

ORIGINAL

UNITED STATES SENATE

HEARINGS

BEFORE THE COMMITTEE

on
FINANCE

Executive Session

Wednesday, April 29, 1981

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Executive Session

Wednesday, April 29, 1981

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

The committee met, pursuant to notice, at 2:38 p.m., in room 2221, Dirksen Senate Office Building, Hon. Robert J. Dole, (Chairman of the Committee), presiding.

Present: Senators Dole, Danforth, Chafee, Heinz, Wallop, Durenberger, Grassley, Long, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley and Mitchell.

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1 The Chairman. The Committee will come to order.

2 I think before we start on the other business, I would
3 like to yield to Senator Danforth, who would like to take up
4 a matter.

5 Senator Danforth. Thank you, Mr. Chairman.

6 As you know, Ambassador Brock is now in Tokyo, speaking
7 with the Japanese on a range of trade issues. The most public
8 one and the one that is most before us now is the question of
9 automobile imports.

10 This Committee has a mark-up scheduled for the 12th of
11 May. Obviously, and it has been my position and Senator
12 Bentsen's and I think everybody else's, that we would rather
13 have this worked out by discussion and agreement rather than
14 by legislation, if that is possible.

15 Therefore, I would like to move, just in order to
16 express a sentiment of the Committee to Ambassador Brock,
17 that the following cable be sent to Ambassador Brock, care of
18 the American Embassy, in Tokyo.

19 "The Finance Committee met today in executive session.
20 We determined that your trip to Japan was an appropriate time
21 to reiterate our deep concern over the automobile import
22 situation.

23 "We place a great deal of importance on the outcome of
24 your talks with the Japanese, particularly with regard to the
25 multi-year effort required for the U. S. auto industry to

1 recover and Japan's contribution in this regard."

2 It would be signed by you, Senator Long, and Senator
3 Bentsen and myself.

4 The Chairman. I know of no objection. Senator Bentsen,
5 would you like to be heard on it?

6 Senator Bentsen. I think Senator Danforth covered it
7 very well. I think time is of the essence to see that this
8 thing is resolved, and hopefully it can be resolved by
9 negotiation. I would like to do anything we can to buttress
10 what Ambassador Brock is doing.

11 The Chairman. Without objection, the request is agreed
12 to. We will see that it is properly communicated to the
13 Ambassador.

14 Senator Danforth. Thank you very much, Mr. Chairman.

15 Mr. Lighthizer, Mr. Chairman, we have prepared a staff
16 document on that. We are prepared to recommend that you put
17 it on the agenda for the end of the reconciliation mark-up.
18 We have the staff document in a draft form.

19 Senator Heinz. You want to save the good news to last?

20 Mr. Lighthizer. There was no particular motivation,
21 Senator. We have that. We have it in draft form. We expected
22 to put it at the end of this, after this session.

23 Senator Heinz. Mr. Chairman, that is fine.

24 The Chairman. Is that all right.

25 Senator Heinz. Yes.

1 The Chairman. If not, we can expedite that, maybe
2 consider it the next time we meet. What I would like to do
3 today, until about 4:00 o'clock, is to have the staff proceed
4 with the staff document, proposals for reductions in spending
5 programs under the jurisdiction of the Senate Finance Committee
6 and discuss the President's proposed reductions, and of course,
7 as everyone knows, we have been directed by the Senate to now
8 properly allocate the spending reductions. We think it might
9 be best to start with recommendations of the Administration.

10 It is my hope that perhaps when, after having gone
11 through that exercise, because there are some questions. I
12 think Senator Bradley said he had some questions about some
13 of the numbers.

14 I might add, we had the numbers rechecked by HHS.
15 That does not mean that they are accurate. The only numbers
16 that I am certain of are the page numbers.

17 (Laughter.)

18 Senator Dole. And, I haven't checked those.

19 So, I wouldn't want to verify it without any other
20 numbers.

21 So, we will proceed on that basis. It is my hope that
22 we set aside about six or seven days to dispose of this
23 matter. I don't think that it will take that long. At an
24 appropriate time, I am prepared to offer a proposal that
25 anyone on the Committee could then amend or add or make

1 additional cuts, or even spending. I will be glad to
2 consider those amendments.

3 Senator Bradley. Mr. Chairman.

4 The Chairman. Senator Bradley.

5 Senator Bradley. Could I request that you give us some
6 time after you do offer the proposals, so we can have a chance
7 to study it?

8 The Chairman. Yes.

9 Senator Bradley. Not maybe overnight, at least.

10 The Chairman. Perhaps that can be -- the proposals
11 made ready to distribute tomorrow morning. Maybe it could be
12 distributed and discussed briefly, and then we would meet
13 again, when, next Tuesday?

14 Mr. Lighthizer. Next Tuesday, yes sir.

15 The Chairman. Would that be adequate?

16 Senator Bradley. That is fine.

17 The Chairman. It might be one way to do it, unless
18 everybody wants to vote on it tomorrow.

19 Well, Mr. Lighthizer, proceed.

20 Mr. Lighthizer. Mr. Chairman, I would just say we
21 have prepared two committee prints for purposes of this mark-
22 up. One is the background on the major spending proposals in
23 the jurisdiction of the Finance Committee. The one I am going
24 to go through briefly is the one that is the proposed spending
25 reductions which is the smaller of the two.

1 I would suggest, I guess, everyone make sure they have
2 a "Star print," at the bottom of their front page. There was
3 a printing error. I think we got rid of all the old copies of
4 it.

