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Proposals for Reductions in Spending Programs Under the Jurisdiction of the Senate Finance Committee

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE
ROBERT J. DOLE, *Chairman*

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INTRODUCTION

This document was prepared for the use of the Committee on Finance in conjunction with the executive sessions on spending reduction proposals scheduled to begin on April 28, 1981. Part I of this document contains a detailed description of the Reagan Administration's spending reduction proposals that are within the Committee's jurisdiction. Part II contains a description of a number of alternative proposals for achieving spending reductions. The staff has also prepared background material and data on the major spending programs in the committee's jurisdiction.

On April 2, 1981, the Senate passed Senate Concurrent Resolution 9, the budget reconciliation instruction. Under Senate Concurrent Resolution 9, the Committee on Finance is instructed to report changes in laws within its jurisdiction to achieve the following savings:

[In millions of dollars, fiscal years]

	1981	1982	1983
Direct spending:			
Budget authority	−212	−4,354	−4,494
Outlays	−295	−9,354	−10,870
Authorizations:			
Budget authority	0	−96	−114
Outlays	0	−112	−132
Total:			
Budget authority	−212	−4,450	−4,608
Outlays	−295	−9,466	−11,002

The Committee on Finance is instructed to report its savings recommendations to the Budget Committee no later than May 31, 1981.

Table I sets forth a summary of the Reagan Administration's spending reduction proposals by major program within the jurisdiction of the Committee on Finance. Table II sets forth a summary of some alternative proposals for achieving budgetary savings. Table III shows changes made by Budget Committee and floor amendments in arriving at the Finance Committee's share of S. Con. Res. 9 reconciliation instructions.

TABLE I.—SUMMARY OF REAGAN ADMINISTRATION'S PROPOSED BUDGET REDUCTIONS UNDER COMMITTEE ON FINANCE JURISDICTION

[Outlay reductions: in millions of dollars]

	Fiscal year—		
	1981	1982	1983
Social security:			
Eliminate student benefits	35	988	1,640
Eliminate minimum benefit	50	1,000	1,100
Restrict payment of lump-sum death benefit	35	200	210
Tighten recency of work test for disability benefits		124	350
Disability megacap	5	50	75
Other changes in disability		37	47
Discontinue trust fund financing of vocational rehabilitation services		87	87
Other (rounding benefits; pension reform)		9	40
Subtotal, social security	125	2,495	3,549
Medicare:			
Elimination of 8½-percent routine salary cost differential	35	250	285
Elimination of the end stage renal disease networks		6	6
Repeal of certain coverage provisions enacted in 1980	49	214	238
Repeal of temporary delay in the periodic interim payment	+(515)	522	
Authorize medicare contractors to process Railroad Retirement Board claims		2	2
Provide authority for the Secretary to impose civil money penalties		9	9
Elimination of utilization review requirement	9	66	70
Medicare contractors—Competitive contracts		24	48
Less frequent surveys of skilled nursing facilities		1	4
Subtotal, medicare	+(422)	1,094	662
Medicaid:			
Cap Federal medicaid expenditures	100	927	1,378
Allow accelerated collection of unapproved State medicaid expenditures	122	(1)	(1)
Subtotal, medicaid	222	927	1,378
Other: Repeal of title V		44	119
Unemployment compensation:			
Repeal national trigger	297	657	0
Exclude extended benefit claimants from State trigger calculation	208	561	380
Raise State triggers to 5 percent plus 120 percent, or 6 percent	0	0	92
Require 20 weeks of work for extended benefits	0	0	11
Redefine suitable employment after 13 weeks, for regular benefits	0	0	285
Eliminate benefits for those who voluntarily quit military service	36	265	254
Subtotal, unemployment compensation	541	1,483	1,022

[1] Assumed under medicaid cap.

TABLE I.—SUMMARY OF REAGAN ADMINISTRATION'S PROPOSED BUDGET REDUCTIONS UNDER COMMITTEE ON FINANCE JURISDICTION—Continued

[Outlay reductions: in millions of dollars]

	Fiscal year—		
	1981	1982	1983
Public assistance—Aid to families with dependent children (AFDC):			
Limit earnings disregards		177	182
Limit current $30+1/3 disregard to 4 months		145	149
Limit allowable resources to $1,000		16	17
Permit offset for food stamps—Housing subsidies		100	103
Limit eligibility to 150 percent State needs standards		(*)	(*)
Count lump sum payments		5	5
Assume advance payment of EITC		44	42
Count stepparents' income		108	111
National recipients information system		+(1)	+(6)
Access to information	(*)	(*)	(*)
Require community work programs		0	37
Prohibit payments to strikers		5	5
Eliminate payments to children 18 and over		100	104
Eliminate payments for pregnant women before 6th month		(*)	(*)
Change unemployed parent to primary wage earner	(*)	(*)	(*)
Require AFDC parent attending college to meet work requirements	(*)	(*)	(*)
Require retrospective accounting and monthly reporting		(*)	187
Eliminate payments less than $10	(*)	(*)	(*)
Remove 20 percent limit on vendor payments	(*)	(*)	(*)
Recover overpayments/pay underpayments		115	110
Allow liens on recipients' homes	(*)	(*)	(*)
Reduce Federal match for training		16	17
Administrative savings		105	111
Subtotal, AFDC		935	1,174
Child support enforcement:			
Enforce collection of child support and alimony		27	30
Collection of support for adults		23	23
Modify collection fee for non-AFDC cases		45	49
Change financing of incentive payments		61	69
Prohibit discharge of child support in bankruptcy		17	21
Subtotal, CSE		173	192
Supplemental security income (SSI):			
Change to retrospective accounting		30	60
Eliminate rehabilitation funding for SSI recipients		20	20
Subtotal, SSI		50	80
Block grant consolidations:			
Social services block grant		939	1,123
Energy and emergency assistance		22	28
Subtotal, block grants		961	1,151

See footnote at end of table.

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TABLE I.—SUMMARY OF REAGAN ADMINISTRATION'S PROPOSED BUDGET REDUCTIONS UNDER COMMITTEE ON FINANCE JURISDICTION—Continued

[Outlay reductions: in millions of dollars]

	Fiscal year—		
	1981	1982	1983
Trade adjustment assistance: Integrate with State unemployment compensation program, limit allowances, strengthen administration		1,335	840
Direct spending total	**466**	**9,497**	**10,167**
Authorizations:			
Social services grant consolidation: Child welfare services		54	65
Phase out PSRO's		58	67
Authorizations total		112	132
Grand total of President's proposed budget reductions	**466**	**9,609**	**10,299**

*Less than $1,000,000.

TABLE II.—OTHER ALTERNATIVES FOR BUDGET REDUCTIONS

[Outlay reductions: in millions of dollars]

	Fiscal year—		
	1981	1982	1983
Unemployment compensation:			
Reduce duration of extended benefits from 13 to 8 weeks		222	100
Reduce weekly benefits under extended benefits program to 75 percent regular weekly benefit amount		188	86
Modify optional State trigger after 2 years extended benefit period		145	
Require regular benefit claimants to have worked at least 20 weeks in the 1-year base period			907
Charge interest on new borrowing		337	585
Social security:			
Change the cost-of-living adjustment for social security and SSI:			
Move benefit increase to October		3,640	2,910
Move benefit increase to October in 2 steps		525	+(310)
Move benefit increase to October over a 3-year period		1,040	625
Limit benefit increase to the lower of wages or prices and move payment date to October	520	5,615	5,095
Eliminate parent's benefit when youngest child 16:			
Prospectively		(*)	100
For current and future beneficiaries		400	500
Round social security benefits to next lower dollar		100	200
Limit family benefit to 150 percent of worker's benefit		100	200

See footnotes at end of table.

TABLE II.—OTHER ALTERNATIVES FOR BUDGET REDUCTIONS—Continued

[Outlay reductions: in millions of dollars]

	Fiscal year—		
	1981	1982	1983
Medicare:			
Close underutilized facilities		2	9
Limit physician charges		13	20
Limit outpatient costs	17	26	31
ESRD benefit coordination		110	250
Federal employee benefit coordination		1,560	2,800
Restore 3-day prior hospitalization		9	11
Reduce hospital reimbursement ceiling:			
110 percent option		35	50
108 percent option	5	75	105
Reduction in payment for inappropriate hospital care		115	130
Increase part B deductible:			
Option A:			
To $75		120	210
To $80		160	280
To $90		230	420
To $100		300	550
Option B		60	160
Option C		100	250
Delete deductible carryover		55	55
Increase part B premium:			
Option A		190	380
Option B		([1])	([1])
Home service cost-sharing:			
Option A		155	170
Option B		230	275
Medicaid:			
Freedom of choice		227	273
Cost-sharing		([1])	([1])
Hospital reasonable cost		250	280
Cap long-term care		400	550
Eliminate special match		([1])	([1])
Eliminate Federal minimum match:			
Option A		679	953
Option B		651	922
Other: Maintain title V in alternative consolidated block with reduced funding		44	119

* Less than $50,000,000.
[1] Estimates forthcoming.

TABLE III.—CHANGES IN PRESIDENT'S PROPOSED SPENDING REDUCTIONS UNDER COMMITTEE ON FINANCE JURISDICTION DURING CONSIDERATION OF S. CON. RES. 9

[Outlay reductions: in millions of dollars]

	Fiscal year—					
	1981		1982		1983	
	BA	O	BA	O	BA	O
President's proposals	388	810	5,017	8,632	5,340	9,770
Budget Committee amendments:						
20 week unemployment compensation requirement						900
½ of cuts in medicare items (Budget Committee lines 25-35)				300		300
Social services add-back			+(100)	+(100)	(+100)	+(100)
Medicaid-medicare flexibility (add back ½ of medicaid cap BA)	+(176)		+(563)		+(746)	
Net Budget Committee Action	+(176)		+(663)	200	+(846)	1,100
Total reported by Budget Committee	212	810	4,354	8,832	4,494	10,870
Floor amendment—PIP		+(515)		522		
Spending reduction passed by floor	212	295	4,354	9,354	4,494	10,870

Proposals for Reductions in Direct Spending Under the Jurisdiction of the Senate Finance Committee

Administration's Proposed Budget Reductions Under Committee on Finance Jurisdiction

Medicare

1. ELIMINATION OF 8½ PERCENT ROUTINE NURSING SALARY COST DIFFERENTIAL

Source.—President.

Present law.—Under current law, medicare part A reimburses hospitals on the basis of their "reasonable costs." The Secretary is required to establish by regulation those items or elements of cost which are "allowable" in determining these reasonable costs. Since July 1, 1969, the Secretary has by regulation included in reimbursement costs an 8½ percent adjustment to inpatient routine nursing salary costs on the theory that older patients require more nursing care.

Summary of proposal.—Eliminate the 8½ percent adjustment to inpatient routine costs.

Estimated savings.—

Fiscal year:	Millions
1981	$35
1982	250
1983	285
1984	350

Comment.—A similar proposal was agreed to by this committee last year. The difference was that that proposal would have deferred payment of the differential for a specified period of time while GAO could study the appropriateness of continuing the reimbursement differential and, if so, its amount.

2. ELIMINATION OF THE END STAGE RENAL DISEASE NETWORKS

Source.—President.

Present law.—Medicare presently reimburses costs associated with kidney transplants and renal dialysis for almost every American who suffers from chronic renal disease. The law also provides for renal disease network organizations, which evaluate and coordinate the services provided within the assigned geographic area. Specific activities include coordination and planning of services, quality assurance, and exchange of data and information among other Federal agencies with similar responsibilities.

Summary of proposal.—Eliminate funding for networks.

Estimated savings.—

Fiscal year:	Millions
1981	0
1982	6
1983	6
1984	7

3. REPEAL OF CERTAIN COVERAGE PROVISIONS ENACTED IN 1980

Source.—President.

Present law.—As part of the Omnibus Reconciliation Act of 1980 (P.L. 96–499) the Congress enacted the following provisions:

1. Removal of the limit on home health visits—formerly limited to 100 visits, under Part A and 100 visits under Part B, effective July 1, 1981;

Cost:

Fiscal year:	Millions
1981	$1
1982	6
1983	6
1984	7

2. Provider status for freestanding outpatient rehabilitation facilities—permitting reimbursement to the facilities on a reasonable cost basis effective July 1, 1981;

Cost:

Fiscal year:	Millions
1981	$5
1982	13
1983	15
1984	17

3. Provider status for freestanding alcohol detoxification facilities, effective April 1, 1981;

Cost:

Fiscal year:	Millions
1981	$20
1982	70
1983	90
1984	110

4. Inclusion of need for occupational therapy as a qualifying criterion for home health benefits—formerly the requirement was that a beneficiary must need skilled nursing care, speech therapy or physical therapy to qualify for home health benefits and was only thereafter eligible for coverage of occupational therapy, effective July 1, 1981;

Cost:

Fiscal year:	Millions
1981	$4
1982	35
1983	41
1984	46

5. Increasing from $100 to $500 the annual limit on part B reimbursable outpatient physical therapy expenses, effective January 1, 1982;

Cost:

Fiscal year:	Millions
1981	0
1982	$2
1983	4
1984	4

6. Coverage of nonroutine dental services furnished by a dentist where medicare presently covers such services if furnished by a physician; coverage of hospital care required by severity of a dental procedure, effective July 1, 1981;

Cost:

Fiscal year:	Millions
1981	$2
1982	17
1983	19
1984	22

7. Repeals a provision that permits beneficiaries to reenroll in medicare part B only once, and also permits continuous open enrollment for individuals who failed to enroll at their first opportunity. In the past, enrollment in medicare part B was only permitted upon initial eligibility or during January through March of succeeding years.

Also provides a one year period beginning January 1, 1981, during which any State which has not already done so could enter into an agreement to buy-in to medicare part B coverage for its eligible medicaid recipients.

Cost:

Fiscal year:	Millions
1981	$2
1982	16
1983	18
1984	20

8. As part of P.L. 96-611 Congress also enacted coverage of pneumococcal vaccine, a vaccine designed to prevent pneumonia, effective July 1, 1981.

Cost:

Fiscal year:	Millions
1981	$15
1982	55
1983	45
1984	45

Proposed change: Repeal all provisions described above.

Estimated savings.—

Fiscal year:	Millions
1981	$49
1982	214
1983	238
1984	271

4. REPEAL OF THE TEMPORARY DELAY IN THE PERIODIC INTERIM PAYMENT (PIP)

Source.—President.

Present law.—Medicare currently offers hospitals two payment mechanisms. First, there is a procedure under which payments are made to the hospital on the basis of bills which state what covered services have been furnished during the billing period. On the aver-

age, there is a 6 week lag between the rendition of a service and the receipt by the hospital of the payment. Under the alternative procedure, hospitals may choose to be paid on a regular basis, not directly related to receipt of bills. On average, this method of payment produces only a three week lag.

Last year the Congress agreed to a provision which would have deferred the PIP payment on a one-time basis, resulting in a 6-week lag. This lag was expected to take place at the end of one fiscal year and the beginning of another, which would have resulted in a savings in one year, and an increase in spending in the next year. Under this provision, hospitals involved would eventually receive their reimbursement. It was assumed, however, that certain hospitals might have to borrow money to cover their cash flow during this period of payment delay, resulting in interest costs which medicare would partially pay.

Summary of proposal.—Under the proposal, the PIP change for fiscal year 1981 would be repealed. This would have the effect of reducing fiscal year 1982 medicare outlays and increasing fiscal year 1981 outlays.

Estimated savings.—

Fiscal year:	Millions
1981	+$515
1982	−522
1983	0
1984	0

5. AUTHORIZE MEDICARE CONTRACTORS TO PROCESS RAILROAD RETIREMENT BOARD CLAIMS

Source: President.

Present law.—Under present law the Railroad Retirement Board is authorized to contract with a carrier or carriers to process Medicare Part B claims for the 890,000 qualified railroad retirement beneficiaries. Currently, one carrier is being authorized for this purpose. In processing these claims, the Railroad Retirement Board carrier follows the same HCFA-issued instructions as do other medicare carriers.

Summary of proposal.—Delete separate contracting requirement and authorize HCFA Medicare contractors to process these claims.

Estimated savings.—

Fiscal year:	Millions
1981	0
1982	$2
1983	2
1984	2

6. TO PROVIDE AUTHORITY FOR THE SECRETARY TO IMPOSE CIVIL MONEY PENALTIES IN CASES OF MEDICARE AND MEDICAID FRAUD

Source.—President. (Also 1979 Ways and Means Committee Proposal.)

Present law.—The U.S. Attorneys may refuse to accept medicare and medicaid fraud cases for any number of reasons; e.g., the U.S. Attorney has a backlog of cases; or he may lack sufficient exper-

tise in medicare-medicaid law to prosecute and may feel the investment of time and effort to acquire the expertise is not warranted; or the number of counts or amount of money involved may not be sufficient in his judgment to warrant criminal court proceedings. None of these examples imply the nonexistence of fraud or lack of culpability on the part of the alleged offender; they only indicate the U.S. Attorney's unwillingness to accept many cases because they appear to be unsuitable for prosecution.

