 million would go into the other
24 accounts and technically would never be available to repay
25 general revenue advances.

1 The Chairman: Without objection, the technical amendment
2 is agreed to.

3 Are there other amendments? I know Senator Chafee has an
4 amendment, but I mean on the unemployment matter itself.

5 Is it under the rules? Could we adopt this as an
6 amendment? We have some House bills hanging around, do we
7 not?

8 Mr. De Arment: Or we could report it out as a S-numbered
9 bill, and the House bill will be coming over, and follow the
10 same procedure we did with revenue sharing yesterday.

11 The Chairman: Is there any objection to reporting the
12 compromise?

13 Senator Bradley: Mr. Chairman, the compromise, subject
14 to --

15 The Chairman: Right. We will be happy to sit down.

16 Senator Bradley: How would we resolve it, however, if we
17 found that --

18 The Chairman: We will poll the members of the Committee
19 and offer a Committee amendment.

20 Senator Heinz: With that understanding, Mr. Chairman, I
21 would move reporting it.

22 Senator Bradley: You would poll, if the TUR was the only
23 alternative, you would poll on the TUR? Is that the idea?
24 If the reachback was --

25 The Chairman: I thought we would sit down with Fat and

1 Senator Heinz and anybody else who was not able to be here,
2 if they had some other thing they want to consider, and try
3 to hammer something out. If it is better than what we have
4 and we can get general agreement, then I would be willing to
5 offer that as a Committee amendment.

6 The only other thing we have unresolved in this area is
7 the disability thing. And I apologize for quarreling with my
8 colleague from Pennsylvania. What I did was look at the
9 calendar, and the only problem I see is how we are going to
10 address that within a 45-day or even a three-month period.

11 I agree with the Senator from Pennsylvania. Senator Long
12 has a different view, but I think he also feels that the
13 six-month extension is necessary. Is that right?

14 Senator Long: I think so.

15 Senator Heinz: Mr. Chairman, I obviously would prefer a
16 45-day extension, but I think it may be true that the 45-days
17 is unrealistically short. My understanding is, though, that
18 we might be able to reach some compromise between six months
19 and 45 days here.

20 What would be wrong with having, as Senator Pryor
21 suggested, that we have something that runs through the
22 calendar year? I think Senator Pryor feels that is a good
23 idea.

24 Senator Pryor: At first, Mr. Chairman, I did support the
25 45-day, and I concede there is a time problem. But I would

1 hope that we might work out a solution that we could say,
2 say, a three-month time period. I think that would be
3 equitable.

4 Senator Heinz: Three months would take us through
5 December 31st.

6 Senator Long: Let me just make this point. Now, once
7 you go beyond the 45 days you are looking at about 10 days in
8 there when the Congress is not going to be in session. Is
9 that not correct, Mr. Chairman, about ten days there?

10 Senator Heinz: That is the best news I have heard for
11 the country in quite some time.

12 [Laughter.]

13 Senator Heinz: Are you sure about that, Russell?

14 The Chairman: He means the 7th to the 17th.

15 Senator Heinz: I thought Senator Long was addressing
16 himself to the 60 days.

17 Senator Long: It was my impression that there is about
18 ten days the Congress is not going to be in session.

19 The Chairman: In the next 45 days, there will be ten
20 days.

21 Senator Long: So that only leaves you 35 days. And
22 then, as you and I know, we cannot get anybody around here on
23 Saturday and Sunday. So you are not looking at many days.

24 Now, once you get beyond that, the Congress is going to
25 be in a rush to try to get out of here, and I assume that we

1 will get out some time in November. And assuming that we do,
2 we will not be in position to act on this matter until we get
3 back. Otherwise, we are forced to try to really shoot from
4 the hip.

5 Now, when we get back here, usually the Congress does not
6 get going right in the beginning of January. Usually it is
7 about the latter part of January before we really get cranked
8 up. So you need some time, I would think, to conduct some
9 hearings.

10 And I would hope that for once we would try to move in
11 this area where we do have good information. I am not
12 talking about just those horrible cases that can be produced,
13 where some person was taken off the rolls where the person
14 appears to be very severely disabled. I am also talking
15 about the kind of situations -- which just happened, by the
16 way -- I think the rolls are greatly expanded when you have
17 high unemployment. A lot of poor souls, when they cannot
18 find a job, are much more inclined to believe that they are
19 disabled forever than they are when they can find a job.

20 And so if we focus on it and do a decent job, I would
21 think that we are going to need about 90 days into the next
22 year or so. So that being the case, it seems to me as though
23 you are talking about roughly the six months that the
24 Chairman is talking about.

25 If we really do some legislating, rather than just extend

1 something or go by guess and by hunch and vote our emotions,
2 I would think that we would need the six months. When, you
3 know, we have done legislating in this area up to now, I
4 cannot recall a time in the last several years, including
5 back even in the days when I was Chairman of the Committee --
6 we always sat down with this disability thing and actually
7 did justice to it, to where we really actually had a chance
8 to get a balanced look at both sides of it, now, both people
9 who have a right to claim disability who are not getting it
10 and those who are on those rolls who really probably should
11 have never been on there in the first instance.

12 I do not think that you are going to do any real
13 thoughtful legislating in this subject if you try to do it in
14 the next 45 days or any time between now and the first of the
15 year. If you go past the first of the year, then I think you
16 logically, you figure you are not going to be doing business
17 in the first 20 days of January. You need about another 60
18 days on it.

19 So I think you are talking about roughly six months, once
20 you recognize that you are going over into the next year.

21 The Chairman: Could I add to that? Yesterday, I think
22 it was yesterday, we delivered the blue book. Have you got a
23 copy of it there? So it is not that we are delaying. I
24 mean, we are trying to get the information available. We are
25 trying to plan some extensive hearings in this area. And I

1 do not know whether you have any scheduled dates yet.

2 Mr. De Arment: No, Mr. Chairman. We are still searching
3 for dates.

4 The Chairman: So I think what Senator Heinz and Senator
5 Pryor are rightfully concerned about, this may be some -- I
6 do not say ploy, but it might delay it six months. Whether
7 we intend to delay it or not, the effect would be to delay it
8 for six months.

9 I can only assure both Senators that we are going to move
10 into hearings and they are going to be, as Senator Long
11 suggests, extensive. And if it happens that we do it in less
12 than that time, then we can do it.

13 I do not think it is of any great moment, but I think
14 there are some strong feelings on both sides and maybe we
15 should just vote on it. Is that all right, John?

16 Senator Heinz: We are voting on Senator Pryor's motion
17 of three months?

18 Senator Pryor: For the purpose of consideration, I
19 proposed three months.

20 The Chairman: I would offer a substitute to say six
21 months.

22 Senator Heinz: The vote will be on the substitute of six
23 months?

24 The Chairman: Right.

25 The Clerk will call the roll, I guess.

- 1 Mr. De Arment: This is on the Dole substitute of six
2 months.
- 3 Mr. Packwood.
- 4 [No response.]
- 5 Mr. De Arment: Mr. Roth.
- 6 The Chairman: Mr. Roth is aye by proxy.
- 7 Mr. De Arment: Mr. Danforth.
- 8 Senator Danforth: Aye.
- 9 Mr. De Arment: Mr. Chafee.
- 10 Senator Chafee: Aye.
- 11 Mr. De Arment: Mr. Heinz.
- 12 Senator Heinz: No.
- 13 Mr. De Arment: Mr. Wallop.
- 14 The Chairman: Aye by proxy.
- 15 Mr. De Arment: Mr. Durenberger.
- 16 [No response.]
- 17 Mr. De Arment: Mr. Armstrong.
- 18 The Chairman: Aye by proxy.
- 19 Mr. De Arment: Mr. Symms.
- 20 The Chairman: Aye by proxy.
- 21 Mr. De Arment: Mr. Grassley.
- 22 Senator Pryor: No by proxy.
- 23 Mr. De Arment: Mr. Long.
- 24 Senator Long: Aye.
- 25 Mr. De Arment: Mr. Bentsen.

- 1 [No response.]
- 2 Mr. De Arment: Mr. Matsunaga.
- 3 [No response.]
- 4 Mr. De Arment: Mr. Moynihan.
- 5 Senator Moynihan: No.
- 6 Mr. De Arment: Mr. Baucus.
- 7 Senator Pryor: No by proxy.
- 8 Mr. De Arment: Mr. Boren.
- 9 Senator Pryor: No by proxy.
- 10 Mr. De Arment: Mr. Bradley.
- 11 Senator Bradley: No.
- 12 Mr. De Arment: Mr. Mitchell.
- 13 Senator Pryor: No by proxy.
- 14 Mr. De Arment: Mr. Pryor.
- 15 Senator Pryor: No.
- 16 Mr. De Arment: Mr. Chairman.
- 17 The Chairman: Aye.
- 18 Senator Pryor: Mr. Chairman, I have just been informed
- 19 that Senator Bentsen is no by proxy.
- 20 The Chairman: The yeas are nine, the nays are eight.
- 21 The substitute is agreed to.
- 22 Senator Chafee: Mr. Chairman, I would like to, if we are
- 23 through with the unemployment comp part of this, I would like
- 24 to add to it a Title XX amendment which the House has
- 25 included within its FSC. And basically what this does under

1 the Title XX, which is the social security block grant, which
2 deals with daycare and child protection services and a host
3 of other activities and some foster care, under the current
4 year, that is in '83, the funding is at \$2.67 billion, \$2.67
5 billion.

6 Now, that includes what we appropriated under the block
7 grant plus what we added to it in the jobs bill. So the
8 whole thing for this year comes to \$2.675 billion. I would
9 increase the authorization by \$200 million to 2.7. That is
10 it, Mr. Chairman. Basically, it level-funds it. At least it
11 authorizes it at basically level funding.

12 Senator Bradley: Mr. Chairman, I would like to support
13 Senator Chafee in his amendment, and I would like to point
14 out that the first budget resolution for '84 assumes a \$300
15 million increase over the authorized cap, and this would be
16 about two-thirds of that increase.

17 I think it is also important to recognize that the
18 program as a total program has decreased significantly from
19 even its 1980 level. So I think that this is a timely
20 response. At a time when there are tough budget
21 circumstances everywhere, I think that we have to recognize
22 that some programs, particularly those that affect children,
23 are important to fund adequately.

24 Senator Chafee: Could I just make a correction? I said
25 the House included it when they did this. That is wrong.

1 The House has agreed to include it in a Committee amendment
2 on the floor to this supplemental unemployment comp
3 legislation. So I want to correct that.

4 Senator Moynihan: I just wanted to state my own support
5 for Senator Chafee's amendment. Yesterday in the debate over
6 the revenue sharing I remarked on something, it really did
7 not strike me that it was home town. But in two years, the
8 receipts, the contributions by the Department of Health and
9 Human Services to our Human Resources Administration, which
10 is basically our children's administration, have dropped 46
11 percent. And this is reaching the point of real pain and
12 hardship.

13 I am going to go to the floor, if I may be excused.

14 The Chairman: I am willing to accept the amendment. It
15 is a fiscal decision and, as I indicated to Senator Chafee,
16 if we can not have a run-away cost in the other program we
17 might be able to accommodate this amendment. I know I am
18 certain the votes are here to add on additional money, but it
19 is a fiscal issue.

20 And it is true that the funding level for this program is
21 reduced in the 1981 Reconciliation Act. We did add some
22 money back in the jobs bill, so it has not been all on one
23 side. But I am prepared to accept the amendment.

24 I asked Senator Long. He said he had no objection to the
25 amendment. So why do we not accept the amendment and hope we

1 can hold down the cost.

2 Senator Heinz: Could I put a good word in for Senator
3 Chafee for having offered it?

4 Senator Chafee: Do not be reluctant at all.

5 [Laughter.]

6 Senator Bradley: Mr. Chairman, could I ask maybe if we
7 could modify the Chafee amendment so that half of the \$200
8 million within each state would go to areas of high
9 unemployment, so that we could try to target it?

10 Senator Chafee: That is all right with me. And I
11 believe that the gist of your amendment would let the
12 governor decide what is high unemployment.

13 Senator Bradley: That is correct.

14 Senator Boren: Would that be discretionary with the
15 governor? I just always worry about --

16 Senator Bradley: I actually mention this on behalf of
17 Senator Pentsen, who had a concern.

18 The Chairman: I understand the Administration might like
19 to be heard just on the amendment.

20 Ms. Goedde: Thank you, Mr. Chairman.

21 The Administration is opposed to the \$200 million
22 add-on. I realize, Mr. Chairman, that it is your intent to
23 accept this amendment. I would urge the Committee to
24 consider leaving off any kind of targeting of funds to
25 certain areas, and the reason is this: Of all the block

1 grants that we manage within the Department, this is, if you
2 will, the cleanest block grant in the sense that it has very
3 few strings attached for the states.

4 The states have managed their resources very, very well
5 under the social services block grant. They are free to
6 target their funds to children or to the elderly or
7 whatever. There are restraints against using the moneys for
8 construction, for example. Moneys are limited to social
9 services.

10 But we would hate to see the states constrained in any
11 way to targeting, either in terms of areas or in terms of
12 limiting certain amounts of dollars to types of services and
13 that sort of thing. We would urge you to take that into
14 consideration if you are going to add on the money.

15 The Chairman: I think the Administration opposes the
16 amendment. Maybe we should not try to complement it by
17 making it more objectionable.

18 Senator Chafee: Mr. Chairman, let me just say this. The
19 House has this in it. I am prepared to go with it as
20 originally proposed, without the targeting, and listen to the
21 arguments that seem valid as presented by the Administration,
22 and then let us see. By philosophy I am not for targeting
23 too much, and I think the Administration has not argued this
24 before.