5 The Chairman. Yes.

6 Mr. Lighthizer. The Finance Committee is required by
7 the budget resolution to find in outlay savings, 1982, \$9.354
8 billion, in outlay savings, I should say in direct spending,
9 1983, \$10.870 billion.

10 In 1982, we are required to find through authorizations
11 in outlays, \$112 million, and through authorizations in 1983,
12 \$132 million.

13 On the first page of the book, it then gives a total
14 we are required to find in savings by the end of May, 1981.

15 Pages two and three give the President's proposals
16 and the beginning of page four give the President's proposals
17 as they are within the jurisdiction of the Finance Committee.

18 The numbers that are given there for savings tend to be
19 the same numbers that the Budget Committee used. In a couple
20 of instances there was some dispute, but they are numbers
21 which we have taken for the most part from the Budget Committee
22 and have checked with the Administration.

23 Now, I guess, if you like, Mr. Chairman, I will go
24 through the provisions in the same order that they are on
25 page two.

1 Senator Dole. Right. Beginning on page -- the social
2 security?

3 Mr. Lighthizer. The minimum benefits.

4 That would begin the description of that proposal
5 begins on page 17.

6 The Administration proposed to eliminate student
7 benefits in the following way. They would not include any
8 incoming Freshmen next year for student benefits, and they
9 would reduce everybody's benefits in the final three years
10 by 25 percent.

11 They would continue to do that until the benefits
12 had phased out.

13 The Chairman. I might say without getting into what
14 may be an alternate proposal, it has been suggested this
15 legislation coming about the time high school seniors are
16 making college plans, we may want to accommodate those high
17 school seniors who may -- at least they don't have any notice
18 now, they would be permitted the reduced benefit. That is
19 one change.

20 Mr. Lighthizer. The next savings provision that the
21 Administration proposed, as listed on page 2, is described on
22 page 18, and that is the elimination of the minimum benefit.

23 Essentially, regardless of what your earned benefit is,
24 there is a minimum benefit that was frozen in 1977, at \$122.00
25 per month. It is slightly more complicated than that. In

1 some cases it is as high as \$153.00 right now. But, by 1983,
2 it will be \$122.00 for all recipients.

3 The Administration proposes for current as well as for
4 future recipients, to go back to the earned benefit in each
5 case.

6 The next proposal that the Administration has in their
7 package is a restriction, the restricted payment of lump sum
8 death benefits.

9 Essentially, what they do is --

10 Senator Bentsen. Let me ask, Mr. Chairman, are we
11 going to discuss these as we go along?

12 The Chairman. Any question you have, yes. That is
13 another -- there will probably be a modification on the
14 minimum benefit, too. But, we will first discuss the Reagan
15 proposals, then submit, tomorrow morning, modified proposals
16 and certainly any questions you may have.

17 Senator Bentsen. Let me ask this. What time do we
18 explore these options and enter into discussions?

19 The Chairman. I think it might be well, if we could
20 just, without getting into a discussion of the alternate
21 proposals, where we have a change, it might be well to note
22 that change. The Senators would be on notice that there
23 might be a modification.

24 The student benefits, there would be a modification.
25 Minimum benefits, there would be a modification.

1 Maybe it would be helpful, Bob, if you would note
2 that, without --

3 Mr. Lighthizer. Yes.

4 Senator Bentsen. I have some concern, obviously, on
5 this particular provision on the minimum benefits. As I look
6 and asked the new Administrator for the Social Security
7 Program, trying to get an identification of those who are
8 current recipients and beneficiaries and the fact that they
9 might not fit the profile as was shown in the 1979 study by
10 the General Accounting Office. He stated that it would be
11 a very difficult thing for them to take these people out and
12 that it was going to take eight to ten thousand man-years,
13 and cost in excess of \$225 million to identify the people.
14 That gives me some concern.

15 The Chairman. Right.

16 Senator Bentsen. As to actually understanding who they
17 are. I want to address myself later to that.

18 Mr. Lighthizer. That is what we have, Senator Bentsen.
19 We are also told, Senator Bentsen, that the Administration
20 savings proposals, the savings numbers are net of that extra
21 expense.

22 The Chairman. They are net savings after that expense?

23 Mr. Lighthizer. That is what we have been told.

24 The Chairman. That is a question we raised in our
25 discussion with Administration officials. There was some

1 concern that there would be some 300,000 people, between the
2 ages of maybe 60 and 65 who just fall through the net, to
3 kind of offer some protection to them. I think that proposal
4 is offered by Senator Heinz. It is being worked on now by
5 the Administration.

6 We will have that. Do you want to discuss that now,
7 Senator Bentsen?

8 Senator Bentsen. Let's wait until we get down to the
9 proposal.

10 The Chairman. Right.

11 Senator Bentsen. I just wanted to put the staff on
12 notice of my concern there and that I will want to address it.

13 Mr. Lighthizer. Senator, we have that break down of
14 the three million people, if you want to go into that now.

15 The Chairman. I think if you prefer to wait until we
16 have the proposal we would hope to act on before us.

17 Mr. Lighthizer. The next savings provision is the
18 restriction of the payment of the lump sum death benefits.
19 Essentially, the Administration proposes to eliminate the
20 \$255 lump sum death benefit in the case where there is no
21 eligible spouse or entitled child to receive the funds, but
22 to pay it in cases where there is an eligible spouse or a
23 child is entitled to the benefits.

