CHAPTER 3
REFORMING ENTITLEMENT PROGRAMS

The explosion of entitlement expenditures has forced a careful reexamination of the entitlement or automatic spending programs. Under these programs, individuals who meet eligibility criteria spelled out in law are entitled to receive benefits that help offset losses of income, aid those who are unable to provide for themselves, or finance certain goods and services such as medical care and higher education. When one looks behind the good intentions of these programs, one finds tremendous problems of fraud, waste and mismanagement. Worse than this, the truly needy have not been well served. We have been able to identify $11.7 billion (21% of the President's proposed 1983 net budget savings) in reforms in entitlement programs.

The proposed reforms for 1983 are for non-Social Security entitlement programs. The President has established a National Commission on Social Security Reform to develop a bipartisan consensus on measures to ensure the financial stability of the Social Security system. The Commission will issue its recommendations by January 1983.

Past Rapid Growth

Costs of non-Social Security entitlements have skyrocketed since the massive expansion of Federal social programs initiated in the 1960s.

- Spending for these programs totaled $167.8 billion in 1981, reflecting increases of 412% since 1970 and 1,745% since 1955.
- Between 1955 and 1981, non-Social Security entitlements roughly doubled as a percent of the budget, rising from 13.3% to 25.4%.
- As a share of the Gross National Product, they have doubled in even less time, increasing from 2.4% in 1965 to 5.9% in 1981.

The growth of entitlements has far outstripped increases in basic indicators of need — the relevant population, the number of participants, and the general rate of inflation or the cost of particular goods and services. For example:

- Real entitlement spending per person in poverty grew 83% between 1970 and 1980, counting all entitlements except Social Security, Medicare, and Federal employee retirement.
- Food Stamp spending per participant, adjusted to take into account increases in the price of food, grew 18% between 1975 and 1981.
- Medicaid expenditures per public assistance case grew 49.5% in real terms between 1970 and 1980.
- A real increase of 50.4% per Federal employee occurred in Federal Employees Compensation Act expenditures between 1974 and 1981, despite the fact that there was no change in the average number of job-related deaths — a primary indicator of safety in Federal employment.
- Spending per Guaranteed Student Loan recipient, adjusted for increases in educational costs, grew 10,500% between 1970 and 1981.

In part, this growth represents a shift in responsibility from both State and local governments and the family to the Federal Government.

- Food Stamp benefits now are fully funded by the Federal Government, whereas Aid to Families with Dependent Children (AFDC) benefits (which are intended to cover basic food costs) are set and funded, on average, 46% by the States. By holding down AFDC benefits while Food Stamp benefits have continued to increase, States have been able to increase the Federal share of the combined benefits package from 65% in 1972 to 76% in 1981.

- School meals provide another example of an unintended increase in the Federal share of overall program costs. Average Federal per meal costs in constant dollars rose from 31 cents in 1970 to 60 cents in 1981. At the same time, average student payments dropped from 60 to 34 cents. Because the lowest income students continued to receive school meals free, most of the increased Federal subsidy has gone to higher income students.
- The fastest growing single component of Medicaid is intermediate care for the mentally retarded, which increased at an average annual rate of 57.1% between 1973 and 1979. For the Federal Government, increased costs largely have resulted from the shift of responsibility for beneficiaries whose care was previously funded totally by the States to Medicaid, in which the Federal Government shares costs.

The Need for Reforms

The entitlement expenditure explosion reflects not only cost shifts from others to the Federal Government but program provisions which have:

- Created disincentives to work.
- Resulted in unequal treatment of people in similar circumstances.
- Provided unintended and excessive benefits to recipients.
- Undermined targeting of resources to those most in need.
- Impeded efficient and effective program operations.

Work Disincentives and Inequities

Welfare programs provide one example of disincentives to work and unequal treatment of people in similar circumstances. Paradoxically, these problems have arisen out of welfare program features designed to promote work by ensuring that families would be better off employed than on welfare. Such features include provisions to disregard some earned income and allow certain deductions for work expenses in the calculation of eligibility and benefits. They result, in far too many cases, in welfare families being better off than similar non–welfare families.

- An average welfare family of four in 1970 would have received AFDC, Medicaid, and School Lunch benefits equivalent to $7,548 in 1980 dollars. Ten years later, they would have an increase in inflation–adjusted benefits (including Food Stamps in 1980) to a level of $8,124 in 1980 dollars.
- By contrast, a working non–welfare family of four with exactly the same after–tax income in 1970 would not have done nearly as well. If their income rose with national average earnings, their after–tax income in 1980 would be $7,224, a 4% decline in real terms. The family's income would be 11% below that of a non–working welfare family.
- Had the head of the welfare family gone to work in the same occupation as the head of the non–welfare family, the welfare family would be even better off. The combined effects of earnings disregards in cash and in–kind assistance programs and the Earned Income Tax Credit would give the working welfare family after–tax income including benefits of $11,076 — an amount 53% higher than that received by the family that supports itself through work alone.

Federal efforts to mitigate welfare program work disincentives have had the effect of creating a special class of those who receive income supplements far in excess of the take–home pay of their non–welfare, working counterparts. In fact, two–thirds of wage–earning, low–income families (income below 150% of the Federal poverty level) receive no AFDC, Food Stamps, or Medicaid benefits at all. However, the harmful effects of the misguided policies of the past go beyond the obvious inequities of selected income supplementation.

- Program benefits and hence costs rise faster than the ability of the working population to support these programs through taxes.
- With programs such as Medicaid and Food Stamps rising far faster than inflation, income supplementation programs have become a major source of persistent deficits, excessive taxes and poor economic performance.
- The resulting poor performance of the economy becomes a further penalty suffered by those who support their families solely through earnings.

Work disincentives and inequities also are evident in the Civil Service and Military Retirement programs.

- Office of Personnel Management data show that between 1965 and 1980 accumulated Consumer Price Index (CPI) increases of 173% resulted in Civil Service retirement benefit increases of 204%, while Civil Service wages rose by only 147%.
- Between 1977 and 1981, salaries of senior executives in the Executive Branch rose only 5.5% compared to CPI and Federal retirement annuity increases of over 54%.
- With annuities increasing faster than pay, many new retirees find that they receive lower annuities than persons who retired in prior years with identical service histories.
  - At least 95% of present Civil Service retirees receive annuities greater than similar new retirees would receive, with half receiving 15% to 35% more. Annuitants at all levels have been affected.
  - Similar problems have occurred in the military retirement program. After the 1982 CPI increase, over 60% of the military retired population will receive higher annuities than they would if retiring under 1982 pay scales, with some receiving as much as 21% more.
- In addition, the discrepancy between wages and annuities has encouraged persons to retire in order to take maximum advantage of annuity increases. A predictable result has been the loss of senior and executive personnel.
  - In 1980, 57% of career employees at the pay ceiling who were eligible to retire did so, in contrast to a 17% retirement rate in 1978.
  - The number of senior workers who chose to retire at the relatively young ages of 55 to 59 soared from 16% of those eligible in 1978 to 75% in 1980.

Overlapping and Excessive Benefits

An example of overlapping benefits is provided by the proliferation of nutrition programs which have pyramided benefits upon many of the same low-income population.

- In 1979, members of more than 2.2 million households received both Food Stamp and free or reduced-price School Lunch benefits. Because Food Stamp allotments are designed to assure a nutritionally adequate diet for all members of a household, dual participation provides children with approximately 133% of their recommended daily nutrition requirements.
- In 1981, milk subsidies worth more than $800 million were included as part of nutritionally balanced meals served by schools which also received Federal Special Milk Program subsidies of $104 million to deliver an additional 1.75 billion pints of milk.

Benefits Not Targeted on the Needy

An example of benefits for people not in need is reflected in the surge in Federal assistance for students from middle- and upper-income families following passage of the Middle Income Student Assistance Act of 1978 (MISAA), which liberalized eligibility for loan guarantee and grant programs:

- New loan volume between 1977 and 1981 grew from $1.5 billion to $8.0 billion — a 443% increase — much of which went to the non-needy.
  - For example, the proportion of college juniors in families with incomes over $25,000 who received Guaranteed Student Loans (GSL) increased from 23% in school year 1978-79 before MISAA to 33% in school year 1979-80 after MISAA.
- Moreover, the availability of low-interest loans in an era of dramatically fluctuating interest rates has made it profitable for families who have the resources to educate their children to borrow money through the GSL program, reaping a windfall at the expense of the taxpayer.
  - For example, in September 1980, a family with an annual income of $100,000 and three children attending Harvard, including one enrolled in law school, could have borrowed $10,000 through GSL and paid no principal or interest while the students were in school. The family could have invested the $10,000 in a money market fund paying 16% over the next 12 months. At the same time the Federal Government would have paid $1,760 in interest subsidies and special allowances to the bank making the loan, as well as $200 in interest on the Federal debt. As a result, in one year the family would have made $1,600 at a cost to taxpayers of $1,960.

Inefficient and Ineffective Program Operations

Examples of inefficient and ineffective program operations are provided by Medicare and Medicaid.