25 What do you say, Bill?

1 Senator Bradley: My only concern is I think the
2 Committee has, as you have said, accepted it and tries to
3 hold it in conference. The fact is, if we would add the
4 targeting section we would be sure to have it.

5 Senator Boren: Is it in the House bill?

6 Senator Bradley: Yes.

7 Senator Boren: Well, I really am concerned about having
8 to try to deal with these programs as a governor. I am
9 concerned about tying the states' hands here. I think that
10 there are enough restrictions, and I trust local units of
11 government enough, the governor and the state legislature and
12 the state departments. They are going to be very sensitive
13 to where their local problems are, where their pockets of
14 poverty are and unemployment.

15 And I just really, I would rather leave it to the
16 discretion of the state governments.

17 The Chairman: Well, I think we are willing to accept the
18 amendment.

19 Senator Bradley: Let us accept the amendment, Mr.
20 Chairman, and we will deal with the targeting question.

21 The Chairman: We will report out the bill with the
22 amendments we agree to.

23 Senator Bradley: Mr. Chairman, I would like to cosponsor
24 the amendment with Senator Chafee.

25 The Chairman: In the meantime, in fact, the labor

1 people, I have asked them to wait in the event that Senator
2 Heinz' staff or Senator Moynihan's staff or anybody else
3 wants to have any input now on some ideas they might have, if
4 they can come up with a better suggestion.

5 I do want to commend the Labor representatives, because
6 they have been working on this since last Friday trying to
7 come up with some fair response, and I think they have done
8 an excellent job. But if there is a better way to do it,
9 then perhaps Senator Heinz and Senator Moynihan and others
10 could delegate someone.

11 Senator Heinz: Thank you, Mr. Chairman.

12 Senator Bradley: Mr. Chairman, could we just add Senator
13 Moynihan as a cosponsor of the Chafee amendment?

14 The Chairman: We would be happy to.

15 Senator Pryor: Mr. Chairman, are you through with this
16 issue?

17 The Chairman: We thought we were through with
18 everything.

19 Senator Pryor: I do not think you have asked the bill to
20 be reported, is that correct? And until you do -- I
21 understand that Senator Matsunaga may want to be recorded on
22 the previous vote on disability. And I do not want to delay
23 it further.

24 The Chairman: As a matter of fact, Senator Grassley left
25 the room and Senator Packwood is not recorded and Senator

1 Durenberger is not recorded.

2 Mr. De Arment: Mr. Grassley is recorded.

3 Mr. Chairman, if we are going to order the bill reported,
4 maybe we would want to wait. Put if we order the bill
5 reported and then Mr. Matsunaga changes the result, we would
6 have to come back in and vote again, because then you would
7 have a tie vote and your substitute would not have
8 prevailed.

9 The Chairman: Well, I cannot think there is any great
10 issue. I can probably make certain we do not do anything on
11 disability for six months if we want to play hardball. We
12 are going to try to resolve it in three months, but I would
13 like to accommodate the ranking member on the other side, who
14 does not have the same view that we have. He does not think
15 we ought to make a lot of these changes and he would like
16 some extensive hearings, and we are going to have those.

17 I am willing to do anything we can, because I think we
18 are all on the same team here. But I am willing to wait if
19 Senator Matsunaga wants to vote.

20 Senator Pryor: Is Senator Matsunaga in the Hart or
21 Russell or Dirksen Building?

22 Senator Dole might tell us the latest joke he has heard,
23 if that would be appropriate, to keep us here for a month.

24 The Chairman: As far as I am concerned, we are ready to
25 leave.

1 Senator Boren: How many precincts are not recorded yet?

2 The Chairman: We have three precincts.

3 I think maybe a better course would be to just not offer
4 any amendment and fight this issue out on the floor. If you
5 want to offer three months for six months, I would be willing
6 to do that, to withdraw the six-month proposal and leave it
7 open and see what happens.

8 Senator Pryor: Well, let me see if this would be
9 proper: to ask unanimous consent that Senator Matsunaga be
10 permitted to cast his vote, notwithstanding your request to
11 report the bill. Is that a fair request? I will not make it
12 if it is not fair.

13 Mr. De Arment: Mr. Chairman, we have had this problem
14 before, where the results change the outcome.

15 The Chairman: That would not prejudice anybody. We know
16 it is going to be three, months, four months, five months, or
17 six months. Maybe if I just withdrew the substitute, so that
18 everybody, including the others who did not record -- and
19 then I assume on the Senate floor somebody will offer a
20 three-month or a six-month delay, because Senator Cohen is
21 interested in this and Senator Levin.

22 I am willing to do that, which would put us right back to
23 square one, I guess.

24 Senator Heinz: Well, what length of time would it have
25 in it?

1 The Chairman: Well, it would be -- it would have no
2 length of time. You would offer the three months.

3 Senator Heinz: It would be an extension with no length
4 of time?

5 Mr. De Arment: No, there would be no provision in the
6 bill.

7 The Chairman: If you have the votes on three months, it
8 would be a three month extension.

9 Senator Heinz: Mr. Chairman, that is okay with me. It
10 certainly moves things right along.

11 The Chairman: Otherwise, when Sparky votes we will have
12 a problem.

13 Senator Fryor: By the way, I do not know how Mr.
14 Matsunaga might vote. He might vote for your side. I do not
15 know how. I was just trying to preserve his option there.

16 Mr. Chairman, with that agreement, I would think that
17 would be a fair compromise and we will fight this matter on
18 the floor.

19 The Chairman: All right.

20 Mr. De Arment: Mr. Chairman, are we reporting the bill
21 or ordering the bill reported?

22 The Chairman: Yes.

23 [Whereupon, at 4:35 p.m., the Committee was adjourned.]

24 * * *

25

COMMITTEE ON FINANCE

Executive Session

Thursday, September 22, 1983

Room SD-215

10:30 a.m.

A G E N D A

1. Extension of the Federal Supplemental Compensation Program (Attachment A)
2. Extension of provision allowing for the continuation of Social Security disability insurance benefits during the appeals process (Attachment B)
3. Extension of provision permitting payment of Federal matching payments for voluntary placement of children in foster care (Attachment C)
4. Extension of the International Coffee Agreement (Attachment D)

UNEMPLOYMENT COMPENSATION1. Federal Supplemental Compensation (FSC) ProgramCurrent Law

The FSC program expires on September 30, 1993. It provides four categories of benefits: (1) basic benefits; (2) additional benefits; (3) transitional benefits; and (4) phase-out benefits.

1. Basic benefits go to individuals who began receiving FSC after March 31, 1993. The maximum number of weeks available to individuals, breaks down by State unemployment levels:

- a. 14 weeks in States with insured unemployment rates (IURs) of at least 6.0%;
- b. 12 weeks in States with IURs of at least 5.0%, but less than 6.0%
- c. 10 weeks in States with IURs of at least 4.0%, but less than 5.0%; and
- d. 8 weeks in all other States.

Initially, the Congress limited the maximum number of weeks in a State in the first week after April 1, 1993, to no more than 4 weeks less than the maximum number of weeks payable in the State as of March 27, 1993. A recent amendment (P.L. 99-92) changed this in September 1993 to freeze the maximum number of weeks payable under FSC in States that had already dropped at least 4 weeks since March 27 to that available for the week of July 24. Also, individuals who were on FSC before June 5, 1993, are to lose no more than 4 weeks of duration compared to that available in the week of March 27, 1993.

2. Additional benefits go to individuals who exhausted their FSC entitlement before April 1, 1993. The maximum number of weeks available to these individuals is:

- a. 10 weeks in States with an IUR of at least 6.0%;
- b. 8 weeks in States with an IUR of at least 4.0%, but less than 6.0%; and
- c. 6 weeks in all other States.

3. Transitional benefits go to individuals who received FSC before April 1, 1983, and have some FSC entitlement remaining. They could receive basic and additional benefits, but the combined amount may not exceed the maximum number of basic FSC benefits available in the State before March 31, 1983.

4. Phase-out benefits go to individuals who have not exhausted their FSC entitlement on September 30, 1983, when the program expires. These individuals would be eligible to receive up to 50 percent of their remaining FSC entitlement. No new claimants would be added to the FSC program on or after September 30, 1983.

Brief History

The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) authorized the FSC program on September 3, 1982, for a period ending on March 31, 1983.

The Surface Transportation Assistance Act of 1982 (P.L. 97-425) increased the maximum number of weeks to 16, 14, 10, or 9.

The Social Security Amendments of 1983 (P.L. 98-21) reauthorized the current FSC program (described under Current Law) through September 30, 1983.

Cost of Program

The Department of Labor estimates that the FSC program will pay some \$5.5 billion in benefits to over 5 million claimants from September 12, 1982 through September 30, 1983. FSC benefits are funded entirely from Federal general revenues.

Proposal

The FSC program would be extended for 18 months (through March 31, 1985). The program would be modified as follows:

- a. 10 weeks of FSC benefits would be available in States with insured unemployment rates (IURs) of at least 5.0%;
- b. 8 weeks of FSC benefits would be available in States with IURs of at least 4.0%, but less than 5.0%;
- c. 6 weeks of FSC benefits would be available in States with IURs under 4.0%.

Estimated Cost

The Department of Labor estimates that the proposal described above would have a cost of \$3.16 billion over the 13-month period. Fiscal year 1984 costs are estimated at \$2.2 billion of the total.

CONTINUED PAYMENTS DURING APPEAL

Present law.--A social security disability insurance (DI) beneficiary who is found to be no longer disabled under the provisions of the Social Security Act continues to receive benefits for two months after the month in which his eligibility is determined to have ceased. (As an administrative practice, individuals are now generally found to be "no longer disabled" no earlier than the month in which the individual is notified of the termination decision.)

The individual may request a reconsideration of the decision, and if the termination is upheld, he or she may appeal the decision to an Administrative Law Judge (ALJ). If the initial termination decision is reversed, benefits are payable retroactively.

Under a provision in P.L. 97-455 (enacted January 12, 1983), individuals notified of a termination decision may elect to have DI benefits and Medicare coverage continued during appeal -- in particular, through the month preceding the month of the ALJ hearing decision. Additional DI benefits are subject to recovery as overpayments if the initial termination decision is upheld. This provision applies only in the case of termination decisions rendered before October 1, 1983. (In no case may payments under this provision continue beyond June 1984.)

Possible amendment.--Temporarily extend the provision allowing for the continuation of DI benefits and Medicare coverage during appeal to an ALJ. The individual's option to have benefits continued would be granted in the case of termination decisions rendered before November 15, 1983. (In no case would payments be made under this provision beyond July 1984.)

OASDI Cost (in millions)

<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY84-88</u>
\$ 15	\$ 5	\$ 5	\$ 3	\$ 2	\$ 30

*SSA estimates.

FOSTER CARE AND ADOPTION ASSISTANCE
(TITLE IV-E, SOCIAL SECURITY ACT)

1. Extend Authority to Fund Voluntary Foster Care Placements

Current Law

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) included a provision authorizing Federal matching on a temporary basis for payments made on behalf of children voluntarily placed in foster care. The statute provides that, in those States that have implemented specified foster care protections and procedures, Federal foster care matching funds are available until September 30, 1983, for children who have been voluntarily removed from their home (without a judicial determination), if such removal is pursuant to a voluntary placement agreement. The voluntary placement agreement must be removable on the part of the parent unless the child welfare agency objects and obtains a judicial determination that the return of the child to the home would not be in the best interests of the child. There must be a judicial determination of a voluntary placement within 6 months to the effect that such placement is in the best interests of the child. The Secretary of Health and Human Services must report annually to the Congress on the number of children placed under this provision.

Proposal

The voluntary placement provision would be extended for one year, to September 30, 1984. The Secretary of HHS would then have the opportunity to issue a report on the number of children placed under this provision and the cost of the voluntary placements.

Estimated Cost

Negligible.

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GEORGE J. MITCHELL, MAINE**United States Senate**COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510ROBERT E. LIGHTHIZER, CHIEF COUNSEL
MICHAEL STERN, MINORITY STAFF DIRECTOR

September 20, 1983

TO: MEMBERS, COMMITTEE ON FINANCE

FROM: FINANCE COMMITTEE TRADE STAFF

SUBJECT: MARKUP OF S. 1847, LEGISLATION TO AUTHORIZE THE PRESIDENT TO CARRY OUT AND TO ENFORCE THE 1983 INTERNATIONAL COFFEE AGREEMENT

Attached are materials for the markup of S. 1847, a bill to reauthorize the President to carry out and to enforce U.S. obligations under the International Coffee Agreement (ICA).

The current ICA, which came into force in 1976, expires on September 30th. The Congress authorized the President to carry out and to enforce its obligations, like its predecessors, in the International Coffee Agreement Act of 1980. That authority also expires on September 30. Pursuant to that law, the President implemented Customs procedures to ensure that coffee not covered by the ICA did not enter the United States, and to regulate coffee trade in other ways to implement U.S. obligations under the agreement.

S. 1847 would amend the International Coffee Agreement Act of 1980 to continue its authority with respect to the 1983 Agreement. The authority would continue for the life of the Agreement, 6 years.

The International Coffee Agreement

The 1983 ICA is the fifth in a series of such agreements dating from 1963. It would replace the 1976 agreement, which expires September 30, 1983. The Congress last year extended the President's authority to carry out U.S. obligations under this agreement until September 30th.

Like its predecessors, the 1983 ICA is designed to stabilize coffee prices within an agreed range (\$1.15-\$1.50 per pound). Export quotas, buttressed by stocking requirements, are established among the coffee producing nations in order to maintain prices within this range. Quotas are reduced, expanded, or suspended for this purpose. Consuming countries agree to regulate imports to support the quota system, and they participate in the negotiations determining the aggregate annual quota and its distribution among types of coffee.

