Low-Income Benefit Programs Overview

The category low-income benefit programs includes programs that provide cash and in-kind assistance to the Nation's low-income population. It encompasses all of the major means-tested entitlement programs, including Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), Food Stamps, Medicaid, and child nutrition. It also includes certain discretionary programs for the poor and near-poor, such as housing assistance, Women, Infants and Children nutrition assistance (WIC), Low Income Energy Assistance, and refugee aid, which have some characteristics of entitlements but are limited by annual appropriations acts. Taken together these programs constitute the basic social safety net of direct cash and in-kind assistance for the Nation's poor.

During the decades of the 1960's and 1970's, low-income benefit programs expanded in virtually every dimension. In the relatively short time-span of 20 years, a total of seventeen separate low-income programs were enacted into law, the number of beneficiaries increased by almost 300%, and inflation-adjusted Federal expenditures rose by over 650%. By the end of the 1970's, runaway growth in low-income benefit spending had become one of the most intractable budget and social policy problems confronting the Nation. The rate of growth in benefit outlays could not be sustained, but reductions might have an adverse impact on millions of the Nation's poor. Thus, the essential policy dilemma was to reduce the growth in outlays while, at the same time, preserving benefits for those in genuine need.

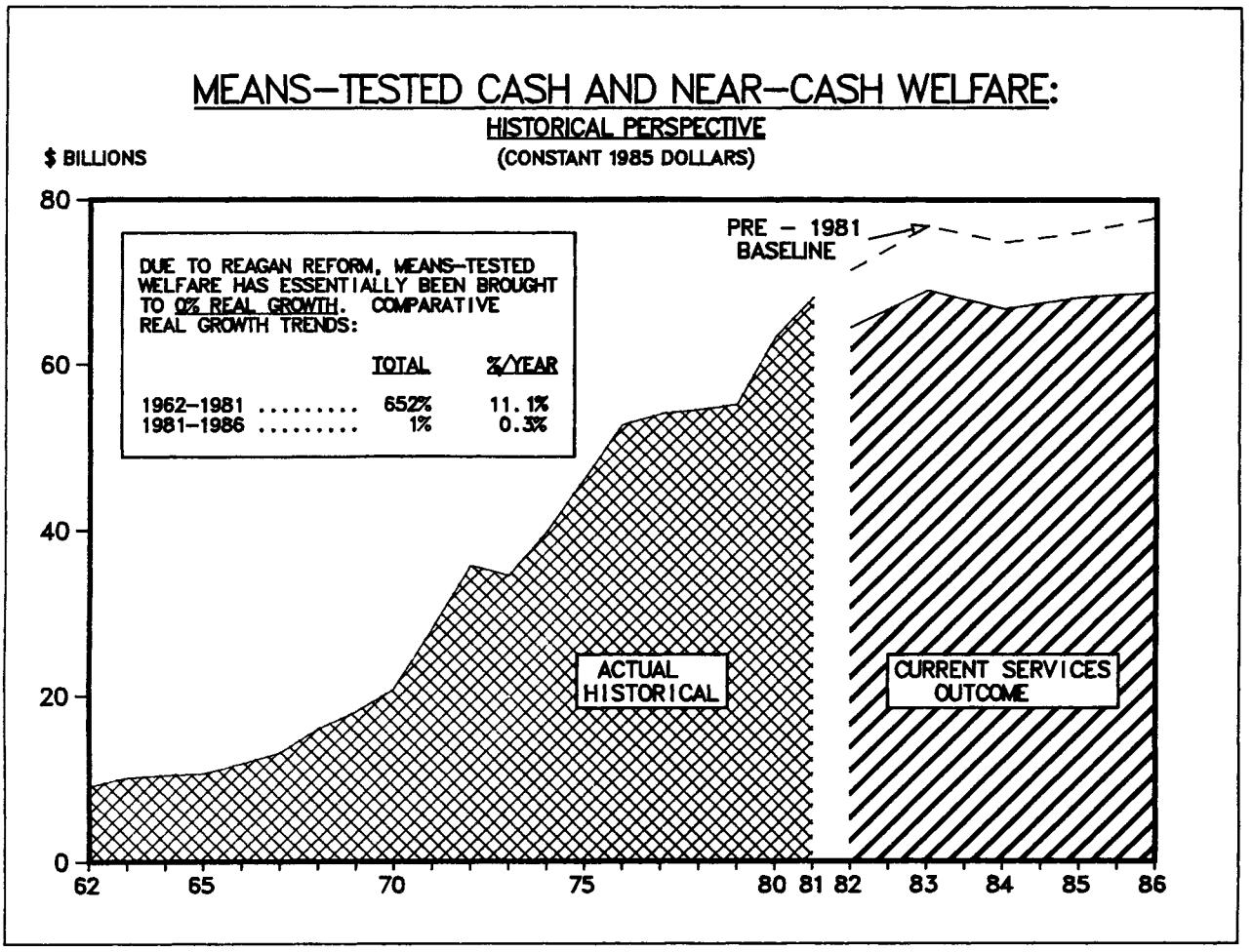
Over the last three years, the dual problem of controlling costs and maintaining benefits to the needy has largely been resolved. As is illustrated in the chart below, the growth in constant dollar outlays for low-income benefits has been virtually halted. Projected low-income benefit costs will remain almost constant in real terms throughout the five-year budget horizon. Moreover, this stabilization of real program costs has been accomplished primarily by policies which improved the targeting of benefits to those in genuine need.

In order to fully comprehend the extent of the cost control problem faced by the Administration in 1981, the excesses and inefficiencies of the vast network of programs that had been built up over two decades of expansions, and the magnitude of the accomplishments achieved to date, it is instructive to review the historical record of low-income benefit programs from the early 1960's to the present. This review will also place the Administration's 1985 budget proposals in perspective.

The Historical Record

The historical perspectives chart below summarizes the dramatic 20-year expansion in low-income benefit outlays and the impact of legislative reforms during the last three years. Over the 20-year expansion period, 1962 through 1981, constant dollar outlays grew at an annual compound rate of over 11%. Two generic factors operating throughout this period combined to produce this profound growth:

- The creation of a multitude of uncoordinated in-kind benefit programs that resulted in a *layering* of one benefit upon another rather than in an integrated system of benefits in which the magnitude of one benefit would take into account receipt of another.
- The transformation and expansion of discretionary programs into open-ended, inflation-indexed entitlement programs.



As the chart suggests, however, the 20-year growth period has two distinctly different phases. The first phase of steadily accelerating costs roughly corresponds to the New Frontier-Great Society years, 1962-1969. During this phase, a multitude of new programs which constituted the basic network of low-income benefit programs was put in place. In the second phase, 1970-1981, the basic network was fundamentally transformed as program after program was placed on an inflation-indexed entitlement basis. This transformation, coupled with recession-induced benefit and eligibility liberalizations, radically accelerated the growth rate, driving expenditures to successively higher and higher plateaus.

Creating the basic network: 1962-1969.—At the outset of the 1960's, relatively few low-income benefit programs existed. Eligibility criteria varied, and the Federal Government generally shared costs rather than providing 100% funding of benefits. Among the major programs, two categories of entitlements—SSI-predecessor programs and AFDC—provided cash assistance to low-income aged, blind, disabled and families headed by women. States could, with Federal support, provide medical assistance to any or all of these groups. Housing aid primarily took the form of payments for the capital costs of public housing, and nutrition aid largely was provided through grants for school lunch programs.

During the 1960's, a dozen separate low-income benefit programs were enacted into law. All but one, Medicaid, were discretionary programs and all but one, Refugee Assistance, provided assistance entirely in the form of a specific in-kind benefit rather than cash. Six of the eleven newly created discretionary programs provided nutritional aid. These included the Food Stamp program, three child nutrition programs, and nutritional programs for the elderly and pregnant women. Four of the additional programs provided housing assistance.

However, as the table below indicates, the primary source of the growth in low-income benefit costs was not these discretionary programs. Their enactment simply established the base for the explosion in outlays which occurred during the succeeding decade. The principal causes of the growth were the expansion of AFDC and the enactment of Medicaid.