Under present law, when a decision is made not to accept a case for prosecution the only recourse for the Government is to attempt recovery of the overpayment involved. But even if such recovery is successful, the offender has had penalty-free use of Federal funds for a period of time.

Currently, eleven executive departments and sixteen independent agencies have the power to impose civil penalties, either through administrative imposition or court imposition (assessment by a court upon application of the agency or U.S. attorney). Under the civil money penalty provisions for nine of these agencies, assessment authority lies with the agency itself.

Summary of proposal.—Authorize the Secretary of the Department of Health and Human Services to assess a civil monetary penalty against any person who he determines, after notice and opportunity for a hearing, has filed a fraudulent claim under the medicare or medicaid program. Specifically, this proposal would give the Secretary new authority to

—impose a civil money penalty of up to $2000 per claim for fraudulent claims for reimbursement under medicare and medicaid programs.

—impose an assessment of up to twice the amount of the fraudulent portion of the claim in lieu of damages.

—deny participation in medicare and medicaid by persons filing fraudulent claims.

Persons subject to a penalty would be given written notice and an opportunity for a hearing on the record prior to imposition of the penalty.

[In millions of dollars; fiscal years]

	1981	1982	1983	1984
Estimated savings:				
Medicare	0	9.3	9.3	9.3
Medicaid [1]				

[1] Savings would not reduce Federal outlays below the level set by the medicaid cap, but would provide some flexibility to States.

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7. ELIMINATION OF PROFESSIONAL STANDARDS REVIEW ORGANIZATIONS (PSRO'S)

Source.—President.

Present law.—The PSRO statute (title XI of the Social Security Act) requires the Secretary to establish and support a nationwide network of voluntary, nonprofit groups of local physicians (PSRO's) to review the quality, appropriateness, and utilization of health care services financed by the medicare, medicaid, and maternal and child health programs. The purpose of the Professional Standards Review Organizations (PSRO) program is to assure that health care services, for which payment may be made under title V, XVIII, and XIX of the Social Security Act, conform to appropriate professional standards and are delivered in the most effective, efficient, and economical manner possible.

Summary of proposal.—Phase out PSRO's by the end of fiscal year 1983.

Estimated savings.—

Fiscal year:	Millions
1981	$25
1982	71

8. ELIMINATION OF THE UTILIZATION REVIEW REQUIREMENT

Source.—President.

Present law.—Hospitals and skilled nursing facilities that are not subject to PSRO review are required to have utilization review committees. Utilization review committees must review medical necessity of admissions, continued stays, and professional services.

Summary of proposal.—Repeal all utilization review committee requirements.

Estimated savings.

Fiscal year:	Millions
1981	$9
1982	66
1983	70
1984	103

9. LESS FREQUENT SURVEYS OF SKILLED NURSING FACILITIES

Source.—President.

Present law.—Under present law the duration of a skilled nursing facility agreement with Medicare cannot exceed 12 months as a general rule.

Summary of proposal.— Permit the Secretary to enter into SNF agreements, for more than 12 months where the SNF has a good record of compliance.

Estimated savings.—

Fiscal year:	Millions
1981	0
1982	$1.0
1983	3.8
1984	3.8

10. COMPETITIVE CONTRACTS WITH MEDICARE INTERMEDIARIES AND CARRIERS

Source.—President.

Present law.—Under part A of the medicare program providers can nominate specific organizations (intermediaries) to process their Medicare claims. The Secretary is permitted to override the provider's nomination if to do so would result in more effective and efficient administration. Before overriding a provider's nomination the Secretary must apply specific performance criteria and standards. The Secretary can select part B contractors (carriers) without regard to any provision of the law requiring competitive bidding. Reimbursement to intermediaries and carriers is made on the basis of reasonable cost.

Summary of proposal.—The Secretary of HHS would be authorized to enter into contracts with intermediaries and carriers. Providers of services would no longer have the right to nominate specific organizations to process Medicare claims, reimbursement to contractors on the basis of costs would no longer be required, contracts could be entered into with any public or private entity, and, after an initial five year phase-in period, all contracts would be subject to the same competition requirements as other Federal contracts.

Estimated savings.—

Fiscal year:	Millions
1981	0
1982	$24
1983	48
1984	78

Medicaid

1. CAP FEDERAL MEDICAID EXPENDITURES

Source.—President.

Present law.—Each State designs its own medicaid program within certain Federal guidelines and requirements. Thus there is substantial variation among the States in eligibility requirements, range of services offered, limitations imposed on such services, and reimbursement policies. The Federal Government helps States by sharing in the cost of medicaid services by means of a variable matching formula that is periodically adjusted. The matching rate, which is inversely related to a State's per capita income, ranges from 50 to 83 percent. The Federal share of administrative costs is 50 percent except for certain items where the authorized rate is higher.

Under current law, the Federal Government matches whatever States expend under their medicaid program.

Summary of proposal.—The administration proposes to place an interim limit ("cap") on the amount of Federal financial participation in the program. This limit would be structured to reduce Federal expenditures $100 million below the current base estimated for fiscal year 1981. For fiscal year 1982, Federal expenditures would be allowed to increase 5 percent. In subsequent years, Federal spending would

be allowed to rise at the rate of inflation as measured by the GNP deflator (which measures relative inflation in the economy). During the period the interim proposal is in effect, Federal expenditures would be allocated among the States so that each State would maintain its current relative share of total medicaid spending.

To enable States to adjust to the reduced funding level, the administration's proposal would provide States with greater flexibility in designing and quickly amending the eligibility, benefit, and payment provisions of their medicaid plans. A State would not be prevented from providing whatever additional services it deemed appropriate out of its own resources.

The administration has stated that the "cap" is an interim step prior to the adoption of comprehensive health financing and medicaid reforms to reduce the rate of health cost inflation.

Estimated savings.—

Fiscal year:	Millions
1981	$100
1982	927
1983	1,378
1984	1,854

2. ALLOW ACCELERATED COLLECTION OF UNAPPROVED STATE MEDICAID EXPENDITURES

Source.—President.

Present law.—Under the 1980 Omnibus Reconciliation Act, States may retain Federal matching payments for all disallowed medicaid expenditures until the conclusion of the administrative appeals process. Where the Secretary's determination is upheld, the State must return the Federal payments with interest.

Disallowances during fiscal year 1981 are limited to interest penalties for 12 months.

Disallowances after fiscal year 1981 are limited to interest payments for 6 months.

Summary of proposal.—The Federal Government would retain the disallowed medicaid matching funds throughout the appeals process in all cases, including amounts in controversy for past periods.

If the appeal is successful, the funds (plus interest) will be returned to the States.

Estimated savings.—

Fiscal year:	Millions
1981	$122
1982	*
1983	*
1984	*

*Cost impact for fiscal year 1982 and beyond will be subsumed under proposed medicaid cap.

Title V of the Social Security Act

1. REPEAL OF TITLE V, THE SOCIAL SECURITY ACT PROGRAM FOR MATERNAL AND CHILD HEALTH AND CRIPPLED CHILDREN SERVICES AND INCLUDE PROGRAM IN A HEALTH SERVICES BLOCK GRANT

Source.—President.

Present law.—The Maternal and Child Health (MCH) program was authorized by the Congress in 1935 under title V of the Social Security Act. The purpose of the program is to enable each State to extend and improve services to reduce infant mortality and promote the health of mothers and infants, especially in rural areas and in areas suffering from severe economic distress. The program also provides for training and research activities to advance MCH services and provide support for crippled children's services.

Title V agencies provide two general types of services. The first group of services, known as Maternal-Child Health Services (MCH), includes both general health services and specialized services.

There are currently no minimum Federal standards governing the services which Title V prenatal and well-child clinics must offer, resulting in wide variations from State to State.

The second major Title V activity is the Crippled Children's Services (CCS) program.

Funds are appropriated annually for title V. The amount appropriated for fiscal year 1981 is $387.4 million. The statute requires that 90 percent of the appropriation be available for allotments to States for maternal and child health and crippled children's services, and 10 percent for training and research projects. In addition, the Secretary has discretionary authority to reallocate up to 5 percent of such funds between these activities.

Summary of proposal.—Repeal the separate authority for the Title V Maternal and Child Health and Crippled Children's Services program, as well as authorities for 25 other categorical health programs. A health service block grant program would consolidate funding the 15 health programs, including title V, and a preventive health service block grant program would consolidate funding for another 10 programs. Each State would then receive 75 percent of the funds that currently flow to the State, or entities located within that State, for those programs.

Estimated savings.—

Fiscal year 1982 .... $96

Social Security (OASDI)

1. ELIMINATE STUDENT BENEFITS FOR POSTSECONDARY STUDENTS

Source.—President.

Present law.—Monthly cash benefits are paid to the children of an insured worker when the worker retires, becomes disabled, or dies. The amount of the child's benefit is generally equal to 50 percent of the benefit paid to the retired or disabled worker and 75 percent of the worker's benefit in the case of a surviving child. (Benefits are somewhat less for children in large families due to the maximum family benefit limit.) Nondisabled child beneficiaries generally continue to receive benefits until they marry or reach age 18. Because of a provision added in 1965, child's benefits may continue even after age 18 and up until age 22 as long as the beneficiary can establish that he is attending high school, college, or vocational school on a full-time basis. Benefits can continue for several months beyond age 22 (until the end of the school term) if the student has not yet completed his 4-year college degree. This continuation of child's benefits beyond age 18 based on full-time school attendance is what is commonly referred to as the social security "student benefit." About 886,000 students received benefits in 1980. About 80 percent of those students were attending postsecondary schools.

The student beneficiary is not required to show that he is pursuing a degree or that his academic performance has been satisfactory in order to remain eligible for benefits. His benefits may continue during the summer months or during any other period of nonattendance of 4 months or less if he states in advance his intention to return to school immediately after this period or if in fact he does return to school. If he says that he plans to return to school but does not actually do so, the benefits paid to him during his months of nonattendance are defined as overpayments and subject to recoupment.

Proposed change.—Eliminate student's benefits for postsecondary students who reach age 18 in August 1981 or later, and for children who have already attained age 18 but are not now enrolled in postsecondary education. In addition, reduce benefits for current postsecondary students by 25 percent each year beginning in August 1981. No further cost-of-living increases would be provided to current postsecondary students after July 1981.

High school students would continue to receive child's benefits as under current law except that effective August 1982 no high school student could receive child's benefits after his 19th birthday. The Administration's proposal makes no change in benefits for disabled children, who may receive child's benefits beyond age 18 without respect to school attendance.

The Administration argues that social security student benefits duplicate other federally funded education assistance programs for col-

lege students and add to the financial difficulties of the trust funds. (Federally funded educational assistance will amount to $7 billion in fiscal year 1981, having been less than $300 million in 1965.)

[In millions of dollars; fiscal years]

	1981	1982	1983	1984
Estimated savings:				
Gross savings	35	988	1,640	2,050
Pell grant increase	0	30	50	75
Net savings	35	958	1,590	1,975

Note: These estimates do not take into account administrative costs.

2. ELIMINATE MINIMUM BENEFIT (EFFECTIVE AUGUST 1981)

Source.—President.

Present law.—Social security beneficiaries whose average lifetime earnings in covered employment are low receive a "minimum benefit" which is higher than the benefit they would otherwise receive under the benefit computation formula. (Low average earnings can result from work at low wages or from a few years attachment to the program.) The 1977 amendments "froze" the minimum benefit (or primary insurance amount) at $122 per month for persons who reached age 62, became disabled, or became eligible for survivor benefits after 1978. Under the pre-1977 law, the minimum benefit, like all other benefit amounts in the table of benefits, would rise with each general benefit increase: $122 per month was roughly the minimum PIA in effect in 1978 for workers retiring at age 65 or newly disabled workers. The new "frozen" minimum as it applies to initial benefit computations does not increase, although a beneficiary who receives the frozen minimum will receive cost-of-living adjustments each year after he comes on the benefit rolls at the $122 level.

Not all minimum beneficiaries actually receive $122 per month. Beneficiaries who turned 62, became disabled, or became newly eligible for survivor benefits in 1978 or earlier receive whatever minimum benefit was in effect at the time they were first eligible to come on the rolls, plus any cost-of-living adjustments. For instance, a 65-year-old worker who retired in January 1981 would receive a minimum benefit of $153 per month. In addition, under the "transitional guarantee" rules of the 1977 amendments, workers retiring during a 5-year transition peiod ending in 1983 may receive a minimum benefit larger than $122. Finally, individuals whose benefits are not simply 100 percent of the PIA may get more or less than $122—i.e., early retirees with actuarially reduced benefits, late retirees with delayed retirement credit, dependent spouses, children, and certain other dependents.

Congressional intent in the 1977 amendments was to gradually phase out the minimum benefit. As average earnings levels in the economy tend to rise over time, fewer and fewer people would have "average earnings" at such low levels that they would qualify only for the minimum, since the minimum would no longer be increasing. An indi-

vidual with indexed annual earnings of $1,700 will currently qualify for more than the minimum benefit. About 3 million persons now receive the minimum benefit.

The term "special minimum benefit" refers to a different provision altogether, which permits workers who have worked many years at very low wages to have their benefits computed using a formula which emphasizes length of service. A worker will always receive the higher of the three possible benefit amounts—the minimum, the special minimum, or the product of the regular benefit formula. No change is proposed for the "special minimum benefit."

Proposed Change.—Eliminate the minimum benefit for both current and newly-entitled beneficiaries. As of August 1981, no new beneficiaries would receive the minimum benefit and all beneficiaries who had been receiving benefits based on the minimum primary insurance amount would have their benefits recalculated. Benefit amounts for those persons who would have received the minimum under prior law would be derived from new tables of benefits to be developed using a methodology to be determined by the Secretary of Health and Human Services. The new tables of benefits would extend the present table backward so that workers with low average lifetime earnings would receive the amount which would actually result from the operation of the regular benefit formula which underlies the benefit table.

The Administration supports the proposal on the grounds that the minimum benefit is not fulfilling the purpose originally intended by Congress. They argue that many of the people who receive it are not the low wage earners for whom it was intended, but in fact are people who have substantial pensions from their Government work (SSA estimates approximately 360,000) or have working spouses (approximately 40,000).

The Administration also argues that the needy elderly and disabled persons who qualify for the minimum benefit under present law could receive SSI benefits if the minimum social security benefit were eliminated. Of the approximately 3 million persons now receiving the minimum about 500,000 also receive some SSI benefits. If the minimum benefit were eliminated, SSI benefits to those 500,000 persons would be increased dollar for dollar. SSA estimates that another 580,000 minimum beneficiaries are, or would be, eligible to receive SSI so they need not experience a net reduction in income.

Approximately 1.2 million of the 3 million current minimum beneficiaries who would have their benefits recalculated, would receive no net reduction in social security benefits. The recalculation of their benefits would result in the same benefit amount or there would be offsetting increases in other social security benefits.

[In millions of dollars; fiscal years]

	1981	1982	1983	1984
Estimated savings:				
Gross savings	60	1,300	1,400	1,500
SSI increase	10	300	300	400
Net savings	50	1,000	1,100	1,100

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3. RESTRICT PAYMENT OF LUMP-SUM DEATH BENEFITS (EFFECTIVE AUGUST 1, 1981)

Source.—President.

Present law.—A lump sum death payment (LSDP) of $255 is payable when a worker who is fully or currently insured dies. The LSDP was originally designed to return the investment of a worker who died before receiving benefits at least equal to the taxes paid. It was later restructured to become purely a death benefit. Although it has been computed since 1950 as three times the worker's primary insurance amount, a statutory maximum of $255 was enacted in 1954. Since 1974, all lump-sum death payments have been $255.

If there is a surviving spouse living with the worker at the time of death, the LSDP is automatically paid to that person. If there is no widow or widower eligible to receive the LSDP, the money can be paid to the person who assumed responsibility for funeral expenses. The responsible person can request that the payment be made directly to the funeral home. Also, if no one files a claim for the LSDP within 30 days after the death, the funeral home itself may apply to receive the LSDP directly.

The lump-sum death benefit is payable without respect to other benefits that may or may not be payable based on the worker's earnings record. In fiscal year 1978 about 1.3 million lump-sum death payments were made, costing about $332 million. About 46 percent of LSDPs are made on behalf of unmarried deceased workers who have no survivors eligible to receive monthly cash benefits.

Proposed change.—Eliminate the LSDP effective August 1981 in cases where there is no eligible spouse or entitled child. In other words, where the "estate" or funeral home is the only recipient of the benefit, it would no longer be paid. Under the proposal, a surviving spouse who is eligible to receive monthly cash survivor benefits upon the worker's death would automatically receive the LSDP as under current law. If there were no surviving spouse who had been living with the worker, the LSDP would be payable to any young child of the deceased worker who was eligible to receive monthly cash benefits as a surviving child. If there were no surviving spouse and the worker's children were all over 18 (or over 21 if full-time students), then no one would be eligible to receive the LSDP.