Operation of the agreement is conducted through the International Coffee Organization, headquartered in London. The ICA covers nearly 95 percent of coffee traded world-wide, and is adhered to by nearly all exporting and importing countries. Votes in the organization are distributed on a weighted basis among producing and consuming members; the United States is entitled to 30 percent of the consumers' votes.

The Administration supports continued participation in the ICA because it believes the agreement contributes to stability in coffee trade without significantly restraining market forces that normally determine price and supply. The stability is important because coffee exports account for over 50 percent of total export earnings of 7 countries, and between 20 and the 50 percent for 9 others. A predictable coffee market assures some measure of economic--and in many cases, political--stability in these countries. On the other side, the major U.S. importers support the agreement as a way of ensuring stable supplies. The National Coffee Association and the consumer advisers to the ICA negotiating team support the agreement.

S. 1847

S. 1847 would renew the President's authority to carry out and to enforce U.S. obligations under the 1983 ICA for its 6-year life. Current authority relating to the 1976 agreement expires on September 30, 1983.

By this renewed authority, the President could continue to regulate coffee imports to prohibit the entry of non-quota coffee, to require any coffee exported from the United States to be documented properly, and to take other regulating actions necessary or appropriate to implement U.S. obligations under the

agreement. The law further requires the President to take action in response to market manipulation by members of the International Coffee Organization, if he determines the existence of such conduct. Finally the authority, if renewed, would require the President to submit an annual report on the operation of the 1983 ICA.

COFFEE EXPORTS AS A PERCENT OF TOTAL EXPORTS, 1981

<u>Country</u>	<u>Coffee Exports as a Percent of Total Exports</u>
Brazil	5.5
Burundi	87.5
Cameroon	21.7 *
Central African Republic	27.4 *
Colombia	50.0
Costa Rica	23.4
Dominican Republic	6.4
Ecuador	4.2
El Salvador	57.3
Ethiopia	60.7
Guatemala	22.6
Haiti	19.5
Honduras	24.6 *
India	3.2 (E)
Indonesia	1.3 (E)
Ivory Coast	31.1 **
Kenya	20.6
Madagascar	53.2 *
Mexico	2.9 *
Nicaragua	36.8 *
Papua New Guinea	13.0
Paraguay	0.4
Peru	3.3
Philippines	0.9 (E)
Rwanda	52.8 *
Sierra Leone	16.8 *
Tanzania	23.4 *
Togo	7.9 *
Uganda	98.7 *
Zaire	14.8

(E) Estimate

* 1980

** 1979

Source: IMF, International Financial Statistics, 1982

10/15/82

98TH CONGRESS
1ST SESSION

S. 1847

To authorize the President to carry out and enforce the International Coffee Agreement, 1983.

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 15 (legislative day, SEPTEMBER 12), 1983

Mr. DANFORTH (by request) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To authorize the President to carry out and enforce the International Coffee Agreement, 1983.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That, the International Coffee Agreement Act of 1980 (19
4 U.S.C. 1356k, et seq.) is amended—

5 (1) by striking out “1976” in sections 2, 3, and 5
6 and inserting in lieu thereof “, 1983”, and

7 (2) by striking out “prior to October 1, 1983” in
8 section 2.

○

e. International Coffee Agreement Act of 1980

Public Law 96-599 [H.R. 3637], 94 Stat. 3491, approved December 24, 1980

AN ACT To carry out the obligations of the United States under the International Coffee Agreement 1976, signed at New York on February 27, 1976, and entered into force for the United States on October 1, 1976, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section J. This Act may be cited as the "International Coffee Agreement Act of 1980".

IMPORTATION OF COFFEE UNDER INTERNATIONAL COFFEE AGREEMENT 1976; PRESIDENTIAL POWERS AND DUTIES

Sec. 2. On and after the entry into force of the International Coffee Agreement 1976, and for such period prior to October 1, 1982 as the agreement remains in effect, the President is authorized, in order to carry out and enforce the provisions of that agreement—

(1) to regulate the entry of coffee for consumption, or withdrawal of coffee from warehouse for consumption, or any other form of entry or withdrawal of coffee such as for transportation or exportation, including whenever quotas are in effect pursuant to the agreement, (A) the limitation of entry, or withdrawal from warehouse, of coffee imported from countries which are not members of the International Coffee Organization, and (B) the prohibition of entry of any shipment from any member of the International Coffee Organization of coffee which is not accompanied either by a valid certificate of origin, a valid certificate of reexport, a valid certificate of reshipment, or a valid certificate of transit, issued by a qualified agency in such form as required under the agreement;

(2) to require that every export or reexport of coffee from the United States shall be accompanied by a valid certificate of origin or a valid certificate of reexport, issued by a qualified agency of the United States designated by him, in such form as required under the agreement;

(3) to require the keeping of such records, statistics, and other information, and the rendering of such reports, relating to the importation, distribution, prices, and consumption of coffee as he may from time to time prescribe; and

(4) to take such other action, and issue and enforce such rules and regulations, as he may consider necessary or appropriate in order to implement the obligations of the United States under the agreement.

DEFINITION OF COFFEE

Sec. 3. As used in this Act, the term "coffee" means coffee as defined in article 3 of the International Coffee Agreement 1976.

DELEGATION OF PRESIDENTIAL POWERS AND DUTIES; PROTECTION OF INTERESTS OF UNITED STATES CONSUMERS; REMEDIAL ACTION

Sec. 4. The President may exercise any powers and duties conferred on him by sections 2 through 5 of this Act through such agency or officer as he shall direct. The powers and duties conferred by sections 2 through 5 of this Act shall be exercised in the manner the President considers appropriate to protect the interest of United States consumers. In the event the President determines that there has been an unwarranted increase in the price of coffee due in whole or in part to the International Coffee Agreement, or to market manipulation by two or more members of the International Coffee Organization, the President shall request the International Coffee Council or the Executive Board to increase supplies of coffee available to world markets by suspending coffee export quotas and to take any other appropriate action. At the same time he shall report his determination to the Congress. In the event the International Coffee Council has failed to take corrective action to remedy the situation within a reasonable time after such request the President shall submit to the Congress such recommendations as he may consider appropriate to correct the situation. In the event that members of the International Coffee Organization involved in market manipulation which has resulted in price increases have failed to remedy the situation within a reasonable time after a request for remedy, the exercise of the authority set forth in section 2 of this Act shall be suspended until the President determines that effective market manipulation activities have ceased.

REPORT TO THE CONGRESS

Sec. 5. The President shall submit to the Congress an annual report on the International Coffee Agreement 1976. Such report shall contain full information on the operation of such agreement, including full information with respect to the general level of prices of coffee and matters pertaining to the transportation of coffee from exporting countries to the United States. The report shall also include a summary of the actions the United States and the International Coffee Organization have taken to protect the interest of United States consumers.

Background Data and Materials on Fiscal Year 1984 Spending Reduction Proposals

PENDING BEFORE THE

Senate Finance Committee

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE UNITED STATES SENATE

ROBERT J. DOLE, *Chairman*



JUNE 1983

Printed for the use of the Committee on Finance

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TABLE 3.—3-YEAR TOTALS FOR THE FINANCE COMMITTEE

	Senate
Outlay reductions.....	\$5.4
Revenue increases.....	\$73.0
Total deficit reduction, Finance.....	\$78.4
Percent of total budget deficit reduction.....	59.6

[Dollars in billions]

BUDGET OVERVIEW

The revised current services baseline projects outlays of \$854.8 billion and revenues of \$661.2 billion for fiscal year 1984, leaving a baseline deficit of \$193.6 billion. Table 1 shows that the deficit will rise to \$215.3 billion in fiscal year 1986 if no policy changes are made.

TABLE 1.—REVISED BASELINE BUDGET ESTIMATES

	Fiscal year—		
	1984	1985	1986
Revenues.....	661.2	729.4	784.9
Outlays.....	854.8	928.4	1,000.2
Deficit.....	193.6	199.0	215.3

Table 2 displays the revenue and spending changes proposed by the Senate budget resolution. Outlay savings of \$56.9 billion, and additional revenues of \$74.6 billion are assumed. Of the total deficit reduction of \$131.5 billion, revenue increases represent 57 percent. By fiscal year 1986, the deficit is estimated to decline to \$130.1 billion.

TABLE 2.—FIRST CONTINUING BUDGET RESOLUTION, SENATE VERSION

	Fiscal year—			Total
	1984	1985	1986	
Baseline deficit.....	193.6	199.0	215.3	607.9
Outlays.....	-5.1	-17.6	-34.2	-56.9
Revenues.....	+9.9	+13.7	+51.0	+74.6
Deficit reduction.....	15.0	31.3	85.2	131.5
Remaining deficits.....	178.6	167.7	130.1	476.4

INSTRUCTIONS FOR THE FINANCE COMMITTEE

The Senate resolution instructs the Committee on Finance to reduce expenditures below the baseline by \$5.4 billion and raise revenues by \$73.0 billion over fiscal years 1984-1986, as shown by Table 3. In all, the Committee on Finance is responsible for \$78.4 billion in deficit reduction over the next three years—59.6 percent of the total deficit reduction.

Table 4 lists the program changes that were assumed by the Budget Committee in arriving at our totals. As with specific revenue measures, however, the Finance Committee is not bound to any of these marks. Only total spending reductions and revenue increases are contained in the reconciliation instructions. The committee retains full flexibility over where savings are to be achieved and revenues increased.

TABLE 4.—ASSUMPTIONS UNDERLYING SENATE BUDGET RESOLUTION INSTRUCTIONS FOR THE COMMITTEE ON FINANCE

	Fiscal year—			Total
	1984	1985	1986	
[In millions of dollars]				
Expenditure cuts:				
Medicare.....	-809	-995	-1,572	-3,376
Medicaid.....	-7	-543	-407	-957
Child support program.....				
Unemployment compensation.....	-40	-116	-139	-295
Subtotal, spending.....	-856	-2,024	-2,484	-5,364
Revenues.....	+9,000	+13,000	+51,000	+73,000
Total deficit reduction.....	9,856	15,024	-53,484	78,364

ADMINISTRATION PROPOSALS FOR HEALTH PROGRAMS UNDER JURISDICTION OF THE
FINANCE COMMITTEE

[CBO estimates; outlays in millions]

	Fiscal year--			Total
	1984	1985	1986	
Medicare:				
1. Cost-sharing and catastrophic coverage.....	-\$900	-\$1,450	-\$1,750	-\$4,100
2. Voluntary voucher.....	0	+50	+50	+100
3. Freeze physician reimbursement.....	-900	-1,050	-1,200	-3,150
4. Reduce target rate of hospital cost increase.....	-80	-170	-200	-450
5. Part B premium.....	0	-432	-1,527	-1,959
6. Index part B deductible..	-50	-115	-180	-345
7. Initial eligibility.....	-200	-265	-305	-770
8. Eliminate mandatory utilization review, eliminate PRO's.....	0	0	0	0
9. Lower reimbursement to home health agencies ...	-15	-20	-20	-55
10. Authorize competitive bidding.....	-9	-14	-20	-43
11. Eliminate waiver of provider liability.....	0	0	0	0
12. Authorize processing part A bills on flow basis...	-3	-3	-4	-10
13. Modify medicare contracting.....	0	-3	-9	-11
14. Eliminate renal networks.....	-5	-5	-5	-14
15. Eliminate railroad retirement carrier contract.....	-2	-2	-2	-5
Total, medicare.....	-2,163	-3,478	-5,172	-10,812
Medicaid:				
1. Cost-sharing by recipients.....	-140	-155	-175	-470
2. Assignment of rights	-6	-7	-7	-20
3. Cross over claims.....	-1	-1	-2	-4
4. Extension of Federal reductions.....	0	-535	-397	-932

Health Programs

ADMINISTRATION PROPOSALS FOR HEALTH PROGRAMS UNDER JURISDICTION OF THE
FINANCE COMMITTEE—Continued

(CBO estimates; outlays in millions)

	Fiscal year—		Total
	1984	1985	
5. Impact of other proposals on medicaid:			
Medicare	+56	+129	+209
AFDC impact	-93	-184	-202
SSI impact	0	0	0
Total, medicaid	-184	-753	-574
			-1,511

(In millions of dollars)

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	— 900	— 1,450	— 1,750
			— 4,100

1. Restructure Beneficiary Cost-Sharing and Provide Coverage for Unlimited Hospital Days (Catastrophic Coverage)

Current law.—Under present law, Medicare beneficiaries share in the costs of inpatient hospital and skilled nursing facility services. During each benefit period, the beneficiary must pay an inpatient hospital deductible (currently \$304). If the beneficiary is hospitalized beyond 60 days during such period, he or she must pay an additional daily coinsurance amount equal to 25 percent of the inpatient hospital deductible (currently \$76) for the 61st through 90th day of care. For the 60 lifetime reserve days, beneficiaries are required to pay a daily coinsurance amount equal to 50 percent of the inpatient hospital deductible (currently \$152). In addition, beneficiaries are required to pay a daily coinsurance amount equal to 12.5 percent of the inpatient hospital deductible (currently \$38) for care provided from the 21st through the 100th day in a skilled nursing facility.

Proposal.—The administration proposal would restructure the current inpatient hospital and skilled nursing facility cost-sharing requirements. Specifically, the administration proposes to:

- (1) Eliminate patient cost sharing for any hospital days of care after 60 days during any calendar year.
- (2) Impose new cost-sharing requirements on the first 60 days of inpatient care: a daily copayment equal to 8 percent of the inpatient deductible (estimated to be \$28/day during calendar year 1984) from day 2 through day 15, and a daily copayment amount equal to 5 percent of the inpatient hospital deductible (estimated to be \$17.50/day during calendar year 1984) for each day of care from the 16th through the 60th day of hospitalization in any benefit period.
- (3) Limit the number of times a beneficiary must pay an inpatient hospital deductible to two in each year.
- (4) Reduce the present copayment amount applicable to care in skilled nursing facilities from its present level (12.5 percent of the inpatient hospital deductible amount) to 5 percent of the deductible (estimated to be \$17.50/day during calendar year 1984).