Growth in Low-Income Benefit Outlays, 1962–1969

(1985 constant dollar amounts in millions)

	1962	1969	Share of total increase
Entitlement Programs:			
AFDC	2,533	4,702	24.1%
Medicaid	322	6,056	63.6%
Aid to the Aged, Blind and Disabled	4,714	4,569	−1.6%
Subtotal, Entitlement Programs	7,569	15,327	86.1%
Discretionary Programs:			
Nutrition	916	1,594	7.5%
Housing	557	941	4.3%
Refugee Aid	....	188	2.1%
Subtotal, Discretionary Programs	1,473	2,723	13.9%
Total, All Programs	9,041	18,050	100.0%

Together, AFDC and Medicaid account for almost 90% of the 1962-1969 growth in constant dollar outlays, a reflection of the importance of entitlement programs as a driving force behind the two decades of runaway spending.

The low-income benefit programs enacted during the 1960's also represented a significant shift in the nature of low-income assistance. Prior to the 1960's, assistance was provided primarily in the form of cash. All of the low-income benefit programs enacted during the 1960's, on the other hand, provided assistance in the form of in-kind benefits. As a result, in-kind aid as a proportion of total low-income assistance rose from 20% in 1962 to over 50% by 1970.

Transforming the basic network: 1970–1981.—During the second phase, expenditures on low-income benefit programs accelerated. In just two years, 1969-1971, the increase in inflation-adjusted expenditures exceeded the increase which occurred during the preceding seven years of the Great Society programs, 1962-1969. Over the entire 11-year period, 1970-1981, the 19% annual compound growth rate in outlays far outstripped the rate of inflation, causing constant dollar expenditures to more than triple. Throughout the 1970's, low-income benefit programs were the fastest rising segment of the Federal budget.

The growth momentum was primarily the result of a flurry of legislative expansions during the years 1970-1975. This six-year period contained two severe economic recessions and an intervening period of rapid inflation. The legislative expansions enacted during this brief recession-inflation-recession cycle unleashed a spending momentum that would continue through late 1970's and early 1980's. In each recession, program eligibility was liberalized and benefits were increased. This was

done in large measure by transforming discretionary programs into open-ended entitlement programs with nationally uniform eligibility standards and benefit levels in excess of those provided under State discretion. During the intervening years of inflation, all but a few programs were indexed to prevent the real value of benefits from being eroded by rising prices.

The accompanying table presents data on the growth in expenditures by major program category. As the data indicate, massive real growth in benefit spending occurred in all categories of aid. Nutrition programs, whose growth was fueled by reports of widespread hunger in America, expanded the fastest, registering a constant dollar increase of over 1,000%. These programs accounted for the largest share of the total increase in low-income benefit costs 33%. Between 1970 and 1975, six of the nine nutrition programs, including Food Stamps and the school lunch program, were converted to entitlements and indexed.

Growth in Outlays by Program, 1970–1981

(1985 constant dollar amounts in millions)

	1970	1981	Share of total increase
Entitlements Programs:			
Nutrition	2,475	17,867	33%
Medicaid	6,832	19,443	27%
AFDC	5,495	8,820	7%
SSI	4,489	7,902	7%
EITC	....	1,610	3%
Subtotal, Entitlement Programs	19,291	55,642	77%
Discretionary Programs:			
Housing	1,240	8,156	15%
WIC	....	1,136	2%
Low-Income Energy	....	2,175	5%
Refugee Aid	219	887	1%
Subtotal, Discretionary Programs	1,459	12,354	23%
Total, All Programs	20,751	67,996	100%

In Medicaid, the entitlement was expanded to include services provided by intermediate care facilities. This 1972 expansion, which profoundly changed the nature of Medicaid, was thought to have minor consequences at the time. But, it alone accounts for almost 40% of the tripling of Medicaid costs from 1972 to 1981.

The 1974 and subsequent SSI legislation transformed State-run programs for the aged, blind, and disabled into a federally financed, nationally uniform, fully-indexed entitlement program. The nationally uniform standards raised benefits and eligibility in many States. With these changes, enrollment increased by one-third in the first year of SSI operation and constant dollar outlays doubled within two years. Overall, entitlement programs accounted for 77% of the total growth in low-income benefit costs during the period 1970-1981.

The expansion of the 1970's, however, was not limited to entitlement programs. Housing outlays increased by almost 550% during the decade. In addition, during the latter half of the decade two more discretionary programs, WIC and Low Income Energy Assistance, were added to the list of low-income benefit programs. Both programs began with initial funding of less than $200 million. By the early 1980's, both were among the fastest growing programs in the Federal budget. In 1981, WIC expenditures had almost reached the $1 billion mark and Low Income Home Energy Assistance had grown to $1.8 billion.

The shift in the form of low-income benefits from cash to in-kind assistance continued throughout the 1970's. Primarily as a result of the explosion in nutrition and housing benefits and the continued sharp growth in Medicaid outlays, in-kind benefits as a share of total low-income assistance rose by one third from 1970 to 1981.

The Results of Two Decades of Growth

By 1981, 14 separate programs provided 7 out of every 10 dollars of Federal low-income benefits in the form of in-kind assistance. As a result, multiple recipiency of benefits, uncommon in the 1960's, became the norm. In 1980, a recipient of low-income benefits received, on average, benefits from three different programs. And some received benefits from as many as 6 different programs.

Low-Income Benefit Recipient Data

(Persons in millions)

	1965	1980
Number of People Getting One or More Benefits[1]	8.6	33.1
Total Benefit Program Enrollment[1]	9.4	111.9
Average Number of Benefits Per Recipient[1]	1.1	3.4

[1] SSI, AFDC, Food Stamps, Housing, Medicaid, School Lunch, Refugee Assistance, EITC, LIHEA.

The proliferation of benefits and lack of coordination among them resulted in inefficiency and poor targeting, illustrated in data on the "poverty gap." The poverty gap represents the amount of low-income benefits necessary to lift all poor persons out of poverty. The table below, which compares the poverty gap to low-income benefit expenditures, shows that low-income benefits grew markedly relative to social need. In 1981, expenditures were 62% more than necessary to eradicate poverty. At the same time, however, fewer than half of those expenditures actually reduced the extent of poverty. The other half went to people who were not poor to begin with or raised real incomes of some families, who were initially poor, far above the poverty line.

Inefficiency of Low-Income Benefit Programs

(1985 constant dollar amounts in billions)

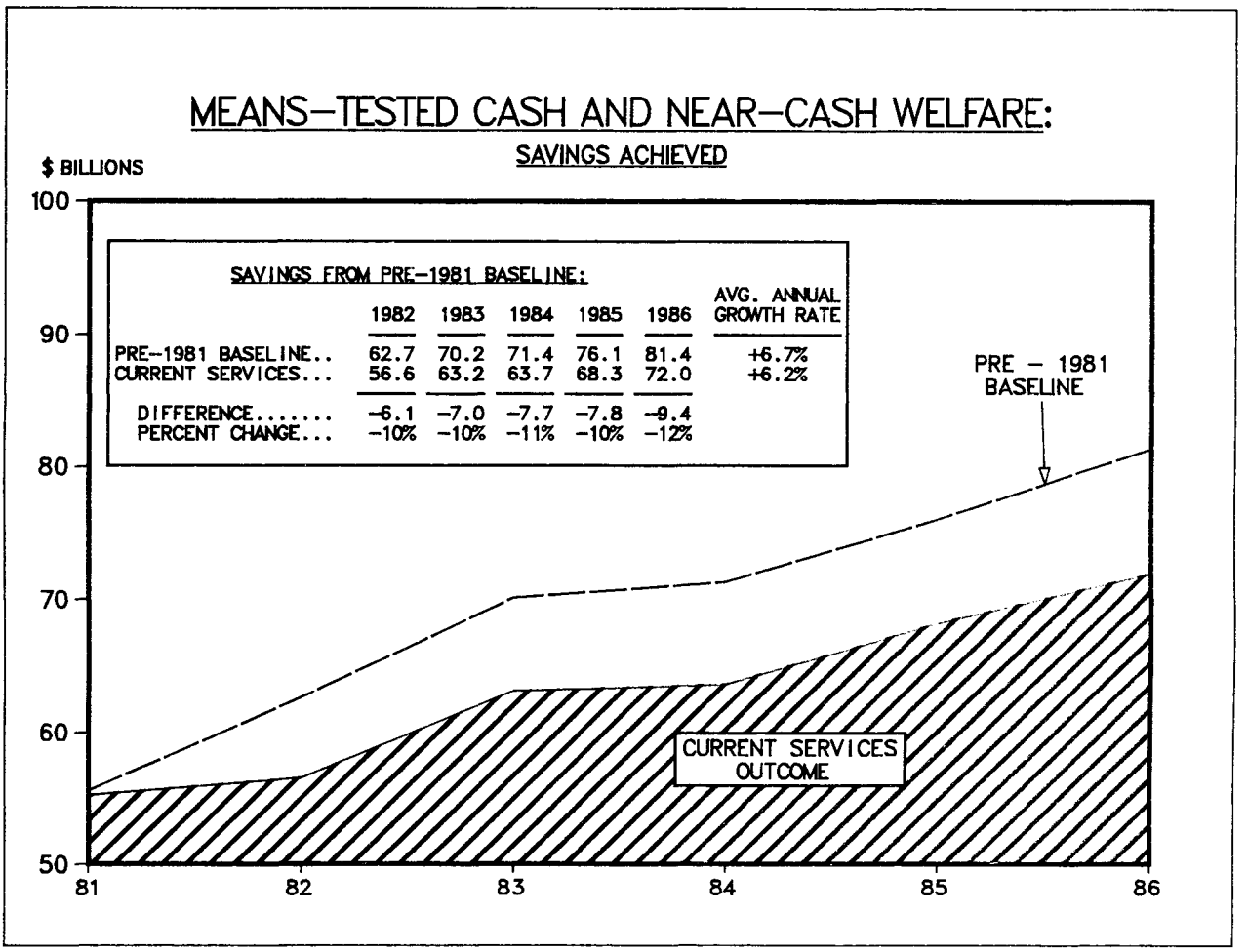
	Pre-low-income benefit poverty gap	Low-income benefit expenditures	Post-benefit poverty gap
1970	41.4	35.0	....
1981	57.7	93.2	29.5