- Through these programs, the Federal Government is the largest single purchaser of hospital care in the Nation.
- The long prevailing wisdom has been that the infusion of Federal funds into the medical care market has resulted in runaway medical price increases.
- However, hospital cost growth in excess of inflation accounted for only 8.3% of expenditure increases between 1969 and 1979, while increases in utilization and intensity (quantity and complexity of care) accounted for 34.3% of the increase. Retrospective cost-based hospital reimbursement and widespread first dollar insurance coverage for hospital care have combined to create incentives for hospitals to provide, and consumers to seek or accept, new and more extensive diagnostic and therapeutic procedures and techniques.
- Although conceived primarily as a medical program and initially operated as such, Medicaid increasingly has become a program to help the functionally limited — people who need assistance in carrying out the tasks of daily living, such as dressing, bathing, and eating. Payments for long-term care grew from 32% to 47% of the total Medicaid budget between 1969 and 1979, in the latter year amounting to $9.7 billion.
- The explosive growth in Medicaid long-term care expenditures has not necessarily resulted in appropriate care. In fact, a Congressional Budget Office review of numerous studies concluded that as many as 10% to 20% of all skilled nursing facility residents and 20% to 40% of intermediate care facility residents may be receiving more expensive levels of care than necessary.

Enhancing Work Incentives and Equity

To deal with the problem of work disincentives and inequitable income supplementation, a series of entitlement program reforms are being proposed in this budget.

- Those who become unemployed as a result of industries shrinking from changing patterns of international trade will no longer be eligible for special extended Trade Adjustment Assistance cash benefits. The additional length of time workers are eligible for benefits discourages them from looking for employment in other industries. Moreover, all workers who have lost their jobs through no fault of their own should be treated similarly. Instead of these additional benefits, the Federal program for special target groups (see fact sheet on Training and Employment Programs in Chapter 2) will provide training, job search, and relocation allowances to help these workers to prepare for new work and move to it.

- Those who apply for AFDC and Food Stamps will have to show that they have searched for employment. States will be required to have Community Work Experience Programs to encourage AFDC recipients to find work in the private sector, to develop and maintain work skills, and to assure that they perform useful public services when no private job is available. Parents will not be counted in the assistance unit if they quit a job, reduce hours of work, or refuse a job or work assignment. Earnings disregards for those receiving Food Stamps and the $20 income disregard for new recipients of Supplemental Security Income will be eliminated in order to eliminate inequities between beneficiaries and others in similar circumstances.

- Federal employee injury compensation will be altered so that benefit levels depend on take-home pay rather than gross pay. This will prevent untaxed benefits from being higher than previous take-home earnings. Long-term disabled Federal employees will be transferred to Civil Service retirement rolls at age 65, as they would have been if they had continued working.

- Cost-of-living adjustments (COLA) for current and future Federal civilian and military annuitants will be changed to achieve more equity among annuitants and between annuitants and current workers. The adjustment will be the lesser of the annual increase in the pay schedule for most Federal employees or the Consumer Price Index. Annuitants whose annuity is 120% or more of the annuity of current retirees with the same grade/step of service will not receive a COLA increase. If their annuity is more than 100% but less than 120%, the adjustment will be 75% of the increase they would otherwise receive.

Reducing Program Overlap

Program proliferation has caused inequities and excessive payments. This Administration is committed to reducing these effects and will propose legislation to make needed changes.

- Energy assistance payments will be counted as income in calculating eligibility and benefits for AFDC and Food Stamps.

- The Summer Feeding Program and the Special Milk Program will be ended because Federal support for nutrition is available through Food Stamps, subsidies for school breakfasts and lunches, and other programs.

- More than half of retired Federal workers qualify for Hospital Insurance under Medicare. The Administration will propose universal eligibility for Medicare for Federal workers and require them to contribute to the hospital insurance.

- Veterans who are rated between 60% and 90% disabled and who are judged "unemployable" will not be paid at the 100% rate if they also receive Social Security, Supplemental Security Income, or Federal retirement benefits. Dependents of people who receive Veterans Pensions and Civil Service annuities will not receive student benefits beyond secondary school, just as dependents of Social Security recipients do not. Other assistance programs are available for students in postsecondary education.

Focusing Resources on Those in Need

Eligibility for many entitlement programs has been extended well beyond the people most in need. This not only has caused rapid growth of Federal expenditures for entitlement programs, but also has undermined the original objective of helping the most needy.

- Since 1978, the primary beneficiaries of Guaranteed Student Loans have been middle and upper–income families, many of whom could readily invest their own funds in their children's education instead of in high–yield financial investments. Starting in 1982, the needs of undergraduate students at all income levels will be analyzed, and loans will be limited to students who qualify after taking into account family contributions and other financial aid such as Pell Grants. Graduate and professional students will be allowed to borrow only under the less subsidized auxiliary program. Special allowance and interest benefit payments will be limited to the period of school attendance, any deferment periods, plus two years following graduation or withdrawal from school.

- Food Stamps benefits will be reduced 35 cents instead of 30 cents for each $1 of income. Other changes in the Food Stamp, AFDC, and Supplemental Security Income programs will also focus benefits on those most in need by taking account of all household resources, limiting benefits to the exact period of eligibility, and assessing need more carefully.

Promoting Efficient and Effective Program Operations

Incentives and requirements to tighten the administration of entitlement programs and hold down unnecessary costs are proposed in the budget.

- A Combined Welfare Administration program will be started to give States a fixed amount to manage the Food Stamp, Medicaid, and AFDC programs. The fixed amount will provide greater incentives for efficiency than the current open–ended match of administrative costs. States will have flexibility to respond to these incentives by designing administrative mechanisms under fewer Federal requirements.

- The Federal Government now matches State benefit payments for AFDC and Medicaid and also matches erroneous payments up to 4% of the State's total payments. For Food Stamps, a slightly higher percentage of erroneous payments can be made without penalty. Funding of erroneous payments in all programs will be reduced to 3% in 1983, 2% in 1984, and 1% in 1985. No such payments will be made thereafter. Quality control will be closely monitored to ensure that errors are measured correctly and that States have data to make program and management improvements. The Federal Government is working closely with State and local governments to reduce error rates. The President's new Federalism initiative's swap program would obviate this issue.

- Excessive payment to providers for Medicare services will be ended. Payments for the excess costs of private rooms not covered by Medicare will be stopped; hospital–affiliated home health agency and skilled nursing facility services will be reimbursed at the same rate as those provided by free–standing facilities; and duplicate reimbursement for hospital outpatient physician services will be limited. Utilization review targets to reduce the amount of unnecessary care provided will be set, and improvements will be made in the contractor bill–paying system.

End Inappropriate Federal Instrusion

The rail industry's pension will be restored to the private sector, thereby freeing railroad labor and management from the need to petition Congress to enact legislation to conform rail pensions to their collectively bargained labor contract.

- Defederalizing railroad retirement will reduce budget outlays by $2 billion in 1983 and eliminate a Federal agency with over 1,500 employees.
- Retirees' benefits and employees' rights will be unchanged due to the reorganization.

Entitlement Reform Effects

These reforms in entitlement programs will restore the original safety net character of social welfare programs, focus assistance on the people most in need, and improve the efficiency and equity of benefit payments.

- Outlay savings from these entitlement changes will amount to $1.4 billion in 1982, $12.8 billion in 1983, $18.1 billion in 1984, $23.8 billion in 1985, $29.4 billion in 1986, and $35.9 billion in 1987. The aggregate savings of $121.4 billion will be reduced by $5.1 billion of revenue losses over the six year period.
- The effect of the President's proposals will not be reduction in the total level of support for deserving American families. On the contrary, *non–Social Security entitlements will rise from $167.8 billion in 1981 to an historic high of $184.4 billion in 1983, a 9.9% increase.* Moreover, these expenditures, under the present proposals, are projected to increase steadily to $226.9 billion in 1987, or at an annual rate of increase of 5.3%.

Thus, necessary savings in, and focusing of, these entitlement programs will not undermine their role. Rather, the Administration's proposals conform these programs to their original rationale, thereby strengthening support for them and insuring that they meet the needs of those they were intended to serve.

Food Stamps

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

*Funding**

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	10,556	10,653	11,825	12,145	12,549	12,843	13,130
Outlays	10,340	10,613	11,821	12,108	12,505	12,798	13,083
REAGAN BUDGET							
Budget Authority	10,556	10,380	9,531	9,737	10,008	10,172	10,433
Outlays	10,340	10,340	9,563	9,732	10,002	10,166	10,427
PROPOSED SAVINGS							
Budget Authority	—	273	2,294	2,407	2,541	2,671	2,697
Outlays	—	273	2,258	2,375	2,502	2,632	2,656

***Excludes nutrition assistance for Puerto Rico in all years. Includes Food Stamps share of savings from Combined Welfare Administration for states, which is also included in a separate paper in this chapter.**

Program Description

Food Stamps subsidize the food purchases of households that meet the eligibility standards for gross income and disposable assets. Monthly allotments of Food Stamps are made available to such households and are redeemable for food through commercial outlets. Allotments are periodically adjusted to reflect changes in USDA's Thrifty Food Plan.