The estimated annual increase in costs to Medicare beneficiaries using hospital services, as a result of such a change in cost sharing is approximately \$250.

Effective date.—January 1, 1984.

(7)

I. MEDICARE

Legislative Initiatives

2. Voluntary Medicare Voucher Program

Current law.—Under present law, Medicare payments are made on behalf of beneficiaries to hospitals and other institutions who participate in the Government-sponsored program and through payment arrangements to beneficiaries or to providers on behalf of beneficiaries in the case of physician and other medical services.

In addition, under a provision contained in Public Law 97-248, the Medicare program is permitted to pay certain health maintenance organizations at a prepaid rate, equal to 95 percent of the average per person costs of Medicare coverage provided in the fee-for-service sector. The provision has not yet been implemented by the Department of Health and Human Services.

Proposal.—The administration proposal would establish a voluntary Medicare voucher program under which beneficiaries could elect to receive services through a private health benefits plan, including certain health maintenance organizations, rather than through participation in the present Government-sponsored Medicare program. Where beneficiaries opted for such alternative coverage, the Government would contribute an amount equal to 95 percent of the average per-person costs of Medicare coverage toward the purchase of such private protection.

Effective date.—January 1, 1985.

(In millions of dollars)

	Fiscal year—		Total
	1984	1985	
Outlay increases.....	0	+ 50	+ 50
			+ 100

3. Freeze "Reasonable Charges" for Physician Services

Current law.—Under present law, Medicare pays for physician services on the basis of Medicare-determined "reasonable charges." "Reasonable charges" are the lesser of: a physician's actual charges, the customary charges made by an individual physician for specific services, or the prevailing level of charges made by other physicians for specific services in a geographic area. The amounts recognized by Medicare as customary and prevailing

charges are updated annually (on July 1) to reflect changes in physician charging practices. Increases in prevailing charge levels are limited by an economic index which reflects changes in the operating expenses of physicians and in general earnings levels.

Proposal.—The administration proposal would postpone the annual updating of both the customary and prevailing charge limits that would otherwise occur on July 1, 1983 for one year, until July 1, 1984. During this period, charge limits would remain at the levels now applicable during the current fee screen year. *Effective date.*—July 1, 1983.

[In millions of dollars]

	Fiscal year—			Total
	1984	1985	1986	
Outlay savings.....	— 900	— 1,050	— 1,200	— 3,150

4. Reduce Hospital Cost Target Rate by One Percentage Point

Current law.—Currently medicare pays hospitals on the basis of reasonable costs, subject to certain limits. The "Tax Equity and Fiscal Responsibility Act of 1982" (Public Law 97-248, commonly referred to as TEFRA) expanded previously existing limits on medicare costs effective October 1, 1982. Among other things, it established a 3-year target rate reimbursement system which in effect limited allowable rates of increase in medicare payments over the fiscal year 1983-1985 period. The target rate is equal to the previous years allowable operating costs per case (or after the first year, the previous year's target amount) increased by the percentage increase in the hospital wage and price index plus one percentage point. Penalties and bonuses are established for hospitals, with costs above and below the target.

The "Social Security Amendments of 1983" (Public Law 98-21) provides for the establishment of a prospective reimbursement system for hospitals to be phased-in over a three year period. During the transitional period a portion of a hospital's payments will be based on prospective rates and a portion on the hospitals' cost base. The cost-based portion of the payment will be calculated on the basis of reasonable costs, subject to the existing rate of increase limits, without the penalties and bonuses established under TEFRA.

Proposal.—The administration proposal would no longer include the additional percentage point in the calculation of the target rate.

Effective date.—October 1, 1983.

[In millions of dollars]

	Fiscal year—			Total
	1984	1985	1986	
Outlay savings.....	— 80	— 170	— 200	— 450

5. Modify Timing and Rate of Increase in Part B Premium

Current law.—By law, the Secretary of Health and Human Services has been required to calculate each December the increase in premiums of those who elect to enroll in the Supplementary Medical Insurance (or Part B) portion of the Medicare program. The new premium rates have been effective on July 1 of the year following the year in which the calculation was made. Ordinarily, the new premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits are increased under the cost-of-living (COLA) provisions of the social security programs. Premium income, which originally financed half of the costs of Part B, has declined—as the result of this formula—to less than 25 percent of total program income. The "Tax Equity and Fiscal Responsibility Act of 1982" (TEFRA) temporarily suspended the limitation for two one-year periods, beginning on July 1, 1983. During these periods, enrollee premiums would be allowed to increase to amounts necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. The limitation would again apply with respect to periods beginning July 1, 1985 and thereafter.

The "Social Security Amendments of 1983" (Public Law 98-21) postponed the scheduled July 1, 1983 increase to January 1, 1984 to coincide with the delay in the cost-of-living increase in social security cash benefit payments. Future increases will occur in January of each year based on calculations made the previous September. Public Law 98-21 further provided that the suspension of limitations as authorized by TEFRA are to apply for the two-year period beginning January 1, 1984.

Proposal.—The proposal had recommended the six-month deferral which was incorporated in Public Law 98-21. The proposal would also provide that beginning in 1985 the premium would be allowed to increase so that the proportion of costs borne by premiums would rise by no more than 2½ percentage points per year. By calendar year 1988, the premium would be set at a rate equal to 35 percent of the costs of the program for the aged.

Effective date.—January 1, 1985 for phase-in of premium percentage increase.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	0	- 432	- 1,527
			- 1,959

6. Index Part B Deductible

Current law.—Under present law, enrollees in the Supplementary Medical Insurance (or Part B) portion of Medicare must pay the first \$75 of covered expenses (known as the deductible) each year before any benefits are paid. The amount of this deductible is fixed by law.

Proposal.—The administration proposal would index the amount of the part B deductible, beginning in calendar year 1984, by the percentage by which the medicare economic index increases each year. The Medicare economic index is the index used to limit increases in the prevailing level of physician fees reimbursable under the Part B program. Under the proposal, the administration estimates that the part B deductible would increase to \$80 in calendar year 1984, \$85 in calendar year 1985, and \$90 in calendar year 1986.

Effective date.—January 1, 1984.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	- 50	- 115	- 180
			- 345

7. Delay in Initial Eligibility Date for Medicare Entitlement

Current law.—Under present law, eligibility for Medicare begins on the first day of the month in which an individual reaches age 65.

Proposal.—The administration proposal would delay eligibility for both Parts A and B of medicare to the first day of the month following the individual's 65th birthday.

Effective date.—October 1, 1983.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	- 200	- 265	- 305
			- 770

8. a. Eliminate Mandatory Utilization Review

Current law.—Under present law, hospitals and skilled nursing facilities are required to conduct utilization review of services provided except where such function is performed by another review organization.

Proposal.—The administration proposal would eliminate the requirement for utilization review in hospitals and skilled nursing facilities.

Effective date.—Enactment.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	0	0	0
			0

8. b. Elimination of the Peer Review Program

Current law.—TEFRA required the Secretary to enter into contracts for utilization and quality control peer review with Professional Review Organizations (PRO's) throughout the country. These entities will replace existing Professional Standards Review Organizations (PSRO's).

The "Social Security Amendments of 1983" (Public Law 98-21) provides that until September 30, 1984, hospitals are required to contract with a PRO if there is one serving the geographic area; after that date they are required to contract with such an organization as a condition of receiving program payments.

Proposal.—The administration proposal would repeal the PRO provision.

Effective date.—Enactment.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	0	0	0

9. Reduce Reimbursement to Home Health Agencies for Durable Medical Equipment

Current law.—Under present law, when covered durable medical equipment is furnished by a supplier of services, rather than by an institutional provider, payment is made under the Part B program on the basis of 80 percent of the reasonable charges (after the deductible is satisfied). If the equipment is furnished by a provider, such as a home health agency, payment is made on the basis of 100 percent of the reasonable cost of the rental or purchase of such equipment.

Proposal.—The administration proposal would reimburse home health agencies for durable medical equipment at 80 percent of reasonable cost and permit the agencies to bill beneficiaries for the remaining 20 percent.

Effective date.—October 1, 1983.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-15	-20	-55

10. Competitive Procurement of Laboratory Services, Durable Medical Equipment and Other Medical Supplies

Current law.—Under present law, physicians and beneficiaries are free to select the sources of laboratory services, durable medical equipment and certain other medical supplies.

Proposal.—The administration proposal would permit the Secretary to enter into exclusive agreements and negotiate rates for laboratory services, durable medical equipment and certain other items furnished under Part B. The Secretary could take such action only if he determined that the agreement would not deny access to beneficiaries for the specified items. The amounts payable under the agreement could not exceed, in the aggregate, the amounts which would otherwise be payable under the program. The Secretary could waive the deductible and coinsurance provisions if the resulting payments would not exceed amounts other-

wise payable. The supplier could not charge the beneficiary any more than the applicable deductible and coinsurance amounts.
Effective date.—Enactment.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-9	-14	-43

11. Eliminate Waiver of Provider Liability for Uncovered Services

Current law.—Under present law, Medicare pays hospitals and skilled nursing homes for certain uncovered or medically unnecessary care furnished beneficiaries, if the hospitals or skilled nursing facilities could not have known that payment would be disallowed. The institutions are not held liable for the costs of these services, if their total denial rate on Medicare claims remains below certain prescribed levels.

Proposal.—The administration proposal would eliminate this waiver of liability provision for providers. The proposal would not affect current statutory provisions which protect beneficiaries from financial liability for expenses for uncovered services.

Effective date.—October 1, 1983.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	0	0	0

12. Assignment of Inpatient Hospital Benefit Period, Deductible, and Coinsurance in the Order of Filing of Payment Requests (Authorize Processing Part A Bills on a Flow Basis)

Current law.—Under current law, the responsibility for collecting deductible and coinsurance amounts from beneficiaries in connection with stays in two or more hospitals is currently assigned in the chronological order in which services are furnished.

Proposal.—The administration proposal would assign the responsibility in the order in which hospitals submitted requests for medical care payments. A hospital that provided services after another hospital but submitted its payment request first would be responsible

for collecting the deductible and be credited with the first 60 days of coverage (for which no coinsurance is required).
Effective date.—October 1, 1983.

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-3	-3.3	-3.6
			-9.9

13. Modify Medicare Contracting

Current law.—Under current law, medicare contracts with intermediaries and carriers to perform the day-to-day operational work of the program including reviewing claims and making program payments.

Proposal.—The administration proposal would increase the Secretary's discretion in entering into agreements for medicare claims processing by (1) eliminating the right of providers of services to nominate intermediaries, (2) permitting the Secretary to enter into various kinds of agreements, not solely those based on cost, and (3) broadening the Secretary's authority to experiment with different kinds of contracts by including contracts other than fixed price or performance incentive contracts and by permitting waiver of competitive bidding requirements. The section would also require new intermediaries, as well as carriers, to be health insurance organizations. The Secretary's authority to deal directly with any provider of services or to assign any provider of services to an intermediary would be clarified.

Effective date.—October 1, 1983.

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	0	-2.8	-8.5
			-11.3

14. Eliminate Funding for End-Stage Renal Disease (ESRD) Networks

Current law.—Under current law, a system of end-stage renal disease networks has been designated to perform a variety of functions in connection with the end-stage renal disease program under

medicare (e.g., developing criteria and standards for quality patient care).

Proposal.—The administration proposal would eliminate funding for end-stage renal disease networks and make the national ESRD medical information system discretionary with the Secretary.
Effective date.—October 1, 1983.

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-4.5	-4.5	-4.5
			-13.5

15. Elimination of Requirements for a Railroad Retirement Board Carrier Contract

Current Law.—Current law requires the Railroad Retirement Board to contract with a carrier or carriers to handle medicare part B payments with respect to railroad retirement beneficiaries. The Board has contracted with Travelers Insurance Company to serve as a carrier nationwide.

Proposal.—The administration's proposal would eliminate the requirement for a separate Railroad Retirement Board carrier contract. Part B claims of railroad retirees would be processed by the same organizations that process other Part B claims.

Effective date.—One year after enactment or at such earlier time as agreed upon by the Secretary and the Railroad Retirement Board.

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-1.5	-1.5	-1.5
			-4.5

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-140	-155	-175
			-470

1. Require Nominal Cost-Sharing by Medicaid Recipients

Current law.—Prior to the enactment of Public Law 97-248 (TEFRA), States were prohibited from imposing cost-sharing charges on mandatory services for the categorically needy. They were permitted, but not required to impose such charges on optional services for the categorically needy and all services for the medically needy.

Public Law 97-248 revised prior law by permitting, but not requiring States to impose nominal cost-sharing on all persons for all services with certain major exceptions. States may not impose such charges on children under age 18; persons institutionalized in long-term care facilities; pregnancy-related services; family planning services and supplies; emergency services; and services furnished to the categorically needy in health maintenance organizations (HMO's). In addition, States may elect to exempt reasonable categories of children age 19-21, all services to pregnant women, and/or services furnished to medically needy in HMO's. States, under an approved waiver, may charge up to twice the "nominal" amount for non-emergency services furnished in an emergency room if other less costly forms of care are available and accessible.

Proposal.—The administration proposal would mandate States to impose the following cost-sharing charges:

- For the categorically needy, \$1 per visit for physician, clinic, and hospital outpatient services;
- For the medically needy, \$1.50 per visit for physician, clinic, and hospital outpatient department services;
- For the categorically needy, \$1 per day for inpatient hospital services;
- For the medically needy, \$2 per day for inpatient hospital services.