Reforms Made to Date

Because means-tested programs had grown largely unchecked for 20 years, there was room for reform when the Administration took office. The reforms undertaken were designed to do the following:

- Restructure programs to improve their efficiency and effectiveness and stem unnecessary cost growth.
- Reduce excessive benefits and better target aid to the needy.
- Implement effective work incentive measures.
- Reduce error and waste.

Legislation directed toward these goals and enacted during the last three years has resulted in a cumulative reduction of $38 billion in nominal outlays over the period 1982-1986, as indicated in the savings achieved chart.



With these savings, real low-income benefit costs have been stabilized, as shown in the following table.

Stabilization of Low-Income Benefit Outlays

(1985 constant dollar amount in billions)

	Amount	Percent change from 1970
1970	20.8	.....
1981	68.0	+228%
1985 Current services	68.3	+229%

This stabilization has been achieved while protection for the truly needy has been preserved. Data from the Census survey that is used to compile official poverty rates illustrate this point. These data are for 1981 and 1982, which are, respectively, the year prior to the time most reforms took effect and the most recent year for which data are available. They include the market value of in-kind benefits.

Improved Target Efficiency of Low-Income Benefits

(1985 constant dollar amounts in billions)

	Total benefit reported	Amount of benefits reducing poverty	Target efficiency
1981:			
Cash	19.4	13.3	69%
In-kind	37.9	15.0	39%
Total	57.3	28.3	49%
1982:			
Cash	18.8	13.8	73%
In-kind	37.2	16.7	45%
Total	56.0	30.5	54%

[1] Includes AFDC, SSI, food stamps, free and reduced price school lunches, medicaid and housing benefits, but only the amounts which individuals reported receiving.

As can be seen from the table above, the "target efficiency" of low-income benefits—the extent to which low-income benefits raise those with incomes below the poverty level up to the poverty level—has been greatly improved.

- The percentage of means-tested benefits going to reduce the extent of poverty rose from 49 to 54 between 1981 and 1982.
- In real terms, benefits going to reduce the degree of poverty increased by 8% after reforms were enacted, although fewer dollars were spent in total.

Census survey data for 1981 and 1982 also indicate that the portion of households with cash incomes below the poverty line who received any of the means-tested benefits covered by the survey was the same in 1982 as in 1981: approximately 73%. Thus, the data refute recent assertions that the Federal Government's policies have removed poor persons from the benefit rolls.

Another perspective on recent reforms is provided by a comparison of low-income benefit funding reflected in budgets enacted for 1982-1983 with funding for budgets in roughly comparable prior periods. As shown in the table below, relative to similar economic conditions in 1975-1976 and less severe recession conditions in 1971-1972, constant dollar availability of cash and in-kind support for the Nation's poor in 1982-1983 was 35% and 110% greater, respectively, despite the reform measures enacted since 1981.

Major Low-Income Benefit Programs

(Average annual outlays in 1985 constant dollar amounts in billions)

	Average Annual Outlays		
	1971–72	1975–76	1982–83
Cash Assistance	13.8	18.5	20.1
Housing Aid	2.2	4.2	9.6
Medical	9.3	13.7	19.3
Nutrition	6.5	13.1	17.9
Total	31.8	49.4	66.8

An examination of the major low-income benefit programs in turn confirms the success of the reforms suggested by the general indicators:

AFDC and food stamps.—Reforms in these two programs have been designed primarily to improve targeting by ensuring fuller recognition of the income and resources available to applicants and recipients, to enhance their attachment to the labor force and discourage welfare dependency, and to reduce errors in benefit payments.

The comparison of benefit payments in 1981 and 1982 shown in the table below suggests that targeting has been improved. In both programs, the expenditures going to poor persons grew both in constant dollar terms and as a percent of total program expenditures.

Expenditures for the Poor in AFDC and Food Stamps

(1985 constant dollar amounts in billions)

	1981		1982	
	Dollars	Percent of total program	Dollars	Percent of total program
AFDC	8.2	73%	9.2	80%
Food stamps	5.8	78%	6.9	84%

Moreover, the steps taken to improve labor force attachment in AFDC and Food Stamps seem to be working. Because a variety of evidence indicated that earned income deductions and disregards had little, if any, effect on work incentives, reforms enacted in 1981 increased the amount of earned income counted in determining benefits. Some people were concerned that these changes would lead wage-earning recipients to quit their jobs to stay on welfare. Their concerns have proved unwarranted. A study of AFDC found that the number of recipients who quit work or lost jobs and returned to welfare was the same both before and after the 1981 legislative changes—18%. Indeed, the change produced the necessary incentive for the vast majority of working recipients to make the transition from welfare to self-support. Cases with earned income moved off the AFDC rolls twice as fast after the changes were made as they did before.

Assisted housing.—Although tenant rents were increased in this program to reduce disparities in rents paid by those receiving HUD subsidies and unsubsidized citizens with comparable incomes, the major thrust of reforms has been to shift housing subsidies toward less costly existing units. Under these reforms, the number of households receiving HUD subsidies increased from 3,297,000 in 1981 to 3,663,000 in 1983, an 11% increase. In 1984, an additional 166,000 households will receive assistance.

Medicaid.—To promote system changes in this program, Federal matching rates were reduced and States' flexibility to alter payment policies and modes of service delivery were increased. These changes have been successful in precipitating a rethinking of programs along lines which are benefiting the needy. The Intergovernmental Health Policy Project, which has been systematically surveying State Medicaid programs, outlines the strong contrast between 1981 and 1982 in an April, 1983 report. They note that out-of-control growth prior to the reforms enacted under the Reagan Administration was forcing States to retrench, often to the disadvantage of recipients. In contrast, new flexibilities provided under the reforms have allowed many States to increase services and add beneficiaries.

School lunch.—Under reforms in this program, free lunches have remained available at no cost for children whose families have incomes below 130% of the poverty line, but subsidies have been reduced for higher income families. Census data show that between 1981 and 1982 expenditures on the poor in the school lunch program increased from $1.6 billion to $1.8 billion in constant 1985 dollars and from 42% to 49% of total program expenditures.

As with any change in subsidies, the reductions for higher income families probably affected behavior, causing some of these families to decide the lunches were not worth their cost. In combination with enrollment declines, these behavioral changes resulted in a drop in the number of school lunches served between 1981 and 1982. As a result, schools reportedly are taking steps to make their lunches more attractive to students. These changes should benefit children of all income classes, and they seem to be having an effect. The number of school meals served increased between 1982 and 1983 and is projected to increase further in 1984.

Proposed Reforms

The reforms proposed in the 1985 budget build on the reforms implemented through the last three budgets and are designed to meet the same goals. These proposals would maintain the new equilibrium attained through the reforms enacted in the last three budgets. In aggregate terms, the social safety net of low-income programs would neither expand nor contract. The focus would be on ensuring that runaway growth is not set in motion again through a proliferation of new programs, conversion of discretionary programs to entitlements, and poorly targeted expansions of low-income benefits. Priority would be placed on sustaining economic growth to reduce the level of need, containing medical cost to ensure adequate assistance to the poor and elderly at minimum cost, and marginal program reforms elsewhere to improve targeting and eliminate remaining abuses.