Proposed Change

The Administration is committed to restraining the uncontrolled growth of entitlement programs, requiring those who ought to work to do so, and targeting available resources to those families that most need assistance. In accordance with this policy, several changes will be proposed for the Food Stamp program.

- Energy assistance payments will be counted as income in determining household eligibility and benefit levels.
- The special disregard of earnings in determining benefit levels will be eliminated.
- Benefits will be reduced by 35 cents for each additional dollar in income rather than the current 30 cents.
- Able–bodied Food Stamp applicants will be required to begin job search activities when they apply for assistance.
- Benefit rounding adjustments will be made so that amounts in excess of whole dollar amounts will be dropped from benefit payments.
- Monthly benefits of less than $10 per household per month will be eliminated.
- Federally financed Food Stamp State administrative expenses will be combined with other welfare administration funds. This is discussed in more detail in a separate paper.
- States will be held to firm targets for reducing erroneous eligibility and benefit determinations so that by 1986 there will be no Federal participation in erroneous payments. This is also discussed in a separate paper.

Rationale

- These changes will contribute to efforts begun in the Omnibus Budget Reconciliation Act to refocus Food Stamps as a nutrition assistance program for the dependent poor rather than the generalized and costly income transfer program it has become in recent years.
- Under current law certain types of cash income are either not counted or partially disregarded in determining eligibility and benefit levels. This creates inequities among recipients and between recipients and non-participants with similar incomes and resources. Changes proposed in the treatment of income are intended to reduce these inequities and to take account of the total resources (both cash and in-kind) available for needy Americans.
- Issuance of benefits of less than $10 per month is costly both to the recipient who applies for Food Stamps and for the States and localities that administer the program. In most States, certification and issuance costs exceed $15 per case.
- Erroneous Food Stamp issuance cost the Federal government more than $1.1 billion in 1981. This level of waste and abuse cannot be allowed to undermine support for benefits for those who must have Government help to maintain an adequate diet.
- Food Stamp costs and participation have escalated rapidly over the past three years. Outlays grew from $5.5 billion in 1978 to more than $11 billion in 1981. During that same period more than six million new participants were added to the rolls. One out of ten Americans now receives Food Stamps.
- Census surveys in 1980 showed that nearly 40% of Food Stamp households had incomes above the Federal poverty level, and more than half of Food Stamp households had incomes in excess of $5,500 per year. More than 2 million households received nutrition benefits through both Food Stamps and federally subsidized school meal programs.

Effects of the Proposed Change

- Current Food Stamp benefits for families with little or no income — more than 4 million of the current participants — will be essentially unchanged by these proposals.
- Recipients with higher incomes will have their benefits adjusted to reflect their need for nutrition assistance in addition to the disposable income they currently have. Inequities in the treatment of income from various sources will be substantially reduced or eliminated.
- Those who are able to work will be required to make efforts to find employment so that assistance can continue for those unable to work because of age or infirmity.

Nutrition Assistance for Puerto Rico and Territories*

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

Funding

	($ in millions)						
	1981**	1982**	1983	1984	1985	1986	1987
BUDGET AUTHORITY	968	958	869	869	869	869	869
OUTLAYS	965	956	822	869	869	869	869

*Savings attributable to this proposal are incorporated in savings shown in categorical nutrition program (Food Stamps, Child Nutrition) papers.

**Actual 1981 amounts and estimated 1982 amounts of spending associated with categorical nutrition programs (Food Stamps, Child Nutrition, WIC).

Program Description

The Omnibus Budget Reconciliation Act of 1981 authorized a nutrition assistance grant for Puerto Rico, beginning in July 1982. This grant eliminates the detailed Federal regulations, accounting and reporting previously required for the Food Stamp program in Puerto Rico. Puerto Rico will receive $825 million in FY 83 under this grant, with the flexibility to target assistance in accord with local priorities. Other insular areas (Virgin Islands, American Samoa, Guam, Northern Marianas) also receive assistance under categorical Federal nutrition programs (e.g., Food Stamps and School Lunch programs).

Proposed Change

Federal nutrition assistance will be consolidated in the insular areas. This consolidation will permit the territorial governments to provide adequate nutrition for their needy residents without the constraints of detailed, federally imposed regulatory and program requirements.

Rationale

- Categorical nutrition programs, targeted for needy mainland residents, are inappropriate, complex and burdensome for Caribbean and Pacific island societies.
- Consistent with the intent of Public Law 95-134, Omnibus Territories legislation enacted in 1977, this consolidation will simplify application and reporting procedures, waive local matching funds requirements, and allow wide flexibility to direct assistance to locally determined needs.
- General Accounting Office (GAO) and Inspector General reports have repeatedly found that territorial governments do not have the administrative capability to manage complex Federal programs or the economic and transportation structure that is assumed for mainland programs.

Effects of the Proposed Change

- Nutrition assistance for needy residents of U.S. insular areas would continue under the auspices of territorial governments. Assistance could be provided in cash or in-kind (e.g., school meal subsidies, food purchase vouchers).
- Island governments will be freed from the constraints of more than 300 pages of Federal regulations and program reporting requirements.

Child Nutrition Programs

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	3,464	2,847	3,161	3,397	3,637	3,881	4,131
Outlays	3,438	2,729	2,989	3,217	3,445	3,678	3,917
REAGAN BUDGET							
Budget Authority	3,464	2,847	2,826	2,985	3,153	3,339	3,529
Outlays	3,438	2,729	2,708	2,853	3,013	3,191	3,373
PROPOSED SAVINGS							
Budget Authority	—	—	334	411	483	542	602
Outlays	—	—	282	364	432	487	544

Program Description

The Child Nutrition programs finance school lunches and breakfasts, child care meals, summer meals, snacks, nutrition education, and State administrative expenses. The lunch, breakfast, and child care programs subsidize all meals served, but the subsidy amounts vary by household income level. The summer program is fully subsidized for all recipients, regardless of need.

Proposed Change

- The summer feeding program would be ended.
- The current entitlements for school breakfast and child care feeding (CCFP) subsidies would be converted to a categorical grant to States.
- Nutrition education activities would be left to State and local discretion. Federal mini-grants for such programs would be discontinued.

Rationale

- The federally subsidized summer meal program has been riddled with fraud and abuse since it was established in the rush of Great Society legislation in the 1960's. With the availability of other Federal nutrition assistance programs, i.e., Food Stamps, which was not a national program when summer feeding began, the summer feeding program is now duplicative and wasteful. In recent years the summer programs have been concentrated in a few large, urban States where repeated abuses have been cited by GAO and USDA's Inspector General.
- The current CCFP is administratively cumbersome and over-regulated. Direct grants to States will allow more effective targeting of these resources according to State and local priorities and reduce administrative burden by eliminating detailed Federal regulations for over 60,000 child care feeding centers.
- Federal funding has grown dramatically as a percentage of school meal financing while student payments for such meals have, in real terms, substantially declined. In 1980 dollars, the Federal share of average per meal costs increased from an estimated 31 cents in 1970 to 60 cents in 1981 while student payments dropped from 60 cents to 34 cents during the same period.
- Funding individual meal subsidies for breakfast at school is an inappropriate Federal role. Under the grant-in-aid concept proposed by the Administration, States may allocate nutrition funds to schools and other institutions according to State and local priorities.

Effects of the Proposed Change

- Inappropriate Federal imposition of nutrition program design and administration would be ended for the child care and breakfast programs. More than 40 pages of program regulations and requirements would be eliminated.
- Federal meal subsidies for all school lunches would continue for more than 23 million students.

Special Milk Program

AGENCY: Department of Agriculture FUNCTIONAL CODE: 605

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	119	28	29	30	34	37	41
Outlays	104	34	27	28	32	35	39
REAGAN BUDGET							
Budget Authority	119	28	—	—	—	—	—
Outlays	104	34	2	—	—	—	—
PROPOSED SAVINGS							
Budget Authority	—	—	29	30	34	37	41
Outlays	—	—	25	28	32	35	39

Program Description

The Special Milk appropriation finances milk subsidies for students in schools that do not participate in other federally subsidized meal programs.

Proposed Change

The Special Milk program would be terminated effective for the 1982–83 school year.

Rationale

- Nearly 90% of the 1.6 million students receiving milk subsidies are non–needy (their families have incomes in excess of $16,000 per year). These students will receive subsidies of 9 cents per half–pint of milk in the 1981–82 school year regardless of their family income.
- Every President since John Kennedy has proposed major reductions or elimination of the Special Milk Program.

Effects of the Proposed Change

- The program's original goal, to promote fluid milk consumption in schools, has been superseded by the large subsidies ($700 million in 1982) for milk consumption in other Federal meal programs. The $34 million now anticipated to be spent on Special Milk in 1982 will have a negligible effect on milk consumption in the U.S.
- Termination of this special subsidy would cost upper–income families about 10 cents per day, less than $20 per year per child — less than one–half of one percent of the average family's disposable income.