24 The Chairman. Is this a modification of the suggestion
25 made a couple of years ago?

1 Mr. Lighthizer. It is my understanding, Mr. Chairman,
2 that the Carter Administration had proposed to get rid of the
3 benefit altogether.

4 This would just get rid of it in the cases where
5 there is really no one to pay it to.

6 Senator Matsunaga. What page are you on?

7 Mr. Lighthizer. Page 20. I am sorry.

8 The next, Social Security benefit cut or spending
9 reduction is the suggestion to tighten the recency of work
10 requirement for disability benefits. Basically, it would
11 provide that after June you must have, in order to get
12 disability insurance, you must have --

13 Senator Long. If I could ask.

14 The Chairman. Yes. Senator Long.

15 Senator Long. Thank you, Mr. Chairman. It says here
16 in the last sentence of the Committee print; if there were
17 no surviving spouse and the worker's children were all over
18 18 or over 21, if full-time students, no one would be
19 eligible to receive the LSDP.

20 That's the lump sum death benefit. I thought that
21 that lump sum death benefit was paid to put these people in
22 the ground to bury them, not as a benefit to a survivor.

23 Can you enlighten me on that? In other words, I
24 thought what we were doing here was paying the undertaker to
25 bury these folks.

1 Mr. Lighthizer. I think the Administration's position
2 is that it would come out of the estate or it would be picked
3 up by some local agency for the burial expenses.

4 Senator Long. Why don't you let Bob Myers speak to
5 that. He is familiar with it.

6 Mr. Lighthizer. Yes.

7 Mr. Myers. Senator Long, under present law, the lump
8 sum death benefit is paid to the surviving spouse, regardless
9 of who pays the burial expense, even if there are none. But,
10 when there is a surviving spouse living with the deceased
11 worker, then it goes to whoever pays the burial expenses.
12 It really doesn't go directly to the undertaker.

13 Senator Long. It goes to whoever pays the burial
14 expense?

15 Mr. Myers. If there is not a surviving spouse. If
16 there is a surviving spouse, the spouse gets it regardless of
17 who pays the burial expense.

18 Senator Long. Now, here is all that I am thinking
19 about. Somebody ought to pay to bury these people, put them
20 in the ground. What I want to know is, if we cut off the
21 benefit, who is going to pay to bury them. How do we get
22 them buried? Are we just going to leave them there?

23 (Laughter.)

24 Senator Long. What do we do with the bodies?

25 Mr. Myers. Senator, I suppose it would be just the

1 same as if somebody is not insured under the program. If they
2 die their estate pays for it, their friends, or as a last
3 resort, I suppose the municipality or country pays for it.

4 Senator Bentsen. I understand nobody complains.

5 (Laughter.)

6 Senator Long. Well, whether you say nobody complains,
7 I guess up until now they haven't been smelling those bodies.

8 (Laughter.)

9 Senator Long. What do we do when the bodies start to
10 smell? I have been around places after Hurricane Audrey hit
11 in Louisiana and we had a bunch of dead bodies around and
12 they smell something awful after a few days.

13 What do we do when the bodies start to smell? That is
14 what I want to know. What if a city says they have no
15 appropriated funds for that purpose, which stands to reason.
16 Up to now we are paying. So, we quit paying. Now, what I
17 want to know, when the bodies start stinking to high heaven,
18 and they can stink. I have been around where the dead bodies
19 stink. What happens at that point? Somebody will complain
20 if only the neighbors.

21 What happens then?

22 Mr. Myers. Senator, I suppose what happens is, just
23 as in the case of the death of anybody who is not eligible
24 for a lump sum payment like somebody who is not covered
25 employment, the local laws would prevail and the local

1 Government would bury the person in the so-called Potter's
2 Field.

3 Senator Long. Well, my impression is that the local
4 government probably has the money to take care of the people,
5 their quota is dying right now. But when the Federal Govern-
6 ment gets out of this thing, I would think in almost all these
7 Governments, that they will be confronted with an emergency
8 they don't have the funds for it.

9 Mr. Myers. Even now the the \$255 may or may not pay for
10 the funeral cost. This is a payment that is made and it is
11 up to the -- someone has to make up the difference now.

12 Senator Long. Well, I would feel a lot better about
13 this thing if someone could assure me that these folks will
14 be put in the ground in some decent capacity. You know, a
15 lot of people live in the haunting fear that when they die
16 their body will be just thrown out there for the crows to
17 eat or something of that sort. They think that would be very
18 demeaning. A lot of dear old people are willing to pay money
19 to know they will have a decent burial.

20 When this cuts off, I am just, I just raise the
21 question. It did not occur to me until, well, this proceeds
22 under the theory that this thing is of benefit to surviving
23 spouse. I thought the benefit was to society, that someone
24 has to pay to bury these folks. A lot of dear old people
25 would pay for a burial policy, a life insurance policy. Take

1 money that they need for food and be sure that they are
2 buried.

3 Is that right or now?

4 Mr. Myers. Yes. I think you are correct, Senator.
5 The people are very much concerned about this. But, even now
6 the \$255 lump sum death payment under the Social Security
7 System is something that doesn't do the entire job by any
8 means and many people don't have that.

9 For instance, the widow of an insured worker, there is
10 no lump sum death payment in her case. So, people like that
11 have met this particular need in other ways without the lump
12 sum death benefit.