States would be prohibited from imposing copayments on services furnished to long term care inpatients or services furnished by HMO's to the categorically needy. States would be permitted certain exemptions with respect to medically needy HMO enrollees, pregnant women, and emergency services.

Effective Date.—October 1, 1983 except delay permitted where State legislation required.

II. MEDICAID

Legislative Initiatives

2. Improve Third Party Collections

Current law.—Present law permits the State agency and Federal Government to retain from third-party recoveries only the amount equal to medical assistance payments on behalf of the individual concerned.

A State Medicaid plan may provide that, as a condition of eligibility, each legally able applicant and recipient must assign his or her rights to medical support or other third party payments to the State agency and cooperate with the agency in obtaining support or payments.

Proposal.—The administration proposal would provide for retention of administrative costs associated with third party recoveries. The proposal would also require as a condition of Medicaid eligibility that an applicant assign his or her health insurance rights to the State Medicaid agency.

Effective date.—October 1, 1983.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-6	-7	-7
			-20

3. One Hundred Percent Federal Payment for Processing of Combined Medicaid and Medicare Claims

Current law.—Under current law, claims for dual Medicaid/Medicare eligibles are processed both by the Medicaid fiscal agent and the Medicare carrier.

Proposal.—The proposal would provide 100 percent Federal reimbursement for the combined processing of Medicare/Medicaid claims by Medicare contractors.

Effective date.—Enactment.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	-1	-1	-2
			-4

4. Extend Reduction in Federal Payments

Current law.—Public Law 97-35 provided that whatever Federal matching payments a State is otherwise entitled to is to be reduced by 3 percent in fiscal year 1982, 4 percent in fiscal year 1983, and 4.5 percent in fiscal year 1984. A State may qualify for a percentage point offset to these reductions if it has a qualified hospital cost review program, an unemployment rate which exceeds 150 percent of the national average, or fraud and abuse recoveries greater than one percent of Federal expenditures. In addition States may earn back part or all of the reductions if expenditures remain below specific target amounts.

Proposal.—The Administration proposal would extend the existing reduction and offset provisions indefinitely. The reduction rate would be 3 percent for fiscal year 1985 and beyond.

Effective date.—October 1, 1985.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay savings.....	0	-535	-397
			-932

5. Impact of Changes in Other Programs

The Administration is proposing changes in the SSI, AFDC and medicare programs which will affect medicare outlays.

[In millions of dollars]

	Fiscal year		Total
	1984	1985	
Outlay effects			
Medicare changes.....	+56	+129	+209
AFDC changes.....	-93	-184	-202
SSI changes.....	0	0	0
			+394
			-479

Regulatory Initiative

1. Third Party Liability Collections

Current law.—The Child Support Enforcement (CSE) program is a Federal-State partnership under which States are required to have a program which locates absent parents, establishes family responsibility and sets forth and enforces support orders.

Proposal.—The administration budget reflects a regulatory initiative which would require State CSE agencies to petition the court to include medical support as part of the child support order whenever health care coverage is available to the absent parent at a reasonable cost. In addition, the regulation would provide for improved information exchange between the CSE and medicare agencies on the availability of health insurance coverage.

Effective Date.—October 1, 1983.

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Medicaid outlay savings	-89.5	-99.9	-111.7
			-301.1

- permit States to transfer up to 10 percent of Federal funds to other block grants administered by the Secretary of Health and Human Services (and permit use of funds transferred from other block grants);
- delete requirement for State description of data they intend to collect; require States to describe the criteria and method to be used to distribute funds;
- remove requirements for: State assurances pertaining to application of guidelines with respect to health care assessments and services; use of a portion of block grant funds for specific activities; imposition of charges on others tied to ability to pay, and appropriate coordination with other related programs;
- remove prohibition on imposition of charges for services furnished to low income beneficiaries;
- require States, rather than the Secretary, to determine the form and content of their annual activities reports; but would require States to explain how their previously stated goals and objectives had been met; and
- eliminate requirement that a specific State agency in each State be required to be responsible for the administration of the block grant funds.

Effective date.—October 1, 1983.

III. MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT

Legislative Initiatives

Current law.—Under current law, the Maternal and Child Health (MCH) Services Block Grant provides health services to mothers and children, particularly those with low income or limited access to health services. Block grant services may be provided free of charge to mothers and children whose incomes fall below the poverty level (currently \$9,300 for a family of four).

In fiscal year 1983, 85 percent of the block grant appropriation is allotted among States, which determine the services to be provided under the block. Each State's individual allotment is based on the proportion of funds allotted to all States in fiscal year 1981 for certain programs now included in the block. These programs are MCH and crippled children's (CC) services, supplemental security income services for disabled children, lead-based paint poisoning prevention, sudden infant death syndrome, and adolescent pregnancy.

For every \$4 in Federal funds States receive, they must spend \$3 of their own funds. Federal law requires that, at the State level, the State health agency administer the block grant except that the CC program may be administered by another State agency if that agency has administered the program since July 1, 1967.

A portion of the block's appropriation is reserved under a Federal set-aside. In fiscal year 1983, 15 percent of this appropriation is reserved for MCH special projects of regional and national significance, research and training, and genetic disease and hemophilia programs. These programs are federally administered.

Under the block grant, States are required to prepare annual reports describing the intended use of payments including data the State intends to collect on program activities. States must also transmit a statement to the Secretary of Health and Human Services which, among other things provides assurances that the State will spend a substantial proportion of its allotment on health services to mothers and children and will give consideration to the continuation of special projects previously funded under the old title V program; and the State agency administering the block grant will participate in the coordination of activities between the block grant and other MCH-related programs. States must also prepare annual reports on block grant activities, and conduct biennial audits on program expenditures.

Proposal.—The Administration proposal would:—

- Eliminate the Federal set-aside of 10 to 15 percent;
- eliminate the requirement for State matching funds;
- repeal prohibition against States using Federal funds for research or training by a for-profit entity;

ADMINISTRATION PROPOSALS FOR INCOME SECURITY PROGRAMS UNDER JURISDICTION OF THE FINANCE COMMITTEE

[CBO estimates; outlays in millions of dollars]

	Fiscal year—			Total
	1984	1985	1986	
Income Security Programs				
Aid to families with dependent children (AFDC):				
1. End benefits of parent when youngest child reaches age 16.....	-20	-25	-25	-70
2. Include all adults and children in AFDC assistance unit.....	-125	-135	-140	-400
3. Adjust shelter and utilities grant.....	-75	-145	-150	-370
4. Treatment of lump-sum payments.....	(*)	(*)	(*)	(*)
5. Work requirements:				
a. job search and CWEP.....	+15	-40	-55	-80
b. repeal WIN.....	-257	-298	-312	-867
6. Households headed by minor parent.....	-20	-20	-20	-60
7. Repayment from periodic benefits.....	(1)	(1)	(1)	(1)
8. Treatment of public benefits withheld.....	(*)	(*)	(*)	(*)
9. Absence by reason of employment.....	-5	-5	-5	-15
10. Essential persons.....	(*)	(*)	(*)	(*)
11. Effect of strike participation.....	(*)	(*)	(*)	(*)
12. Access to AFDC information.....	0	0	0	0
13. Eligibility of alien.....	(*)	(*)	(*)	(*)
14. CWEP work for Federal agencies.....	0	0	0	0
15. Refusal to repay overpayments.....	(*)	(*)	(*)	(*)
16. Gross amount of earned income.....	(1)	(1)	(1)	(1)
Total, AFDC.....	-487	-668	-707	-1,862
Child support enforcement (CSE):				
1. Phase in restructuring of CSE financing.....	-10	-51	-69	-130
2. AFDC effect of CSE proposal to mandate changes in State law.....	-30	-65	-70	-165
3. Effect of AFDC changes on CSE collections.....	+15	+20	+25	+60
Total, CSE.....	-25	-96	-114	-235
Social services (Title XX):				
Reduction in 1984 authorization level.....	-60	0	0	-60

ADMINISTRATION PROPOSALS FOR INCOME SECURITY PROGRAMS UNDER JURISDICTION OF
THE FINANCE COMMITTEE—Continued

(CBO estimates; outlays in millions of dollars)

	Fiscal year—			Total
	1984	1985	1986	
Supplemental security income (SSI):				
1. Eligibility of aliens	(*)	(*)	(*)	(*)
2. Windfall benefits.....	-15	-16	-17	-48
Total, SSI	-15	-16	-17	-48
Foster care and adoption assistance	0	-40	-86	-126

* Savings under \$1 million.

† Savings estimate not available.

2. Inclusion of Parents and Siblings in the AFDC Unit; Treatment of Income of Parents of a Minor Who is Claiming Aid as the Parent of a Needy Child

Current law.—There is no requirement in present law that parents and all siblings be included in the AFDC filing unit. Families applying for assistance may exclude from the filing unit certain family members who have income which might reduce the family benefit. For example, a family might choose to exclude a child who is receiving social security or child support payments, if the payments would reduce the family's benefits by an amount greater than the amount payable on behalf of the child. In addition, a mother who is a minor is excluded if she is supported by her parents. However, if she has no income of her own which may be attributed to her child, the child may qualify for assistance as a one-person unit, and receive proportionately more in assistance than it would receive as part of a two-person unit. The income of the grandparents is not considered in determining the eligibility of the child.

Proposal.—(a) The administration's proposal would require States to include in the assistance unit the parents and all minor siblings (except SSI recipients and any stepbrothers and sisters) living with a child who applies for or receives AFDC. A similar proposal was agreed to by the committee last year, but was dropped in conference with the House.

(b) In addition, if a minor who is living in the same home as his parents applies for aid as the parent of a needy child, the income of his parents (the grandparents) would be counted as available to the assistance unit. The rules that would be used in determining the amount of available income would be the same as are currently used in counting the income of stepparents. A similar provision was approved by the committee last year, but was dropped in conference with the House.

Effective date.—October 1, 1983.

Estimated savings.—

	Fiscal year—		Total
	1984	1985	
Outlay effect	—125	—135	—400

[In millions of dollars]

3. Mandatory Adjustment of Shelter and Utilities Allowance

Current law.—An amendment in the Tax Equity and Fiscal Responsibility Act of 1982 gave States the option of prorating or otherwise adjusting the portion of the AFDC benefit which is paid for shelter and utilities to take into account economies of scale which may result when the AFDC family shares a household with other

IV. INCOME SECURITY AND SOCIAL SERVICES PROGRAMS

A. Aid to Families With Dependent Children

(Title IV-A) (AFDC)

Legislative Initiatives

1. Exclusion of Needs and Income of Caretaker Relative When Youngest Child Reaches Age 16

Current Law.—Present law continues the eligibility of a parent/caretaker as long as the youngest child is eligible for benefits, i.e., until the child reaches 18, or, at the option of the State, age 19 if the child is in school and is expected to complete his course of study before his 19th birthday.

Proposal.—Under the administration's proposal, when the youngest child reaches age 16, an employable parent/caretaker relative would no longer be eligible for AFDC benefits. An individual would be determined to be employable if he is required to register for the State's AFDC work-related programs. Benefits to the child would continue. However, the income of a parent or stepparent who is living with the child would be considered in determining the amount of the child's benefit. The amount of income to be considered in determining the child's benefit would be the amount calculated as available after application of the "disregard" provisions which are currently applied to stepparents. This proposal was agreed to by the committee last year, but was deleted in conference with the House.

Effective date.—October 1, 1983.

Estimated savings.—

	Fiscal year—		Total
	1984	1985	
Outlay effect	—20	—25	—70

[In millions of dollars]

individuals. States were given flexibility in determining the method of adjustment they wished to use.

Proposal.—The administration proposes to require States to adjust the portion of the grant paid for shelter and utilities when the family shares a household. The State would either have to prorate (using the ratio of AFDC recipients to total household members) the shelter and utilities components of both the standard of need and the payment standard, or, at its option, develop an alternative method. The alternative method adopted by the State must result in average reductions comparable to those that would be achieved by using the proration method described above, and must have the prior approval of the Secretary. No adjustment would be made with respect to SSI recipients who are living with the AFDC family and whose SSI benefits are reduced by one-third because of the special rule for counting in-kind support and maintenance.

Effective date.—October 1, 1983.

Estimated savings.—

(In millions of dollars)

	Fiscal year—		Total
	1984	1985	
Outlay effect	-75	-145	-370

4. Treatment of Lump-Sum Payments to Individuals Outside the AFDC Family

Current law.—The Omnibus Budget Reconciliation Act of 1981 (P. L. 97-35) included an amendment requiring that any nonrecurring income received in a month by an individual claiming assistance must be considered available as income to the family in the month it is received and also in future months. Thus, if such income exceeds the standard of need in the month of receipt, the family is ineligible for that month. In addition, the income that exceeds the initial month's needs standard is divided by the monthly needs standard. The family is then ineligible for assistance for the number of months resulting from that calculation.

Proposal.—The present rule for treatment of nonrecurring lump-sum income applies only to income of individuals who are claiming assistance on their own behalf. The administration proposes applying the same rule to income received by any person whose income the State considers in determining the family's AFDC benefit, but who is not himself a recipient, e.g., stepparents and sponsors of aliens. In cases involving these nonrecipients, the standard of need which would be applied to the family would be the standard that would be applicable if the nonrecipient and his dependents were included in the AFDC grant.

Effective date.—October 1, 1983.

Estimated savings.—*Negligible.*

5. Work Requirements for Applicants and Recipients of AFDC

Current law.—(a) *General description of programs.*—The work incentive (WIN) program was enacted by Congress in 1967 with the purpose of reducing welfare dependency through the provision of manpower training and job placement services. In 1971 the Congress adopted amendments aimed at strengthening the administrative framework of the program and at placing greater emphasis on immediate employment instead of institutional training, thus specifically directing the program to assist individuals in the transition from welfare to work. In the same year, Congress also provided for a tax credit to employers who hire WIN participants.