Aid to Families with Dependent Children

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	8,036	5,893	6,609	6,607	6,669	6,779	6,891
Outlays	8,064	7,811	6,609	6,607	6,669	6,779	6,891
REAGAN BUDGET							
Budget Authority	8,036	5,727	5,454	5,541	5,554	5,582	5,677
Outlays	8,064	7,645	5,454	5,541	5,554	5,582	5,677
PROPOSED SAVINGS							
Budget Authority	—	166	1,155	1,066	1,115	1,197	1,214
Outlays	—	166	1,155	1,066	1,115	1,197	1,214

Program Description

Aid to Families with Dependent Children (AFDC) provides cash assistance for needy children deprived of parental support by the death, disability or continued absence of a parent from the home. About half the States also have an AFDC — Unemployed Parent program for low income families in which both parents are present in the home, but the principal earner is unemployed. AFDC is administered by State and local governments in conformity with Federal guidelines. Benefit levels are determined by each State, with the Federal Government matching these benefit costs at rates from 50% to 77%. The Federal Government also pays 50% of the cost of State and local administration.

Proposed Changes

A variety of legislative changes to AFDC eligibility rules and benefit levels is proposed, as described below. These changes, which would be effective July 1, 1982, are designed to:

- Strengthen AFDC employment incentives by requiring those who are able to work to do so.
- Determine AFDC benefits by including in the applicant's income those resources which are often available to an AFDC family but have not previously been counted.
- Eliminate program overlaps and simplify administration.

Rationale

- *Require States to have Community Work Experience Programs.* States now have the option to establish workfare programs, but less than half the States are planning to do so. Requiring the work experience in all States 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. ($–49 million)
- *Mandate job search for AFDC applicants.* Applicants would be required to demonstrate that they have exhausted possible private sector employment as a source of income before receiving public assistance. A similar change is proposed for Food Stamps. ($–145 million)
- *Provide Unemployed Parent benefits only if parent participates in workfare.* Since these benefits are paid to families in which both parents are present, one parent should actively be seeking employment through all possible means, including Community Work Experience Programs (CWEP). Limiting Unemployed Parent benefits to those who participate in CWEP programs would help preserve work skills and assure that only those who are unable to find private employment receive public assistance. ($–86 million)

- *Remove parent/caretaker from the assistance unit for voluntarily quitting work, reducing earnings, refusing employment, or refusing a workfare assignment.* The benefit level would be reduced because the parent/caretaker would not be counted as a member of the unit when assistance needs are computed. The change would discourage reductions in work effort simply to become eligible for welfare.

- *Seek no further funding for the Work Incentives (WIN) program.* New work opportunities for welfare recipients created in the Omnibus Budget Reconciliation Act of 1981, including Community Work Experience Programs and Work Supplementation programs, and the reforms proposed in the 1983 Budget make WIN unnecessary. These new programs would give States greater flexibility to develop public and private job settings for welfare recipients than WIN does. As WIN funding had been separate from AFDC, savings from this proposal are not included in the AFDC totals in the table above. ($–245 million)

- *End employable parent's benefit when youngest child reaches 16.* Since the parent's presence in the home is no longer essential in these cases, the employable adult should be expected to seek work rather relying solely on public assistance. ($–47 million)

- *Prorate shelter and utilities for AFDC families in large households.* The economies of sharing living expenses in large households are often not taken into account in AFDC. By taking into account *de facto* support that is not now considered, benefits would be targetted on those most in need. ($–174 million)

- *Require States to count Federal or State energy assistance payments as income for AFDC.* The change would reduce program overlap and take into account existing resources in determining benefits to AFDC families. Over $1.7 billion in Federal Low Income Energy Assistance was disregarded by AFDC in 1982. A similar policy is proposed for Food Stamps. ($–175 million)

- *Include the income of all unrelated adults as part of the AFDC assistance unit for purposes of computing benefits.* While the income of stepparents has recently been included in the AFDC benefit calculation, other unrelated adults are still excluded, even if they have significant resources to help support the AFDC family. Standard income disregards would be applied before determining the amount available to the AFDC unit. ($–69 million)

- *Include all minor children in the AFDC unit, except for disabled children who have separate benefits.* Minor children who have significant separate resources can currently be excluded from the AFDC unit at the option of the welfare family. Counting the resources of all minor children would ensure equitable treatment of families with similar needs. Children with SSI disability benefits would continue to be excluded. ($–63 million)

- *Eliminate military service by the father as a reason for AFDC eligibility.* Military personnel can sometimes avoid family financial obligations and shift their responsibility to the public assistance rolls, even when there is continued family contact. This practice would be stopped. Families who have actually been deserted could still be eligible for AFDC, but increased efforts to collect child support payments would first be made. ($–16 million)

- *Require States to round benefits to the lower whole dollar.* This is similar to recently enacted practice in Social Security, and is also proposed for Food Stamps and SSI. This proposal would streamline State administration. ($–10 million)

- *Prorate first month's benefit based on date of application.* States are now permitted to pay benefits back to the first day of the month of application. Under this proposal, assistance would begin on the date of application. A similar change has been enacted for Food Stamps, and is proposed for SSI. ($–14 million)

- *Eliminate optional AFDC emergency assistance program, and broaden the Low Income Home Energy Assistance program to include emergency assistance-type expenditures.* This would reduce program overlap and give States added flexibility to provide assistance in the manner they deem most appropriate. This change would be effective October 1, 1982. ($–60 million)

- *Phase in full fiscal responsibility to the States for erroneous payments in AFDC, Medicaid, and Food Stamps.* A zero error tolerance would be phased in by 1986. ($–234 million)

Proposed changes which affect AFDC and other public assistance programs, including Combined Welfare Administration for States, and the new Federal policy on treatment of erroneous payments, are discussed elsewhere in this chapter.

Effects of the Proposed Changes

These changes would ensure that Federal resources are targeted on the neediest, and that individuals and families who are able to support themselves do not continue to rely on public assistance. Federal outlay savings from these changes are estimated at $1.2 billion 1983 and nearly $6 billion over the next five years. States will save an amount equal to about 85% of the Federal savings.

Child Support Enforcement

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	448	409	553	622	700	787	886
Outlays	439	510	553	622	700	787	886
REAGAN BUDGET							
Budget Authority	448	374	408	471	544	625	718
Outlays	439	475	408	471	544	625	718
PROPOSED SAVINGS							
Budget Authority	—	35	145	151	159	166	176
Outlays	—	35	145	151	159	166	176

Program Description

Currently, the Federal Government pays 75% of State and local administrative costs for Child Support Enforcement (CSE) agencies that establish paternity and collect support payments from legally liable absent parents. The Federal share of these costs is shown in the table above. Where the absent parent's family is on AFDC, these collections offset AFDC costs. In 1981, these collections reduced Federal AFDC costs by $268 million. By 1987, the Federal share of collections under current law is projected to exceed $500 million.

An added 15% payment (financed solely out of the Federal share of collections) is also made to States for "cooperating" in child support cases in other jurisdictions. States also receive special Federal financing for court personnel who are involved in child support as part of their regular responsibilities.

Since the Federal share of total collections is less than 50%, but the Federal share of administrative costs is over 75%, the CSE program is a net gain for States, and a net cost to the Federal Government, even though AFDC collections are increasing.

Proposed Changes

The Administration proposes to restructure Federal matching to provide incentives for improved State and local performance. The current structure of Federal matching payments and distribution of AFDC collections would be repealed. Instead, a new formula designed to reward States both for increasing collections and for operating cost-effective programs would be instituted.

The Administration also proposes to require States to retain 6% of child support collections for all non-AFDC cases as reimbursement for the costs of enforcement and collection. Currently, these costs are paid almost entirely by the Federal Government, even though the collections do not offset Federal AFDC costs. The existing fee provision, which is applied only to a few non-AFDC cases, would be repealed.

In addition, a number of other reforms are proposed to strengthen the CSE identification and collection process, and increase collections. These include increasing the availability of information for State CSE agencies, and making allotments against pay for military personnel who have delinquent child support obligations. Savings from these proposals ($12 million in 1983) are shown in the AFDC budget as increased collections which offset AFDC costs.

Rationale

- Twelve States run cost-effective programs with AFDC collections/administrative cost ratios of more than 2 to 1. Nineteen States do not currently collect enough to even cover costs, and the remaining States run programs of only marginal effectiveness. Since the Federal Government finances over 75% of State and local CSE costs, improved performance by the States should be required.
- The new 6% fee for non-AFDC cases would stop the public subsidy to families not receiving AFDC, while continuing to provide a service that the private sector could not provide at a comparable price.

Effects of the Proposed Changes

Restructuring Federal matching rates would increase the incentives for States to improve the performance of their child support enforcement agencies, and would help ensure that family financial obligations are fulfilled. The proposed changes would increase AFDC collections and/or decrease the Federal share of CSE administrative costs by about $150 million in 1983 and nearly $900 million over the next five years. Increased child support collections would help offset Federal and State AFDC costs.