The modest reforms contained in the 1985 budget are consistent with these priorities. They include continuation of the three percent matching reduction in Medicaid and mandatory copayments to restrain excessive utilization; further steps to improve work incentives and targeting in AFDC; minor cost savings in food stamps, largely through reductions in erroneous payments; small savings in child nutrition programs; and funding slightly below current services levels for WIC, low-income home energy and subsidized housing. Taken together, these reforms would result in funding for low-income benefits increasing at an average annual rate of 0.5% between 1984 and 1989, a small reduction in the 1.6% annual rate of increase under current services.

The proposed 1985 reforms are discussed in the factsheets that follow. This chapter contains 11 factsheets in three groups.

Medical and Housing Programs

Medicaid Benefits

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	19,659	21,082	23,799	26,088	28,498	31,042	130,508
Outlays	19,222	21,998	23,799	26,088	28,498	31,042	131,424
1985 Budget Level:							
Budget Authority	19,659	20,015	22,682	24,934	27,309	29,825	124,764
Outlays	19,222	20,931	22,682	24,934	27,309	29,825	125,680
Change:							
Budget Authority	....	−1,067	−1,117	−1,154	−1,189	−1,217	−5,744
Outlays	....	−1,067	−1,117	−1,154	−1,189	−1,217	−5,744

Program Description

The medicaid program makes grants to States to help finance needed medical care for low-income families and individuals. The Federal Government finances 50 to 78% of the cost of medical services under State medicaid programs. Currently, medicaid pays the health care costs of 22.9 million low-income people.

Current Status

The Administration has implemented significant medicaid reforms to improve program effectiveness, slow runaway health care costs, and promote greater flexibility for States in administering their programs.

The Omnibus Budget Reconciliation Act of 1981 (OBRA) set reasonable growth rate targets for health care costs and a schedule of reductions of Federal funds for States with excessive health care costs. The 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) gave States the option of requiring medicaid recipients to share very nominally in the cost of their health care. Medicaid reforms enacted by Congress have slowed the average annual growth of medicaid outlays from 14% (1975-80), to a projected 8% for the period 1981-1985.

Other recent improvements include:

- the home and community based health care waiver program, which helps States finance health services for individuals at home and in the community as an alternative to institutionalization;
- regulations to strengthen medical and dental screening, and treatment for about 2 million children in the Early and Periodic Screening, Diagnosis and Treatment program; and
- more State discretion in eligibility determination and in controlling high hospital costs.

Constant Dollar Trends

Constant dollar outlays for the pre-medicaid state grant program totalled $804 million in 1965. By 1969 when medicaid was fully operational, constant dollar Federal costs reached $6.1 billion—nearly an eight-fold rise over the pre-medicaid level. Due to benefit and coverage liberalizations enacted in the early 1970's, as well as rapid increases in the real costs of health care, constant dollar outlays more than tripled between 1969 and 1981.

Since 1981, the medicaid real growth rate has slowed sharply—averaging 1.2% annually between 1981-1984 compared to 10% per year between 1969 and 1981. Under current services projections, real

growth will average 5.5% per year from 1984 through 1989 and 4.7% per year over the same period if the 1985 budget proposals are implemented.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1965 (pre-medicaid)	804
1969	6,056
1975	12,602
1981	19,443
1984	20,161
1989 current services	26,396
1989 budget	25,361

1985 Budget Proposals

The 1985 budget reproposes major 1984 budget proposals to: (1) continue OBRA growth rate targets for health care costs, (2) reduce Federal medicaid funding to States with excessive health costs by 3%, and (3) require modest cost sharing by medicaid recipients (which was optional under TEFRA).

- *Continue medicaid cost growth rate targets and reductions enacted by OBRA.*—The 1984 medicaid cost growth rate targets and reductions would be continued in 1985 and beyond. The reductions would, however, be set at 3% rather than the 4.5% applicable to 1984. Also continued would be special incentives to states to promote hospital cost reviews, and reduce fraud and abuse. States with exceptionally high unemployment rates (150% or more of the national average) would continue to receive a 1% offset to the expenditure reductions for exceeding the growth rate targets.
- *Require nominal co-payments by medicaid recipients.*—This proposal would require medicaid recipients to make nominal copayments per visit for physician, clinic, outpatient and inpatient services. These minimal copayments, ranging from $1.00 to $1.50 for physician visits, and $1.00 to $2.00 for each day in the hospital, would make consumers more aware of the cost and would discourage them from unnecessary or excessive use of medical services. This proposal would save the medicaid program $1.4 billion over five years.
- *Other changes.*—Other medicaid changes include improving third party collections to emphasize enforcement of medical coverage rights in child support enforcement cases; and requiring assignment of certain rights to third-party payments as a condition of medicaid eligibility. In addition, the medicaid budget reflects savings resulting from proposed changes in the AFDC and medicare programs.

Rationale

The Administration's 1985 medicaid proposals seek the continued cooperation of States and consumers in moderating increasingly high health care costs and maintaining adequate medical care for the poor.

Subsidized Housing

Agency: Department of Housing and Urban Development

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	8,199	9,964	13,195	13,260	13,726	14,187	64,332
Outlays	9,787	10,729	11,354	12,058	12,706	13,342	60,189
1985 Budget Level:							
Budget Authority	7,867	5,390	7,594	9,978	7,392	7,578	37,933
Outlays	9,764	10,489	10,932	11,559	12,102	12,581	57,663
Change:							
Budget Authority	−331	−4,573	−5,601	−3,281	−6,335	−6,609	−26,399
Outlays	−23	−240	−422	−499	−604	−761	−2,526

Program Description

The Department of Housing and Urban Development (HUD) administers subsidy programs that assist 3.7 million low-income individuals in meeting the cost of purchasing or renting adequate housing. Under most of these programs, tenants are required to pay up to 30% of their cash income towards their housing costs. The Federal Government guarantees payment of the remaining portion of the monthly rent, or mortgage, to private landlords, lenders, or local housing authorities through long term (15 to 40 year) contracts. For the public housing program (which includes 1.3 million of the 3.7 million units cited above), operating cost shortfalls are funded each year as the need arises through a separate public housing operating subsidy program.

Constant Dollar Trends

In the 8 years ending in 1970, subsidized housing costs more than doubled—rising from $557 million to $1.2 billion per year. However, the policy shift in the early 1970's toward direct public housing operating subsidies and the Section 8 program—which provided for annual contract payments of both capital and operating subsidies—caused constant dollar outlays to skyrocket over the next 11 years. By 1981, constant dollar subsidized housing outlays totaled $8.2 billion—representing a 18.2% annual real growth rate from the 1970 level. Due to the entitlement reforms, cost constraints, and incremental unit growth reductions implemented by the Reagan Administration, the constant dollar growth rate slowed to 8% per year between 1981 and 1984, and over the next five years is projected to decline to 2% per year under current services and 0.8% per year under policies recommended in the 1985 budget.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1962	557
1970	1,240
1975	4,032
1981	8,156
1984	10,265
1989 current services	11,346
1989 budget	10,698

Current Status

In 1984, the Congress provided funding to subsidize 100,000 additional households. The 1985 budget would fund the same number of additional households as in 1984 for about $2.2 billion less in budget authority. This budget authority savings reflects the Administration's proposal to expand the use of less costly and more flexible housing vouchers.

In addition, 1985 public housing operating subsidy requirements are expected to decline by $239 million from 1984 as a result of savings achieved through investments in energy conservation measures, higher rental income, and regulatory changes.

1985 Budget Proposal

The 1985 budget continues to rely on the existing private rental housing stock to serve low-income families rather than the construction of new subsidized housing. In 1985, HUD would provide 87,500 housing vouchers to help low-income tenants afford standard quality rental housing. These vouchers—equal to the difference between the area's private market rent levels and the tenant's expected rent contribution—would replace the current Section 8 existing housing program.

Two regulatory changes for public housing operating subsidies are proposed that would:

- Require a year-end reconciliation between the income the public housing authority (PHA) actually received and the amount projected at the beginning of the year; and
- Limit the payment of full subsidies to occupied units, decreasing the subsidies paid for vacant, uninhabitable units.