The Omnibus Budget Reconciliation Act of 1981 included a provision authorizing States to operate 3-year demonstration programs as alternatives to the current WIN program. The demonstration is aimed at testing single-agency administration and must be operated under the direction of the welfare agency. The legislation includes broad waiver authority.

The 1981 Reconciliation Act also authorized States to operate community work experience (CWEP) programs which serve a useful public purpose, and to require AFDC recipients to participate in these programs as a condition of eligibility. Participants may not be required to work in excess of the number of hours which, when multiplied by the greater of the Federal or the applicable State minimum wage, equals the sum of the amount of aid payable to the family.

In addition, the 1981 Reconciliation Act included a provision under which States are permitted to use any savings from reduced AFDC grant levels to make jobs available on a voluntary basis. Under this approach (work supplementation), recipients may be given a choice between taking a job or depending upon a lower AFDC grant. States may use the savings from the reduced AFDC grant levels to provide or underwrite job opportunities for AFDC eligibles.

Another work-related provision was enacted in the Tax Equity and Fiscal Responsibility Act of 1982, which authorized States to require applicants and recipients to participate in job search programs operated by the welfare agency.

(b) *Eligibility.*—As a condition of AFDC eligibility, all applicants and recipients must register for WIN unless they are: children under age 16 or in school full time; ill, incapacitated, or elderly; too far from a project to participate; needed at home to care for a person who is ill; a caretaker relative providing care on a substantially full-time basis for a child under age 6; employed at least 30 hours a week; or the parent of a child if the other parent is required to register (unless that parent has refused). Persons who are not required to register may volunteer to do so.

Under the community work experience program, States may require caretaker relatives who are caring for a child under 3 (rather than 6) to participate, provided child care is available. They may also require persons who are not required to register for WIN because they live too far from a WIN project to participate in CWEP. Individuals who are employed 80 hours a month and earning at least the applicable minimum wage may not be required to partici-

pate in a CWEP project. Otherwise, all registrants of WIN may be required to participate in a CWEP project.

The work supplementation legislation gives States complete flexibility in determining who may be included in the program, provided they meet the State's May 1981 AFDC eligibility requirements.

With respect to the employment search program, any applicant or recipient who is required to register for WIN (or who would be required to register except for remoteness from a WIN site) may be required by the State to participate. However, the State has the option of limiting participation to certain groups or classes of individuals who are required to register for WIN.

(c) *Jobs and other services.*—WIN participants may receive employment or training services. They may also be given supportive services, including child care, which are needed to enable them to take a job or participate in training.

Community work experience programs must be designed to improve the employability of participants through actual work experience and training, and to enable individuals to move into regular employment.

The work supplementation legislation defines a supplemented job as one which is provided by: the State or local agency administering the program; a public or nonprofit entity for which all or part of the wages are paid by the administering agency; or a proprietary child care provider for which all or part of the wages are paid by the administering agency.

States have authority to design their own employment search programs, which may include job search clubs or individual job search activities.

(d) *Financing.*—The Federal Government provides 90 percent matching funds for WIN. States must contribute 10 percent matching in cash or kind. Half the funds are allocated to the States on the basis of the State's percentage of WIN registrants during the preceding January; half are distributed under a formula developed by the Secretary to take into consideration each State's performance. Special funding provisions apply to States with WIN demonstration programs.

Regular AFDC matching provisions prevail in the case of individuals who are receiving AFDC benefits and are participating in CWEP. State expenditures for administration of CWEP are eligible for Federal matching of 50 percent. However, such expenditures may not include the cost of making or acquiring materials or equipment or the cost of supervision of work, and may include only such other costs as are permitted by the Secretary.

Federal matching (as determined by the regular AFDC matching provisions) is available to a State for the costs of a work supplementation program to the extent that those expenditures do not exceed the amount of Federal savings resulting from the reductions in assistance payments made to eligible participants. To the extent that program costs are less than the savings generated through the reduction in assistance payments, both State and Federal governments derive a saving. No Federal matching is available to a State for expenditures which exceed the savings in Federal matching. Program costs which a State may claim within this matching limit-

tation include wage subsidies, necessary employment related services, and administrative overhead.

Federal matching of 50 percent is available to the States for the cost of administering the employment search program. This may include transportation and other necessary services.

(e) *Administration.*—WIN is administered jointly at the Federal level by the Department of Health and Human Services and the Department of Labor. At the State level it is administered jointly by the welfare (or social services) agency and the State employment service. The new WIN demonstration authority requires single-agency administration of the program under the direction of the welfare agency.

The community work experience, the work supplementation, and the employment search programs are administered at the Federal level by the Department of Health and Human Services. Regulations require that these programs be administered through the welfare agency.

Proposal.—The administration is proposing amendments which would substantially restructure the work-related activities and requirements for AFDC applicants and recipients. All activities would be operated by or under the direction of the State welfare agency. The work incentive program would be repealed. The work supplementation program, authorized by the Omnibus Budget Reconciliation Act of 1981, would also be repealed and replaced with a new optional subsidized employment program. The State welfare agency would thus have three employment programs to which to refer AFDC applicants and recipients: the community work experience program, employment search, and, at its option, subsidized employment.

(a) *Requirements for participation.*—The present law requirements for participation in work-related activities would be somewhat modified. Under present law, if the principal earner in a family which is eligible on the basis of unemployment of the parent is participating in work-related activities, the second parent is exempt. Under the proposed change, both parents would be required to participate, (unless the second parent is otherwise exempt—for example, on the basis of illness, or needed to care for a young child).

Under current law, the parent or other caretaker relative of a child is required to register for work if the youngest child is age 6 or older. In addition, States have the option of requiring AFDC mothers whose youngest child is between 3 and 6 to participate in the community work experience program if day care is available. The administration is proposing to permit States to require the parent or caretaker relative to participate in other work activities in addition to CWEP, if the youngest child is between 3 and 6 and if day care is available.

Current regulations provide sanctions for AFDC recipients if they voluntarily quit work, reduce earnings, refuse employment, or refuse a CWEP assignment. However, this penalty does not apply to those who are not required to register because they are employed 30 hours or more a week, or live in an area so remote from a WIN program that their participation is precluded. The administration proposes to extend the sanctions to these nonregistrants.

The administration is also proposing to modify the present law exemption for an individual of "advanced age" to refer instead to an individual who is age 60 or above.

(b) *Modification in number of required hours.*—Under the administration's proposed amendments, there would also be modifications in the number of hours that individuals could be required to participate in work programs. Present law permits only the consideration of the amount of the AFDC benefit in establishing the work participation requirement for CWEP. Under the proposed change, the number of hours that members of one family could be required to participate in CWEP in a month would equal the amount of its AFDC benefit plus its food stamp allotment for the month, divided by the higher of the State or Federal minimum wage. The Secretary would prescribe regulations for determining the amount of the family's allotment which must be counted for this purpose when the food stamp household includes the AFDC family and other individuals. The maximum monthly number of hours that the family could be required to participate in CWEP would be 120, reduced by hours spent in any other employment. The maximum number of hours that a family could be required to participate in employment search would be 160, reduced by hours spent in all other employment-related activities.

(c) *Rules for referrals to particular programs.*—The proposed new law would establish rules for referring all non-exempt applicants and recipients to particular programs. Parents in a family receiving benefits on the basis of the unemployment of the principal earner must be referred to the employment search program and the community work experience program. All other recipients must be referred to CWEP and to employment search, or, to the extent the State finds appropriate, to subsidized employment. Applicants must be referred to employment search.

(d) *Sanctions for failure to participate.*—Current law sanctions provisions for AFDC recipients would be retained. Under present law, sanctions may be imposed if the recipient refuses to participate without good cause. In the case of the principal earner in an unemployed parent family, the sanction is denial of benefits for the entire family. In other cases, the individual who refuses is removed from the grant and the family's benefit is reduced. The sanction period is 3 months in the case of a first refusal and 6 months in the case of any subsequent refusals. Applicants may also be sanctioned for refusing to participate in employment search. Under current rules, the period for which the sanction applies is only for as long as the applicant fails without good cause to satisfy the State's requirements for participation in employment search. The administration is proposing to extend to applicants the same sanctions as are applied to recipients.

(e) *Employment search program.*—The administration's amendments would also make changes in the optional employment search program, as established by the Tax Equity and Fiscal Responsibility Act of 1982. Under the administration's proposal, that program would become mandatory with the State welfare agencies. In addition, the present law provision which limits States to requiring an initial 8-week search period, and additional 8-week periods each year, would be repealed.

The proposed amendment provides for requiring non-exempt AFDC applicants to participate until the application is acted upon. Recipients who are participating in CWEP could be required to participate in job search at intervals and for periods set by the State, but at least on a monthly basis. Other recipients could be required to participate in job search on such basis as the State finds appropriate. The present law requirement that employment search participants may not be referred to employment opportunities which do not meet the WIN criteria for appropriate work and training to which an individual may be assigned, would be repealed.

(f) *Community work experience program.*—Currently, States have the option of implementing the community work experience program. The administration is proposing to require all States to implement CWEP.

(g) *New subsidized employment program.*—The administration is proposing to repeal the work supplementation program and to replace it with a new subsidized employment program. States would no longer have the authority to reduce AFDC grants and to use savings to make jobs available to AFDC recipients on a voluntary basis.

States would be authorized to establish a subsidized employment program in such parts of the State as they wish. The stated purpose of the program would be to make jobs available to AFDC recipients, under agreements between the State agency and the employer, in such a manner as will aid in moving people from welfare to unsubsidized employment, and assist them in becoming financially self-sufficient. Agreements could be made with both public and private (including profit-making) employers.

Acceptance of a subsidized job would be voluntary. (However, participation in subsidized employment would meet the requirement for participation in work-related activities only to the extent the individual is actually engaged in subsidized employment.)

Only recipients who are not principal earners in an unemployed parent family would be eligible to participate. Employers would be required to treat participants the same as other employees in similar positions, and State laws and regulations applicable to employment would be equally applicable to program participants. Earnings of participants would not be eligible for the \$30 plus one-third disregard of earnings provisions. However, this disregard would be applicable in months immediately after the recipient moves from subsidized employment to regular employment. Wages paid to an individual could not be fully subsidized by the welfare agency. At least part of the wages would have to be provided by the employer. Wages would be considered as earned income under other provisions of law.

The amount which the State could pay to an employer with respect to an individual who is being paid a subsidized wage would be limited for any month to the amount the individual's family would be eligible to receive as AFDC if it had no income, reduced by the amount of any AFDC benefit actually received in the first month of subsidized employment. The payments could be made for no more than 6 months.

(h) *Error rate provision made applicable to employment activities.*—Under the quality control program, States with error rates in excess of a specified percentage may be sanctioned by being required to repay the Federal Government the Federal cost of improperly paid benefits. The administration is proposing to add a new kind of payments to the definition of erroneous excess payments. Payments would be erroneous when made to families with a member subject to the work requirements if the member is not actually participating in employment-related activities, to the extent that such families exceed 25 percent of all families with a member subject to the work requirements. The percentage of participation would be measured over a period selected by the Secretary to correspond to the relevant quality control reviews.

Effective date.—October 1, 1983.

(1) Job search and CWEP components.—

	Fiscal year—		Total
	1984	1985	
Outlay effect	+ 15	- 40	- 55
			- 80

[In millions of dollars]

(2) Repeal work incentive (WIN) program.—

	Fiscal year—		Total
	1984	1985	
Outlay effect	- 257	- 298	- 312
			- 867

[In millions of dollars]

6. Households Headed by Minor Parents

Current law.—A minor parent who has a child, and who leaves home, may establish her own household and claim AFDC as a separate family unit. The income of the grandparents is not automatically counted as available to the minor parent, because they are not sharing the household.

Proposal.—The administration is proposing that in the case of a minor parent who is not and has never been married, AFDC may be provided only if the minor parent resides with her parent or legal guardian, unless the State agency determines that (1) the minor parent has no parent or legal guardian who is living and whose whereabouts are known, (2) the health and safety of the minor parent or the dependent child would be seriously jeopardized

if she lived in the same residence with the parent or legal guardian, or (3) the minor parent has lived apart from the parent or legal guardian for a period of at least one year prior to the birth of the child, or before claiming aid, whichever is later. The State agency would be given authority to make payments to a protective payee with respect to a minor parent affected by the provision, until the individual is no longer considered a minor by the State.

The committee approved a similar provision last year, but it was dropped in conference with the House.

Effective date.—October 1, 1983.

Estimated savings.—

	Fiscal year—		Total
	1984	1985	
Outlay effect	- 20	- 20	- 20
			- 60

[In millions of dollars]

7. Repayment of AFDC From Retroactive Payment of Periodic Benefits

Current law.—Under current law, if an AFDC recipient receives a retroactive benefit under another program, the amount of that benefit will be considered a nonrecurring (lump-sum) payment, and the recipient's future AFDC benefits may be reduced or temporarily terminated under the special rules for counting nonrecurring income. In many cases, however, when a person receives a retroactive payment, for example, a retroactive social security payment, he will also be eligible for future payments which will cause him to lose eligibility for AFDC so long as his social security eligibility continues. In such cases, there can be no recovery from future AFDC payments because none are payable. There is no other provision in the AFDC statute which establishes rules by which the States may recover AFDC amounts which would not have been paid if the social security benefit had been paid when due.