Estimated savings.—

Fiscal year:	Millions
1981	$35
1982	200
1983	210
1984	215

4. TIGHTEN RECENCY OF WORK TEST FOR DISABILITY BENEFITS (EFFECTIVE JULY 1, 1981)

Source.—President.

Present law.—In order to be eligible for disability insurance benefits, a worker must not only be determined to be disabled, but must meet certain insured status requirements. To be insured for disability benefits, a worker must be "fully insured" (generally, one quarter

of coverage for each year since 1950 or for each year since the worker reached age 21) and "insured for disability" (worked during 20 of the last 40 quarters or, if under age 31, half the quarters elapsed since age 21 but at least 6 quarters). In effect, this means that a worker generally retains insured status for disability benefits for up to 5 years after leaving covered employment.

Proposed change.—The Administration proposes that in addition to the insured status requirements already part of present law, a disabled worker coming on the rolls after June 1981 must also have worked in covered employment during 6 of the 13 quarters immediately preceding the onset of disability. This recency of work test was part of the original DI law enacted in 1956, but was repealed in 1958.

The proposal is seen as a means of strengthening the link between loss of earnings due to a disabling condition and replacement of those earnings through monthly cash benefits. In other words, if the worker has not actually been working in covered employment for several years, he was not depending on those earnings for basic income support at the time he became disabled and it would be difficult to argue that those earnings should be partially replaced by monthly DI benefits for himself and his family. It is estimated that this strengthening of the work history requirement could affect approximately 55,000 individuals in the first fiscal year.

Estimated savings.—

Fiscal year:	
1981	
1982	$124
1983	350
1984	582

5. REDUCE DISABILITY INSURANCE BENEFITS ON ACCOUNT OF OTHER RELATED PAYMENTS; EXTEND OFFSET TO DISABLED WORKER BENEFICIARIES 62 TO 64; CHANGE MONTH IN WHICH PAYMENTS ARE OFFSET (EFFECTIVE JULY 1, 1981)

Source.—President.

Present law.—Disability insurance (DI) benefits are payable to workers who become disabled after having worked in employment covered by social security for a certain period of time. The amount of the benefit is based on the worker's earnings record while in covered employment. Additional benefits are payable to dependents of the disabled worker, in amounts that are also based on the worker's earnings record.

A reduction may be made in the worker's DI benefit (and in the family benefit) for any month in which the worker also receives workers' compensation. This "offset," or reduction in social security benefits on account of workers' compensation, applies only in two circumstances—if the worker is under 62 and if the total benefits payable to the worker and his dependents from DI and workers' compensation exceed [illegible]0 percent of his "average current earnings" prior to the onset of disability. "Average current earnings" generally means the highest annual amount of covered and non-covered wages earned during the six years prior to and including the year the worker becomes disabled. (The reduction is not made if the workers' compensation law provides for an offset against social security benefits.)

The amount of the reduction in social security benefits is equal to the amount by which total social security benefits plus workers' compensation exceeds the higher of two limits: 80 percent of average current earnings, or the family's total DI benefits. The combined payments after the reduction are never less than the amount of the DI benefits payable to the family before the reduction. The reduction begins in the month after the Social Security Administration is notified that a worker is entitled to worker's compensation payments under a Federal or State law.

Proposed change.—The Administration proposes making three related changes in the social security DI offset. They only affect workers becoming disabled after December 1980 and would then only affect benefits beginning in July of 1981. The first proposal expands the number of benefits included in the offset; the second lengthens the period of time the offset is applied; and the third makes the offset take effect more promptly than under current law:

(a) Expand the worker's compensation offset provision to include other disability benefits provided by Federal, State, and local governments, except that needs-based benefits, Veterans Administration disability benefits, private insurance benefits, and benefits based on public employment covered by social security would not be taken into account. The amount of the reduction would be calculated as under the present law worker's compensation offset. The Administration believes that duplicative disability payments over-compensate some disabled workers, discouraging them from attempting to return to work and creating unnecessary government expenditures.

(b) Extend the offset to include benefits paid to disabled workers aged 62 through 64 and their families. The Administration believes this change is needed to end the advantageous treatment now received by disabled beneficiaries aged 62 through 64 as compared with those under 62.

(c) Require that the offset be made sooner—not in the month after the SSA is notified of the other disability payment, but retroactively to the month when the non-social security disability payments are actually made. This would correct the duplicative payment situation more promptly, resulting in trust fund savings and reduced incentives for employees to delay reporting the receipt of other benefits.

These proposals would not affect workers who became disabled before December 1980.

Estimated savings.—

[In millions of dollars, fiscal years]

	1981	1982	1983	1984
(a) Reduce DI benefits on account of other related payments	5	50	75	100
(b) Extend workers' compensation offset through age 64		6	13	19
(c) Begin reduction in 1st month of dual payment		31	34	37

6. DISCONTINUE TRUST FUND FINANCING OF VOCATIONAL REHABILITATION SERVICES (EFFECTIVE OCTOBER 1, 1981)

Source.—President.

Present law.—In 1965, Congress provided that a limited amount of trust fund money could be used to pay States for vocational rehabilitation services (VR) provided to beneficiaries on the premise that there would be net savings to the trust fund due to people going back to work and leaving the rolls. Present law limits the amount of trust fund moneys to be spent for such purposes to not more than 1.5 percent of the total cost of benefits for disabled beneficiaries in the preceding year. In fiscal year 1980, 96,000 beneficiaries received rehabilitation services, at a total cost of $113 million to the DI trust fund. Since that time, the level of funding for these services has been substantially reduced by administrative action.

Periodically, questions have been raised as to the effectiveness of the VR program, the extent of savings realized, and the appropriateness of a services function within a cash benefits system.

Proposed change.—The Administration proposes to repeal Section 222(d) of the Social Security Act, effective October 1, 1981, eliminating trust fund financing of VR for disabled beneficiaries.

According to the Administration, VR would continue to receive Federal funds insofar as States chose to spend social service block grant funds for that purpose.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$87
1983	87
1984	87
1985	87
1986	87

7. ROUND BENEFIT AMOUNTS TO NEAREST MULTIPLE OF 10 CENTS

Source.—President.

Present law.—At each stage in the benefit computation, the amount derived is rounded up to the next higher 10 cents.

Proposed change.—Effective the month following enactment of the proposed provision, primary insurance amounts and monthly benefit amounts would be rounded to the nearest multiple of 10 cents at each stage in the benefit computation, including the computation of the cost-of-living adjustment. This change would result in significant program savings without causing any individual beneficiary to experience more than a slight reduction in benefits.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$8
1983	38
1984	62
1985	80

Comment.—This proposal also appeared in the 1982 Carter budget.

8. PENSION REFORM ACT—COST REIMBURSEMENT

Source.—President.

Present law.—Provisions of the Pension Reform Act of 1974 require administrators of most employee pension plans to furnish plan participants with information concerning their accrued and vested benefit rights. In addition, employers are required to maintain records, in accordance with Department of Labor regulations, sufficient to determine the benefits which are, or may become, due to each employee. While some pension plans do not have the necessary earnings information, the Social Security Administration does maintain this information and has already received requests from plans for complete earnings histories of plan members. SSA estimates that there will be requests for about 300,000 earnings histories during the next five years at an estimated cost of $15 million.

Under the provisions of the Freedom of Information Act and the Privacy Act, the cost of retrieving and transmitting this information is not fully borne by the requestor. Part is financed out of the social security trust funds. The SSA estimates that these requests will result in a net cost to the trust funds of $8.3 million over the next 5 years, with no more than $6.7 million recovered through fees charged to requestors.

Proposed change.—Permit SSA to recover the full cost of retrieving and transmitting information for purposes of enabling pension plans to comply with the Pension Reform Act. The Administration would require full payment from requestors to the social security trust funds for expenses incurred in providing earnings information. This provision would make clear that reimbursement of these costs is not governed by the Freedom of Information Act or by the Privacy Act. No effect on individual beneficiaries would result.

Estimated savings.—$8.3 million over the first five years after enactment.

Unemployment Compensation

1. REPEAL NATIONAL EXTENDED BENEFITS TRIGGER (EFFECTIVE JULY 1, 1981)

Source.—President.

Present law.—Under present law States generally pay unemployment benefits for a maximum of 26 weeks. In times of high unemployment, however, the Federal-State extended unemployment compensation program becomes effective. Under the extended benefits program an additional 13 weeks of benefits are payable. Half the cost of these extended benefits is borne by the Federal unemployment tax and half is borne by State unemployment taxes. The extended benefits program goes into effect on a State-by-State basis if the State insured unemployment rate (IUR) in one week and the preceding 12 weeks reaches a level of 4 percent and is also 20 percent higher than the rate during the comparable period of the 2 previous years. (The IUR is the number of insured unemployed divided by covered employment times 100. It is usually 3 to 4 percentage points below the total unemployment rate because most new entrants and reentrants to the labor force who are counted in total unemployment do not have enough recent employment and earnings to be UI-insured.)

At State option, the program can also become effective whenever the State insured unemployment rate is 5 percent or higher regardless of how it compares with the rate in the 2 prior years. In addition to these "State triggers," the program becomes effective in all States whenever the national insured unemployment rate reaches a level of 4.5 percent. (For both State and national triggers, the rate is measured over a moving period of 13 consecutive weeks.)

Proposed change.—Repeal the national EB trigger effective July 1, 1981. This would eliminate EB from States with low unemployment rates during periods of high national unemployment. The Administration cited an example of Michigan compared to Texas to illustrate the rationale for this change. As of December 20, 1980, when the national trigger was on, the State trigger indicators for Michigan and Texas were 8.0 percent (and 167 percent) versus 1.8 percent (and 150 percent), respectively. If the national trigger had been repealed, Michigan claimants would have been able to receive EB, but Texas claimants would not. Although the IUR in Texas had increased in response to the recession almost as much as in Michigan (150 percent compared to 167 percent), its State trigger was not on because its IUR was a very low 1.8 percent.

Estimated costs.—

Fiscal year:	Millions
1981	$297
1982	657
1983	
1984	

Comment.—The elimination of the national trigger was reported by the Finance Committee and passed by the Senate in the 96th Congress. It was not agreed to by the House.

2. EXCLUDE EXTENDED BENEFITS CLAIMANTS FROM STATE TRIGGER INSURED UNEMPLOYMENT RATE (EFFECTIVE JULY 1, 1981)

Source.—President.

Present law.—The Department of Labor presently includes extended benefits (EB) claimants in the insured unemployed population used to calculate the trigger unemployment rates for the EB program. This means that 2 States with essentially identical levels of unemployment will have different insured unemployment rates if the EB program is in effect in one State and not in effect in the other. In 1980 the Secretary of Labor promulgated a regulation that excluded EB recipients from this calculation, but the U.S. District Court overruled the regulation, stating that: ". . . and individual who files a claim for benefits under the extended benefits program is no less an individual filing a claim for unemployment than one who files a claim under the 'regular' scheme. Reinterpretation of the phrase in the question ('individuals filing claims for unemployment') is therefore a departure from the plain language of the (Social Security) Act. If the act is to be amended, Congress, not the Secretary must do the amending."

Proposed change.—Exclude EB recipients by law from the insured unemployed population used to calculate the State trigger insured unemployment rate (IUR) effective July 1, 1981. This would have the effect of lowering the trigger IUR when EB has triggered on in a State, which would lead to EB triggering off sooner than otherwise. This would avoid prolonging the availability of extended benefits during the early stages of an economic recovery when more jobs become available and there is less need for it.

Estimated savings.—

Fiscal year:	Millions
1981	$208
1982	561
1983	380
1984	120

Comment.—In the 96th Congress, this proposal was approved by the Finance Committee in reporting H.R. 4007. This bill was not however, acted on by the Senate. The 1982 Carter budget recommended the adoption of this change.

3. RAISE MANDATORY STATE TRIGGER TO 5 PERCENT AND THE OPTIONAL TRIGGER TO 6 PERCENT (EFFECTICE OCTOBER 1, 1982)

Source.—President.

Present law.—Under present law, when the extended benefit program is not in effect nationally, it may go into effect in individual States on the basis of the State insured unemployment rate. There are two State triggers—a mandatory trigger and an optional trigger.

Under the mandatory trigger, States must pay extended benefits when two conditions are met: (1) the State insured unemployment rate is at least 4 percent; and (2) the State insured unemployment rate is at least 20 percent higher than the rate prevailing on average during the comparable period in the 2 previous years. If the 20-percent

higher condition is not met, States may, but need not, pay extended benefits if the State insured unemployment rate is at least 5 percent. (The insured unemployment rate is determined by taking the number of individuals drawing unemployment benefits as a percentage of the number of persons employed in covered jobs. The rate is measured over a moving 13-week period. The cost of the EB program is shared by the Federal Government with the States at a 50 percent rate.)

Proposed change.—Raise the mandatory State trigger (IUR) to 5 percent and the optional State trigger (IUR) to 6 percent effective in fiscal year 1983. Retain the "20 percent higher" provision for the mandatory trigger.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	......
1983	$92
1984	72

Comment.—A related proposal was recommended by the Finance Committee in the 96th Congress and was passed by the Senate. This proposal was not, however, accepted by the House. Under last year's Committee proposal, the mandatory trigger rate would not have been changed and States would have retained the present-law option of initiating the extended benefits program at a 5 percent insured unemployment rate. Last year's proposal would, however, have permitted States which did not meet the mandatory trigger provisions to activate the optional trigger either at the 5 percent insured unemployment rate or at any level in excess of 5 percent. (Under present law, if a State chooses the optional trigger, it must opt in whenever the 5 percent level is reached.)

4. REQUIRE EXTENDED BENEFITS CLAIMANTS TO HAVE WORKED AT LEAST 20 WEEKS IN THE 1-YEAR BASE PERIOD (EFFECTIVE OCTOBER 1, 1982)

Source.—President.

Present law.—To be eligible for unemployment compensation benefits, all States require an individual to have worked for a certain length of time or to have earned a specified amount of wages in the base period. These requirements are designed to test the individual's attachment to the labor force prior to loss of employment, and are intended to assure that only workers with reasonably firm attachment to the labor force qualify for benefits.

The most common type of base-period earnings requirement is expressed as a multiple of the weekly benefit amount, that is, the claimant's benefit amount multiplied by a fixed figure. Some of these States also require earnings in at least two quarters to prevent an individual who earns high wages working for only one quarter from qualifying for benefits.

Another requirement used by States is expressed as a multiple of high-quarter wages. The most common multiple is 1½ times, which requires the claimant to have at least 33⅓% of his wages outside the

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high quarter. Certain States call for a specified number of weeks of employment in the prior year's period. The range is from 14 weeks to 20 weeks. Weeks of employment are defined as weeks in which the claimant's wages exceeded a specified amount, such as $35. Nearly one-fourth of the States require an individual to have worked a certain number of weeks with at least a specified weekly wage. Still other States require a specified, flat amount of earnings in the base period, such as $1,000.

There are also some States which have qualifying work requirements which provide for varying periods of eligibility in relation to the amount of each individuals based period employment.

Proposed change.—Require extended benefits (EB) claimants to have worked at least 20 weeks (or its equivalent in wages or hours) in the one-year base period to qualify for benefits effective in fiscal year 1983. This would exclude some marginal workers from the EB program after they have exhausted their regular State program benefits. States that do not currently have a weeks of employment qualifying requirement could obtain weeks of employment information or calculate its rough equivalent in dollars or hours of work in order to administer this provision.

Estimated costs.—

Fiscal year:	Millions
1981	....
1982	....
1983	$11
1984	10

Comment.—An essentially identical proposal was approved by the Finance Committee in the 96th Congress. This proposal was passed by the Senate but not accepted by the House.

5. REDEFINE SUITABLE EMPLOYMENT AFTER 13 WEEKS OF REGULAR STATE BENEFITS (EFFECTIVE OCTOBER 1, 1982)

Source.—President.

Present law.—Refusal to work results in a disqualification for unemployment compensation benefits in all States. Disqualification is generally contingent upon the refusal being "without good cause" and upon the work being "suitable." Differences exist among the States in the criteria applied for determining good cause and suitability of work. Generally, the disqualification may be imposed for failure of a claimant to apply for work as well as for a refusal of offered work.

Provisions in State laws provide for judging the suitability of a work offer relative to its effect on a claimant's health, safety, and morals; the claimant's physical fitness and prior training, experience, and earnings; the length of the claimant's unemployment and prospects for securing local work in a customary occupation; and the distance of the available work from the claimant's residence.

By Federal law, approved State plans are prohibited from disqualifying a claimant who refuses an offer of employment under any of the following conditions: (a) if the position offered is vacant due directly to a strike, lockout, or other labor dispute; (b) if the wages,

hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work in the locality; (c) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization.