Medicaid

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES*							
Budget Authority	17,442	18,945	14,461	20,960	24,152	26,472	29,223
Outlays	16,843	18,101	18,989	20,960	24,152	26,472	29,223
REAGAN BUDGET							
Budget Authority	17,442	17,968	12,925	18,628	20,407	22,138	24,314
Outlays	16,433	17,823	17,006	18,628	20,407	22,138	24,314
PROPOSED SAVINGS							
Budget Authority	—	977	1,536	2,332	3,745	4,334	4,909
Outlays	—	278	1,983	2,332	3,745	4,334	4,909

***Includes $884 million in 1981 and $895 million in 1982 for State administration grants; in later years these funds are shown in a separate account. The Administration's proposal for a Combined Welfare Administration for States is discussed in a separate paper in this chapter. Excludes Federal administrative costs of approximately $70 million, which are included in the functional tables in Part 5 of the Budget. The large reduction in BA in 1983 is due to a transition quarter resulting from a technical change in the appropriation language.**

Program Description

Medicaid is a program of grants to States to assist them in providing medical care to low income families and individuals. The Federal Government provides States with open-ended matching payments for their expenditures, with the Federal match (based on State per capita income) ranging from 50% to 78%. Program growth averaged 15% annually from 1975 to 1980, and was 21%, $2.9 billion, in 1980–1981. Combined Federal and State expenditures per Medicaid beneficiary will exceed $1,400 in 1983 even with proposed savings.

The Reconciliation Act of 1981 reduced the Federal match — by 3% in 1982, 4% in 1983, and 4-1/2% in 1984 — and provided States some additional flexibility to manage the program efficiently. Nonetheless, Federal program expenditures under current law (excluding administrative expenses) are expected to grow at an annual rate of more than 10% in 1983 and 1984, jumping to over 15% in 1985.

Proposed Change

The Administration will propose a variety of legislative changes designed to improve program efficiency and effectiveness and to provide increased ability to manage the program. Adoption of these changes would result in outlay savings of $2.0 billion in 1983, rising to $4.9 billion annually by 1987. As part of the Federalism initiative, discussed elsewhere, the Administration has also offered to accept full responsibility for the financing of Medicaid.

Rationale

The unconstrained growth of the Medicaid program places a heavy burden on both Federal and State taxpayers. Open-ended Federal matching, poorly structured benefits, and overly-generous eligibility have contributed to Medicaid's failure to provide cost-effective services to those in need. The Administration proposals will reduce excessive costs while assuring maintenance of essential assistance. Proposed changes would:

- *Reduce the Federal match for optional services and beneficiaries.* Currently, the Federal Government matches expenditures for optional services and for optional beneficiaries at the same rate as expenditures under the basic program. The Administration proposes to reduce the Federal match for optional State programs by three percentage points to reflect their lower priority and their discretionary character (-$600 million in 1983).

- *Establish co-payments for Medicaid services.* The provision of nearly all medical services without any charge to the beneficiary creates a situation which can lead to unnecessary demand for services, waste and excess costs. Imposing modest recipient co-payments (e.g., $1/outpatient visit, $2/inpatient day) would encourage more responsible use of resources by requiring beneficiaries to provide some financial contribution for their own care in accord with generally accepted insurance principles (-$329 million in 1983).

- *Allow States flexibility to recover long term care (LTC) costs from beneficiary estates and relatives.* Because of the high cost of LTC services, individuals with relatively high incomes and assets may become Medicaid-eligible. Federal law and regulations, however, pose barriers to State collections from the beneficiaries' estates and the incomes of beneficiaries' families. Removing these barriers, while retaining Medicaid eligibility requirements, would eliminate an inappropriate public subsidy to Medicaid LTC beneficiaries' families and heirs, while continuing to assure access to needed care (-$283 million in 1983).

- *Establish a Combined Welfare Administration program for States.* Expenditures for administrative services are largely controllable by States. However, despite the controllability of administrative costs, the Federal Government matches whatever States spend. At the same time, the regulations associated with open-ended matching are unnecessarily complex and burdensome. The Administration proposes to replace the current matching system with a unified fixed payment for administrative costs for three welfare programs — Medicaid, AFDC and Food Stamps. The unified payment is discussed in more detail in a separate paper (-$218 million in Medicaid savings in 1983, not included in the Medicaid totals above).

- *Eliminate Federal matching for the State Medicare buy-in.* Currently, Federal general fund expenditures finance 75% of Medicare Supplementary Medical Insurance (SMI) expenditures. States are allowed to enroll eligible Medicaid beneficiaries in SMI and pay the beneficiary share of premiums out of Medicaid funds at the normal Federal Medicaid match (the Medicare buy-in). The combination of the 75% general fund subsidy and the Federal Medicaid match results in a Federal subsidy of almost 90% for Medicare-covered services. Eliminating matching for the buy-in would reduce the Federal subsidy to a more reasonable 75% while still providing sufficient incentives for States to buy in (-$203 million in 1983).

- *Eliminate special matching rates.* Currently, States receive special higher matching rates for such activities as family planning and nursing home inspections. Elimination of these special matches would allow States to establish program priorities without the distortions imposed by special Federal fiscal incentives and would end unnecessary Federal subsidies for these activities (-$64 million in 1983).

- *Phase-in full State responsibility for erroneous payments.* State payment errors, up to 4% of program costs, are currently matched by the Federal Government at the same rate as other program payments. The proposed change would establish a policy of phasing-in full State responsibility for erroneous payments through reducing the acceptable error level by 1 percentage point per year. This proposal is discussed in detail in a separate paper in this chapter (-$59 million in 1983).

- *Shorten the automatic extension of Medicaid eligibility.* Currently, individuals who lose their eligibility for AFDC as the result of increased earnings are granted an automatic Medicaid eligibility extension of four months. The Administration proposes to reduce the extension to one month, sufficient time for private employment-based health insurance to become effective (-$75 million in 1983).

- *Impact on Medicaid of AFDC proposals.* Proposed changes in AFDC to improve the welfare system, including increased work requirements, improved income measurement, and administrative simplification, will reduce Medicaid costs (-$153 million in 1983).

- *Impact on Medicaid of SSI proposals.* Reductions in the SSI rolls through tightened standards for determination of disability will reduce Medicaid expenditures (-$176 million in 1983).

- *Other proposals.* Several minor changes, including the impact of Medicare proposals on Medicaid, will produce additional savings (-$41 million in 1983).

Effects of the Proposed Change

These changes will maintain basic Federal responsibility for assuring medical care for those in need. Even with these reforms, Federal program expenditures will rise to $17 billion in 1983 and are expected to increase to $24 billion annually by 1987. At the same time, excessive program expenditures will be reduced by:

- increasing beneficiary and family responsibility for care;
- reducing Federal subsidies which are unnecessary to assure services to those in need and which distort program priorities;
- providing additional incentives for economical program administration and targeting of resources; and,
- eliminating Federal barriers to economical program operation.

Medicare

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 551

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	45,292	55,846	61,293	67,768	76,127	87,447	97,244
Outlays	42,489	49,872	57,823	66,309	76,174	87,027	99,145
REAGAN BUDGET							
*Budget Authority**	45,292	55,863	62,454	68,860	76,656	88,523	98,566
Outlays	42,489	49,552	55,352	61,178	68,365	75,649	83,051
PROPOSED SAVINGS							
*Budget Authority**	—	17	1,161	1,092	529	776	1,322
Outlays	—	320	2,472	5,131	7,809	11,378	16,094

***Excludes amounts associated with combining Social Security trust fund resources other than as provided by current law.**

Program Description

Medicare provides health insurance for aged and disabled Americans. Medicare Hospital Insurance (HI) is financed by payroll taxes; Medicare Supplementary Medical Insurance (SMI) is financed by a combination of beneficiary premiums and general revenues. Approximately 26 million aged and 3 million disabled Americans will benefit from Medicare coverage in 1983.

Proposed Change

The Administration is proposing a number of program changes to improve the efficiency and effectiveness of Medicare. The changes are designed to:

- reduce the excessive rate of health care cost inflation by improving market forces in the health care industry,
- reduce excessive reimbursement to providers, and
- improve program efficiency.

The proposed changes would help fulfill the Administration's commitment to assuring the continuance of Medicare–financed services to beneficiaries and, if adopted, would result in outlay savings of $2.5 billion in 1983, rising to $16.1 billion in 1987. Specific proposals are discussed below.

Rationale

Medicare's rate of spending increase is a growing burden to the Federal budget and a major contributor to health cost inflation. Under current law and policy, the program will grow about 16%, or about $8 billion in 1983, compared to overall budget growth of 4.5%. Medicare spending now accounts for 26% of national expenditures for hospital care and 17% for physician services. The perverse incentives built into the health care financing system have fueled Medicare cost increases. At the same time, the explosive growth in Medicare costs, combined with Medicare's inflationary reimbursement principles, has also contributed to the excessive rate of health care cost inflation generally.