Proposal.—The administration is proposing that, whenever an individual or family who received AFDC (within such prior period as prescribed by regulation) receives a payment of retroactive periodic benefits under any other public program (excluding SSDI), which, if the benefits had been paid when they were regularly due rather than retroactively, would have resulted in a reduction in the AFDC payment, the State agency must treat the amount of the reduction as if it were an overpayment. The amount would then be subject to the same rules for recovery of overpayments as are applied under current law. Amounts that are considered as overpayments for purposes of this provision would not be counted as income in the month received or in future months for purposes of the provision relating to the treatment of nonrecurring (lump-sum) income, the provision limiting eligibility when income exceeds 150 percent of

the standard of need, and special provisions relating to stepparent disregards and treatment of the income of sponsors or aliens.
Effective date.—With respect to AFDC and other public benefits paid for months after September 1983.
Estimated savings.—Not available; savings are anticipated.

8. Treatment of Amounts Withheld From Other Public Benefits as a Penalty

Current law.—Generally, only income which is actually available to a family may be counted as income for purposes of determining AFDC benefits.
Proposal.—The administration is proposing to require States to count as income amounts being withheld from public benefit payments because of the imposition of a penalty or other such sanction if such amounts would otherwise have been counted as income.
Effective date.—October 1, 1983.
Estimated savings.—Negligible.

9. Absence From Home Solely by Reason of Employment

Current law.—Under present law, if a parent leaves the home in order to maintain employment elsewhere, the remaining members of that parent's family may be eligible for AFDC assistance on the basis that the parent is "absent from the home."
Proposal.—The change proposed by the administration would prohibit AFDC payments in any case in which the sole reason for a parent's absence is an employment-related activity. This provision is similar to a change made in the Tax Equity and Fiscal Responsibility Act of 1982 which prohibits assistance to families when the sole reason for such assistance is the absence of a parent due to performance of duty in one of the uniformed services.
Effective date.—October 1, 1983.
Estimated savings.—

	Fiscal year—		Total
	1984	1985	
Outlay effect	-5	-5	-5
			-15

(In millions of dollars)

10. Limitation on Individuals Who May Be Considered Essential Persons

Current law.—Regulations allow States to treat an individual as an "essential person" for purposes of determining a family's AFDC grant. The States are free to define the term as they wish. If an individual is considered an essential person, his needs are considered together with the family's in determining the benefit amount. His income and resources are also added to those of the family.

Proposal.—The administration is proposing to amend the statute to limit the inclusion of an individual as an "essential person" to an individual who is living in the same home as the child and furnishing personal services required (1) because of the relative's physical or mental inability to provide necessary care for himself or for the dependent child, or (2) in order to permit the relative to engage in full-time employment.
Effective date.—October 1, 1983.
Estimated savings.—Negligible.

11. Effect of Participation in Strike on Eligibility for AFDC

Current law.—An amendment in the Omnibus Budget Reconciliation Act of 1981 prohibited payment of AFDC to a family if a caretaker relative (mother, father, or other relative who is designated as the caretaker) is, on the last day of the month, participating in a strike. If an individual in the family other than a caretaker relative is on strike, that individual's needs may not be included in determining the amount of the AFDC payment.
Proposal.—The administration is proposing to limit the prohibition on payment of AFDC to cases in which the parent who is employable (rather than any caretaker relative) is on strike. It is also proposing to change the date for which the finding is made from the last day of the month to the last day of the preceding month (or, at State option, the second preceding month), in order to take account of the procedures used by the State for retrospective accounting and monthly reporting. A provision would also be added to deny assistance to the family if the employable parent is participating in a strike on the day the application is filed, and to exclude from the family's grant determination the needs of any other individual who is on strike on the day of application.
Effective date.—October 1, 1983.
Estimated savings.—Negligible.

12. Access to AFDC Information

Current law.—The AFDC statute restricts the disclosure of information concerning applicants and recipients to purposes directly related to the administration of Federal or federally-assisted programs which provide assistance to individuals based on need.
Proposal.—The administration is proposing to allow disclosure to law enforcement officials of AFDC information for use in connection with any criminal proceeding.
Effective date.—Upon enactment.
Estimated savings.—No budget effect.

13. Eligibility of Alien for AFDC When Sponsor Is an Agency or Other Organization

Current law.—The AFDC program provides that for purposes of eligibility for benefits, legally admitted aliens who apply for benefits after September 30, 1981 are deemed to have the income and resources of their immigration sponsors available for their support for a period of 3 years after their entry into the United States. The provision does not apply with respect to sponsors of aliens who

are agencies or organizations; it applies only to individuals. (A similar amendment was made to the SSI statute in 1980.)

Proposal.—The administration is proposing to amend the present statute to make ineligible for benefits an alien with respect to whom an agency or organization has executed an affidavit of support as a sponsor of the alien's entry into the United States, unless the State agency determines that the sponsoring agency or organization is no longer in existence, or that it does not have the financial ability to meet the alien's needs. The determinations would be made by the State agency based upon such criteria as it may specify and upon such documentary evidence as it may require. A similar change is being proposed with respect to agency sponsors of SSI recipients.

Effective date.—Effective with respect to applications for benefits filed after September 30, 1983.

Estimated savings.—Negligible.

14. CWEP Work for Federal Agencies Permitted

Current law.—The Omnibus Budget Reconciliation Act of 1981 authorized States to conduct community work experience programs "which serve a useful public purpose." Employable recipients may be required to participate in these programs as a condition of eligibility for AFDC.

Proposal.—The administration is proposing to amend the statute to make clear that participation in a CWEP program may include work performed for a Federal office or agency. Such work would not be considered to constitute Federal employment, and the State agency would be required to provide appropriate workers' compensation and tort claims protection to each participant.

Effective date.—Date of enactment.

Estimated savings.—No budget effect.

15. Sanction for Refusal To Repay Overpayments of AFDC

Current law.—A provision in the Omnibus Budget Reconciliation Act of 1981 required State welfare agencies to adopt procedures to collect overpayments and underpayments of AFDC. With respect to overpayments, the State may make recovery by repayment by the individual, or by reduction of future payments of AFDC. The AFDC payment may be reduced only to the extent that the family's income and liquid resources (including AFDC income) exceed 90 percent of the payment that a family would receive if it had no other income.

Proposal.—The administration is proposing to amend the overpayment provision to impose a sanction in cases in which the caretaker relative in a family that continues to receive AFDC refuses to repay an earlier overpayment. The sanction would be the exclusion of the needs of the relative in determining the family's grant. The sanction would apply only in months in which the family's income and liquid resources are in excess of 90 percent of the payment that a family would receive if it had no other income. It would continue until the individual has agreed to make repayment of the full amount of the overpayment and has paid the agency, for one month or such greater number of months as the State may

specify, the monthly amount agreed to by the individual and the State agency.

Effective date.—October 1, 1983.

Estimated savings.—Negligible.

16. Gross Amount of Earned Income

Current law.—The AFDC statute requires the States to disregard the following amounts of a family's earned income—

Eligibility Determination: (1) the first \$75 of monthly earnings for full time employment, and (2) the cost of care for a child or incapacitated adult, up to \$160 per child per month.

Benefit Calculation: (1) the first \$75 of monthly earnings for full time employment; (2) child care costs up to \$160 per child per month; and (3) \$30 plus one-third of earnings not previously disregarded.

The \$30 plus one-third disregard is allowed only during the first 4 consecutive months in which a recipient has earnings in excess of the standard work expense and child care disregards.

Courts in several States have been asked to interpret whether the term "earned income" refers to the gross amount earned by an individual before deductions are taken (for income taxes, insurance, FICA, support payments, or other items, regardless of whether the deduction is voluntary or involuntary), or whether the term refers to net income, after such deductions are taken. Regulations issued by the Department of Health and Human Services require that the term be interpreted as referring to gross income. However, courts in two States have ruled that the term must be interpreted as referring to net income.

Proposal.—The administration is proposing to amend the disregard provisions to make clear that the term "earned income" means the gross amount of earnings, prior to the taking of payroll or other deductions.

Effective date.—Date of enactment.

Estimated savings.—None, since baseline projections assume continuation of current HHS interpretations. Failure to enact this change, however, could involve significant costs if the courts uphold a contrary interpretation.

Effective date.—October 1, 1983.
Estimated savings.—

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay effect	—10	—51	—69
			—130

2. Require States To Enact Laws Requiring the Use of Certain Child Support Enforcement Practices

Current law.—Many States have adopted certain procedures which have been found to be cost-effective in operating the child support enforcement program. These include use of mandatory wage assignments, administrative hearing processes to supplement court processes, and State income tax offsets for overdue support payments. These procedures are not currently included as part of the child support State plan requirements.

Proposal.—The administration is recommending that States be mandated to enact laws under which they would be required to use these specified child support procedures. States would also have to have as part of their State plans a requirement that medical support will be sought for AFDC children when it is available at a reasonable cost through employer-subsidized health insurance.

Effective date.—October 1, 1983.

Estimated savings.—

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay effect	—30	—65	—70
			—165

B. Child Support Enforcement (CSE) (Title IV-D)

Legislative Initiatives

NOTE.—The administration has not submitted its legislation for the child support enforcement program. The following descriptions are taken from the President's fiscal year 1984 Budget. Modifications to the budget proposal are reportedly under consideration.

1. Restructure Federal Matching Provisions

Current law.—The Federal Government pays 70 percent of State and local administrative costs for child support services to both AFDC and non-AFDC families. (The matching rate was reduced from 75 percent beginning in fiscal year 1983 by the Tax Equity and Fiscal Responsibility Act of 1982.) Where the absent parent's family is receiving AFDC, any child support that is collected is used to offset AFDC benefit costs. An additional 15 percent incentive payment financed solely out of the Federal share of collections is also made to States and localities which make collections on behalf of an AFDC family. (The incentive payment is reduced to 12 percent starting in 1984 by that same Act.)

Proposal.—The administration proposes that funding for the program be provided by AFDC child support collections. States would apply their administrative expenses for services to AFDC families against child support collections on behalf of AFDC recipients. The residual net collections, whether positive or negative, would then be divided between the State and Federal governments according to the State AFDC matching rate. Bonus payments would be allotted according to standards determined by the Secretary in the following three areas: (1) child support collections for AFDC families; (2) program cost effectiveness; and (3) cost avoidance program savings. The standards for measuring performance in these three categories would be reviewed at least once every two years.

Funding for automated data processing systems would be authorized through project grants, rather than by the 90 percent Federal matching formula in present law.

The new financing mechanism would be phased in over three years. During the first 2 years, States would have the option of receiving funding under the new proposal, or of receiving a level of funding equivalent to 75 percent of what they could have received under the prior law in fiscal year 1984 or 50 percent of their prior law funding in fiscal year 1985.

This financial restructuring proposal without a phase-in was submitted to Congress in 1983, but was not agreed to by the committee.

Effective date.—Upon enactment.
Estimated savings.—

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay effect	—4	—4	—4
			—12

2. Repeal of Reference to Title XX Administering Agency

Current law.—The child welfare services statute includes a provision which requires that each State plan provide for administration of the child welfare services program by the same agency that administers the title XX social services program (with exception to take account of certain historical arrangements). The specific statutory reference to title XX is now obsolete because of changes in the law pursuant to the social services block grant legislation, enacted as part of the Omnibus Budget Reconciliation Act of 1981.

Proposal.—The administration is proposing that the reference to the title XX statute be repealed, and that the child welfare services requirement be amended to provide for administration of the program by a single State agency established or designated by the State to administer or supervise the administration of the plan.

Effective date.—Upon enactment.
Estimated savings.—No budget impact.

C. Child Welfare Services (Title IV-B)

Legislative Initiatives

1. Repeal Separate Authority for Child Welfare Training Grants

Current law.—Title IV-B of the Social Security Act authorizes grants to the States for the purpose of providing child welfare services. The amount of the permanent authorization is \$266 million annually. Allocations to the States reflect State per capita income and the size of the population under age 21. The Adoption Assistance and Child Welfare Act of 1980 restructured the child welfare services program to encourage States to place greater emphasis on those services which are designed to prevent or remedy the need for long-term foster care. The 1982 and 1983 continuing appropriations resolutions provided a spending level of \$156 million for child welfare services.

Funds for child welfare training are currently appropriated under sec. 426 of the Social Security Act, which authorizes the Secretary of Health and Human Services to make grants to public or other nonprofit institutions of higher learning for special projects for training personnel for work in the field of child welfare, including traineeships with such stipends and allowances as the Secretary may determine. The amount authorized to be appropriated is not specified in the statute. The 1982 and 1983 continuing appropriations resolutions provided \$4 million for training for each of those years.

Proposal.—The administration is proposing legislation to repeal the separate authority for child welfare training grants, and to make training an activity for which child welfare services program funds may be used, at the option of the State. (The administration's budget request for fiscal year 1984 includes \$156 million for child welfare services and child welfare training combined. As noted above, the 1982 and 1983 continuing appropriations resolutions provided \$156 million for child welfare services, and an additional \$4 million for child welfare training grants.)

with the child welfare services funding it receives, is more than the amount of such funds it would have received if the child welfare services appropriation for the year were high enough to trigger the mandatory cap.

In addition to the foster care program, title IV-E authorizes an adoption assistance program under which a State is responsible for determining which children in foster care are eligible for adoption assistance because of special needs which may have discouraged their adoption. In the case of any child meeting the special requirements set forth in the law, the State may offer adoption assistance to parents who adopt the child. The amount of assistance is agreed upon between the parents and the agency.

As in the case of foster care, States may receive Federal matching on an open-ended entitlement basis, but without any provision for a cap.

Matching for both programs is at the Medicaid matching rate. Budget authority for foster care was \$300 million in fiscal year 1982, increased to \$395 million in fiscal year 1983. Budget authority for adoption assistance was \$5 million in each of those fiscal years.