Prior to this year, the work requirements established by each approved State program governed eligibility both for regular State benefits (which are financed by the State-imposed payroll taxes) and for extended benefits (which are financed half from State taxes and half from the Federal Unemployment Tax). In last year's reconciliation bill, the Finance Committee recommended the application of a stronger Federal suitable work test for purposes of extended benefit eligibilty. This committee recommendation was enacted into law and became effective on April 1, 1981.

Proposed change.—Beginning fiscal year 1983, apply the stronger definition of "suitable employment" that applies to extended benefit claimants to regular benefit claimants after 13 weeks of benefits. Suitable employment would be defined under this new provision as work: (a) which is within the person's capabilities; (b) which pays a wage rate not less than the Federal, State or local minimum wage (whichever is higher); (c) which pays a wage rate in excess of the person's most recent weekly unemployment compensation benefit plus, if applicable, the amount of supplemental unemployment compensation benefits; and (d) which is consistent with the State definition of suitable work with regard to provisions not specifically addressed in this amendment. Claimants, other than those whose prospects of returning to their line of work are good, would be disqualified for regular State benefits if they failed or refused to accept offers of suitable work, as redefined, or to seek and apply for such work. Changes in current practice would not be required for claimants in their first 13 weeks of benefits.

Estimated savings.—

Fiscal year:	Millions
1981	----------
1982	----------
1983	$285
1984	285

6. ELIMINATE BENEFITS FOR THOSE WHO VOLUNTARILY QUIT MILITARY SERVICE (EFFECTVE JULY 1, 1981)

Source.—President.

Present law.—Under present law a servicemember can quit the military and still be eligible for federally financed unemployment compensation benefits. By contrast, every State provides for the disqualification of civilians who voluntarily leave their jobs, are discharged for misconduct, or refuse an offer of suitable work.

Proposed change.—Disqualify for unemployment compensation benefits those exservicemembers who voluntarily leave the service and refuse to reenlist effective July 1, 1981. The Administration argues that such individuals voluntarily enlisted and are therefore

voluntarily leaving a service into which they were not coerced by a draft. They would thereby be treated similarly to civilians who voluntarily become employed and then voluntarily quit a job.

Estimated savings.—

Fiscal year:	Millions
1981	$36
1982	265
1983	254
1984	244

Aid to Families With Dependent Children (AFDC)

Although a bill has yet to be submitted to Congress, the set of AFDC proposals described below is taken from the most recent summary of the Administration's budget reduction proposals. Included are CBO estimates for gross savings, including administrative cost reductions, as of March 10, 1981.

1. LIMIT EARNED INCOME DISREGARD

Present law.—In determining AFDC benefits, States are required to disregard from the recipient's total income: (1) The first $30 earned monthly, plus one-third of additional earnings; and (2) any expenses (including child care) reasonably attributable to the earnings of any such income. The work expense disregard is available to both recipients and new applicants. The 30 and ⅓ applies only to those already on the rolls.

There is no limit in Federal law or regulations on the amount which States may disregard as work expenses. In order to limit the amount claimed, and also to simplify the administration of the work expense provision, a number of States establish standard amounts to be used in the case of AFDC recipients with earnings. At the same time, however, they are required to allow individual recipients to make additional claims for work expenses if they can show that they do in fact have such expenses. States are free to define which expenses they consider "reasonably attributable," and State policies vary. Some States provide no disregard for child care expenses, paying for care instead through the Title XX social services program. Some States put limits on the amounts they will allow for child care. Many States also have limits on amounts they will allow for such items as lunches, transportation, or uniforms. Earnings of students are disregarded, and States also have the option of disregarding amounts set aside for the future needs of a child and $5 per month from any source.

After these deductions, whatever income remains is used to reduce the amount of the AFDC grant. The "work-incentive" disregard does not apply to individuals who terminate or refuse employment without good cause, or who fail to report their earnings.

Proposed change.—The following amounts of earned income would be disregarded:

—the first $75 of earned income (instead of itemized work expenses under current law);
—then, up to $50 monthly for the cost of care for each child or incapacitated adult;
—finally, $30, plus one-third of the remainder of earned income (not already disregarded).

As under current law, the $30 and ⅓ disregard would not apply if employment has been refused or terminated without good cause, and the work expense and child-care disregards would also be denied.

According to the Administration, standardizing the work-expense and child-care disregards would result in simpler, more accurate processing by the States, and it would eliminate a frequently-abused provision. Changing the order in which the disregards are applied would encourage recipients to economize on work expenses.

*Estimated savings.**

Fiscal year:	Millions
1981	....
1982	$177
1983	182
1984	187
1985	191

*Savings for items 1, 2, and 5 were calculated in the following sequence: $30 and ⅓, 4-month rule, and gross income ceiling of 150 percent.

2. LIMIT APPLICATION OF 30 AND ⅓ EARNED INCOME DISREGARD TO 4 CONSECUTIVE MONTHS

Present law.—As an incentive to work the first $30 and ⅓ of the remainder of the earned income of an AFDC recipient is disregarded each month—with no time limitation—in determining the amount of AFDC benefits.

Proposed change.—Apply the $30 and ⅓ disregard only during the first four consecutive months in which a recipient has earnings in excess of the standard work expense and child care disregards; thereafter, the amount of payment would be determined without benefit of the $30 and ⅓ disregard each month that the family continues to receive AFDC and for 12 consecutive months after AFDC is terminated.

The Administration argues that limiting the $30 and ⅓ disregard the first four months of employment provides a sufficient buffer during a period of adjustment to work.

*Estimated savings.**

Fiscal year:	Millions
1981	....
1982	$145
1983	149
1984	153

*Savings for items 1, 2, and 5 were calculated in the following sequence: $30 and ⅓, 4-month rule, and gross income ceiling of 150 percent.

3. LIMIT ON ALLOWABLE RESOURCES

Present law.—The equity value (rather than fair market value) of resources must be considered in determining AFDC eligibility. Regulations establish a maximum of $2,000 per recipient in real and personal property, including liquid assets which States may exclude. States may also exclude a home, personal effects, an automobile, and income-producing property.

Proposed change.—Place a limit on allowable resources of $1,000 (equity value) per family, excluding the home and one automobile, but the value of the automobile would be limited by regulations. This proposal would reduce allowable resources and also ensure that families make use of nearly all available resources before applying for AFDC, thus limiting AFDC assistance to those most in need.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$16
1983	17
1984	17
1985	17

4. PERMIT STATES TO OFFSET FOR FOOD STAMPS AND HOUSING SUBSIDIES

Present law.—States may establish the standard to be used in determining AFDC payments. The standard may be "consolidated," that is, provide a dollar amount to cover all basic needs, or it may provide amounts for certain specified items. Federal regulations do not require that a standard of assistance include any specific items or number of items. In setting the dollar amount of the standard, a State may or may not take into account the availability of food stamps. In addition, the State standard may or may not take into account the value of available housing subsidies.

Proposed change.—Permit States explicitly to take into account the value of benefits received from food stamps or housing subsidies. This would be done by treating the value of the food stamp coupons or housing subsidy as income, up to the value for food or shelter that is included in the State standard. This provision would encourage States to consider the availability of other types of benefits which AFDC recipient may receive, and thus would mitigate the effects of pyramiding benefits.

Estimated costs.—

Fiscal year:	Millions
1981	....
1982	$100
1983	103
1984	105
1985	108

5. ESTABLISH GROSS INCOME CEILING OF 150 PERCENT OF STATE'S NEED STANDARD

Present law.—Under current AFDC provisions, there is no limit on the amount of gross income a family may have and still remain on public assistance. As a work incentive for AFDC recipients, the first $30 plus 1/3 of the remainder of gross earnings (in addition to work expenses) is disregarded in determining countable income for computing the grant amount. Thus, families on public assistance can continue receiving AFDC even after the wage-earner(s) become relatively well paid.

Proposed change.—Limit eligibility for AFDC to families with gross income at or below 150 percent of the State's standard of need.

*Estimated savings.**—

Fiscal year:	Millions
1981	....
1982	$4
1983	4
1984	4
1985	4

*Savings for items 1, 2, and 5 were calculated in the following sequence: $30 and 1/3, 4-month rule, and gross income ceiling of 150 percent.

6. COUNT LUMP-SUM PAYMENTS

Present law.—Any payments that meet the definition of income (e.g., retroactive Social Security benefits) are usually counted as income in the month of receipt and any of the payment that is not spent in that month is considered a resource in the months thereafter.

Proposed change.—Require that large payments, together with other income remaining after the application of disregards, be considered available to meet ongoing needs in the AFDC program. If such income exceeds the standard of need, the household would be ineligibile for aid. Any amount of the income that exceeds the monthly needs standard would be divided by the monthly needs standard, and the household would be ineligible for aid for the number of months resulting from that calculation. Any remaining amount would be counted as income in the first month following the period of ineligibility.

Estimated savings.—

Fiscal year:	
1981	......
1982	$5
1983	5
1984	5
1985	5

7. TREATMENT OF EARNED INCOME TAX CREDIT (EITC)

Present law.—Since 1975, the Federal Government has provided a tax credit for low-income workers with children. Under present law, an eligible individual is allowed a refundable credit against his income tax equal to 10 percent of the first $5,000 of earned income, for a

maximum credit of $500. The maximum credit is phased down as adjusted gross income (or, if greater, earned income) rise above $6,000, being reduced to zero for families with income over $10,000. Any individual who is married and entitled to a dependency exemption for a child, any surviving spouse with a minor child, and any head-of-household who maintains a household for a child generally is eligible for the credit.

Beginning in 1979, employees may file with their employers for advance payment of the credit. Advance payments are added to the paycheck. If an individual receives advance payments during a calendar year in an amount greater than the actual credit determined on his income tax return, the excess must be repaid with the tax return. (However, the individuals' benefit amount must be adjusted to provide payments to the individual of an amount equal to the benefits lost because of excess advance payments.) Conversely, individuals whose advance payments are less than the actual credit are allowed a refund equal to the excess of the actual credit over the amount of advance payments.

The earned income tax credit is counted as earned income for purposes of AFDC, regardless of whether it is received as an advance payment or at the end of the year.

Proposed change.—In determining earned income for AFDC, include the EITC advance payment amount that the individual is eligible to receive, regardless of whether or not he has applied for the advance payment. In other words, if the individual does not receive advance EITC payments, he will still be deemed to have received an amount equal to what he could get as an advance payment. Counting the advance EITC as income in all cases would more accurately reflect the amount of funds available to recipients.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$44
1983	42
1984	40
1985	38

Comment.—A similar provision was approved by the House during the 96th Congress (H.R. 4904), and was also included in the 1982 Carter budget.

8. REQUIRE STATES TO COUNT INCOME OF STEPPARENTS OR OTHER PERSONS LIVING IN HOME

Present law.—States are prohibited from considering the income of a stepparent unless, under State law, stepparents are required to support stepchildren to the same extent that natural parents are required to support their children. States are also prohibited from counting the income of other people in the household, if they are not related or not legally responsible for the AFDC recipients. Income can only be counted in cases in which the welfare agency receives information that money has actually been contributed. States are allowed to prorate AFDC shelter and utility benefits when an eligible child lives with a

relative, including a stepparent, who is not an AFDC recipient—as long as the total income exceeds the State's standard of need.

Proposed change.—Count the income of a stepparent or of another unrelated person (other than a bona fide tenant) in determining eligibility and benefit amounts for AFDC applicants or their children. Countable income would include any amount which exceeds (1) the first $75 of earned income (a smaller amount may be prescribed for less than full-time work); (2) the amount specified in the State's standard as the amount needed by the stepparent or other person to support himself and his dependents living in the same household; (3) amounts paid by the stepparent or other person to dependents living outside the household; and (4) payments of alimony or child support to individuals not in the same household. The law would be amended to preclude prorating of shelter allowances with regard to persons to whom this provision applies.

In most States, children in families which include a stepparent or other persons, receive AFDC benefits even though the household may have substantial income. To the extent that the family's income, including that considered available from the stepparent or other person, does not exceed the AFDC income eligibility limit, AFDC benefits would still be payable.

The proration provision, modified to exclude stepparents whose income has been counted in computing benefits, would prevent AFDC households with stepparents from being unfairly penalized by the application of both provisions.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$108
1983	111
1984	113
1985	116

Comment.—A proposal to count stepparent income in determining need was included in the 1982 Carter budget. During the 96th Congress, the Senate passed a similar amendment requiring the counting of stepparent income in HR 3434, but it was not accepted by the House.

9. ESTABLISH NATIONAL WELFARE RECIPIENT FILE

Present law.—Present law requires States to obtain certain information (e.g., social security numbers, wage data) to verify income of applicants and recipients. This requires access to Federal data. Other information can be verified through information systems administered by Federal agencies such as the Social Security Administration, Railroad Retirement Board, Veteran's Administration, Office of Personnel Management, and the Internal Revenue Service. However, there is no central source for this information.

Proposed change.—Provide for the establishment of a national recipient file to which all States would have access.

Because no central source for information exists which contains data on benefits paid to recipients of AFDC and other programs, States

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find it time-consuming and difficult to verify income of applicants and recipients. A national recipient file would allow cross-checking of State welfare records with Federal records.

*Estimated savings.**—

Fiscal year:	Millions
1981	......
1982	+$1
1983	+6
1984	+9
1985	+9

*Administration believes savings will result in later years when the system is established.

10. ACCESS TO AFDC INFORMATION

Present law.—Information exchange between various branches and levels of government is often permitted, but there are restrictions on what one agency may divulge to another.

Proposed change.—Require States to provide in their AFDC plans that access to information concerning applicants or recipients of aid will be afforded to any officer or properly authorized representative of State and local government or of the United States for any public purpose. Error in the AFDC program, such as underreporting of income and failure to report assets, could be reduced through access to more complete information.

Estimated savings.—

Fiscal year:	Millions
1981	*
1982	*
1983	*
1984	*
1985	*

*Negligible savings.

11. REQUIRE COMMUNITY WORK EXPERIENCE PROGRAMS

Present law.—Current regulations prohibit States from requiring an AFDC recipient to work in exchange for an AFDC grant. In addition, although AFDC recipients are required to take acceptable employment if offered, most employable AFDC recipients are required to do no more than register for work and training with the Work Incentive (WIN) program. (Certain exceptions are made for children, the elderly, the disabled, those who live too far from a WIN site and those who care for a child under the age of 6.) After meeting this registration requirement, they can continue to receive benefits without any further work-related activity unless they are selected by the WIN agency to be among those who actively participate in the program.

Proposed change.—States would be required to establish community work experience programs. Employable AFDC recipients who are unable to get jobs could be assigned to these work experience programs, where they would perform work in return for AFDC benefits. Exempt from this requirement would be persons who are exempt from

WIN registration. However, States could further limit the caretaker exemption under WIN to those caring for a child under age 3, or when child care is unavailable, for a child between the ages of 3 and 6. A State could also include people who could do local community work, even though no WIN site is close by.

See table on p. 42.

12. MAKE STRIKERS INELIGIBLE FOR AFDC

Present law.—Federal law does not expressly exclude strikers from AFDC eligibility. States must pay AFDC benefits to households where the caretaker relative is not required to work but could be working if not involved in a labor dispute (as long as the family meets other eligibility requirements).

Where eligibility is based on the unemployed parent, the States have the option of paying or denying benefits to households where the parent's unemployment results from a strike.

Proposed change.—Require States to specify that striking workers must comply with all AFDC provisions concerning work registration and training.

No AFDC would be payable to a family in which the caretaker relative is engaged in a strike on the last day of the month, and no individual participating in a strike could have his or her needs included in computing the amount of the AFDC grant.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$5
1983	5
1984	5
1985	5

13. LIMIT AFDC TO DEPENDENT CHILDREN AGE 18 OR YOUNGER

Present law.—At State option, a dependent child may be defined to include students age 18 through 20 who are regularly attending primary, secondary, or vocational school, and even college. For other purposes, Federal and State laws generally recognize persons age 18 and above as adults. At the present time, 43 States extend AFDC eligibility to students age 18 through 20. However, some States have chosen this option solely to enable them to include secondary school students over age 17.

Proposed change.—Amend the definition of "dependent child" to provide assistance to "children" through age 17, or 18 if they are completing high school in their 18th year.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$100
1983	104
1984	108
1985	111

14. LIMITATION ON AFDC TO PREGNANT WOMEN

Present law.—States have the option of paying AFDC benefits to pregnant women who have no other children. If a State chooses this option, then it must pay some benefit on behalf of the unborn child, although it need not be the same amount as would be paid for a child who has been born. Also, some States increase the level of payments for pregnant women already receiving AFDC. Thirty-four States currently participate in this option. The kinds of payment vary, as do provisions specifying at what stage of pregnancy payments may begin.