Rationale

Under the current Section 8 existing housing program, which is designed to help low-income tenants afford market rents, the Federal Government pays the difference between the actual rent and the required tenant rent contribution. With the amounts tenants pay set by their income, there has been no incentive for them to negotiate their own rents. As a result, landlords generally raised rents to the maximum level, which resulted in subsidized units renting for about 26% more than comparable, unassisted units.

The housing voucher subsidy—when used with otherwise unassisted units—would not be related to the actual rent for the unit chosen by the tenant, and subsidy recipients would be encouraged to "shop around" for the lowest cost available. Any rent savings would not reduce the value of the tenant's housing voucher and would therefore accrue to the tenant.

Eliminating the maximum fair market rent will enable families to seek housing in any neighborhood they choose—thus resulting in fewer neighborhoods with concentrations of low-income residents— thereby promoting the goal of economically mixed housing.

The voucher program reduces the Federal Government subsidy commitment from 15 years (currently provided in the Section 8 existing program) to 5 years. Reducing the commitment term substantially reduces the budget authority needed for an equivalent number of units. The Section 8 existing program needs a much larger amount of budget authority set aside to fund the additional 10-year subsidy term. This shortened subsidy commitment will also allow greater flexibility to adjust or reconsider subsidized housing policies in the future.

Because of the cost effectiveness of housing vouchers, the budget proposes to begin converting the 700,000 tenants in the Section 8 existing housing programs to the voucher program as current lease and subsidy commitments expire.

Public housing operating subsidies are allocated based upon a formula which estimates what it costs a well-managed authority to provide housing. Subsidy allocations will continue to be based on this system. The proposed regulatory changes will save $70 million in 1985. They meet the objectives of:

- Compensating for the gap between allowable costs and income raised, eliminating over-payments of subsidy caused by under-projections of income; and
- Only providing subsidies to PHA's for housing low-income families, drastically reducing instances where PHA's can "profit" from payments of subsidy for vacant units.

Nutrition Programs

Food Stamp Benefits and Nutrition Assistance to Puerto Rico

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	11,289	11,079	11,675	12,098	12,254	12,642	59,748
Outlays	11,292	11,079	11,674	12,098	12,254	12,642	59,747
1985 Budget Level:							
Budget Authority	11,289	10,705	11,310	11,738	11,912	12,311	57,976
Outlays	11,292	10,706	11,309	11,738	11,912	12,311	57,975
Change:							
Budget Authority	....	−374	−365	−360	−342	−331	−1,772
Outlays	....	−374	−365	−360	−342	−331	−1,772

Program Description

The Food Stamp program subsidizes food purchases of low-income households. Monthly coupon allotments are redeemable for food through commercial outlets. Given its special needs, the Commonwealth of Puerto Rico has authority to design its own food assistance program.

Constant Dollar Trend

The constant dollar cost of Federal commodity and food distribution programs increased steadily during the 1960's—rising from $45 million in 1962 to $1.5 billion by 1970. However, the conversion of these programs to food stamps on a nationwide basis with uniform eligibility criteria in the early 1970's, caused constant dollar outlays to reach $8.3 billion in 1975—nearly a *sixfold increase* in a half-decade. After several years of stability, further liberalizations during the Carter Administration caused constant dollar outlays to peak at $13.1 billion in 1981.

Due to the reforms implemented by the Reagan Administration, this uncontrolled growth of food stamp program costs has been brought to an abrupt halt. Constant dollar outlays of $11.8 billion in 1984 represent a 9% reduction from 1981 peak levels. Moreover, under current services, constant dollar costs are projected to fall to $10.7 billion by 1989—an 18% reduction from the 1981 level.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962	45
1970	1,473
1975	8,311
1978	8,150
1981	13,058
1984	11,844
1989 current services	10,750

Current Status

The Administration remains committed to restraining the cost of entitlement programs without jeopardizing assistance to those with genuine needs. To achieve this goal, the Administration has sought to reduce overpayments in the Food Stamp program which cost the American taxpayer $1 billion annually.

Significant progress has been made in reducing Food Stamp errors—overissuances have been cut by 25% during the last two years. In fact, preliminary 1983 data reveal that the national average error rate has fallen to approximately 8%—as opposed to the current statutory target rate of 9% for 1983.

Nonetheless, the error rate remains unacceptably high and States lack the incentive to improve their administration of the program since benefits are 100% Federally financed. In 1985, States will continue to misspend over $820 million by issuing erroneous Food Stamp payments.

1985 Budget Proposals

Almost 85% of the proposed 1985-89 savings of $1.8 billion would be achieved by holding States liable for Food Stamp payments exceeding 103% of proper expenditures.

The President's proposals would also:

- Simplify Food Stamp application procedures by making AFDC recipients categorically eligible for Food Stamps.
- Require States to adopt a community work experience program in which able-bodied Food Stamp recipients must participate in work-related activites as a condition of their eligibility.

Rationale

The proposal to hold States liable for Food Stamp payments exceeding 103% of proper expenditures would give States the incentive to further reduce overpayments.

This proposal also has the advantages of:

- Setting the Food Stamp error targets at the same level as those currently applicable for AFDC and Medicaid.
- Not affecting benefits of eligible recipients.

The second proposal, categorical eligibility for AFDC recipients, would also help States meet their target error rates by simplifying program administration.

The third budget proposal, the Community Work Experience Program, would continue past Administration efforts to target assistance on the neediest individuals and assure that able-bodied Food Stamp recipients are encouraged to find work in the private sector, or to perform useful public services when no private job is available.

Supplemental Food Programs

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,341	1,435	1,513	1,578	1,640	1,700	7,867
Outlays	1,318	1,463	1,505	1,570	1,632	1,693	7,863
1985 Budget Level:							
Budget Authority	1,267	1,277	1,299	1,353	1,405	1,456	6,791
Outlays	1,253	1,286	1,298	1,346	1,399	1,449	6,778
Change:							
Budget Authority	−74	−158	−214	−225	−235	−245	−1,076
Outlays	−65	−177	−207	−223	−233	−244	−1,085

Program Description

The Special Supplemental Food Program for Women, Infants and Children (WIC) and the Commodity Supplemental Food Program (CSFP) provide nutritious foods to low-income pregnant, postpartum and breastfeeding women, infants and children who are at nutritional risk. WIC assistance is provided mainly in the form of vouchers redeemable at grocery stores, while CSFP distributes commodities purchased by the Department of Agriculture.

Current Status

WIC participation has grown explosively since the program's inception. Average 1984 participation will be almost 50% higher than in 1980. One out of five babies born in 1984 will receive WIC services. 146,000 women, infants and children will be served by CSFP this year.

Constant Dollar Trends

During 1976 constant dollar WIC outlays totalled $257 million. By 1981, constant dollar costs had risen more than *fourfold* to $1.1 billion. Since 1981 the rate of real growth has slowed compared to the start-up period, but 1984 current services outlays of $1.38 billion in constant dollars still represent a 22% increase over the 1981 level. Under current services, constant dollar outlays will rise slightly through 1989, while under the 1985 budget proposals they will fall slightly from 1984 levels.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1976	257
1981	1,136
1984	1,382
1989 current services	1,439
1989 budget	1,232

1985 Budget Proposals

The President's budget would fund WIC at a budget authority level of $1.25 billion in 1985, sufficient to maintain a 2.7 million average monthly caseload.

Legislation will be introduced to reduce the WIC set-aside for State and local administration from 20 to 18% of the appropriation. States would no longer be required to spend one-sixth of their administrative funds on nutrition education activities, although a nutrition education requirement would be maintained.

CSFP would be funded at the current services program level except that no new funds are requested for the elderly feeding pilot projects. Sufficient funding is expected to be available from current appropriations to support the pilot projects in 1985.

Rationale

The proposed funding would stabilize WIC caseload growth and permit State and local administrators to concentrate on improving program management. Participation levels would remain the highest in the program's history, prior to the infusion of one-time, emergency Jobs Bill funding.

WIC funding would support a 2.7 million monthly caseload, based on national average per person costs. However, States could serve more recipients by taking steps to control their food costs, such as encouraging better tailoring of packages to recipients' needs.

Lowering the set-aside for administrative expenses would create an incentive for State and local health agencies to restrain overhead costs, currently lacking since WIC is 100% Federally-funded in most States.

The present requirement to use one-sixth of administrative monies for nutrition education necessitates elaborate bookkeeping for States and prevents them from providing this service in the manner they consider most appropriate. Under the proposal, specific funding earmarks would be removed to assist States in their efforts to reduce administrative costs.