13 Senator Long. Well, I would feel a lot better about it
14 if somebody could tell me that there is some arrangement to
15 see to it that these people would be buried. I am not talking
16 about an expensive casket. I am talking about somebody that
17 would dig a hole and put them in the ground. I don't see it
18 here.

19 Senator Heinz. Mr. Chairman.

20 The Chairman. Senator Heinz.

21 Senator Heinz. We have a lot of difficult choices in
22 this mark-up. Some of the things that the Administration has
23 proposed cutting include some preventive health care questions.

24 It seems to me that if we want to achieve appropriate
25 budgetary savings, if we just argue with everything, we are

1 not going to get any place.

2 It seems to me, too, that if I had to choose between
3 preventive health care, neumonococal vaccine, for example, for
4 senior citizens, so they don't die, I would rather see that in
5 here as an exception to the President's Budget then nit picking
6 frankly, the burial allowance question.

7 I would rather keep people alive, then worry about them
8 after they are dead.

9 Senator Long. I don't find the matter nit picking.
10 It seems to me as far as some dear old person is concerned
11 they don't have any certainty at all they are going to die of
12 vaccine, but they sure have a certainty that they are going to
13 die.

14 (Laughter.)

15 The Chairman. I think we have some hard choices to
16 make. As we looked at all of these in an effort to modify
17 the impact, and this is one we could not find a way to make
18 it any easier to go.

19 If somebody has an idea that we might discuss, we have
20 modified the original proposal, the Carter proposal. We are
21 going to have some tougher ones coming up, I believe.

22 Senator Chafee. Mr. Chairman.

23 Senator Heinz. Yes.

24 The Chairman. Senator Chafee.

25 Senator Chafee. In our original -- we were discussing

1 this amongst some of us a couple of days ago. I received the
2 impression that the payment would go to a surviving spouse or
3 to children. But, as I read description here on page 20, it
4 would only go to children if the children were under 18 or
5 over -- over 18 or over 21, if full-time students.

6 Is that accurate, Bob?

7 Mr. Lighthizer. Yes, sir.

8 Senator Chafee. So, therefore, if the recipient died
9 and had children over 21, there -- and no spouse.

10 Mr. Lighthizer. That's correct.

11 Senator Chafee. Then no death benefits?

12 Mr. Lighthizer. That's correct.

13 Senator Chafee. Thank you.

14 The Chairman. Continue.

15 Senator Chafee. Thank you.

16 Mr. Lighthizer. The fourth item in social security is
17 described on page 20. That is the proposal to tighten the
18 recency of work test for disability benefits.

19 Basically, in addition to the current tests, the
20 Administration proposes that those who come on the rolls
21 after June, 1981, must also have worked in covered employment
22 during six of the thirteen quarters immediately preceding the
23 onset of disability.

24 The next item in social security is what have been or
25 what was described at one time as the Megacap proposal.

1 Basically, it expands the offset for disability
2 benefits in the Workemen's Compensation Offset in three ways.

3 In addition to Workemen's Compensation, any other
4 payments that you get from a state, Federal or local Govern-
5 ment other than Veteran's Administration disability benefits
6 or any needs based benefits would be offset from DI.

7 Two, the offset would apply to workers aged 62 through
8 64. Right now it is just limited to those under 62.

9 Three, the offset would take effect sooner in that in
10 the month that you begin to get the extra money you have the
11 offset rather than the month you notify SSA that you have the
12 offsetting revenue.

13 The next item is, and I am on page 23, is a proposal
14 to discontinue Social Security Trust Fund Financing of
15 vocational and rehabilitation services. This is just a
16 simple elimination of that provision.

17 The Administration's position is that to the extent
18 the rehabilitation and vocational services are a good idea,
19 they will be paid for out of the social services block grant.

20 The next proposal is to round at each stage, to the
21 nearest multiple of ten cents all social security benefits.

22 The final social security proposal is on page 24. That
23 basically provides the Social Security Administration the
24 ability to charge people, usually pensioned, to come in and
25 request certain earning data from them, the full cost of

1 providing that information.

2 Senator Bradley. Mr. Chairman.

3 The Chairman. Senator Bradley.

4 Senator Bradley. Could I ask the staff a question on
5 this rounded benefit amounts to nearest multiple of ten cents

6 Why does it jump so much between '82 and '83?

7 Mr. Myers. Senator, the reason for that is that the
8 major part of the benefit recomputations are made for each
9 June; in other words, for the check that goes out the
10 beginning of July. So that the real effect of this would be
11 the checks would go out in July of 1982, and there would just
12 then be three months left in the fiscal year.

13 Senator Bradley. So you are saying that is roughly
14 one quarter of the fiscal year?

15 Mr. Myers. Yes.

16 Senator Bradley. So that would round out to roughly
17 32. So, between '82 and '83, if we did the whole year, we
18 would go 32, 38, which is about a \$6 million increase. Why
19 in the next year does it jump up \$24 million?

20 Mr. Myers. This is also something that accumulates
21 because when, for instance, the one individual, when you have
22 rounded the benefit, instead of rounding it, in essence you
23 round it, instead of rounding it up, you run it to the nearest
24 figure which is roughly a five cent reduction. Then, the next
25 time you do it, instead of again rounding up, you round it to

1 the nearest one. So, it is something that accumulates from
2 year-to-year.

3 Senator Bradley. I see. That would mean that '84 and
4 '85, it should be even bigger than from '82 to '83, but it is
5 not. If it is cumulative, shouldn't it be bigger as you go
6 along?