Proposed change.—Prohibit States from covering pregnant women with no other children until the last 3 months of pregnancy. The proposal also prohibits States from increasing the AFDC payment level for pregnant women already receiving welfare until the last 3 months of pregnancy. There are other programs aimed at providing the nutritional and related needs of expectant mothers during the first 6 months of pregnancy.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$23
1983	24
1984	24
1985	25

15. RESTRICT AFDC ELIGIBILITY FOR UNEMPLOYED PARENT (AFDC–U)

Present law.—At State option, AFDC–U benefits are provided to families where both parents are in the home and one is unemployed. Only one parent must be unemployed to meet this eligibility requirement; the other parent may be employed.

Proposed change.—Limit AFDC–U eligibility to those families in which the principal earner is unemployed. The principal earner would be the parent who earned more income during the two years preceding the application for benefits. Also, the law would clearly state that the entire family will be ineligible for AFDC if the principal earner is not registered for work or training.

Estimated savings.—

Fiscal year:	Millions
1981	*
1982	*
1983	*
1984	*
1985	*

*Negligible savings.

Comment.—A similar provision was passed by the House during the 96th Congress as part of H.R. 4904.

16. WORK REQUIREMENTS FOR AFDC PARENTS ATTENDING COLLEGE

Present law.—Children over age 16 including young AFDC parents are not required to register for work or training under WIN program if they are attending school (including college) full-time. Also exempt from the WIN registration requirement are those "caretakers" caring for a child under age 6.

Proposed change.—Limit the exemption from work requirements to children who are attending, full-time, an elementary, secondary, or vocational school. Also, limit the exemption for caretakers to a parent or relative who is personally caring for a child with only brief or infrequent absences from the child.

Estimated savings.—

Fiscal year:	Millions
1981	*
1982	*
1983	*
1984	*
1985	*

*Negligible savings.

17. RETROSPECTIVE ACCOUNTING AND MONTHLY REPORTING

Present law.—Federal law specifies no particular accounting period for determining AFDC eligibility and benefits except that a person's income must be considered on a monthly basis. Federal statute also makes no mention of how frequently AFDC recipients must make reports to the welfare agency. Under Federal regulations, however, each State may choose to pay "retrospectively" or "prospectively." "Retrospectively" means paying a recipient after a month has ended—for circumstances that took place during that month. "Prospectively" means paying a recipient during or before a month—based on what the recipient's circumstances are expected to be during that month.

Proposed change.—Require States to adopt a system of retrospective accounting along with monthly reporting. Prospective budgeting would be used in the first month after application to prevent hardship and in the final month to prevent payment of benefits to those whose circumstances have changed and who thus no longer meet the needs requirements. Retrospective accounting and monthly reporting would reduce AFDC overpayments and ensure that recipients receive the full amounts they should be getting under the law. Twelve States and the counties of Denver and Boulder in Colorado now use some form of retrospective accounting and monthly reporting.

Estimated savings.—

Fiscal year:	Millions
1981	---------
1982	---------
1983	$187
1984	195
1985	201

Comment.—A similar proposal was agreed to by the House in the 96th Congress as part of H.R. 4904, and was also included in the 1982 Carter budget.

18. ELIMINATE PAYMENT OF AFDC BENEFITS LESS THAN $10

Present law.—States must make a payment to families eligible to receive AFDC regardless of how small the amount of the payment.

Proposed change.—Prohibit States from issuing AFDC checks in amounts less than $10 a month. Individuals denied a benefit as a result of this provision would be considered recipients for all other purposes, including Medicaid eligibility. The proposal would reduce administrative costs by eliminating the necessity for States to process and issue AFDC checks for minimal amounts.

Estimated savings.—If enacted in isolation, this proposal would produce fiscal year 1982 savings of $1 million. If enacted in addition to earnings disregard changes, the added savings would be negligible.

Comment.—This provision was passed by the House during the 96th Congress as part of H.R. 4904. It was also included in the 1982 Carter budget.

19. REMOVE LIMITATION ON VENDOR PAYMENTS

Present law.—States are restricted in their use of vendor payments (direct payments by the welfare agency for housing, utilities, etc.). Vendor payments may not be used in more than 20 percent of the State's AFDC caseload. Use of vendor payments is further restricted to those households which are determined to be unable to manage funds properly for the use of the child.

Proposed change.—Remove all restrictions on the number of cases in which vendor payments are made by a State, and allow recipients to choose to have vendor payments made even though they could otherwise receive payments directly. There would not have to be a determination that the household cannot manage funds for those who elect to receive vendor payments. Removal of these limitations may make vendors more willing to provide housing, utilities, etc., to welfare recipients.

Estimated savings.—

Fiscal year:	Millions
1981	*
1982	*
1983	*
1984	*
1985	*

*Negligible savings.

20. RECOVER OVERPAYMENTS/PAY UNDERPAYMENTS

Present law.—Federal law does not address the issue of overpayments and underpayments. By regulation, States are given the option of whether or not to recoup overpayments. However, if States recover overpayments they must also pay underpayments. Forty-two States currently have a recovery policy. Of these, 30 recover from the assistance grant when possible. The Supreme Court in *NWRO* v. *Weinberger* interpreted current law to preclude recovery of overpayments from recipients who did not willfully withhold information, unless the recipient has resources or income besides the assistance grant.

Proposed change.—Require States to correct overpayments and underpayments in all instances. Recovery of overpayments would be made from current assistance payments, available income and resources, and, for an individual who no longer receives assistance, through the legal process. In any month when overpayments are being recovered, the AFDC payment, together with the recipient's liquid resources and (all) income, must equal at least 90 percent of the payment a family would receive if there were no disregards from earned income.

A mandatory recovery policy would act as an incentive for recipients to keep the welfare agency informed about their situation, and require States to take responsibility for correcting underpayments.

Estimated savings.—

Fiscal year:	Millions
1981	
1982	$115
1983	110
1984	106
1985	102

21. LIENS ON HOUSES

Present law.—Federal law does not address this issue. However, States are currently permitted by regulation to place liens on property or to use other methods to recover assistance payments.

Proposed change.—Require States to place liens on recipients' homes for amounts that are at least equal to the amount by which the value of the home exceeds the average value of all houses in the State. Regardless of other State recovery policies, the lien would not be satisfied until ownership of the house is transferred and no member of the family who received AFDC resides in the house.

Estimated savings.—

Fiscal year:	
1981	*
1982	*
1983	*
1984	*
1985	*

* Negligible savings.

22. REDUCE FEDERAL MATCHING OF TRAINING COSTS

Present law.—The Federal Government reimburses States for 75 percent of training expenses for employees (or those preparing for employment) of State or local agencies administering the AFDC program. All other administrative expenses are matched at a 50 percent rate.

Proposed change.—Provide that all expenses related to AFDC administration, including training expenses, be matched by the Federal Government at a 50 percent rate. Reducing the Federal matching rate for training costs to 50 percent will put the Federal share of these costs in line with that of other administrative costs.

Estimated savings.—*

Fiscal year:	Millions
1981	....
1982	$16
1983	17
1984	18
1985	20

*Budget estimates assume that States continue to fund training at the current level. If the lower Federal matching rate induces States to spend less, Federal savings would increase and State costs would decrease.

23. ADMINISTRATIVE SAVINGS

In addition to the program savings given above, CBO estimates that the proposed changes will result in the following savings in administrative costs:

Estimated costs.—

Fiscal year:	Millions
1981	....
1982	$105
1983	111
1984	117
1985	123

This continues from page 37.

According to the Administration, participation in community work experience programs would increase the employability of recipients and discourage participation in AFDC when there are work alternatives in the private sector

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	*0
1983	$37
1984	75
1985	96

*Startup costs will offset savings in the first year.

Child Support Enforcement

Although a bill has yet to be submitted to Congress, the set of child support proposals described below is taken from the most recent summary of the administration's budget reduction proposals. Included are CBO estimates for gross savings, including administrative cost reductions as of March 10, 1981.

1. ENFORCE COLLECTION OF PAST-DUE CHILD SUPPORT AND ALIMONY (EFFECTIVE OCTOBER 1, 1981)

Source.—President.

Present law.—The Secretary of Health and Human Services (HHS) is required, upon the request of a State having an approved child support program, to certify to the Secretary of Treasury for collection by the IRS of amounts which represent delinquent child support payments. Collections may be made on behalf of both AFDC and non-AFDC families.

Proposed change.—Provide for additional use of the IRS to collect delinquent child support payments. Upon receiving notice from a State child support agency that an individual owes past-due support which has been assigned to the State as a condition of AFDC eligibility, the Secretary of Treasury would be required to withhold from any tax refunds due that individual, an amount equal to any post-due support. States would be required to reimburse the Federal Government for the cost of the procedure.

Estimated savings.—

Fiscal year:	Millions
1981	-----
1982	$27
1983	30
1984	33
1985	36

2. COLLECTION OF SUPPORT FOR CERTAIN ADULTS (EFFECTIVE OCTOBER 1, 1981)

Source.—President.

Present law.—A State child support agency is not authorized to collect support (i.e. alimony) on behalf of a parent of a child for whom it is collecting child support. This is the case even when a court has ordered a single amount for both the parent and the child, without specifying the amount payable on behalf of each.

Proposed change.—Make State child support agencies responsible for collecting support for a child's parent (with whom the child is living) as well as for the child himself.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$23
1983	23
1984	23
1985	23

Comment.—This change was included in the 1982 Carter budget.

3. MODIFY COLLECTION FEE FOR NON-AFDC FAMILIES (EFFECTIVE OCTOBER 1, 1981)

Source.—President.

Present law.—States are allowed, but not required, to impose an application fee for furnishing child support collection and paternity determination services to non-AFDC families who request them. HHS regulations provide that a State may charge a flat dollar amount not to exceed $20, or it may use a fee schedule based on the applicant's income, and designed so as not to discourage the application for services by those most in need of them. States may also provide for recovering the cost incurred in excess of the fee by deducting such costs from the amount of any recovery made.

Proposed change.—Require States to retain a fee for non-AFDC families equal to 10 percent of the child support collected. (The optional fee provisions in present law would still be applicable to paternity determination services.) Any amounts collected would be used to reduce the administrative costs for which the State claims Federal matching.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$45
1983	49
1984	55
1985	59

Comment.—This change was included in the 1982 Carter budget.

4. FINANCING INCENTIVE PAYMENTS

Present law.—A 15 percent incentive payment is paid to States that collect support on behalf of other States, to a political subdivision within a State that collects support on behalf of its own State, and to States that collect support within the State on their own behalf. The incentive payment is financed entirely by reducing what would otherwise be the Federal share of the collection.

Proposed change.—Finance the incentive payments from both the State and Federal share of child support collection.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$61
1983	69
1984	78
1985	87

Comment.—This change was included in the 1982 Carter budget.

5. CHILD SUPPORT OBLIGATIONS NOT DISCHARGED BY BANKRUPTCY

Present law.—When the child support enforcement program was enacted in 1974, a provision was included which prohibited the discharge in bankruptcy of a child support obligation which had been assigned to a State as a condition of AFDC eligibility. This Social Security Act provision was subsequently repealed by section 328 of Public Law 95–598 (the 1978 revision of the Bankruptcy Act).

Proposed change.—Reinstate the Social Security Act provision previously in effect declaring that a child support obligation assigned to a State as a condition of AFDC eligibility is not discharged in bankruptcy.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$17
1983	21
1984	26
1985	33
1986	41

Supplemental Security Income

Although a bill has yet to be submitted to Congress, the set of SSI program proposals described below is taken from the most recent summary of the administration's budget reduction proposals. Included are CBO estimates for gross savings, including administrative cost reductions, as of March 10, 1981.

1. CHANGE TO RETROSPECTIVE ACCOUNTING FOR SSI RECIPIENTS

Present law.—The SSI statute provides for determining a recipient's benefits on the basis of the income anticipated in the calendar quarter. Redeterminations are to be made at such times as provided by the Secretary. There is no provision for regular reporting of changes in income or other factors affecting eligibility. In the period October 1979–March 1980, a total of 5 percent of SSI payments were either overpayments or payments to ineligible recipients.

Proposed change.—Amend the SSI law (in a way comparable to the similar AFDC proposal), to provide that SSI eligibility and benefit amount will, in general, be determined on a one-month retrospective basis, rather than a quarterly prospective basis, as under current law. However, for the first month of eligibility (the month in which the application is filed) eligibility and benefit amount would both be determined on a prospective basis. The Administration believes that this will significantly reduce the number of overpayments and payments to persons who are ineligible.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$30
1983	60
1984	60

2. ELIMINATE FUNDING OF REHABILITATION SERVICES FOR SSI RECIPIENTS

Present law.—The Secretary of HHS has authority to reimburse State vocational rehabilitation agencies for services to blind and disabled recipients of the Supplemental Security Income (SSI) program. Recipients who are referred to State agencies for services are required to accept them as a condition of eligibility for SSI.

Proposed change.—Repeal the authority of the Secretary of HHS to reimburse for vocational rehabilitation services. The Administration states that funding for these services will, in the future, be provided as part of the social services block grant program.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$20
1983	20
1984	20

Social Services

SOCIAL SERVICE BLOCK GRANTS

Source.—President.

Proposed change.—The Administration proposes consolidating 12 social services programs into a single block grant. For fiscal year 1982, the Administration requests $3.8 billion for funding the block grant, which is 75 percent of 1981 funding levels. According to the March 10 budget document, the programs to be consolidated and the level of spending for each in 1981 are as follows:

[Dollar amounts in millions]

Social services block grant	1981 Current services	1982 Budget request
Title XX—Social services[1]	$2,716	
Title XX—Day care[1]	200	
Title XX—State and local training[1]	75	
Child welfare services[1]	163	
Child welfare training[1]	6	
Foster care[1]	349	
Adoption assistance[1]	10	
Rehabilitation services	931	
Child abuse	7	
Runaway youth	10	
Developmental disabilities	51	
Community Services Administration	483	
OHDS salaries and expenses	4	
Total, social services block grant	5,005	$3,800

[1] Programs in Finance Committee jurisdiction.

According to the February 18 White House report, the 1982 level of funding for the block grants would remain constant through 1986.

As indicated by the table, most of the consolidation involves programs under Finance Committee jurisdiction. These include:

Title XX social services and title XX day care.—Title XX authorizes Federal matching on an entitlement basis for State expenditures for a variety of social services. States use their title XX money in different ways, depending on their own State-determined needs. On a national basis, the service for which the largest amount of money is being spent is child day care (approximately 21 percent of all Federal social services funds in 1979). Homemaker/chore services ac-

counted for almost 14 percent of all funds in 1979; education, training and employment services accounted for an additional 10 percent; and protective services and child foster care services together accounted for another 15 percent of total spending. Present law authorizes funding of $2.9 billion in 1981, $3.0 billion in 1982, $3.1 billion in 1983, $3.2 billion in 1984, and $3.3 billion in 1985. Funds are allocated to the States on the basis of population. The Federal matching rate for services is generally 75 percent, but States may receive 90 percent matching for family planning, and 100 percent matching for day care services which do not exceed 8 percent of the State's total allocation.

Title XX State and local training.—States receive Federal matching for the costs of training for personnel employed in public social services agencies and, under certain circumstances, in private agencies. Under Public Law 96–272 States are limited in 1980 and 1981 to receiving the higher of: (1) 4 percent of the State's regular title XX allotment for that year, or (2) the amount of Federal funds received for training in 1979. In 1982 and thereafter, States may receive Federal reimbursement only for training included in an approved State plan. The Federal matching rate is 75 percent.

Child welfare services and training.—Federal law authorizes a maximum of $266 million in matching to States for child welfare services, including child protection services, and services aimed at preventing neglect and abuse of children and preventing unnecessary separation of children from their families. Federal matching is 75 percent. Public Law 96–272 provided requirements for certain foster care protection services and procedures which States must meet in order to receive their full share of appropriated funds. Funds are allocated on the basis of child population and per capita income of each State. The child welfare training program funds traineeships for students and teaching grants for curriculum development through discretionary grants to institutions of higher education.

Foster care.—Public Law 96–272 provided for transferring the title IV–A AFDC foster care program to become part of a new title IV–E foster care and adoption assistance program. This transfer must be made by the States by October 1, 1982. Federal matching funds at the medicaid matching percentage are available to the States for AFDC-eligible children who are placed in foster care. Public Law 96–272 also included provision for a funding ceiling on the amount of Federal matching available to each State for foster care maintenance payments for fiscal year 1981 through 1984. The ceiling is effective only in years in which appropriations for child welfare services (title IV–B) reach specified levels.

Adoption assistance.—Public Law 96–272 also required States to establish an adoption assistance program by October 1, 1982. Federal matching funds are available to the State for adoption assistance payments to adoptive parents of children with special needs. These are AFDC- or SSI-eligible children who are difficult to place because of ethnic background, age, membership in a minority or sibling group, or who have mental, physical or emotional handicaps. Federal matching is available at the State's medicaid matching rate.