The urgency of achieving economies in the Medicare program is heightened by the financial difficulties confronting the Social Security system. Considered alone, the Medicare HI trust fund will see expenditures exceeding income in 1985 and will be exhausted by the early 1990s. Program

economies are needed in order to assure continuance of essential protection to aged and disabled Americans and to eliminate wasteful and unnecessary expenditures. For the long term, the Administration proposes to reduce the Medicare growth rate through reforms designed to improve market forces in the health care industry and in the program itself.

Proposed changes include:

- *Improve market forces in the health care industry.* Perverse incentives are woven into the fabric of the current health care market. Wasteful provider reimbursement, coinsurance arrangements that subvert price–consciousness in choice of provider and promote excessive utilization of services, and inadequate incentives to promote cost–effective health care systems have all contributed to an explosive rate of growth in health care costs. The Administration will propose, later this year, measures to improve market forces in the health care industry and in the medicare program. No costs or savings from these efforts are assumed until 1984.

- *Institute co–payments for home health services.* Home health services are currently free and unlimited. As a result, the program is growing at an annual rate of almost 30%. Modest co–payments would be established to encourage beneficiary cost–consciousness in the use of the service. The co–payment would be 5% for the first 100 visits (about $2.40) and 20% thereafter (–$35 million in 1983).

- *Establish HI entitlement insurance coverage for Federal workers.* Currently, more than half of retired Federal workers over 65 qualify for HI coverage on the basis of spouse earnings or modest periods of employment in the private sector, even though they did not pay the HI tax as Federal employees. Universal eligibility for Medicare among Federal workers would be established by requiring payment of the HI tax. This change would improve the solvency of the HI trust fund and provide more equitable treatment of Federal workers ($619 million in 1983 revenue increase).

- *Make Medicare coverage secondary to private group insurance for the working aged.* Currently, Medicare subsidizes the labor costs of companies employing aged workers by providing primary insurance coverage. This proposal would require employers to offer aged workers the same health insurance as other employees and establish coordination of benefits between Medicare and private group insurance (–$306 million in 1983).

- *Reduce the rate of increase of Medicare hospital reimbursement by 2%.* Currently, Medicare generally reimburses hospitals for the full cost of medically necessary services to beneficiaries, regardless of how inefficiently the services are provided. This inherently inflationary reimbursement method has contributed to an excessive rate of hospital cost increase which was close to 20% in 1981. This proposal would achieve program economies by reducing Medicare hospital reimbursement 2% on an interim basis until the Administration's forthcoming proposals to improve the competitiveness of the health care sector are fully effective (–$653 million in 1983).

- *Set single reimbursement limit for home health agency (HHA) and skilled nursing facility (SNF) services.* Currently, hospital–affiliated HHAs and SNFs have a higher reimbursement limit than free–standing facilities, even when services provided are identical. The Administration proposes to establish a single reimbursement limit to encourage greater competition and efficiency in the delivery of services (–$18 million in 1983.)

- *Eliminate private room subsidy.* Payment to hospitals for the excess cost of private rooms is an unintended byproduct of current Medicare cost calculation methods, since Medicare was always intended to pay only the cost of semi–private rooms. The Administration proposes to remove the excess cost of private rooms prior to calculation of Medicare's share of total costs. The change would not increase out–of–pocket expenses of program beneficiaries, since only reimbursement to hospitals would be affected (–$54 million in 1983).

- *Reduce reimbursement for physicians rendering care in hospital outpatient departments.* The outpatient reimbursement reduction would reflect the lower overhead costs experienced by these physicians and thus eliminate the double payment which results from Medicare paying this overhead both through physician charges and through hospital cost reimbursement (–$160 million in 1983).

- *Establish prospective reimbursement rates for renal dialysis services.* This proposal would create greater incentives for provider efficiency and would encourage less costly home dialysis (–$130 million in 1983).

- *Revise radiology/pathology reimbursement.* The Administration proposes to reduce Medicare reimbursement for radiologists and pathologists from 100% to 80%, thus paying them on the same basis as other physicians (–$160 million in 1983).

- *Update Medicare physician fee limits on October 1, 1982, instead of July 1, 1982.* This proposal would conform Medicare fee limit changes with the Federal fiscal year (–$210 million in 1983).

- *Cut proposed increase in the physician fee limits from 8% to 5%.* Since 1972, the increase in the maximum fees the Medicare program will recognize for reimbursement purposes has been limited by an index representing wages and physician practice costs. Physician payments under Medicare have increased faster than the index. The rate of increase in recognized fees would be reduced on an interim basis until the Administration's forthcoming proposals to improve competition in the health care sector are fully effective (–$35 million in 1983).

- *Index the SMI deductible.* The current $75 deductible would be indexed to the Consumer Price Index in order to keep its economic value constant (–$65 million in 1983).

- *Establish targets to reduce unnecessary use of hospital and medical care.* Currently, the average length of stay for Medicare patients is 11 days. Wide variations in the length of stay among regions, even after adjusting for differences in diagnosis, indicate that some of these days are unnecessary. For example, there are 48% more days of care per capita in the Northeast than the West. The Administration proposes to establish objectives for Medicare contractor activities and cooperate with private sector efforts to reduce unnecessary days and other services. At the same time, current provisions which waive provider liability for the cost of unnecessary or uncovered care would be eliminated (–$ 372 million in 1983).

- *Establish Medicare eligibility at the beginning of the first full month after attaining age 65* rather than the beginning of the month in which the birthday occurs. This change would conform Medicare practices to similar changes proposed for other entitlement programs (–$145 million in 1983).

- *Other reforms.* Other minor reforms would produce additional savings (–$129 million in 1983).

Effects of the Proposed Change

The proposed changes will reduce Medicare program costs while maintaining beneficiaries' basic health insurance protection.

- Even with the proposed changes, benefits per Medicare enrollee would increase 10% in 1983, and payments to providers will increase 12% percent.

- These proposals, by preserving trust fund assets, will help to assure that basic benefits can continue to be paid in the future without excessively burdensome tax increases.

Supplemental Security Income

AGENCY: Department of Health and Human Services FUNCTIONAL CODE: 609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	7,227	7,878	9,177*	8,270	9,330	9,826	10,296
Outlays	7,191	8,000	9,188*	8,268	9,326	9,823	10,292
REAGAN BUDGET							
Budget Authority	7,227	7,777	8,891*	7,781	8,622	8,912	9,196
Outlays	7,191	7,900	8,903*	7,779	8,618	8,909	9,192
PROPOSED SAVINGS							
Budget Authority	—	101	286	489	708	914	1,100
Outlays	—	100	286	489	708	914	1,100

***Since the first day of the first month of fiscal 1984 falls on a weekend, the first benefit check for 1984 is paid on the last weekday of 1983 thus making 1983 a 13 rather than 12 benefit month year.**

Program Description

Supplemental Security Income (SSI) provides cash assistance to low-income individuals who are aged, blind or disabled. The current (1982) maximum monthly payments and income guarantees are $264.70 for an eligible individual and $397 for an eligible couple. These amounts are indexed annually for increases in the cost-of-living. Approximately 1.5 million aged persons and 2.1 million blind or disabled persons receive Federal SSI benefits. Another 500,000 persons receive State SSI supplementation payments only. Benefit checks are usually issued the first of each month.

Proposed Change

The Administration proposes to:

- Prorate the first month's SSI benefit from the date of application or date of eligibilty (in the case of aged persons).
- Restrict the definition of permanent disability to a prognosis of at least 24 months of disability.
- Ensure that the definition of disability is based on a preponderance of medical rather than other factors.
- For new beneficiaries no longer disregard the first $20 of income in setting benefit levels.
- Recover overpayments to individuals from available Social Security benefits.
- Continue to phase out transitional hold harmless payments.

Rationale

- Under current law, all new recipients have been paid a full month's benefit regardless of the day of the month on which they file or, in the case of aged applicants, the day they become eligible for assistance (i.e., turn age 65). Consequently, most individuals who apply for SSI receive benefits for periods of time before they applied or were eligible. Prorating the first month's benefits based upon date of application (or eligibility) would base an applicant's benefits more fairly on the appropriate period.

- Under current law, the monthly guarantee and actual payments are rounded to the next higher 10 cents in the computation process. Over time, however this rounding procedure has had a compounding effect that results in slightly higher benefit payments. Rounding the SSI guarantee and payment amounts to the next lower dollar would eliminate the modest overcompensation that results from the current higher rounding procedure.

- The SSI definition of permanent disability includes a requirement that an individual's impairment must be expected to result in death or continue for not less than 12 months. Restricting permanent disability to nonemployable individuals with a prognosis of at least 24 months of disability would assure that temporary disabling impairments would not be a basis to qualify for benefits. The 24 month duration requirement is more consistent with the concept of *permanent* disability.

- Individuals are considered disabled under SSI if their medically determined impairment is of such severity that they are not only unable to do their previous work, but cannot, because of education or work experience, engage in substantial gainful employment. Ensuring the definition of disability is based on a preponderance of medical factors would eliminate a problem under present law in utilizing vocational and other subjective nonmedical factors which make consistent disability determination decisions difficult. Relying on medical factors would produce more objective and consistent determinations and fewer appeals.