7 Mr. Myers. Yes. That is why, when you look at the
8 differences between '83 and '84, it is \$24 million. Then the
9 next year it is \$28 million. So, it does gradually get
10 larger both as it accumulates and is also as there are more
11 people on the rolls.

12 Senator Bradley. Wait a minute. It is \$28 million?

13 Mr. Myers. No, I am sorry.

14 Senator Bradley. See, if it is cumulative, there is
15 a certain problem with the numbers there.

16 Mr. Myers. Well, Senator, I think you have a very
17 good point there. The difference should gradually become
18 larger and larger. I really can't explain why it went from
19 \$24 million.

20 Senator Bradley. Who made the projections?

21 Mr. Myers. I believe OMB.

22 The assumption is the increase for 1982 will be 9.3
23 percent. For 1983, it will be 6.6 percent. For 1984, 5.8
24 percent.

25 Senator Bradley. So, by '84, inflation will be five

1 percent.

2 Mr. Myers. Yes. That would be the underlying
3 assumption.

4 Senator Bradley. If it is more than that, then this
5 program will cost more?

6 Mr. Myers. The entire program will, but this particular
7 element I think shouldn't, because this is just a rounding
8 matter of what you do after you have given the percentage
9 increase in the benefit.

10 Senator Bradley. Very well.

11 Senator Long. Let me just suggest I would a lot rather
12 vote for a big item that is going to save us some money, than
13 vote for a whole bunch of these little penny pinching items.
14 This is really a penny pincher.

15 The old grandfather figures this out and he figures
16 he is entitled to \$23.26. You say, no, you do not get \$23.26,
17 you get \$23.20. It is obvious to me it is six cents. That
18 is the way it works out. He shows up with his mathematics
19 and you say, "Yes, I know. But you haven't read the fine
20 print down here that says all the pennies go to Uncle Sam."

21 How many things like that do we put in here before it
22 looks like Uncle Sam. is just out to cheat the client.

23 Mr. Lighthizer. Senator, this is just what what is
24 nearest. Under current law, everything is rounded up. They
25 are just proposing you would round the way that people were

1 taught in school, that if it is five or below, you round
2 down, and if it is six or above, you round up.

3 Under the current law, we have built in this system
4 where we always round to the highest dime. The proposal is
5 to round to the nearest dime.

6 Senator Long. Well, that does not sound so bad.
7 Uncle Sam has been a generous guy. We have plenty of money.
8 Round it up to four cents. You would get four more pennies.
9 Of course, that might be important.

10 Actually, all we are going to do is get a little bit
11 more precise with the bookkeeping?

12 Mr. Lighthizer. Yes, sir.

13 Senator Long. That sounds better.

14 Mr. Lighthizer. The next provision is on the Medicare
15 and begins on page 7 of the Blue Book. The first provision
16 that the President proposes is to eliminate the eight and a
17 half percent routine nursing salary cost differential.

18 The Chairman. That is not controversial, I don't
19 think.

20 (Laughter.)

21 Senator Bradley. What page is that?

22 Mr. Lighthizer. Page 7, Senator.

23 Senator Bradley. Thank you.

24 Senator Matsunaga. Mr. Chairman, I am fearful that
25 this would mean that without that eight and a half percent

1 differential, the eldest citizens, the ones who are really
2 in need of that additional care, will not get the additional
3 care. I think the whole basis for the budget was that the
4 needy will not suffer.

5 Here is a case where I think perhaps the elder
6 citizen, patient, will in fact suffer, because they will
7 not get that extra care which they do require. That is what
8 I am fearful of.

9 The Chairman. I think once we go through all these
10 that; the other areas, there may be even more anguish about
11 the cuts.

12 Mr. Lighthizer. The next one, Senator, the elimination
13 of the end stage --

14 The Chairman. That is a small item, but, and of course
15 there will be opportunities to amend the proposal which we
16 hope to have ready by tomorrow, as long as it is accompanied
17 by something of equal or greater spending reduction.

18 Senator Long. Where are we now?

19 Mr. Lighthizer. We are at the bottom of page 7,
20 Senator. Number two, elimination of the end stage renal
21 disease networks.

22 Basically, the Administration just proposes elimin-
23 ating the funding for these networks.

24 The Chairman. You note that to be modified?

25 Mr. Lighthizer. Yes, sir.

1 There is also a modification on the next item which
2 is the repeal of some of those provisions that was passed in
3 reconciliation, last year. There are modifications in there,
4 also.

5 Mr. Chairman, would --

6 The Chairman. How many? There are a number of
7 those, aren't there? A number of --

8 Mr. Lighthizer. Two or three, yes sir.

9 The Chairman. Two or three are modified? The number
10 in the package?

11 Mr. Lighthizer. There are eight in the package.

12 The Chairman. Right.

13 Mr. Lighthizer. They are on pages 8 and 9 of the
14 Blue Book.

15 Senator Matsunaga. Mr. Chairman, is that the
16 Administration's proposal to eliminate out patient rehab-
17 ilitation facilities, item two, on page 8?

18 Is that where we are on now?

19 Mr. Lighthizer. Yes, sir. We are dealing with the
20 third provision under Medicare in the President's package.
21 That is described on pages 8 and 9. There are listed there
22 eight different provisions which were added last year in the
23 reconciliation bill, all of which the Administration would
24 repeal.