Programs under the jurisdiction of the Labor and Human Resources Committee which are to be included in the proposed block grant are:

Rehabilitation services.—Vocational rehabilitation services are provided by State vocational rehabilitation agencies to mentally or physically handicapped persons when it is determined that such services will enable the individual to become employable. Services provided include mental and physical restoration, job training, the purchase of special devices to further employment, job placement, and counseling. Funds are allotted to States on the basis of a formula which gives relatively more funds to States with low per capita income. The Federal matching rate is 80 percent.

The rehabilitation services program, although not in Finance Committee jurisdiction, is of direct interest to the committee because it is through the mechanism of this program that services are provided to persons receiving disability payments under the disability insurance and supplemental security income programs. The Administration is proposing to end authority for funding for rehabilitation services from disability insurance trust funds.

Child abuse.—This program funds services for the prevention and treatment of child abuse and neglect. Recipients of services are abused and neglected children and their families, without regard to income. Funding is provided in two ways: (1) block grants to States, based on the State's underage population; and (2) discretionary grants to public and private nonprofit agencies. There is no State matching requirement.

Runaway youth.—This program funds runaway shelters and associated services. The program also supports a national toll-free runaway hotline. Funding is distributed to States according to the State's under-18 population. These projects are 90 percent federally funded.

Development disabilities.—This program authorizes formula grants to States for planning, service delivery, and protection and advocacy systems for persons with development disabilities. The formula is based on State population, income, and handicapped population. The Federal matching rate is 75 percent except in poverty areas where the matching rate is 90 percent.

Community Services Administration.—The Community Services Administration is the successor to the former Office of Economic Opportunity (OEO). This agency provides financial assistance to local organizations which coordinate and deliver a wide array of social services to low-income individuals. A statutory formula for allocating funds to States is authorized, based on each State's relative number of unemployed individuals, welfare recipients and related children living in families below the poverty line. However, allocations are generally based on historical patterns rather than a strict reapplication of the formula each year. In general, Community Services Administration programs require a 20 percent non-Federal share although this may be waived in certain circumstances.

Administration of programs included in block grant.—The social services block grant would be administered by the Office of Human Development Services (OHDS) in the Department of Health and Human Services. All but two of the programs are currently administered by the Office of Human Development Services. Rehabilitation services are now administered under the Department of Education, and the Community Services Administration is currently an inde-

pendent agency. Programs within OHDS not proposed for consolidation are Head Start, Older Americans Act programs, work incentive (WIN), and Native American programs.

Description of Block Grants.—According to the March 10 revised budget the social service block grant would be allotted to the States in proportion to the amount of funding going to each State for the existing categorical programs. Block grants would be authorized to fund the same types of activities now funded on a categorical basis, but States would not be limited to these. It appears that the block grant would give the States discretion to address social service problems without regard to any of the programs now in place and without regard to the population served by or eligible for such programs. Federal oversight would be significantly reduced. No State matching funds would be required for the Federal block grants.

The Administration also proposes an energy and emergency assistance block grant and two health block grants. According to Administration testimony, States will be able to transfer up to 10 percent of funds under any one block grant for use in another block grant.

Comment.—In arriving at the Finance Committee's reconciliation totals in S. Con. Res. 9. the Budget Committee reduced savings in this block grant by $100 million in fiscal year 1982 and fiscal year 1983.

Energy and Emergency Assistance

ENERGY AND EMERGENCY ASSISTANCE BLOCK GRANT

Source.—President.

Present law.—Low-income energy assistance, authorized by Title III of the Crude Oil Windfall Profits Tax Act (P.L. 96–223), currently is a block grant program to States administered by HHS. The Federal Government allocates funds according to a formula that takes into account each State's climate, energy costs and poverty population. Within certain broad Federal guidelines, States then design a program of assistance to low-income households. The States set the actual eligibility criteria and determine the form the assistance will take (vouchers, cash, vendor payments, or other), and the payment levels. They are, however, required to specify, in their State plans, that priority will be given to the elderly, the disabled, and those with lowest incomes. If payment levels vary a State's plan must assure that payments will be highest for those whose energy expenditures are highest in relation to income. The plans must also meet a number of other Federal requirements. A State may use up to 5 percent (7.5 percent in unusual circumstances) of its allotment for administrative costs, but funds used for this purpose must be matched on a dollar-for-dollar basis by the State.

The program also has a small crisis intervention component administered by the Community Services Administration. Total funding for both components in fiscal year 1981 is $1.85 billion. Authorization for the program expires at the end of fiscal year 1981.

The emergency assistance program, authorized by Title IV of the Social Security Act, provides 50 percent Federal funding for emer-

gency services provided to families with needy children, including migrant families, for no more than 30 days in a given calendar year, to "avoid destitution" of the children or to provide them with living arrangements.

As of November 1979, 24 States or jurisdictions participated in the emergency assistance program. These jurisdictions are: Connecticut, Delaware, District of Columbia, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Puerto Rico, Virgin Islands, Virginia, Washington, West Virginia, and Wyoming. Federal matching for the emergency assistance program is 50 percent. Estimated expenditures for 1981 are $55 million.

Proposed change.—The Administration has proposed to consolidate two existing programs—low-income energy assistance and emergency assistance under Aid to Families with Dependent Children—into a block grant to States with fiscal year 1982 funding equal to 75 percent of the programs' Federal costs in fiscal year 1981. The block grant would receive an allotment in fiscal year 1982 equal in proportion to the amount it received in fiscal year 1981 under the two programs.

The Administration plans to ask for a 4-year authorization, at $1.4 billion per year, for the energy and emergency assistance block grant. The funds would be distributed to States to provide assistance for home energy costs, low-cost weatherization and home repairs, temporary financial assistance (food, clothing, shelter) emergency medical assistance, and emergency social services.

According to Administration testimony, "The States will have broad discretion in all aspects of the program including the use of funds, the population eligible for coverage, the types and forms of assistance provided, and levels of payment . . . Basically, the only restriction is that the funds must be used to satisfy the purpose of the program."

The Administration proposal would distribute funds to States annually, but States would have up to 2 years to spend each year's funds. The funds would be distributed so that each State receives the same percentage of the new block grant as its share of LIEA and EA funds in fiscal year 1981.

States would be required to make public their expenditure plans, prepare a post-expenditure report, have the program audited, and provide a copy of the audit to the Secretary.

Estimated savings.—Since the LIEA program has a 1-year authorization, it is impossible to make any definite savings estimate. A $1.4 billion dollar authorization, however, would be approximately a 25 percent reduction from fiscal year 1981 expenditures for these programs.

Trade Adjustment Assistance for Workers

1. MAKE TAA PAYABLE ONLY AFTER EXHAUSTION OF UI, LIMIT DURATION AND AMOUNT OF TAA PAYMENTS, AND CHANGE CERTIFICATION STANDARD

Source.—President.

Present law.—Petitions and determinations.—A group of workers, their certified or recognized union, or other authorized representative may petition the Secretary of Labor for a certification of eligibility for worker adjustment assistance.

Workers are certified as eligible for worker adjustment assistance if they meet the following conditions: (1) a significant number or proportion of the workers in the workers' firm or appropriate subdivision of the firm have been threatened with or have experienced total or partial separation; (2) the sales or production of the firm or subdivision has decreased absolutely; and (3) increases in imports of "articles like or directly competitive" with articles produced by the workers' firm or appropriate subdivision of their firm "contributed importantly" to threatened or actual total or partial job separation and to a decline in sales or production.

The basic program benefit under the worker adjustment assistance program is the payment of a trade readjustment allowance (TRA). The TRA allowance payable to an adversely affected worker for a week of unemployment is required to be 70 percent of his previous gross weekly wage, not to exceed the average weekly manufacturing wage (now about $269 per week). The weekly TRA payable is reduced by: (1) 50 percent of earnings during the week; (2) any training allowance except that the TRA is required to be paid in an amount at least equal to—and in lieu of—any Federal training allowance; and (3) unemployment compensation for which the individual is eligible. The combined value of any wages, TRA, training allowances and unemployment compensation may not exceed 80 percent of his previous average weekly wage and 130 percent of the average weekly manufacturing wage.

The maximum number of weeks that TRA can be paid is 78, or one and a half years. The maximum for most workers is 52 weeks. Two sets of workers are eligible for an additional 26 weeks: (1) workers enrolled in training approved by the Secretary of Labor; and (2) workers who are at least 60 years old on or before their date of separation. Except for the additional 26 weeks, TRA may not be paid for a week of unemployment beginning more than 2 years after the most recent separation date. An additional week of TRA exceeding 52 weeks may not be paid if: (1) the adversely affected worker did not apply for training within 180 days of the most recent separation date or certification date, whichever is later; and (2) if the additional week begins more than three years after the most recent separation date.

Proposed changes.—The President proposes that the trade adjustment assistance program for workers be changed as follows:

1. require a worker to exhaust all unemployment insurance (UI) before receiving TRA allowances;
2. limit the duration and amount of TRA allowances and UI payments to 52 weeks total except that an additional 26 weeks of allowances may be paid to an individual engaged in training;
3. limit the amount of trade readjustment allowances to the level of State UI payments for which the individual is eligible;
4. require increased efforts by beneficiaries to obtain appropriate work;
5. incorporate certain provisions of State unemployment insurance laws for the purpose of facilitating the administration of the program;
6. change the present "contribute importantly" standard for trade impact certifications and require that increased competitive imports be the "substantial cause" of the adverse impact on employment and require that the Secretary determine that there is a substantial probability that the resulting unemployment will be permanent; and
7. broaden the present authority to recover overpayments and deny benefits in the case of fraudulent statements or international withholding of information.

In addition to integrating the TAA program with the State unemployment compensation system, the President has proposed changes which would strengthen the training, job search, and relocation aspects of the program.

The increases in job search and relocation allowances would take effect with regard to applications for allowances filed on or after October 1, 1981. The provision regarding recovery of overpayments and penalties for fraud, and the amendment to the appropriation authorization, would take effect on the date of enactment. The remaining provisions, which affect the time limitations on trade readjustment allowances, definitions, qualifying requirements and the weekly benefit amounts, would be effective with respect to trade readjustment allowances payable for all weeks of unemployment which begin after October 1, 1981.

The Administration estimates that the proposed changes will have the following budgetary impact:

Estimated savings.—

Fiscal year:	Millions
1982	$1,335
1983	840

The Administration estimates that in fiscal year 1982 of the $350 million in total outlays $112 million will be used for retraining, relocation and job search allowance.

The Administration estimates that its proposed program reform will have the following impact on the number of TRA recipients and the level and duration of benefits:

	Fiscal year—	
	1981	1982
Average number of recipients:		
Current program	234,000	200,000
Proposed program	80,000	67,000
Average payment per worker:		
Current program [1]	$6,400	$4,960
Proposed program	$1,800	$1,500
Average duration of benefits (weeks):		
Current program	40	32
Proposed program	12	10

[1] Supplement to UI benefit.

Note: Automakers constitute 80 to 90 percent of the above fiscal years 1982 and 1983 totals.

ADDITIONAL ALTERNATIVES FOR POSSIBLE COST SAVINGS

Medicare

1. PAYMENTS TO PROMOTE CLOSING AND CONVERSION OF UNDERUTILIZED FACILITIES

Source.—Finance Committee approved provision in conjunction with fiscal year 1981 Budget Reconciliation.

Present law.—No similar provision.

Background.—Studies have pointed to a national surplus of short-term general hospital beds ranging as high as 100,000 or roughly 10 percent of total available beds. Excess capacity contributes significantly to hospital costs since the initial construction and financing expenses have to be recovered through the hospital charge structure. In addition there are the continuing expenses associated with maintenance and non-patient services involved in keeping an empty bed ready for use.

Summary of proposal.—Provides for including in hospital reasonable cost payment, reimbursement for capital and increased operating costs associated with the closing down or conversion to approved use of underutilized bed capacity or services in nonprofit short-term hospitals (limited to increased operating costs in for-profit short-term hospitals). This would include costs which might not be otherwise reimbursable because of payment "ceilings", such as severance pay, "mothballing" and related expenses. In addition, payments could be continued for reasonable cost capital allowances in the form of depreciation or interest which would ordinarily be applied toward payment of outstanding debt and incurred in connection with the terminated beds. In the case of complete closing down of a hospital, payments would continue toward repayment of any debt, to the extent previously recognized by the program, and actually outstanding.

A Hospital Transitional Allowance Board, established by the Secretary of HHS, would advise him regarding requests for such payments. Appropriate safeguards are to be developed to forestall any abuse or speculation. During the first two years not more than 50 hospitals could be paid these transitional allowances in order to permit full development of procedures and safeguards. This limited application will also provide Congress with an opportunity to assess the effectiveness and economic effect of this approach in encouraging hospitals to close or modify excess and costly capacity without suffering financial penalty. The Secretary would be required to report to the Congress on the effectiveness of the program and any recommendations for improvement.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$2
1983	9
1984	23

2. CRITERIA FOR DETERMINING REASONABLE CHARGE FOR PHYSICIANS' SERVICES

Source.—Finance Committee approved provision in conjunction with fiscal year 1981 budget reconciliation.

Present law.—Medicare presently allows a new doctor to establish his customary charge at not greater than the 50th percentile of prevailing charges in the locality.

Medicare currently utilizes more than 200 different localities throughout the country for purposes of determining Part B "reasonable" charges. In some States there are as many as 15 different localities. This has led to marked disparities in areas of the same State in the prevailing charges for the same service. The prevailing charge is the upper limit in a locality on the charges for a specific procedure which a carrier will accept as reasonable. This amount is annually adjusted subject to the economic index limitation which limits increases to amounts justified by economic indices reflecting changes in the costs of practice and wage levels. The general effect of present law is to further widen the dollar gap between prevailing charges in different localities.

Summary of proposal.—Permits new physicians setting up practices in localities with lower fee levels to establish their customary charges at the 75th percentile of prevailing charges (rather than the 50th) as a means of encouraging doctors to move into low-fee, physician-shortage areas. It would also permit doctors presently practicing in shortage areas to move up to the 75th percentile. Requires calculation of Statewide prevailing charges (in any State with more than one locality) in addition to the locality prevailing charges. To the extent that any prevailing charge in a locality was more than one-third higher than the Statewide average charge for a given service, it would not be automatically increased each year. This provision would not reduce any prevailing charges currently in effect—it would operate, to the extent given charges exceed the Statewide average by more than one-third—to preclude raising them.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$13
1983	20
1984	25

3. LIMITATION ON REASONABLE COST AND REASONABLE CHARGE FOR OUTPATIENT SERVICES

Source.—Finance Committee approved provisions in conjunction with fiscal year 1981 budget reconciliation.

Present law.—No similar provision.

Background.—As a result of various limits placed by public agencies and others on inpatient hospital expenditures, some hospitals have sought to have a disproportionately large share of their total costs financed by the revenues from their outpatient departments. In addition, reimbursement to community health centers and similar free-standing clinics which are presently paid on a cost-related basis, have, according to the General Accounting Office sometimes proved to be excessive.

Summary of proposal.—Require the Secretary to issue regulations establishing limitations on costs or charges for outpatient services provided by hospitals, community health centers or clinics and by physicians utilizing these facilities. Limits would be based on the reasonableness of these costs or charges in relation to the reasonable charges of physicians in the same area for similar services provided in their offices.

Estimated savings.—

Fiscal year:	Millions
1981	$17
1982	26
1983	31
1984	36

4. COORDINATION OF BENEFITS WITH PRIVATE COVERAGE FOR MEDICARE KIDNEY DISEASE PATIENTS

Source.—Similar to a 1980 Senate Finance Committee proposal.

Present law.—Individuals eligible for medicare coverage because of kidney failure qualify beginning with the first day of the third month after the month dialysis is initiated or in the month the individual is hospitalized for transplantation. This waiting period is waived in the case of an individual who enters a self-care training program. Since enactment of the renal program under medicare, many employment-based health benefit plans now provide comprehensive coverage for conditions like renal failure. However, because medicare is presently a primary payor—i.e., it will pay benefits first in connection with renal disease—private plans pay little, if anything, toward the costs of care for renal disease patients.

Summary of proposal.—A provision tentatively adopted by the Senate Finance Committee in connection with a mandated employment-based catastrophic plan would have required private plans to provide coverage for renal patients now covered under such plans for up to 12 months following the onset of the renal disability, with medicare reim-

bursing only its share of those covered costs not covered by the private plan. Current medicare reimbursement provisions would apply after coverage under the private plan ceased. The provision would apply only where the renal patient is under 65 and not to persons entitled to medicare benefits by reason of age.

Estimated savings.—

Fiscal year:	Millions
1981	..
1982	$110
1983	250
1984	270

5. COORDINATION OF MEDICARE BENEFITS WITH FEHBA BENEFITS

Source.—Staff.