Other Nutrition Programs

[In millions of dollars] Agency: USDA/FEMA/HHS

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	593	647	545	556	566	576	2,891
Outlays	682	540	542	553	563	573	2,771
1985 Budget Level:							
Budget Authority	593	641	539	549	560	570	2,858
Outlays	682	534	536	546	557	567	2,739
Change:							
Budget Authority	....	−6	−6	−6	−7	−7	−32
Outlays	....	−6	−6	−6	−7	−7	−32

Program Description

Besides the major programs such as Food Stamps and Child Nutrition, the Federal Government provides nutrition assistance through a variety of other mechanisms, including:

- Section 32 funds, which provide commodities to the child nutrition programs through market purchases and surplus removal activities.
- The Special Milk program, which subsidizes milk served in schools and institutions that do not participate in other Federal meal programs.
- The Food Donations program, which delivers commodities to Indian reservations and the Trust Territories, as well as mostly cash assistance to elderly nutrition projects. These elderly sites receive the vast majority of their assistance from the Department of Health and Human Services (HHS), as described in the Older Americans Act factsheet.
- Temporary funding for emergency food distribution and shelter, administered by the Federal Emergency Management Agency (FEMA).
- Commodity Credit Corporation food donations totalling over $1 billion for needy families, charitable institutions and schools. Funds for this activity are included in the CCC factsheet.

Current Status

From 1980 to 1984, constant dollar budget authority for each of these nutrition programs has increased, with the exception of Special Milk.

Savings have been achieved in the Special Milk program by eliminating wasteful duplication of Special Milk and School Lunch benefits. In 1981, the Administration was successful in prohibiting schools from receiving milk subsidies for the same student under both programs. The Special Milk program continues to fund milk served in institutions that do not participate in the School Lunch program.

1985 Budget Proposals

The President's budget would fund these programs at essentially the current services level. The Section 32 appropriation request does not include funds for marketing agreements and orders, which would be financed through user fees.

Since Congress designed FEMA's food and shelter program as an emergency relief measure in response to the 1981-82 recession, it would not be extended past 1984.

Although continuing to fund the Elderly Feeding program at the current services level, the Administration proposes to fund this Department of Agriculture (USDA) program within HHS' Administration on Aging. Since HHS already administers the major elderly nutrition program, this proposal would consolidate the administration of similar programs serving the same grantees.

Rationale

The Administration has requested funding for these programs at essentially the current services level to help assure that low-income households with genuine needs continue to receive assistance.

- The budget proposes a shift of $5.9 million from Section 32 appropriated funds for marketing orders to user fees because the Administration believes that the direct recipients of program benefits can be readily identified and should support the program through a fee system.
- Funding USDA's Elderly Feeding program within HHS would simplify administration and free State and local Governments from dealing with two separate Federal agencies in order to serve meals to the elderly. USDA originally was given authority to administer the elderly program since assistance was provided in the form of commodities. Since over 90% of assistance is now provided as cash, there is little reason to retain the program in USDA.

Child Nutrition Programs

[In millions of dollars] Agency: Department of Agriculture

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services: [1]							
Budget Authority	3,559	3,805	4,083	4,379	4,702	5,027	21,996
Outlays	3,543	3,786	4,064	4,360	4,681	5,005	21,896
1985 Budget Level: [1]							
Budget Authority	3,559	3,756	3,979	4,206	4,455	4,707	21,103
Outlays	3,543	3,741	3,964	4,191	4,438	4,690	21,025
Change:							
Budget Authority	....	−49	−104	−173	−247	−320	−893
Outlays	....	−46	−100	−169	−242	−314	−871

[1] Both current services and 1985 budget include funds for meals served at Head Start centers. The 1985 budget proposes transferring funding responsibility for these meals to the Department of Health and Human Services.

Program Description

The Child Nutrition programs finance school lunches and breakfasts, meals served at child care facilities and summer feeding sites, and State administrative expenses. Meal subsidies consist of both cash and commodity assistance.

In addition to these programs, children receive nutrition assistance through Special Milk, the Special Supplemental Food Program for Women, Infants, and Children, the Commodity Supplemental Food Program, and Section 32 funding.

Constant Dollar Trends

Between 1962 and 1970, constant dollar outlays for Child Nutrition programs grew at a modest 4.2% per year rate. During the next eight years, however, constant dollar costs surged to $4.46 billion by 1977—representing a 27.1% annual rate of increase. Real costs finally peaked in 1980 at $4.53 billion.

The major reforms implemented by the Reagan Administration will result in 1984 constant dollar outlays of $3.7 billion—an 18% decline from the 1980 peak level. Under both current services and the 1985 budget proposals, constant dollar outlays are projected to grow only modestly over the next five years.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1962	564
1970	782
1977	4,460
1980	4,527
1984	3,716
1989 current services	4,256
1989 budget	3,988

Current Status

Child Nutrition reforms have targeted assistance to needy youngsters and reduced duplication in subsidies. The programs will continue to subsidize meals for over 24 million children in 1984.

1985 Budget Proposals

The 1985 budget proposes to continue making the reforms necessary to focus assistance on needy children and simplify program administration.

Minor changes would be proposed for the school feeding programs:

- Reimbursement rates for meals in all price categories would be increased by the same cost-of-living adjustment.
- Procedures for verifying eligibility for free and reduced price meals would be strengthened.
- Federal mini-grants for developing nutrition education curricula would be discontinued.

The Child Care and Summer Feeding programs would be consolidated into a Non-School Program Grant to States.

- The grant would be funded at the 1985 current services level for the two programs it would replace. Meal assistance for Head Start centers, at present funded under the Child Care Feeding program, would be available through a corresponding increase in Head Start funding.

1985 savings would be $46 million, while total 1985-89 savings would be $871 million.

Rationale

The Non-School Program Grant would permit States greater flexibility to design assistance programs for meals served to children outside a school setting. States could continue programs similar to those the grant would replace or establish new programs more appropriate to the needs of their population. States would no longer have to apply a complex set of reimbursement rates or comply with cumbersome Federal regulatory requirements—75 pages of Federal regulations would be eliminated.

Through regulatory and legislative changes, procedures for schools to verify income eligibility for free and reduced price meals would be strengthened. The new procedures would lessen the requirements placed on schools and increase cost-effectiveness. More vigorous efforts to verify eligibility would better target meal benefits to those in need.

At present, cost-of-living adjustments to reduced-price meal reimbursements substantially overcompensate for inflation. The proposal would adjust all meal rates, including those for reduced-price meals, by the same inflation factor.

Cash Assistance Programs

Supplemental Security Income Benefits

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	7,459	8,426	8,665	9,025	10,185	9,785	46,086
Outlays	7,607	8,428	8,665	9,025	10,185	9,785	46,089
1985 Budget Level:							
Budget Authority	7,459	8,410	8,649	9,015	10,171	9,770	46,015
Outlays	7,591	8,412	8,649	9,015	10,171	9,770	46,018
Change:							
Budget Authority	....	−16	−16	−10	−14	−15	−71
Outlays	−17	−16	−16	−10	−14	−15	−71

Program Description

Supplemental Security Income (SSI) began in 1974 as a uniform national program to replace previous public assistance programs for the aged, blind and disabled. SSI makes cash payments to eligible persons, aged, blind, and disabled persons. Some states also finance supplemental payments. The Department of Health and Human Services administers the basic Federal grant and, at State option, the supplemental payments. Many SSI recipients also receive monthly Social Security payments.

Constant Dollar Trend

Between 1962 and 1973, pre-SSI constant dollar outlays for public assistance to the elderly, blind and disabled averaged a steady $4.8 billion per year. With the implemenation of SSI, however, constant dollar costs nearly doubled to $8.3 billion by 1975 and remained at about this level through 1981. Since 1981 constant dollar costs have remained stable at the $8 billion level and are projected to rise only slightly under current services through 1989.

Constant Dollar Trend

(1985 dollars in millions)

Year	Amount
1962–1973 average	4,780
1975	8,344
1981	7,902
1984	7,979
1989 current services	8,321

Current Status

Several SSI reforms have been enacted during the last three years. These changes were designed to target benefits to the neediest and reduce erroneous payments. SSI benefits are fully indexed to changes in the Consumer Price Index, and are projected to increase by 28% over the 1984-89 period. Total SSI costs remain roughly constant, however, because future caseloads are projected to decline.

The major source of the caseload decline is aged persons who qualify for Social Security benefits (which are higher than maximum SSI payment levels) and, therefore, no longer qualify for SSI.