25 Number two, the free standing out patient

1 rehabilitation facilities is one of those that they would
2 repeal.

3 Senator Matsunago. I think this proposal, I wish the
4 Administration proposal-- spokesman could tell me how they
5 are going to save the estimated amount shown there by \$13,
6 \$15, and \$17 million in '81, '82, '83 and '84 respectively,
7 because as I understand it, the statute is currently on the
8 books and does not authorize any new Medicare benefits than
9 the Medicare benefits that will continue, and if not in these
10 free standing out patient or clinics, they are entitled to
11 receive in the hospitals anyhow.

12 I will bring this matter up later, Mr. Chairman. I
13 think we need to give a little more thought to these things.
14 The proposed savings may not be actually there.

15 The Chairman. We have modified, I think, as I recall,
16 three of the eight. They will be properly identified. There
17 may be reason to do another. I think if you have any, I
18 think the bottom line is that we can't modify everything.

19 Senator Matsunaga. Well, I will bring this matter up.

20 The Chairman. Yes. That is not one that was modified.

21 Mr. Lighthizer. No, sir.

22 The Chairman. Three were not modified.

23 Shiela.

24 Ms. Baker. Senator, it was suggested that we not
25 repeal the provision with respect to home health visits, and

1 that is to retain what we have included in the provision
2 last year, which was to remove the 100 visit limit, under
3 Part A and Part B, of Medicare.

4 The second provision it was suggested that we retain
5 in current law is the dental equity provision which is to
6 allow reimbursement to dentists for services that are re-
7 imbursement if provided by physicians.

8 The third provision is the increase from 100 to 500,
9 the annual limit on partly reimbursement for physical
10 therapists.

11 Those three provisions have been recommended as not
12 being repealed.

13 Mr. Lighthizer. The fourth item under Medicare is
14 to repeal the temporary delay in the periodic interim
15 payments. This was a provision was put in the reconciliation
16 bill last year which basically pushed certain payments into
17 the next fiscal year.

18 What the Administration has proposed is to just undo
19 that, to go back to the normal periodic interim payment
20 provision.

21 The fifth provision, the fifth proposal of the
22 Administration is to delete separate contracting requirements
23 and authorize HICVA Medicare contractors to process Railroad
24 Retirement Board Claims.

25 The sixth provision gives the Secretary of HHS the

1 power to impose civil money penalties in cases where
2 contractors are found to owe the Government substantial
3 amounts of money for periods of time. Many of the other
4 agencies in the Government have a provision whereby they
5 penalize people for the use of that money during the period.
6 This would give the same authority to the Secretary of HHS.

7 The seventh provision would eliminate PSRO's.

8 The eighth proposal would eliminate utilization of
9 review requirements.

10 The ninth provision -- I might say that there is a
11 modification proposed for number 5, which is the Medicare
12 contractors, for number 7, which is PSRO's, and for number
13 8, which is elimination of utilization review requirements.

14 The ninth proposal is to provide for less frequent
15 surveys of skilled nursing facilities.

16 The tenth provision would provide that the Adminis-
17 tration proposals would provide for competitive contracts
18 with Medicare intermediaries and carriers. That is another
19 one that there is a proposed modification of, Mr. Chairman.

20 The next group of savings proposals recommended by
21 the Administration involve Medicaid, and the first one is
22 the Federal cap on Medicaid expenditures.

23 Do you want to take the next one?

24 Ms. Burke. Senator, as suggested by the Administration
25 there would be a reduction in 1981, of \$100 million in the

1 Federal match to all states.

2 In the second year they suggest holding increase to
3 five percent. In the out years allowing an increase that is
4 related to the GNP deflater. So, that in the second year
5 only which you use the five percent cap, and then in the
6 out years, it would be related to what is the actual GNP
7 deflater.

8 The estimates by CBO and by the Budget Committee of
9 the GNP deflater in 1983, is 7.3. In 1984 it is 6.2. In
10 1985, it is 5.5.

11 There is a suggested alteration to that cap which
12 will be included in your package which is a nine percent
13 rather than ten percent, and not affecting 1981 expenditures.

14 The Chairman. I think for the benefit of those --
15 I think this is one there is widespread interest in, there
16 will be a proposed modification of the so-called Medicaid
17 cap. It will be loosened considerably and there will be
18 some other savings to offset the loss that would have made.

19 We will have that for you tomorrow morning.

20 Mr. Lighthizer. Take the next one.

21 Ms. Burke. The second provision included in the
22 Medicaid package of the Administration is to allow an
23 accelerated collection of unapproved state Medicaid expen-
24 ditures. This is basically an alteration of a provision
25 which was included last year in the Reconciliation Act.

1 Under that proposal, we would have allowed the states
2 to hold the money through the appeals process, and then if
3 they lost the appeal, to return to the Federal Government,
4 the money, plus interest.

5 This provision suggests that the Federal Government
6 would retain all funds until after the appeals process,
7 and then, if the state has won the appeal, the money, plus
8 interest, would go to the state.

9 So, it is basically to allow the Feds to retain the
10 dollars.

11 The third provision in the health area is with
12 respect to Title 5, and that is one of the Administration's
13 block grant proposals. They have suggested that we repeal
14 Title 5 as it currently exists in the Social Security Act,
15 that is, the program that deals with the Maternal and Child
16 Health Services, and to include it in a broader health block
17 grant.