Present law.—Federal employees and retired civil service annuitants receive health insurance protection under FEHBA (the Federal Employees Health Benefits Act). The Federal Government pays varying percentages of employees and annuitants premiums, depending in part on the plan selected; the average Federal payment is 60%. When the active or retired worker reaches age 65, he also qualifies for medicare Part A if he is eligible for social security benefits. (All aged may voluntarily purchase Part B protection.) Because medicare is considered the primary payer, FEHBA pays little or nothing toward the care of patients with medicare even though both the Federal Government and the individual both continue to pay full FEHBA premiums.

Summary of proposal.—Provides for the FEHBA hired insurance plan to be the payer of first resort with medicare paying only those bills that are not covered by the FEHBA plan. The costs that would be shifted to FEHBA would presumably be financed through the same combination of Federal and employee annuitant premiums as other FEHBA benefits.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$1,560
1983	2,095
1984	2,437

6. RESTORE 3-DAY HOSPITALIZATION REQUIREMENT FOR PART A HOME HEALTH BENEFITS

Source.—Staff.

Present law.—The 1980 Reconciliation Act repealed effective July 1. 1981, the medicare requirement that limits payment of home health benefits under Part A to cases where the patient's home health plan is established within 14 days after a hospital stay of at least 3 days.

Summary of proposal.—Restore the prior-hospitalization requirement effective July 1, 1981. (Proposal assumes 100-visit limits under Part A and Part B will be restored.)

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$9
1983	11
1984	12

7. REDUCE MEDICARE HOSPITAL REIMBURSEMENT CEILING FROM 112 PERCENT TO 110 PERCENT OR TO 108 PERCENT (EFFECTIVE JULY 1, 1981)

Source.—Staff.

Present law.—Under present law the Secretary has authority to establish limits on costs recognized as reasonable for certain classes of providers. The Secretary has established that reimbursements for a hospital's room and board costs, nursing costs and other "routine service" costs generally may not exceed 112 percent of the costs that similar hospitals incur for their routine services.

Proposal.—Change the general ceiling from 112 percent to either 110 or 108 percent.

[In millions of dollars, fiscal years]

	1981	1982	1983	1984	1985
Estimated savings:					
110 percent	Neg	35	50	55	65
108 percent	5	75	105	125	140

8. REDUCTION IN PAYMENTS FOR INAPPROPRIATE HOSPITAL SERVICES

Source.—Element of an enacted 1980 Reconciliation Act provision that was passed by the Senate but not accepted by the House.

Present law.—Where a medicare-medicaid patient who no longer needs acute hospital services remains hospitalized because no long-term care bed is available, the payment for his care is generally reduced to a long-term care rate. However, no reduction is made if the hospital has an occupancy rate of 80 percent or more.

Summary of proposal.—Eliminate the exception so that a hospital's payment would be subject to reduction without regard to its occupancy rate. (To avoid undue hardship, the payment would be reduced only if there is a general excess of hospital beds in the area, which could presumably be converted to long-term care beds.)

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$115
1983	130
1984	150

9. INCREASE IN THE PART B DEDUCTIBLE

Source.—Staff.

Present law.—Under the Supplementary Medical Insurance Program (Part B), beneficiaries are required (with certain exceptions) to incur $60 in expenses for covered medical services before the program will begin making payments. The deductible is not applicable with respect to radiologist and pathologist services furnished to hospital inpatients. (Effective July 1, 1981, this exception will only apply in cases where the physician accepts assignments for all such services.) The deductible will also not apply with respect to certain surgical procedures performed on an ambulatory basis, provided certain conditions are met. Effective July 1, 1981, the deductible requirements will be removed for home health services reimbursed under Part B.

The Part B deductible is fixed by law and has been increased only once since the inception of the program. The "Social Security Amendments of 1972" (Public Law 92-603) raised the deductible, effective calendar year 1973, from $50 to $60. (From calendar years 1972 to 1977 the deductible declined from 18.1 percent to 11.6 percent of total allowable charges for physicians' services, which represent over 80 percent of Part B expenditures.)

Summary of Proposal, Option A.—Raise the Part B deductible beginning with calendar year 1982.

[In millions of dollars, fiscal years]

	1981	1982	1983	1984
Estimated savings:				
$60 to $75	0	120	210	240
$60 to $80	0	160	280	320
$60 to $90	0	230	420	480
$60 to $100	0	300	550	630

Option B: Raise the Part B deductible by the same percent as the most recent rate of increase in the social security cash benefits (effective date 1/1/82).

Estimated savings.—

Fiscal year:	Millions
1981	
1982	$60
1983	160
1984	270

Option C: Index the Part B deductible by the increase for the previous years incurred program costs (effective date 1/1/82).

Estimated savings.—

Fiscal year:	Millions
1981	
1982	$100
1983	250
1984	440

10. DELETION OF CARRYOVER PROVISION FOR THE PART B DEDUCTIBLE

Source.—Staff.

Present law.—Under the Supplementary Medical Insurance Program (Part B), beneficiaries are required to incur $60 annually in expenses for most covered medical services before the program will begin making payments. In determining whether the individual has met the $60 deductible, expenses incurred in the current calendar year plus those incurred in the last 3 months of the preceding calendar year are considered.

Summary of proposal.—The proposal would exclude medical expenses incurred during the last quarter of the preceding calendar year in determining whether the individual has satisfied the Part B deductible in the current calendar year.

Estimated savings.—

Fiscal year:	Millions
1981	
1982	$55
1983	55
1984	55

11. INCREASE IN PART B PREMIUMS

Source.—Staff.

Present law.—Under the Supplementary Medical Insurance Program (Part B), beneficiaries are required to pay a monthly premium. The amount of the premium is currently $9.60 and is slated to rise to $11.00 in July 1981.

Prior to July 1973, the Secretary determined the premium rate by estimating the amount necessary to meet one-half of the benefits and administrative costs payable from the Part B trust fund for the applicable period, plus a contingency amount. The Federal Government was required, from time to time, to appropriate out of general revenues a contribution equal to the total of the premiums payable and to transfer this amount to the Supplementary Medical Insurance Trust Fund.

The "Social Security Amendments of 1972" (Public Law 92-603) and subsequent amendments modified the method by which premiums were calculated to limit increases to the percentage by which monthly cash benefits increased in the interval since the premium was last increased. Under current law the Secretary is required to calculate each December the premium amount to be effective the following July based on the lower of: (a) the actuarial amount sufficient to cover one-half of the benefits for the aged plus administrative costs, and a contingency amount; or (b) the percentage by which social security cash benefits will increase the following May over the amount in effect in May of the current year.

In announcing the rate to be effective July 1, 1981, the Secretary specified that the actuarial amount which would be sufficient to cover one-half of Part B costs is $22.60 for the aged and $36.60 for the disabled. However, the premium amount actually promulgated for the period is $11.00. Therefore for the period beginning July 1, 1981,

beneficiary premium contributions will be equal to 24.3 percent of anticipated Part B costs for the aged and 15.0 percent of such costs for the disabled.

Summary of proposal—Option A: Provide for maintaining the beneficiary Part B premium at a constant percent of total program costs for the aged (current estimate 25 percent).

Estimated savings.—

Fiscal year:	Millions
1982	$190
1983	380
1984	800

Option B: Provide for a gradual increase (5% per year) in the amount of the Part B premium, over the amount permitted in current law, so that beneficiary contributions would be sufficient to cover 50 percent of Part B costs for the aged by July 1, 1986.

Estimated savings.—

Fiscal year:	Millions
1982	......
1983	......
1984	......

12. HOME HEALTH SERVICES COST-SHARING

Source.—Staff.

Present law.—Medicare provides coverage for home health services under both Part A and Part B.

Summary of proposal.—The proposal would provide for beneficiary cost-sharing for home health benefits. This could be done in one of several ways:

Option A: Establish a fixed per visit charge, $5, effective for the calendar year beginning January 1, 1982.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$155
1983	170
1984	190

Option B: Establish a per visit coinsurance rate, e.g., 20 percent of billed charges. (In calendar year 1978 the average charge per visit nationwide was $26.89; total Medicare reimbursements were roughly $24.90 per visit. A 20 percent coinsurance applied to billed charges in that year would have equalled $5.40, rounded to the nearest 10 cents.)

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$230
1983	275
1984	330

Medicaid

(Freedom of Choice Provision Under Medicaid)

1. ACCESS TO AND PURCHASE OF CERTAIN MEDICAID SERVICES

Source.—Finance Committee approved provision in conjunction with fiscal year 1981 budget reconciliation.

Present law.—Under present law, medicaid recipients are permitted to choose from among hospitals and other providers and suppliers of health care services that are covered by the State program.

This provision was designed to permit medicaid patients to choose among any qualified provider or supplier of covered services, in the same manner as other patients. In some cases, the States' inability to negotiate with the health care community has required States to pay the top dollar for some services—especially institutional services—while at the same time shortages of funds makes it necessary for the State to impose restrictions on the kinds of health services it covers and the number of low income people who can qualify for aid.

Summary of proposal.—Allows States to be "prudent buyers" in arranging for hospital and other institutional services, clinic services, laboratory services, and medical devices. Provides that any limitations or restrictions imposed by the State with respect to a recipient's freedom of choice must: (*a*) be cost-effective arrangements which provide for reasonable payments based upon comparison of cost at which services may be obtained and are actually available; (*b*) assure reasonable access to services (including emergency services) that meet program standards of quality; (*c*) not have a substantially adverse effect on access of recipients to hospitals with graduate medical education programs. Provides that a State may not pay less for inpatient hospital services than the cost found reasonable and necessary in the efficient delivery of such services in the area.

Estimated savings.—

Fiscal year:	Millions
1982	$227
1983	273
1984	314

2. EXPAND STATE AUTHORITY TO IMPOSE MEDICAID COST SHARING REQUIREMENTS

Source.—Staff.

Present law.—Under present law States are permitted to impose nominal copayments and deductible amounts with respect to optional services for the categorically needy and for all services for the medically needy.

Summary of proposal.—Permit States to require nominal copayments on mandatory services provided to the categorically needy.

Estimated savings.—

Fiscal year:	Millions
1981	$
1982	
1983	
1984	

3. DELETE STATUTORY REQUIREMENT SPECIFYING STATE PAYMENT OF "REASONABLE COSTS" TO HOSPITALS

Source.—Staff.

Present law.—Under present law States, in general, determine the reimbursement rate for services under the medicaid program, except for inpatient hospital care, where they are required to use medicare's reasonable cost payment system unless they have approval from the Secretary of HHS to use an alternative payment methodology.

Summary of proposal.—States have complained that present Federal statutory and regulatory requirements with respect to payments for hospitalized medicaid recipients unduly constrain their administrative and fiscal discretion.

The proposal would delete the present statutory requirement and allow States the discretion of determining appropriate medicaid reimbursement to hospitals (but not in excess of the amount that would be determined to be reasonable under medicare).

Estimated savings.—

Fiscal year:	Millions
1982	$250
1983	280
1984	320

4. ESTABLISH A CAP ON THE LONG-TERM CARE PORTION OF THE MEDICAID PROGRAM

Source.—National Governors' Association.

Present law.—Under present law, the Federal Government shares in the cost of the medicaid program by means of a variable matching formula that is periodically adjusted. The matching rate, which is inversely related to a State's per capita income, ranges from 50 to 83 percent. There is no dollar limit on Federal financial participation in the program.

Summary of proposal.—An interim limitation of 7 percent on Federal medicaid long-term care expenditures would be applied in fiscal year 1982. In subsequent years, Federal funds would be provided to States for long-term care services on a new matching basis up to a ceiling. Each State's ceiling would be established by determining the amount of Federal funds provided during fiscal year 1982 and adjusting that amount by an inflation factor and by growth in the population at risk of needing long-term care services. The national nursing home price index (which measures inflation in the prices of

goods and services purchased by nursing homes) would be used for inflation, and an age-weighted population growth adjustment, which takes into account expenditures for long-term care by age groups, would be used to account for growth in the population. Under the proposal, States would be given flexibility in the use of medicaid funds for alternative community-based services.

Estimated savings.—

Fiscal year:	*Millions*
1981	0
1982	$400
1983	550

5. ELIMINATION OF SPECIAL MATCHING RATES

Source.—Staff.

Current law.—The Federal Government helps States share in the cost of medicaid services by means of a variable matching formula, periodically adjusted, which ranges from 50–83 percent. Generally, the Federal share of administrative costs is 50 percent.

There are four services or items for which the authorized matching rate is higher than that which would otherwise be applicable:

1. Compensation and training of skilled professional medical personnel—75 percent.
2. Medicaid management information systems (MMIS)—90 percent for installation and 75 percent for operations.
3. Family planning services and supplies—90 percent.
4. State fraud and abuse control units—90 percent for the first year of operation; 75 percent for the second and third year subject to specified maximums.

Summary of proposal.—The proposal would delete the special matching provisions in the law. All administrative costs would be matched at 50 percent. Family planning services would be matched at the same rate as other medical services in the State.

Estimated savings.—

Fiscal year:	*Millions*
1981	$........
1982	....
1983	....
1984	....

6. REDUCE FEDERAL MINIMUM MEDICAID MATCHING RATE

Source.—Ford fiscal year 1976 budget, staff.

Present law.—The Federal share of State medical vendor payments is determined by a statutory formula designed to provide a higher percentage of Federal matching to States with lower per capita incomes. However, no State can have a matching rate lower than 50 percent or higher than 83 percent. In 1982 twelve States and the District of Columbia will be receiving the minimum match. Those twelve States in addition to the District of Columbia are the following:

Alaska; California; Connecticut; Delaware; Hawaii; Illinois; Maryland; Michigan; Nevada; New Jersey; Washington; and Wyoming.

Summary of proposal.—Option A: Eliminate 50 percent minimum matching rate.

Estimated savings.—

Fiscal year:	Millions
1982	$679
1983	953
1984	1, 194
1985	1, 379

State by State Reductions	*Millions*
Alaska	$16
California	338
Connecticut	43
Delaware	1
District of Columbia	37
Hawaii	2
Illinois	112
Maryland	11
Michigan	40
Nevada	8
New Jersey	69
Washington	16
Wyoming	1

New State Matching Rates Without 50 Percent Minimum

State	Rate
Alaska	17. 13
California	41. 79
Connecticut	40. 81
Delaware	48. 16
District of Columbia	33. 36
Hawaii	48. 29
Illinois	42. 59
Maryland	47. 95
Michigan	47. 69
Nevada	35. 56
New Jersey	43. 74
Washington	46. 82
Wyoming	44. 71

Option B: Reduce minimum Federal matching rate to 40 percent.

Estimated savings.—

Fiscal year:	Millions
1981	$.......
1982	651
1983	922
1984	1, 169
1985	1, 358

Maternal and Child Health

1. MAINTAIN TITLE V AS THE BASIS FOR A CONSOLIDATED MATERNAL AND CHILD HEALTH BLOCK GRANT

Source.—Staff.

Summary of proposal.—The Administration has proposed legislation to consolidate over 40 health and social service programs into four block grants: health services, preventive health services, social services, and energy and emergency assistance. Budget authority for these block grants for fiscal year 1982 would be 75 percent of the current services level for the programs to be consolidated.

Recent testimony before the Finance Committee highlighted the unique health needs of the maternal and child health population. Based on these hearings, and the stated importance of sound administrative and financing mechanisms to assure these needs are met, the Committee may wish to consider an alternative proposal to block all maternal and child health programs into a separate block while maintaining the Administration's reduction in funding to 75 percent of the current level. The alternative block could contain:

Title V Maternal and Child Health and Crippled Children Services.

Supplemental Security Income program for services to Disabled Children.

Genetic Diseases.

Hemophilia.

Sudden Infant Death.

Lead-based paint poisoning prevention.

Estimated savings.—

Fiscal year:	
1981	....
1982	$96

Social Security

1. CHANGE THE COST-OF-LIVING ADJUSTMENT FOR SOCIAL SECURITY AND SSI

Present law.—Under the automatic cost-of-living increase provisions in the Social Security Act, social security and SSI benefit checks are increased each year unless the rate of inflation since the last increase is less than 3 percent. The percentage increase in benefits is determined by the Consumer Price Index (CPI). Each year's increase is equal to the percentage by which the CPI has increased over a 12-month measuring period: the CPI for the January-February-March quarter of that year over the CPI for the January-February-March

quarter of the preceding year. The increase is reflected 3 months later in the social security and SSI checks which are paid at the beginning of July.

The cost-of-living increase provision, as originally enacted in 1972, would have made increases effective in January of each year. Legislation enacted in December 1973 intentionally put the benefit increase on a fiscal year basis in order to avoid creating a substantial outlay increase in the fiscal year 1974 budget. The fiscal year at that time was on a July to June basis. In 1977, the fiscal year was moved to an October to September basis, but the month in which the benefit increase is provided was not similarly changed.

Four alternative cost-of-living adjustments are described below. Each one changes the date when the benefit increase is first paid, while 3 of them change the method of computing the benefit increase, also.