1985 Budget Proposals

The budget includes several legislative and regulatory changes to improve program administration:

- Recovery of SSI and Social Security overpayments would be strengthened. This proposal would permit past overpayments in one program to be recovered from current benefits payable to the same person in the other program. (1985 savings: $11 million)
- Coordination of payments between SSI and Social Security would be improved to eliminate duplicate and unintended windfall payments. (1985 savings: $5 million)
- Federal Fiscal Liability (FFL) payments to States would be terminated by regulation. Currently, the Federal Government assumes full liability for erroneous payments (above a 4% limit) in SSI State supplements which HHS administers. This proposal would eliminate FFL and return financial responsibility to the States which establish and fund these supplements. Savings would begin in 1986.

Rationale

These proposals would improve program administration, eliminate unintended windfalls which occur because of complicated SSI and Social Security rules, and return financial responsibility to States. The basic SSI program would not be affected by these proposals. All needy individuals would continue to receive the full benefits to which they are entitled.

HHS has been unable to collect more than 40% of SSI overpayments because many previously overpaid persons are no longer receiving SSI. Half of former beneficiaries receive Social Security payments. The 1985 budget proposal would allow SSI overpayments to be recovered from current Social Security benefits for persons who are no longer needy.

HHS administers State supplemental payments without charge to States. The complexity of State supplement systems, with numerous variations by living arrangement, geographic location, and minimum payment levels, is a major cause of high error rates. The 1985 budget proposal would return financial responsibility for excess errors in federally administered State supplements to the States which designed these programs. States could still continue to have HHS administer their supplements, with significant savings in State overhead costs. States could simplify their programs to reduce errors, or they could operate the supplements themselves if they are not satisfied with the free Federal service of administering State supplements. The President's Private Sector Survey on Cost Control also recommends eliminating FFL payments.

Without these changes, Federal efforts to improve program administration could not succeed, resulting in overpayments and windfall benefits to persons no longer in need, and Federal costs for errors in SSI State supplements.

Aid to Families with Dependent Children

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	6,810	6,628	6,963	7,071	7,123	7,272	35,057
Outlays	6,629	6,828	6,963	7,071	7,123	7,272	35,257
1985 Budget Level:							
Budget Authority	6,810	5,835	5,922	6,007	6,046	6,153	29,963
Outlays	6,604	6,035	5,922	6,007	6,046	6,153	30,163
Change:							
Budget Authority	....	−793	−1,041	−1,064	−1,077	−1,119	−5,094
Outlays	−25	−793	−1,041	−1,064	−1,077	−1,119	−5,094

Program Description

Aid to Families with Dependent Children (AFDC) finances cash assistance for needy children deprived of parental support due to death, disability, or continued absence of a parent from the home. About half the States also cover low-income families where both parents are present in the home, but where the principal earner is unemployed. AFDC is administered by State and local governments in conformity with Federal guidelines. Benefits levels are determined by each State, with the Federal Government paying 50% to 77% of benefit costs. The Federal Government also pays 50% of State and local administrative costs, which are discussed in a separate factsheet.

Constant Dollar Trends

Between 1962 and 1967, constant dollar AFDC outlays were stable at slightly under $3 billion per year. However, over the next five years, constant dollar costs grew dramatically, reaching $9.6 billion in 1972—a threefold increase from the 1967 level. During the remainder of the 1970's, constant dollar AFDC outlays remained in the $8 to 9 billion dollar range, reflecting the offsetting pressures of moderately rising caseloads on the one hand, and failure of state-set benefit levels to keep up with inflation, on the other.

The reforms enacted by the Reagan Administration have reduced constant dollar AFDC benefit outlays by 21% between 1981 and 1984. Under the current services baseline, constant dollar costs will fall to $6.2 billion by 1989—a decline of 30% from 1981 levels. If the further reforms recommended in the 1985 budget are enacted, 1989 constant dollar AFDC benefit outlays will be down 41% from 1981 levels and 46% from the 1972 peak.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1962	2,533
1967	2,975
1972	9,615
1981	8,820
1984	6,953
1989 current services	6,184
1989 budget	5,232

Current Status

AFDC reforms have refocused the program on its original purpose—assistance to families who, through no fault of their own, are temporarily unable to provide for themselves. These reforms, coupled with improved economic conditions, have dramatically slowed the average annual growth in AFDC benefit costs, from 12% annually for 1970-1981, to almost no growth for 1981-1989. During the past two years, 37 states have increased AFDC benefit levels for eligible recipients.

1985 Budget Proposals

A variety of legislative changes to AFDC eligibility rules and benefit calculations is proposed, building on recently enacted reforms.

The major budget proposals are as follows:

- *Require all employable AFDC applicants and recipients to participate in work programs as a condition of eligibility.*—States now have the option to establish Community Work Experience programs (CWEP) and mandatory job search requirements, but only half the States have done so, even on a limited basis. This proposal would assure that AFDC recipients are encouraged to find work in the private sector and perform useful public services when no private job is available. States would also have the option to require parents of young children to participate in work-related activities if child care is available. These requirements would be closely coordinated with similar requirements in Food Stamps. (1985 benefit savings: $329 million. Offsetting administrative costs of $158 million are included in another factsheet.)
- *Include all parents and minor siblings living in the household as part of the AFDC assistance unit for purposes of computing benefits.*—Parents and minor children currently can be excluded from the AFDC unit at the option of the welfare family. When some family member has significant separate resources or income, this practice can affect the family's AFDC eligibility or benefit level. Including all family members in the AFDC assistance unit would ensure equitable treatment of families with similar needs. Individuals with separate SSI benefits would continue to be excluded from the assistance unit. (1985 savings: $143 million)
- *Prorate the shelter and utilities portion of the AFDC payment for AFDC families living in extended households.*—The AFDC payment includes funds for shelter and utility costs, based on the number of persons in the AFDC family. When recipients share living expenses with non-recipients in the same household, the AFDC benefit is not currently adjusted to reflect reduced levels of need. By taking the economies of shared living arrangements into account, AFDC benefits would be better targeted on those in need. This proposal would also improve equity among families with the same circumstances. (1985 savings: $263 million)
- *Provide assistance to minor mothers only if they live with their parents.*—Unmarried minor mothers can now leave home and establish a separate household in order to become eligible for AFDC. In this situation, the parent's income is not taken into account in calculating AFDC benefit levels. The 1985 budget proposal would eliminate this incentive for family break-up. States could continue to pay AFDC to minor mothers in separate households where there are exceptional circumstances. (1985 savings: $19 million)
- *End the employable parent's share of AFDC benefits when the youngest child reaches age 16.*—Since the parent's presence in the home is no longer essential in these cases, employable adults should be expected to seek private jobs rather than continuing to rely on public assistance. The child's share of the AFDC benefit would not be affected. (1985 savings: $17 million)

A separate factsheet details the 1985 budget proposal to eliminate funding for the Work Incentives (WIN) program, which now registers AFDC applicants and recipients for jobs and job training. The mandatory work requirements outlined above make separate WIN funding unnecessary. The budget effects of several 1985 budget proposals to improve child support enforcement are included in the header above table. These proposals are also discussed in a separate factsheet.

Rationale

Proposed changes would:

- Strengthen AFDC employment and training by requiring all employable applicants and recipients to participate in some work-related activity as a condition of AFDC eligibility.
- Focus benefits on the needy by adjusting payments to reflect actual family circumstances and living arrangements.
- Simplify AFDC rules to streamline administration and reduce erroneous payments.

Earned Income Tax Credit

[In millions of dollars] Agency: Department of the Treasury

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,123	1,044	982	923	868	868	4,685
Outlays	1,123	1,044	982	923	868	868	4,685
Tax Expenditures	−330	−280	−225	−180	−145	−120	−950
1985 Budget Level:							
Budget Authority	1,123	1,044	982	923	868	868	4,685
Outlays	1,123	1,044	982	923	868	868	4,685
Tax Expenditures	−330	−280	−225	−180	−145	−120	−950
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....
Tax Expenditures	....	....	....	....	....	....	....

Program Description

The earned income tax credit (EITC) is a major way that income transfers are provided to low-income wage earners with children. The EITC is 10% of earned income up to $5,000 and is phased out in the $6,000 to $10,000 range.

Credits can be received as additions to paychecks or as a lump sum at the end of the year. When the credit exceeds the wage earner's tax liability, a refund is made. Credits against taxes for this purpose are tax expenditures and refund payments are outlays.