Proposal.—Under the administration's proposed legislation, the foster care program would become a closed-end entitlement program, and the current law "cap" provisions would be repealed. Funding for foster care for fiscal year 1984 and future years would be limited to \$440,170,000, which the administration states would represent a \$45 million increase over the estimated requirements for fiscal year 1983. Each State's share for foster care for fiscal year 1984 and each succeeding fiscal year would equal its proportion of the total Federal share of all States' foster care programs for fiscal year 1982, as determined on the basis of claims allowed before October 1, 1983 (and submitted to the Secretary on or before June 1, 1983). States would be allowed to use any funds which they do not need for foster care for providing services under the child welfare services program, subject to certain current law requirements that they have implemented specified foster care protection provisions.

There would be no change in the funding provisions for adoption assistance.

Effective date.—Upon enactment.

Estimated savings.—

[In millions of dollars]

	Fiscal year—		Total
	1984	1985	
Outlay effect	—40	—86	—126

D. Foster Care and Adoption Assistance (Title IV-E)

Legislative Initiatives

1. Make the Foster Care Program a Closed-end Entitlement

Current law.—The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) involved a major restructuring of Social Security Act programs for the care of children who must be removed from their own homes. In particular, prior law was modified to lessen the emphasis on foster care placement and to encourage efforts to find permanent homes for children either by making it possible for them to return to their own families or by placing them in adoptive homes. The foster care and adoption assistance program is embodied in title IV-E of the Social Security Act.

Before fiscal year 1981, open-ended Federal matching was provided for foster care payments under the AFDC program for children who met certain specified conditions. Under the new title IV-E program, States may continue to receive Federal funding on an open-ended entitlement basis. However, there are two major provisions in effect through fiscal year 1984 which affect the amount which a State may actually claim under this entitlement authority:

(a) *Mandatory cap.*—In any year in which the title IV-B (child welfare services) appropriation reaches a specified level (\$266 million in fiscal years 1983 and 1984), a State may claim for foster care maintenance payments only up to a "capped" amount, determined under one of three formulas in the law. For most States this means an allowable annual increase in their allotment (determined by the percentage increase in the Consumer Price Index) of no more than 10 percent. If this foster care cap is triggered by the child welfare appropriation, a State may transfer any amount of its allotment which it does not use for foster care maintenance payments for use in funding child welfare services, so long as it is certified as meeting certain foster care protection requirements. This authority to transfer funds from maintenance payments to services was designed to encourage States to decrease reliance on foster care placements, and to provide instead for services to prevent the need for placing children in foster care. The mandatory cap has been in effect only one year, 1981, because the designated level of appropriations has not been reached in the following years.

(b) *Optional cap.*—In any year in which the title IV-B (child welfare services) appropriation is below the specified level, a State may opt to have a cap imposed on its funding. This allows the State, so long as it meets the foster care protection requirements, to transfer funds from foster care to child welfare services even though the specified appropriation level is not reached. In this case, however, the State is limited in the amount which it may transfer. The amount may not exceed an amount which, together

2. Permanent Authority to Fund Voluntary Foster Care Placements

Current law.—The Adoption Assistance and Child Welfare Act of 1980 included a provision authorizing Federal matching on a temporary basis for payments made on behalf of children voluntarily placed in foster care. The statute provides that, in those States that have implemented specified foster care protections and procedures, Federal foster care matching funds are available until September 30, 1983, for children who have been voluntarily removed from their home (without a judicial determination), if such removal is pursuant to a voluntary placement agreement. The voluntary placement agreement must be revokable on the part of the parent unless the child welfare agency objects and obtains a judicial determination that the return of the child to the home would be contrary to the child's best interests. There must be a judicial determination of a voluntary placement within six months to the effect that such placement is in the best interests of the child. The Secretary of HHS must report annually to the Congress on the number of children placed under this provision.

Proposal.—The administration is proposing to make permanent the authority in present law to fund payments on behalf of certain children placed voluntarily in foster care.

Effective date.—The amendment may not become effective before the effective date of the provision which places a limit on States' entitlement for foster care funds.

Estimated cost.—Negligible.

E. Social Services Block Grant (Title XX)

Legislative Initiatives

1. Expand the Purpose Section

Current law.—The Social Services Block Grant authorizes grants to the States, on an entitlement basis, to encourage them to furnish services aimed at five goals: (1) achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency; (2) achieving or maintaining self-sufficiency, including reduction or prevention of dependency; (3) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and (5) securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

The Community Services Block Grant (under the jurisdiction of the Committee on Labor and Human Resources) provides authority for grants to States "to ameliorate the causes of poverty in communities within the State."

Proposal.—The administration is proposing the repeal of the Community Services Block Grant. The purposes of the Social Services Block Grant would be expanded to make clear that funds may be used for activities now authorized under the Community Services Block Grant. This would be accomplished by adding as a sixth purpose "alleviating poverty."

Effective date.—October 1, 1983.

Estimated savings.—No budget effect for the Social Services Block Grant. The Community Services Block Grant was funded at \$343 million in fiscal year 1983.

2. Reduction in 1984 Authorized Spending Level

Current law.—The statute entitles States to receive their share of \$2,450,000,000 in FY 1983, \$2,500,000,000 in FY 1984, \$2,600,000,000 in FY 1985, and \$2,700,000,000 in FY 1986 and any succeeding fiscal year. In addition, Public Law 98-8, the Emergency Supplemental Appropriations for Jobs bill, included an additional \$225 million for social services which may be used for expenditures in fiscal year 1983 or fiscal year 1984.

Proposal.—The administration is proposing to reduce the authorized spending level for fiscal year 1984 from \$2,500,000,000 to \$2,440,000,000, to offset in part the increased appropriations made available by Public Law 98-8.

Effective date.—October 1, 1983.

Estimated savings.—\$60 million for FY 1984.

3. Additional Information to be Included in Pre-Expenditure Reports

Current law.—Prior to expenditure by a State of any social services funds, the State must report on the intended use of the payments, including information on the types of activities to be supported and the categories or characteristics of individuals to be served.

Proposal.—The administration proposes to require that the pre-expenditure reports made by the States include, in addition to the above information, information on the geographic areas to be served and the criteria and method to be used for disbursement of funds.

Effective date.—October 1, 1983.

Estimated savings.—No budget effect.

4. Additional Requirements for Post-Expenditure Reports and Audits

Current law.—The Social Services Block Grant statute includes a provision requiring each State to prepare reports on its activities carried out with block grant funds. These reports must be "of such frequency (but not less often than every two years) as the State finds necessary to provide an accurate description of such activities, to secure a complete record of the purposes for which funds were spent, and to determine the extent to which funds were spent in a manner consistent with the reports required by section 2004." (Reports required by section 2004 are the pre-expenditure reports referred to above.)

Present law also requires that each State audit its expenditures under the Social Services Block Grant at least every two years, "in accordance with generally accepted auditing principles." The audit must be submitted to the legislature of the State and to the Secretary within 30 days of completion.

Proposal.—The administration is proposing that the post-expenditure reports of each State be prepared no less often than annually, rather than every two years, as provided under current law.

In addition, the administration is proposing that the current requirement that audits be conducted according to "generally accepted auditing principles" be replaced with a requirement that the audits be in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations Programs, Activities, and Functions." A requirement would also be added that each State's audits be made public within the State on a timely basis, replacing the current requirement that they be submitted to the legislature of the State and to the Secretary within 30 days of completion.

Effective date.—October 1, 1983.

Estimated savings.—No budget effect.

5. Require Direct Grants to Indian Tribes

Current law.—Social Services Block Grant funds are allotted to each State, which has the authority to distribute funds within the State according to such procedures as it may establish. There is no provision for direct allotment to Indian tribes.

Proposal.—The administration is proposing to amend title XX to require the Secretary of Health and Human Services to make grants directly to any Indian tribe which undertakes to operate a social services program. An Indian tribe which undertakes to operate a program would be paid a share of the State's allotment equal to the proportion that the population in Indian households in the service area bears to the total population of the State. Each State's allotment would be reduced by an amount equal to the amount of any allotment made to an Indian tribe within the State. The term "Indian tribe" is defined to mean any Indian tribe, band, nation, or other organized group or community, including any Alaska Native village, consortium of villages, or regional corporation recognized by the Secretary of the Interior as having special rights and responsibilities, and as eligible for the unique services provided by the United States to Indians, because of their status as Indians, or any organized group or consortium of such Indian tribes.

Effective date.—October 1, 1983.

Estimated savings.—No budget effect.

6. Addition of Requirements Relating to Nondiscrimination

Current law.—Title XX does not include any specific language relating to nondiscrimination in activities receiving title XX funding.

Proposal.—The administration is proposing the addition of language which is modeled after the nondiscrimination provisions in the health-related block grants (including the Maternal and Child Health Block Grant). The proposed addition would make applicable to title XX activities the prohibitions against discrimination on the basis of age under the Age Discrimination Act of 1975, on the basis of handicap under section 504 of the Rehabilitation Act of 1973, on the basis of sex under title IX of the Education Amendments of 1972, or on the basis of race, color, or national origin under title VI of the Civil Rights Act of 1964. The amendment also includes a general prohibition against discrimination on the basis of sex, except that the provision shall not be construed to prohibit any conduct or activities permitted under title IX of the Education Amendments of 1972.

If the Secretary finds that a State has failed to comply with the nondiscrimination provisions, he must notify the chief executive officer of the State and request him to secure compliance. If within a reasonable period of time, not to exceed 60 days, the chief executive officer refuses to secure compliance, the Secretary may (1) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted, (2) exercise the powers provided by the applicable provisions of the above-mentioned statutes, or (3) take such other action as may be provided by law.

Effective date.—October 1, 1983.

Estimated savings.—No budget effect.

7. Consolidated Funding for Indian Tribes

Current law.—As noted in item (5) above, the administration is proposing that the Social Services Block Grant legislation be amended to require that social services funds be allotted directly to

Indian tribes rather than to the State, as is required under present law. The Low-Income Home Energy Assistance statute already includes language expressly authorizing direct funding to Indian tribes for activities covered by that law.

Proposal.—The administration is proposing the enactment of a new "Indian Tribes Consolidated Funding Act" which would require the Secretary of HHS to consolidate the grants made to an Indian tribe under the Social Services and Low-Income Home Energy programs, upon request of the Indian tribe. The Indian tribe would be given full discretion to determine the proportion of the funds granted which are to be allocated to either program. The tribe would be allowed to submit a single application and single pre- and post-expenditure reports with respect to each consolidated grant received for any fiscal year. The Secretary would have the authority to provide procedures for accounting, auditing, evaluating, and reviewing any program or activities receiving funding under any consolidated grant.

Effective date.—With respect to fiscal year 1984 and succeeding fiscal years.

Estimated savings.—No budget effect.

F. Supplemental Security Income (SSI)

Legislative Initiatives

1. Eligibility of Alien for SSI When Sponsor Is an Agency or Organization

Current law.—Under the SSI statute as amended in 1980 (P.L. 96-265), in determining eligibility for benefits, legally admitted aliens (applying for benefits after September 30, 1980) are deemed to have the income and resources of their immigration sponsors available for their support for a period of 3 years after their entry into the United States. The provision does not apply with respect to sponsors of aliens who are agencies or organizations; it applies only to individuals.

Proposal.—The administration's proposal would make ineligible for benefits an alien sponsored by an agency or organization which has executed an affidavit of support, unless the Secretary determines that the sponsoring agency or organization is no longer in existence, or does not have the financial ability to meet the alien's needs. The determinations would be made by the Secretary based upon such criteria as he may specify and upon such documentary evidence as he may require. As under present law, the provision would not apply to aliens who are (1) admitted to the United States as a result of the application, prior to April 1, 1980, of the provisions of section 203(a)(7) of the Immigration and Nationality Act; (2) admitted to the United States as a result of the application, after March 31, 1980, of the provisions of section 207(c)(1) of such Act; (3) paroled into the United States as a refugee under section 212(d)(5) of such Act; or (4) granted political asylum by the Attorney General. A similar provision is being proposed to apply to agency sponsors of AFDC recipients.

Effective date.—Effective with respect to applications for benefits filed after September 30, 1983.

Estimated savings.—Negligible.

2. Adjustment on Account of Retroactive Benefits Under Title II

Current law.—Legislation was enacted in 1980 (P.L. 96-265) aimed at ensuring that an individual's entitlement under the OASDI and SSI programs would not result in windfall benefits. Under this legislation, OASDI benefits that are paid retroactively, following the initial determination of eligibility, are reduced by the amount of any excess SSI benefits that are paid because the OASDI benefits have been received in a lump sum rather than in the months when regularly payable.

Proposal.—The administration's proposal would amend the present requirement to allow the adjustment of benefits in additional situations. First, in the case where retroactive OASDI bene-

fits are paid before the SSI benefits, but for the same period, the retroactive SSI amount otherwise payable would be reduced by the amount of SSI that would not be paid had OASDI been paid when regularly due. Second, OASDI benefits that are paid retroactively, following a period of suspension of benefits, would be reduced by the amount of SSI benefits that would not have been paid had the OASDI benefits been received in the months when regularly payable.

Finally, present law would be amended to coordinate the benefit adjustment provision with the SSI retrospective accounting system. Under present law, it is possible that the two-month lag in counting OASDI income for purposes of determining the SSI benefit amount can result in adjustment for less than the full retroactive period. The proposed change would make it possible to adjust benefits paid for the entire retroactive period.

Effective date.—Applicable to retroactive benefits (either OASDI or SSI) payable after September 30, 1983.

Estimated savings.—

G. Unemployment Compensation

The administration did not include savings proposals dealing with the Unemployment Insurance System in its fiscal year 1984 budget.

[In millions of dollars]

	Fiscal year—		Total	
	1984	1985		1986
Outlay effect	-15	-16	-17	-48