(a) MOVE BENEFIT INCREASE TO OCTOBER IN ONE-STEP (EFFECTIVE 1982)

Source.—This proposal is one element of a two-part change in the benefit increase provisions adopted by the Senate Budget Committee as part of its current deliberations on the First Budget Resolution for fiscal year 1982. (See alternative (d) below.)

Proposed change.—Beginning in 1982, the benefit increase would be paid in October of each year, rather than in July. The "lag period" between the end of the measuring period (now March) and the month of payment (July) would be increased from 3 months to 6 months. The amount of the benefit increase payable in October would be the same as that payable in July.

Estimated savings.—

Fiscal year:	Millions
1981	-----
1982	$3,640
1983	2,910
1984	2,805
1985	2,595

Comments.—To implement this change in 1981, rather than in 1982 as proposed here, this provision would have to be enacted very soon. Otherwise, the Social Security Administration would have to process the July benefit increase and then subsequently recover the amount of the benefit increase through an overpayment recovery action.

(b) MOVE BENEFIT INCREASE TO OCTOBER IN TWO STEPS (EFFECTIVE 1982)

Source.—H.R. 3207 (Representative Pickle, chairman, House Social Security Subcommittee).

Proposed change.—This proposal calls for a two-step benefit increase in 1982, and would subsequently provide annual benefit increases in October of each year. A benefit increase would be payable in May 1982 equal to roughly half of the estimated July 1982 benefit increase under

the President's budget. Another increase would be payable in October 1982. The two increases together would result in a total benefit increase in 1982 which would be higher than the present law increase.

The second increase paid in October 1982 would result in a combined benefit increase in 1982 that would reflect the change in the CPI from the January through March quarter of 1981 to the March though May period of 1982. Subsequent benefit increases, paid in October each year, would be based on the change in the CPI from the March through May period of one year to the next.

This change in the measuring period in effect increases the lag between the end of the measuring period and the month of payment of the increase from 3 months to 4 months. However, in 1982, ½ of one month's worth of the benefit increase would be added to the October payment to offset the effect of this additional lag in the near term.

Estimated savings.—

Fiscal year:	Millions
1982	$525
1983	*(310)
1984	*(315)
1985	*(520)

*Indicates costs. There would be no costs in these years under the Carter assumptions used by Representative Pickle.

(c) MOVE BENEFIT INCREASE TO OCTOBER OVER 3-YEAR PERIOD (EFFECTIVE 1982)

Source.—Staff.

Proposed change.—Over a three-year period, gradually change the date of benefit increase from July to October and shift the 12 month measuring period later in the year. In 1982, 1983, and 1984, benefits would be increased every 13 months on the basis of a 13-month increase in prices. In effect, this means that recipients would have their increase deferred for one month in each of those years but the loss of that one month's benefits would be compensated for by a higher benefit amount. Once the increase month had been shifted to the start of the Federal fiscal year (in October 1984), the proposal would revert to an increase every 12 months in October, based on a 12-month increase in prices.

This proposal would give beneficiaries increases which reflect the CPI as under present law but would achieve significant short-range savings by shifting forward a part of the impact of those CPI increases.

Estimated savings.—

Fiscal year:	Millions
1981	
1982	$1,040
1983	625
1984	520
1985	*(935)
1986	*(830)

*Indicates costs.

(d) LIMIT BENEFIT INCREASE TO LOWER OF THE INCREASE IN WAGES OR PRICES (EFFECTIVE 1981) AND MOVE PAYMENT DATE TO OCTOBER (EFFECTIVE 1982)

Source.—This proposal was adopted by the Senate Budget Committee as part of its current deliberations on the First Budget Resolution for fiscal year 1982.

Proposed change.—Under this proposal, the benefit increase would be paid in October instead of July, beginning in 1982, and it would be based on the lower of the increases in wages or prices, beginning in 1981. Whenever the CPI rose faster than average wages in the economy, the benefit increase would be limited to the increase in wages The change in the CPI and average wages would be measured from the first quarter of one year to the first quarter of the year of the increase as under present law. The change in wages would be measured by using the Bureau of Labor Statistics' average hourly wage index. Both changes would be permanent features of the program.

Under Administration economic assumptions the increase in average wages will be lower than the increase in prices during the measuring period used for this July's benefit increase. Thus the first part of this proposal would result in savings in fiscal years 1981 and 1982. The shifting of the payment date to October would not go into effect until 1982; therefore, it would first impact on the budget in fiscal year 1982. The average wage series would not be triggered again in computing the 1982 increase under Administration economic assumptions, but the lower increase provided in fiscal year 1981 would have a spillover effect on fiscal year 1982 and all subsequent years.

Estimated savings.—

Fiscal year:	Millions
1981	$520
1982	5, 615
1983	5, 095
1984	4, 495
1985	4, 895

Comment.—In order to implement the alternative wage series in time to affect the July 1981 benefit increase, this provision would have to be enacted very soon. Otherwise, the Social Security Administration would process the higher CPI-derived benefit increase and subsequently have to recover the difference in benefits through an overpayment recovery action. Alternatively, they would have to delay the benefit increase until August or September 1981. Even a delay, however, would require legislative authorization within approximately the same time frame as the "lower of wages or prices" provision.

Under Administration economic assumptions, there would be no near term savings from the lower of wages or prices provision if it were delayed to 1982.

COMPARISON OF POSSIBLE BENEFIT INCREASE MODIFICATIONS [1]

((\$) in Millions)

	Present law	Alternatives			
		Move to October in 1 step (a)	Move to October in 2 steps (b)	Move to October over 3 yr (c)	Move to October and lower of wage or prices (d)
Calendar year 1981 benefit increase.	11.2 percent	11.2 percent	11.2 percent	11.2 percent	9.8 percent
Payable in	July	July	July	July	July
Calendar year 1982 benefit increase.	9.3 percent	9.3 percent	11.3 percent	10.1 percent	9.3 percent
Payable in	July	October	May and October.	August	July in 1981, October in 1982.
Fiscal year 1982 Budget Savings.		$3,640	$525	$1,040	$5,615.

[1] Based on administration economic assumptions.

2. ELIMINATE PARENT'S BENEFIT WHEN YOUNGEST CHILD IS 16

Present law.—Present law provides social security benefits for children of deceased workers or dependent children of retired disabled workers up to age 18 (or to age 22 if they remain in school). Until the youngest child is age 18, a benefit is also payable to the mother if she is caring for the children. (Under court order, a similar benefit is now payable to a caretaker father in cases where the wife has died or become disabled.) The benefit for the parent is based on the spouse's earnings record and is payable in addition to childs' benefits and retirement or disability benefits for the worker.

Parent's benefits have been payable on the grounds that, while there are young children in the home, the parent may not be free to seek employment or may prefer to remain at home to care for the child. However, eligibility for benefits is unaffected by whether or not the parent actually remains home to care for the child, or engages in full-time employment.

(a) END PARENT'S BENEFITS WHEN YOUNGEST CHILD IS 16, PROSPECTIVELY (EFFECTIVE OCTOBER, 1981)

Source.—Staff.

Proposed Change.—As of October 1, 1981, end new entitlement to benefits for the mother or father caring for a child when the youngest child in the family reaches age 16 (rather than age 18). The provision would be effective only for parents who would become newly entitled after enactment. (The provision would not apply in the case of a parent caring for a disabled child aged 16 or over.)

Estimated costs.—

Fiscal year:	Millions
1981	
1982	*
1983	$100
1984	200

*Less than $50 million.

(b) ELIMINATE PARENT'S BENEFITS WHEN YOUNGEST CHILD IS 16, FOR BOTH CURRENT AND FUTURE BENEFICIARIES (EFFECTIVE OCTOBER, 1981)

Source.—House Resolution 115 (1st Budget Resolution on fiscal year 1982 Budget) reported by House Budget Committee.

Proposed change.—As of October 1, 1981, eliminate parent's benefits altogether when the youngest child is 16. This proposal differs from the previous one in that beneficiaries currently receiving parent's benefits would also be affected immediately if their youngest child is already age 16 or as soon as their youngest child reaches age 16.

Estimated savings.—

Fiscal year:	Millions
1981	-------
1982	$400
1983	500
1984	500

3. ROUND SOCIAL SECURITY BENEFITS TO THE NEXT LOWER DOLLAR (EFFECTIVE OCTOBER 1, 1981)

Source.—H.R. 3207 (Representative Pickle, chairman, House Social Security Subcommittee).

Present law.—At each stage in the benefit computation, the amount derived is rounded up to the next higher 10 cents.

Proposed change.—Round each step of the computation of benefits to the nearest penny, except for the last step (the actual benefit amount payable per beneficiary), which would be rounded to the next lower dollar. This last rounding would occur after the SMI premium was deducted. This change would have only a modest effect on the typical social security benefit.

Estimated savings.—

Fiscal year:	Millions
1981	......
1982	$100
1983	200
1984	300

4. LIMIT FAMILY BENEFITS TO 150 PERCENT OF WORKER'S BENEFIT (EFFECTIVE OCTOBER 1, 1981)

Source.—Staff.

Present law.—The maximum family benefit in retirement and survivor cases ranges from 150 percent to 188 percent of the worker's benefit, known as the "primary insurance amount" (PIA). The 150 percent rule applies to the lowest PIAs and rises to 188 percent for PIAs two-thirds of the way up the benefit scale and then falls to 175 percent at the highest PIA levels.

The Disability Amendments of 1980 preclude the family maximum in disability cases from exceeding 85 percent of the worker's average indexed monthly earnings (but not less than the worker's own benefit) or 150 percent of the worker's own benefit, whichever is lower.

Proposed change.—Beginning October 1, 1981, limit the maximum family benefit under all types of social security entitlements to 150 percent of the worker's benefit (the PIA). This would only affect people newly entitled to social security benefits.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$100
1983	200
1984	300

Unemployment Compensation

1. REDUCE MAXIMUM POTENTIAL DURATION OF EXTENDED BENEFITS FROM 13 TO 8 WEEKS (EFFECTIVE JANUARY 1, 1982)

Source.—Staff.

Present law.—The Federal-State Extended Benefits program provides benefits for a period equal to the lower of one-half of a claimant's total potential benefits under the regular State program or 13 weeks. Benefits paid are equal to the claimant's weekly benefit amount under the regular State program.

Proposed change.—Amend the extended benefit duration formula to be the lower of one-half of the claimant's total potential benefits under the regular State program or 8 weeks at the rate of his regular State program weekly benefit amount. This would reduce the maximum combined duration of benefits in most States (when the extended benefit program has triggered on) from 39 to 34 weeks. Weekly benefit amounts, however, would be unchanged.

In the 42 State programs with variable potential duration, this proposal would shorten the potential benefit duration only for individuals eligible for more than 16 weeks of regular State benefits. For example, a claimant eligible for 20 weeks of regular benefits would be eligible for 8 weeks of extended benefits (when the extended benefit program triggers on) instead of 10 weeks under present law. Claimants eligible for 10 weeks of regular benefits would be eligible for 5 weeks of extended benefits, as under current law.

Estimated savings.—

Fiscal year:	Millions
1981	----------
1982	$222
1983	100
1984	94
1985	36

2. REDUCE WEEKLY BENEFIT AMOUNT UNDER EXTENDED BENEFITS PROGRAM TO 75 PERCENT OF WEEKLY BENEFIT AMOUNT UNDER REGULAR BENEFIT PROGRAM (EFFECTIVE JANUARY 1, 1982)

Source.—Staff.

Present law.—When the extended benefits program triggers on in a State, extended benefits are paid to claimants at the same rate as their regular State benefit. Half of the cost is financed by the Federal Unemployment Tax.

Proposed change.—Amend the extended benefit program formula so that claimants would receive a weekly benefit amount equal to 75 percent of their weekly benefit amount under the regular State program. This change would make jobs paying less than the claimant's last job relatively more attractive than continuing to receive extended benefits at the reduced rate. The duration of unemployment compensation benefits would be unaffected.

Estimated savings.—

Fiscal year:	*Millions*
1981	....
1982	$188
1983	86
1984	80
1985	30

3. MODIFY OPTIONAL STATE TRIGGER AFTER 2-YEAR EXTENDED BENEFIT PERIOD (EFFECTIVE JANUARY 1, 1982)

Source.—Staff.

Present law.—Under present law, when the extended benefit program is not in effect nationally, it may go into effect in individual States on the basis of the State insured unemployment rate (IUR). There are two State triggers—a mandatory trigger and an optional trigger. Under the mandatory trigger, States must pay extended benefits when two conditions are met: (1) the State insured unemployment rate is at least 4 percent *and* (2) the State insured unemployment rate is at least 20 percent higher than the rate prevailing on average during the comparable period in the 2 previous years. If the 20-percent-higher condition is not met, States may (but need not) pay extended benefits if the State insured unemployment rate is at least 5 percent. (The insured unemployment rate is determined by taking the number of individuals drawing unemployment benefits as a percentage of the number of persons employed in covered jobs. The rate is measured over a moving 13-week period.)

For the extended benefits program to remain triggered on for a long period of time, under the mandatory State trigger, the State's insured unemployment rate must rise. Otherwise, the State IUR would not continue to meet the 20 percent provision. The rationale for this is that extended benefits are intended to provide additional weeks of compensation when unemployment in a State is higher than usual and jobs are more difficult than usual to find. With the optional trigger, by contrast, a State may be triggered on indefinitely with a stable unemployment rate of 5 percent or more. In Puerto Rico, for example, the extended benefits program has been triggered on continuously since February, 1975.

Proposed change.—For the extended benefits program to remain triggered on in a State for a period exceeding two years, require the State IUR to be 20 percent higher than the rate prevailing during the comparable period in the previous two years. This change would only

affect the optional State trigger provision. The proposal would prevent States from continuing to pay extended benefits without demonstrating that employment conditions in the State were continuing to deteriorate.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	$145
1983	....
1984	63
1985	....

4. REQUIRE REGULAR BENEFIT CLAIMANTS TO HAVE WORKED AT LEAST 20 WEEKS (OR ITS EQUIVALENT IN WAGES OR HOURS) IN THE ONE-YEAR BASE PERIOD (EFFECTIVE OCTOBER 1, 1982)

Source.—Senate Committee on the Budget.

Present law.—To be eligible for unemployment compensation benefits, all States require an individual to have worked for a certain length of time or to have earned a specified amount of wages in the base period. These requirements are designed to test the individual's attachment to the labor force prior to their loss of employment. These qualifying requirements are intended to assure that only workers with reasonably firm attachment to the labor force qualify for benefits.

The most common type of base-period earnings requirement is expressed as a multiple of the weekly benefit amount, that is, the claimant's benefit amount multiplied by a fixed figure. Some of these States also require earnings in at least two quarters to prevent an individual who earns high wages working for only one quarter from qualifying for benefits.

Another requirement used by States is expressed as a multiple of high-quarter wages. The most common multiple is 1½ times, which requires the claimant to have at least 33⅓% of his wages outside the high quarter. Certain States call for a specified number of weeks of employment in the prior year's period. The range is from 14 weeks to 20 weeks. Weeks of employment are defined as weeks in which the claimant's wages exceeded a specified amount, such as $35. Nearly one-fourth of the States require an individual to have worked a certain number of weeks with at least a specified weekly wage. Still other States require a specified, flat amount of earnings in the base period, such as $1,000.

There are also some States which have qualifying work requirements which provide for varying periods of eligibility in relation to the amount of each individual's base period employment.

Proposed change.—Require regular State program claimants to have worked at least 20 weeks in the one-year base period to qualify for benefits, effective in fiscal year 1982. States that do not currently have a weeks-of-employment qualifying requirement could obtain weeks-of-employment information or else calculate its rough equivalent in dollars or hours of work.

Estimated savings.—

Fiscal year:	Millions
1981	....
1982	....
1983	$907
1984	894
1985	863

Comment.—In arriving at the Finance Committee's reconciliation totals in S. Con. Res. 9, the Budget Committee included the savings associated with this proposal.

Social Services

1. MODIFY SOCIAL SERVICES BLOCK GRANT

Proposed change.—The Administration proposed consolidating 12 social services programs into a single block grant including programs within the jurisdiction of both the Labor Committee and the Finance Committee. Budget authority for the block grant for fiscal year 1982 would be 75 percent of the current service level for the individual programs.

The Committee may wish to consider an alternative block grant, which maintains the 25 percent reduction in funding, but which includes only programs within its jurisdiction.

Energy Assistance

1. MODIFY ENERGY AND EMERGENCY ASSISTANCE BLOCK GRANT

Proposed change.—The Administration proposes consolidating low income energy assistance and AFDC emergency assistance into a single block grant. Budget authority for the block grant for fiscal year 1982 would be 75 percent of the current service level for the individual programs.

The Committee may wish to consider an alternative block grant, which maintains the 25 percent reduction in fiscal 1982 expenditures, but which includes the following programs:

Emergency Assistance;
Energy Assistance; and
Community Services Administration.

O