- Under current law, $20 per month of an individual's income is disregarded in determining SSI eligibility and amount of benefits. Since the disregarded amount is fixed, it is of decreasing significance in real dollars. It also can result in differential treatment of recipients. Some people in similar circumstances get the maximum SSI payment of $264 and others having combined SSI and other income get $20 more a month than the maximum SSI payment. The proposed change would apply a uniform standard to newly eligible persons.

- The Social Security Administration has been unable to recover more than forty percent of SSI overpayments because many of the overpaid individuals are no longer in the SSI program. Half of the former beneficiaries receive Social Security retirement and disability benefits. The proposed change would allow Social Security Administration to recover SSI overpayments from these no longer needy individuals.

Effects of Proposed Change

Rounding benefit amounts and payment standards would have a minimal effect on individual benefits. Beneficiaries would have their monthly benefits reduced by an average of 50 cents.

Applying an established medical definition of disability would lower SSA's administrative costs and make disability determinations more consistent and objective.

This proposal would exclude payments to an estimated 115,000 individuals in 1983 who are not permanently disabled.

Combined Welfare Administration

AGENCY: Department of Health and Human Services/ Department of Agriculture

FUNCTIONAL CODE: 609/551/605

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	2,125	2,296	2,483	2,615	2,794	2,920	3,056
Outlays	2,100	2,298	2,488	2,588	2,761	2,885	3,020
REAGAN BUDGET							
Budget Authority	—	2,296	2,181	2,181	2,181	2,181	2,181
Outlays	—	2,298	2,181	2,181	2,181	2,181	2,181
PROPOSED SAVINGS							
Budget Authority	—	—	302	434	613	739	875
Outlays	—	—	307	407	580	704	839

NOTE: These figures include savings to the Departments of Health and Human Services and Agriculture which are shown separately in the 1983 budget.

Program Description

The Federal Government currently matches State administrative expenses at a 50% rate for the Food Stamp, Medicaid, and Aid to Families with Dependent Children (AFDC) programs on an open-ended basis. Some administrative expenses, such as those for anti-fraud activities and management information systems, receive a higher Federal match. Although these three welfare programs are often jointly administered, States work with a different set of cost allocation and reporting requirements for each program.

Proposed Change

Combined Welfare Administration (CWA) will combine funding to States for the administrative expenses of Food Stamps, Medicaid and AFDC into a single payment with no State match required. It will be funded at 95% of the Federal share of 1982 ongoing administrative expenses for those programs. In certain areas where the Federal Government supports anti-fraud and anti-abuse activities at a higher level, such as Food Stamps Fraud Control, the current open-ended Federal match will continue. Many Federal administrative requirements will be reduced or eliminated to give States added flexibility.

Rationale

- CWA supports the Administration's goal of returning to the States greater responsibility for running programs. States will have the flexibility to design efficient administrative mechanisms for public assistance programs that best meet their beneficiaries' needs.
- CWA replaces an open-ended system that provides States with little incentive to control administrative costs, and that burdens States with separate reporting and cost allocation requirements for AFDC, Medicaid, and Food Stamps. Under the current system, administrative costs vary widely; for example, in 1978, States' costs for issuing one Food Stamp case varied from $7.00 to $107.00. These variations bear little relationship to an individual State's ability to control the high error rates in public assistance programs.
- From other appropriations the Federal government will continue to match 75% of State expenditures for activities that currently receive special Federal matching for controlling fraud and abuse on an open-ended basis. This reflects the high priority given these activities by the Administration.

Effects of the Proposed Change

- CWA will reduce Federal payments for administering the Food Stamp, Medicaid and AFDC programs by $302 million in 1983 and $875 million by 1987.
- With the opportunity to restructure their administrative operations and the removal of separate cost allocation and reporting requirements, States should be able to realize substantial savings.
- CWA will also give States the incentive to operate more efficiently, since they will not need to apply the full amount of State funds previously used to meet the matching requirement.

State Responsibility for Errors in Welfare Programs

AGENCY: Department of Health and Human Services/ Department of Agriculture

FUNCTIONAL CODE: 551/605/609

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES (est)							
Budget Authority	1,781	1,684	1,562	1,278	1,297	1,304	1,310
Outlays	1,781	1,684	1,562	1,278	1,297	1,304	1,310
REAGAN BUDGET (est)							
Budget Authority	1,781	1,684	654	424	234	—	—
Outlays	1,781	1,684	654	424	234	—	—
PROPOSED SAVINGS (est)							
Budget Authority	—	—	908	854	1,063	1,304	1,310
Outlays	—	—	908	854	1,063	1,304	1,310

Program Description

Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamps are the major Federal/State public assistance programs. While benefits are paid in part or in total by the Federal Government, States administer the programs. In AFDC and Medicaid, States also design the eligibility rules and benefits levels within broad Federal guidelines. Of the more than $50 billion in total 1981 benefit payments for AFDC, Medicaid, and Food Stamps, an estimated $3.3 billion are overpayments or are paid to individuals who are totally ineligible, according to quality control samples. In these cases, States have either not complied with Federal program rules, have incorrectly computed benefits, or have failed to adequately verify the statements of income and family composition made by recipients.

States are currently subject to fiscal sanctions for AFDC and Medicaid payment error rates which exceed 4% (the level for Food Stamps is slightly higher). Errors up to these target levels are currently permitted, and Federal funding for them is provided.

Proposed Change

Under the Administration's proposal, full State fiscal responsibility for erroneous welfare payments administered by State and local governments would be phased in over 4 years. The maximum allowable payment error rate for Federally financed payments would be 3% in 1983 and decline to 1% for 1985. Beginning in 1986, no Federal matching would be permitted for any erroneous payments in AFDC, Medicaid, and Food Stamps. The quality control system would ensure that errors are measured correctly. Grant amounts to States would reflect projections of State costs and error rates. The change would begin on October 1, 1982.

Rationale

There is no justification for Federal financing of payment errors in State-administered programs. States currently have little special financial incentive to reduce errors since they are federally funded under matching rates that range from 50% to 77%. Food Stamp benefits are fully federally financed. While State error rates have decreased substantially over the last 10 years, they remain too high: 7.3% in AFDC, 5.0% in Medicaid, and 10.4% in Food Stamps. The Federal cost of erroneous State AFDC and Medicaid payments in 1981 was about $700 million. Food Stamp payments in error exceeded $1 billion for 1981.

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The four year phase-out would give States adequate time to make improvements in design and administration of their welfare programs in order to eliminate errors. Waivers of these maximum error rates would not be permitted.

Effects of Proposed Change

This proposal would require States to run welfare programs more efficiently by placing financial responsibility with the level of government which administers the programs. This change is an integral part of the Administration's commitment to eliminating fraud, abuse, and waste. By 1986, Federal savings from this proposal would exceed $1.3 billion annually.

Trade Adjustment Assistance Weekly Cash Benefits

AGENCY: Department of Labor FUNCTIONAL CODE: 603

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	1,481	144	118	81	65	63	60
Outlays	1,481	144	118	81	65	63	60
REAGAN BUDGET							
Budget Authority	1,481	144	10	—	—	—	—
Outlays	1,481	118	10	—	—	—	—
PROPOSED SAVINGS							
Budget Authority	—	—	108	81	65	63	60
Outlays	—	26	108	81	65	63	60

Program Description

Workers whose loss of work is attributed, at least in part, to imports can receive extra unemployment compensation under Trade Adjustment Assistance (TAA). The majority of current recipients are workers in the automobile industry. TAA benefits, equal to the worker's weekly unemployment benefits, are paid to those who have used up all their weeks of unemployment insurance and are still not working. Such workers can receive a total of 52 weeks of unemployment insurance and TAA benefits combined.

TAA funds in the Employment and Training Assistance account also cover those training costs approved by the Secretary of Labor as well as job search and relocation allowances. These benefits, which assist dislocated workers to find new jobs, are commonly called "adjustment" benefits. Workers in approved training may receive up to 26 additional weeks of TAA beyond the 52 weeks of combined unemployment insurance and TAA benefits available to them.

Proposed Change

The Administration proposes to:

- Maintain the adjustment portion of TAA by funding training, job search, and relocation as part of a Federal program for special target groups. (See fact sheet on Training and Employment Programs in Chapter 2.)
- Eliminate all TAA weekly cash benefits effective July 1, 1982, for all but those already enrolled in approved training.

Rationale

- Workers who have lost their jobs through no fault of their own should be treated similarly regardless of the reason for job loss. The regular unemployment insurance program provides adequate benefits for such workers. This is consistent with Administration policy of targeting aid to those most in need.
- Most workers eligible for TAA have taken advantage only of the cash benefits and have not used the training or other adjustment benefits. Of almost 1.3 million workers who received TAA from April 1975 through March 1981, only 38,000, or 3%, entered training; 1.2% completed training; 0.35% took job search aid; and 0.24% received relocation allowances.
- The extra weeks of cash TAA benefits provide disincentives for effective job search by unemployed workers. Research on unemployment insurance indicates that availability of

additional weeks of cash benefits leads workers to remain unemployed for longer periods of time.