18 There will be a suggested modification based on the
19 hearings held by the committee which would retain Maternal
20 and Child Health as a separate block grant included in the
21 package.

22 They have suggested a 25 percent reduction of current
23 spending.

24 Mr. Lighthizer. The next group of savings items
25 proposed by the President are under Unemployment Compensation.

1 They begin in the Blue Book, on page 25.

2 The Chairman. Will you get the microphones up a
3 little closer? I think there are some in the audience who
4 have an interest. I am not certain that they can hear.

5 Mr. Lighthizer. Yes, Mr. Chairman.

6 The first recommendation of the President is to
7 repeal the National Extended Benefits Trigger. This was a
8 provision that passed the Finance Committee in the last
9 Congress.

10 Mr. DeArment. The second provision would modify the
11 definition for what constitutes the insured unemployment
12 population by excluding recipients or claimants of extended
13 benefits when you are calculating the rate of unemployment
14 for trigger purposes.

15 This is also something that the Finance Committee has
16 previous approved.

17 The current state trigger, this is item number 3, on
18 page 26, is an insured unemployment rate of 4 percent is the
19 mandatory trigger, and 5 percent is the optional trigger.

20 The Administration has proposed changing those to
21 five and six respectively.

22 Mr. DeArment. The fourth item would require that
23 extended benefit claimants have worked at least 20 weeks in
24 a one-year base period to be eligible for extended benefits.

25 The notion is there that if you are having an

1 unemployment program, the extended benefit program that is
2 paying benefits after longer than 26 weeks, the benefits
3 would start after the 26th week, that the claimants ought to
4 have some substantial attachment to the work force, at least
5 20 weeks in the prior year.

6 Number five would redefine suitable employment after
7 13 weeks of regular state benefits, would extend the proposal
8 that we enacted last year for the extended benefits program
9 to the states after 13 weeks of benefits.

10 The sixth item which is on page 29 would eliminate
11 benefits for those who voluntarily quit military service.
12 The notion is there in the all volunteer military service
13 that those who choose to not reenlist ought not be eligible
14 for essentially voluntarily quitting the Army, ought not be
15 benefits under the UCX program.

16 The Chairman. You make reference to the one which
17 imposed the Federal Standard?

18 Mr. DeArment. That is item 5, where we would tell
19 the states with respect to their regular program after 13
20 weeks of unemployment, that the individuals, you would have
21 to set up a requirement that the individuals accept suitable
22 work as defined.

23 The Chairman. That will be modified in the --

24 Mr. DeArment. That is correct.

25 The Chairman. So we are not imposing Federal

1 standards.

2 Mr. DeArment. That is correct, Senator.

3 Senator Chafee. Mr. Chairman.

4 The Chairman. Senator Chafee.

5 Senator Chafee. I would just like to ask about the
6 savings here. Let us look on page 25, dealing with the
7 National trigger. It says that the elimination of the
8 National trigger would save \$297 million, in '81.

9 Now some of that is the Federal share of the extended
10 benefits, but some would be the states share, they each
11 going half and half for the extended benefits.

12 Mr. Lighthizer. That's correct.

13 Senator Chafee. You count in this the state's share?

14 Mr. DeArment. I believe we do. I think that the
15 rationale is that all state funds are counted as part of the
16 unified budget.

17 Mr. DeArment. That is perhaps something of a
18 distortion, but that is the way we score the unified budget.

19 Senator Chafee. In a way it is, you might make, not
20 in this particular program, but say in some particular
21 program that pertains, well, half of this is purely to the
22 state.

23 If, on figuring our pluses and minuses and working
24 out this, we are dealing with some state funds that are
25 truly restricted on use and other purposes.

1 Well, this is an example. Let us say half of that
2 \$300 million is state. That is \$150 million that in theory
3 we have saved. But that is restricted to the state funds, so
4 that if thus, we go on and spend \$150 million in preventive
5 health programs from the general Treasury, that is money that
6 is put in there directly by the taxpayer.

7 So the savings in the restricted funds isn't made up
8 by these expenditures from the general fund.

9 Mr. DeArment. That is correct, but if you look at
10 the borrowing rate, some of these state funds aren't exactly
11 flush. In other words, they need that money in terms of
12 state trust funds. So that these funds would redound to the
13 benefit of the states' account.

14 Senator Chafee. I guess the point that I am making,
15 under this unified budget, we are counting certain funds
16 that really are not available for the general purposes of
17 the Nation.

18 Mr. DeArment. That is correct.

19 Senator Chafee. Thank you.

20 Mr. Lighthizer. The next group of savings, Mr.
21 Chairman are under AFDC and they begin on page 30 of the
22 Blue Book.

23 Ms. Olson will go through them briefly.

24 Ms. Olson. The first proposal would change the
25 income disregard formula on the present formula, to a flat

1 rate for your work disregard of \$75; \$50 per month for child
2 day care, and then, finally, \$30 and one-third disregarded
3 from your remaining income.

4 The Chairman. Will that provision be modified?

5 Mr. Lighthizer. Yes, sir.

6 Senator Long. What page are you looking at?

7 Ms. Olson. Page 31, Senator.

8 That proposal would be modified, as I understand it,
9 to increase the child care disallowance to \$160 per month,
10 per child.

11 Senator Mitchell. Mr. Chairman, I would like to ask
12 a question about that proposal.

13 The Chairman. Yes.

14 Senator Mitchell. Will the effectiveness be to
15 reduce what incentive someone may have who is now receiving
16 AFDC assistance to work?