Current Status

The intent of the provision is to moderate the burden of the social security payroll tax on low-income workers and thus to remove work disincentives for welfare families. Because the social security payroll tax is payable on the first dollar of labor earnings, without deduction or exemptions, it has a heavy impact on the working poor.

1985 Budget Proposal

In the 1985 budget, outlays for refunds are estimated at $1.0 billion and tax expenditures for the credits that do not exceed tax liability are estimated at $280 million. The decline in outlays and tax expenditures (receipts loss) in the outyears is due to a projected increase in income levels.

Rationale

The current law provisions of the EITC have been maintained during this Administration to offset work disincentives inherent in the relationship between welfare and social insurance programs.

Refugee Assistance

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	514	360	332	317	302	303	1,614
Outlays	599	419	352	325	308	304	1,707
1985 Budget Level:							
Budget Authority	514	360	332	317	302	303	1,614
Outlays	599	419	352	325	308	304	1,707
Change:							
Budget Authority	....	....	....	....	....	....	....
Outlays	....	....	....	....	....	....	....

Program Description

The Federal Government finances initial welfare, health, employment and English language, education, and other services for refugees who come to the United States. Assistance is designed to encourage refugees to become self-sufficient as soon as possible, and to relieve State and local governments of the cost of refugee resettlement. Full reimbursement of State and local welfare costs is available during the initial resettlement period, which varies from 18 to 36 months depending on refugee eligibility. Private voluntary resettlement organizations arrange sponsors for individual refugees and aid in many aspects of the resettlement process. Cuban and Haitian entrants are also covered by these programs. Grants to voluntary agencies for initial reception and placement of refugees are funded by the State Department and are discussed in a separate factsheet.

Constant Dollar Trends

Between 1963 and 1975 constant dollar costs for domestic refugee assistance averaged $192 million per year with only moderate fluctuations in year-to-year outlays. However, the huge influx of Southeast Asia refugees first in 1976 and then again in the late 1970's, and their heavy reliance on welfare benefits, raised constant dollar costs to a peak level of $1.2 billion in 1982. The decline of new entrant numbers to more manageable levels in recent years has permitted constant dollar outlays to fall to $628 million in 1984. Further declines are projected under current services over the next five years such that 1989 constant dollar outlays of $258 million would represent a 78% reduction from the 1982 peak level.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1963–1975 average	192
1976	620
1981	887
1982	1,154
1984	628
1989 current services	258
1989 budget	258

Current Status

Domestic refugee costs depend substantially on the level of admissions to the United States. Arrivals have decreased from a peak of 210,000 in 1980 to about 61,000 in 1983. This reduces the number of refugees who receive special assistance. Continued projected reductions in future years, reflect lower levels of refugees in overseas camps and increased resettlement efforts by other countries.

Refugee costs also depend significantly on the welfare dependency rates for recent arrivals. Over 80% of refugees who have been in the U.S. for 7 to 12 months currently receive welfare. Nearly 99% of refugees receiving welfare payments first applied within 60 days of arriving in the United States.

1985 Budget Proposals

The budget proposes to authorize admission of 72,000 refugees to the U.S. during 1985, the same level as 1984. The highest refugee budget priority is to reduce welfare dependency and accelerate assimilation of new refugees into American society. To help attain this objective, voluntary resettlement agencies would become financially and legally responsible for the basic needs of refugees during their first 90 days in the United States. Fifteen million dollars would be allocated to the State Department to enable voluntary agencies to concentrate their efforts during the critical first 90 days.

Rationale

Successful refugee resettlement depends largely on efforts of voluntary agencies which place individual refugees in U.S. communities and find sponsors such as local church congregations and community organizations. Currently, the roles and responsibilities of the voluntary agencies, particularly in providing employment services to encourage refugee self- sufficiency, are not well-defined. Nearly all refugees are immediately directed to welfare offices for assistance.

The budget proposal would clarify and strengthen the voluntary agency role by making them responsible for refugee needs during the first 90 days. This policy and the accompanying $15 million allocation would help voluntary resettlement organizations and sponsors concentrate their efforts to aid refugees to become self-sufficient and would deter refugees from automatically going on welfare.

Low Income Home Energy Assistance

Agency: Department of Health and Human Services

[In millions of dollars]

Level	1984	1985	1986	1987	1988	1989	Total 1985–89
Current Services:							
Budget Authority	1,875	1,966	2,056	2,144	2,231	2,314	10,711
Outlays	1,887	1,957	2,048	2,136	2,223	2,306	10,670
1985 Budget Level:							
Budget Authority	1,875	1,875	1,875	1,875	1,875	1,875	9,375
Outlays	1,887	1,875	1,875	1,875	1,875	1,875	9,375
Change:							
Budget Authority	....	−91	−181	−269	−356	−439	−1,336
Outlays	....	−82	−173	−261	−348	−431	−1,295

Program Description

The Low Income Home Energy Assistance Program (LIHEAP) helps needy families meet heating, cooling, and other energy needs. States receive block grant payments which they use to tailor programs to meet local needs, such as direct cash assistance, payments to fuel vendors, payments to public housing building operators, and weatherization activities.

Current Status

Federal energy assistance has increased dramatically over the past 7 years, from $110 million in 1977 to $1.9 billion for 1984. Early programs focused on crisis assistance for households facing utility shutoffs. Later programs distributed revenues from the windfall profits tax enacted in 1980. The current program is primarily a subsidy of utility costs for low-income households, financed by the American taxpayer. Attempts to reduce total budget levels by targeting funds to States which have the most severe heating needs have not been successful, and funding has continued to grow.

Constant Dollar Trends

During the first year of funding in 1977, constant dollar outlays totalled $186 million. By 1981 constant dollar outlays reached $2.2 billion—nearly a 1,100% real increase in just four years. Since 1981 constant dollar outlays have averaged about $2 billion, and under current services are projected to remain at that level through 1989. If the funding levels proposed in the 1985 budget are adhered to, constant dollar funding would decline to $1.6 billion by 1989—a 27% drop from the 1981 level.

Constant Dollar Trends

(1985 dollars in millions)

Year	Amount
1977	186
1981	2,175
1984	1,979
1989 current services	1,961
1989 budget	1,594

1985 Budget Proposals

The budget proposes to continue the current level of LIHEAP funding for 1985. A $200 million supplemental in added 1984 funds is also requested to meet extraordinary heating needs due to very cold winter weather this year. No changes to the State allocation formula for LIHEAP block grant funds are proposed.

Beginning in 1985, the Administration proposes legislation to use recoveries from petroleum price overcharges to help finance the block grant. Department of Energy (DOE) programs for low-income home weatherization and energy conservation for schools and hospitals would also be funded through these recoveries.

Rationale

The budget proposes a rational and orderly procedure for distributing funds collected by the Department of Energy through settlements of petroleum price overcharges. To date, distribution mechanisms have been chaotic and varied. Some recoveries have been disbursed by DOE through various mechanisms such as claims funds, price rollbacks, crude oil purchases for the strategic petroleum reserve fund, cash grants to States, and payments to the U.S. Treasury. Other recoveries have recently been disbursed to several specific Federal programs through special Federal legislation. Still other funds are being held in escrow pending final distribution decisions. Distribution policy for overcharge recoveries should be clearly established in law.

The budget proposes to use overcharge funds to finance LIHEAP and DOE energy conservation efforts as the best statutory distribution mechanism. A combination of cash assistance to the poor for high current energy costs, and weatherization programs to reduce future energy costs represents the best use of these funds. By channeling cash assistance through the LIHEAP block grant, States will have flexibility to design programs which best meet local needs and ensure maximum coordination with other public—and private—energy assistance programs.

Based on current State uses of LIHEAP funds, the proposed 1985 budget level of $1,875 million would be adequate to continue current assistance levels. In 1983, 30 States transferred a total of $117 million from LIHEAP to other block grants, and 46 States had a total of $131 million in unobligated funds carried over into 1984. In 35 States, private energy assistance programs are in place, through utility companies which solicit contributions from customers and stockholders, or use other mechanisms. Federal assistance for energy costs is also available through AFDC, public housing, and other low income programs.

Enactment of the budget proposal would focus aid on those who experience the greatest economic burden for energy costs and would return authority, responsibility, and revenues to meet these requirements to the States.

Failure to enact the budget proposal would continue current uncoordinated, piecemeal practices for distributing petroleum price overcharge funds and would permit continued duplication between these funds and LIHEAP block grant resources.