17 The Chairman. Yes.

18 Senator Mitchell. If the income disregard was intended
19 to create an incentive by reducing the income disregard, is
20 not the inevitable effect to reduce that incentive?

21 Ms. McMahon. The history of the earnings disregard
22 is that in fact it has not worked as an incentive. There are
23 not more people going to work because of the incentive. The
24 history, since it went into effect is that work effort has
25 gone down. Consequently, the Administration feels that we

1 should tighten up on that. We should give the disregard.
2 We should tighten upon it and give it for a shorter period
3 of time, as a start up cost for individuals to go to work.

4 But, beyond that, this is not a supplement to work.
5 It is a safety net program. So, we don't want to perpetuate
6 people on welfare who have higher level earnings.

7 Senator Mitchell. Well, what is the basis for your
8 statement that the history shows that it has not worked?

9 Ms. McMahon. If you look at the number of people
10 working and the work effort since the work disregard went
11 into effect, it will show that the work effort has gone down.

12 Senator Mitchell. From that you draw the conclusion
13 that that is attributable to the income disregard?

14 Ms. McMahon. Well, it isn't necessarily attributable
15 to the income disregard, but the fact is the income disregard
16 didn't do what we expected; that is, give people an incentive
17 to increase their work effort.

18 Senator Mitchell. Could that be because the income
19 disregard is insufficient to achieve the objective?

20 Could one look at the same facts and draw an opposite
21 conclusion?

22 Ms. McMahon. Well, I guess you can make statistics
23 say anything you want. But, we believe in fact that the
24 case is the income disregard has not done what we expected
25 and it should be tightened up.

1 Senator Grassley. It is also a matter of fairness.
2 You can have a person who was receiving ADC and then go to
3 work and being on the job, besides somebody who was never
4 receiving AFDC, and that person who was receiving AFDC has
5 certain deducts that the other person does not have. So,
6 their total income can be more, and yet, they are doing the
7 very same job.

8 So, it is a matter of fairness to the person who is
9 working.

10 Ms. McMahon. That is right.

11 Senator Mitchell. Well, let me ask you, is there any
12 proposal you are familiar with that seeks to achieve the
13 objective that the income disregard sought to achieve; that
14 is, give someone an incentive to get off AFDC, something I
15 assume everyone supports, get people off welfare into
16 productive jobs.

17 Ms. McMahon. Yes, sir. I believe the Congress passed
18 last year a provision that will tighten up on the sanctions
19 under the work requirement in the AFDC program.

20 This Administration, in connection with that also has
21 a community work experience program that we are proposing.
22 We think the two things together will in fact require people
23 to work, which we think is the way to go with this kind of a
24 safety net program.

25 Ms. Olson. The second proposal would limit the \$30 and

1 a third disregard to four consecutive months after which time
2 the disregard would be eliminated. The person would retain
3 their child care disregard and the work expense disregard.

4 The third proposal limits the amount of allowable
5 resources an AFDC recipient may have to \$1,000 in equity
6 value per family, excluding the home and one automobile. The
7 value of the automobile would be limited by regulations issued
8 by the Secretary.

9 The fourth proposal permits states to offset from
10 their benefit, the amount of food stamps or housing subsidies
11 an AFDC family may receive.

12 The fifth proposal would establish a gross income
13 ceiling of 150 percent of the state's needs standards for
14 eligibility. When a family's gross income reached that,
15 they would go off the rolls.

16 Proposal six requires that large payments which are
17 received by a family, and this is on page 33, would be counted
18 towards their income and if it exceeds the standard, they
19 would go off the rolls for the amount of time that that lump
20 sum could be allocated toward their income each month.

21 Number seven pertains to the treatment of the earned
22 income tax credit.

23 The Administration would assume that everyone eligible
24 for the earned income tax credit would receive it each month
25 whether or not they did.

1 Proposal number 8 would require the states to count
2 the income of step parents or other individuals in the home
3 if they are not related or a bona fide tenant, towards the
4 eligibility or benefits for the AFDC family.

5 The Chairman. That will be -- there is a modification
6 in that area, too.

7 Ms. Olson. Right. There will be a modification in
8 that area.

9 Number 9 is a proposal to establish a national
10 welfare recipient file which would be a collection of
11 information available from the Social Security Administration,
12 Railroad Retirement Board and other Federal Government
13 agencies.

14 The Chairman. That will be modified too. That will
15 be eliminated.

16 Senator Moynihan. Nicely said, Mr. Chairman.
17 (Laughter.)

18 Ms. Olson. Number 10 provides access to AFDC
19 information for state and local Governments or other United
20 States Government offices.

21 The Chairman. Now will that be modified?

22 Ms. Olson. That will be modified.

23 Number 11 --

24 The Chairman. We have a vote in the last six
25 minutes. I have another Committee at 4:00 o'clock.

1 Senator Long would prefer to finish this in the morning.

2 So, we will stand in recess until 10:00 o'clock in
3 the morning, at which time we will finish this, and hope-
4 fully, by that time, have the alternate proposal before us.
5 Then we can start in earnest looking at some of the
6 alternatives which I think will satisfy some of the
7 objections raised, certainly not all of them.

8 We will stand in recess until 10:00 o'clock.

9 (Whereupon, at 3:40 p.m., the Executive Session
10 recessed, to reconvene at 10:00 a.m., the next day, April
11 30, 1981, at the same place).

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