- Training, job search, and relocation allowances are better than cash payments in helping displaced workers find new jobs, since such allowances help workers prepare for and move to new work while cash payments tied to unemployment do not.
- The Administration's goal of increased economic growth is best achieved by helping these workers acquire the new skills they need to re-enter the workforce.

Effects of the Proposed Change

This change will reorient the TAA program to emphasize adjustment to changed economic conditions. Training, job search, and relocation benefits which help workers adjust will be maintained. Extra weekly cash unemployment benefits, which provide workers with a disincentive to seek new jobs, will be eliminated.

Redwood Employee Protection Program

AGENCY: Department of Labor FUNCTIONAL CODE: 603

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	31	12	10	2	—	—	—
Outlays	31	12	10	2	—	—	—
REAGAN BUDGET							
Budget Authority	31	12	5	1	—	—	—
Outlays	31	11	5	1	—	—	—
PROPOSED SAVINGS							
Budget Authority	—	—	5	1	—	—	—
Outlays	—	1	5	1	—	—	—

Program Description

The Redwood Employee Protection program provides specified rights and benefits for up to six years to an estimated 3,000 workers who have been or are likely to be declared displaced by Federal acquisition of land for the Redwood National Park, pursuant to 1978 amendments to legislation that established the Redwood National Park. Benefits include cash payments to replace fully after-tax wages that would have been paid to Redwood workers if they had not been laid off. The program also includes severance payments, continuation of all rights and benefits under health, other welfare, and pension plans, as well as job search and relocation allowances.

Benefit payments began in September 1978. Through early December 1981, the program had paid $28.4 million in weekly benefits to 2,448 workers and $18.9 million in severance payments to 1,239 workers. Job search allowances totaling less than $20,000 were authorized for 90 workers and relocation allowances totaling $340,000 were authorized for 127 workers. Net weekly benefit amounts have ranged from $150 to $800. Recently the average severance benefit has been $22,000. Net severance benefits have ranged from $5,600 to $54,000.

Proposed Change

Effective July 1, 1982, pay benefits under the program only to those eligible workers directly affected by the expansion of the park who became unemployed on or before December 31, 1978. Other workers in the area who became unemployed after December 31, 1978 and who are still eligible for regular unemployment insurance benefits would continue to receive them but could not collect Redwood benefits.

Rationale

- The Federal benefits were authorized for workers who lost their jobs when the Federal Government acquired land to expand the Redwood National Park. These extraordinary benefits should be limited to those workers directly affected by the land acquisition.
- The proposed change would continue special benefits for workers whose unemployment began as late as December 31, 1978, some nine months after the land acquisition.
- Excessive and inequitable benefits cannot continue to be justified at a time when budget constraints force very sharp targeting of aid on those most in need.

Effects of the Proposed Change

The change would eliminate the extraordinary benefits for workers who first became unemployed nine months or more after the Redwood Park land acquisition. They would be eligible for unemployment insurance under the same rules that apply to other workers who lost their jobs through no fault of their own.

Federal Employee Injury Compensation

AGENCY: Department of Labor FUNCTIONAL CODE: 602

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES*							
Budget Authority	279	345	394	418	472	535	605
Outlays	238	269	394	418	472	535	605
REAGAN BUDGET							
Budget Authority	279	345	336	372	450	511	578
Outlays	238	269	336	372	450	511	578
PROPOSED SAVINGS							
Budget Authority	—	—	58	46	22	24	27
Outlays	—	—	58	46	22	24	27
SAVINGS IN OTHER AGENCIES	—	—	38	80	104	112	119
POSTAL SERVICE SAVINGS	—	—	20	41	54	57	61
TOTAL SAVINGS	—	—	116	167	180	193	207

*After reflecting proposed limit on Federal pay raises.

Program Description

Federal employees injured on the job are paid by the Department of Labor for medical expenses and provided with tax-exempt income replacement of as much as 75% of their former gross salaries if they have dependents. These payments can continue for life. Employing agencies subsequently reimburse the Department for their employees. Employees who file claims that an injury prevents them from reporting for work can continue to receive full pay from their agencies for up to 45 days while the claim is being examined.

Proposed Change

The Administration proposes to:

- Alter the compensation rate for disability from a flat percentage of gross Federal pay to a formula based on 80% of take-home pay.
- Eliminate the 45-day continuation of full pay while claims are being examined; extend the waiting period from three to seven days before compensation can be paid; and permit agencies to advance compensation under the above formula in clear-cut cases while claims are being examined.
- Transfer long-term disabled employees to civil sevice retirement rolls at age 65.
- Provide survivors of employees who die as result of work-related injury the same benefits as those provided to disabled workers.
- Provide the same benefits to all employees for loss of a body member regardless of grade level.
- Limit annual cost-of-living adjustments to the lesser of the annual increase in the pay schedule for most Federal employees (General Schedule) or the Consumer Price Index (CPI).

Rationale

The changes are designed to ensure that Federal workers disabled as a result of their employment return to gainful work as soon as possible. The changes would accomplish this by correcting a number of deficiencies in the structure of the program and by tightening program administration to preclude misuse and assure efficient case processing. The number of claims being submitted for workers' compensation benefits under the Federal Employees' Compensation Act (FECA) has been growing at an alarming pace bearing no relationship to the number of Federal employees or the Government's safety record. The annual number of claims received by this program has grown from 18,000 in 1970 to over 30,000 in 1980. In the same period, Government employment declined and there was no change in the average number of job-related deaths, indicating that the Government's safety record has not deteriorated.

- Relating income replacement to gross salary results in higher paid workers receiving more take-home pay than they receive when they are working. The proposed change to 80% of take-home pay would eliminate this problem. Augmentation of benefits in the case of those with dependents would also be eliminated, since it is both inappropriate for a wage replacement system and unavailable to private sector workers.

- The 45-day continuation of pay has succeeded in ensuring that employees were not left without income while their claims were being processsed. However, full pay is clearly an incentive to take time off for minor injuries beyond that necessary for recovery and has resulted in significant agency costs. The proposed change would authorize agencies to pay the new injury compensation in advance of claim determination provided they have certain medical evidence that shows a serious disability involved.

- Prior to amendments of FECA in 1974 the three-day waiting period was between the onset of the disability and the collection of benefits. The 1974 amendments placed the waiting period at the end of the 45-day continuation of pay period. The proposed change would establish a seven-day waiting period before a claimant receives compensation benefits. This would make the Federal compensation program similar to that in most State workers' compensation systems, which have traditionally used such periods to (1) reduce the number of minor injury cases entering the system and (2) provide disincentives for workers to take time off for minor injuries.

- Workers' compensation programs in theory provide replacement of wages lost due to employment-related injury or illness. However, this loss is no longer present once retirement occurs, and in the case of Federal employees the retirement system is better suited to meet the needs of this period. For example, present FECA recipients have no survivor benefits for nonwork-related deaths, whereas in the retirement program, by taking a reduced annuity, a recipient can have survivor benefits regardless of cause of death.

- Survivors of employees who die as a result of work-related injury are now paid less than disabled workers. This was an oversight in the last amendments to the law.

- Higher-grade Federal employees receive higher additional benefits than lower-grade employees for loss of a body member. There is no economic justification for such a difference, particularly because the basic monthly income payments which vary with grade already compensate for loss of earning power.

- Since injury compensation benefits are adjusted annually by the increase in the CPI, they tend to rise faster than wages paid to Federal employees still working. Tying the benefit adjustment to the lower of the CPI or Federal pay increase will correct this inequity.

Effects of the Proposed Change

These changes will result in the removal of (1) incentives to file questionable claims, (2) disincentives for injured workers to return to work when they are medically able to do so, and (3) inequities in compensation rates which permit higher paid workers to receive more in compensation benefits than they received in take-home pay when working.

- Approximately 50,000 beneficiaries will continue to receive average workers' compensation benefits of about $950 a month.
- Approximately 50,000 beneficiaries will have their benefits reduced on average by $115 per month, primarily because of the new compensation formula.
- Approximately 100,000 claimants will not go on continuation–of–pay.
- Approximately 9,000 beneficiaries will be transferred to the civil service retirement rolls.

Guaranteed Student Loan (GSL)

AGENCY: Foundation for Education Assistance* FUNCTIONAL CODE: 502

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	2,535	3,061	3,397	3,689	4,035	3,877	3,768
Outlays	2,259	3,039	3,313	3,616	3,949	3,916	3,795
REAGAN BUDGET							
Budget Authority	2,535	2,752	2,485	2,516	2,499	2,001	1,521
Outlays	2,259	2,807	2,551	2,508	2,503	2,125	1,641
PROPOSED SAVINGS							
Budget Authority	—	309	912	1,174	1,536	1,876	2,247
Outlays	—	232	762	1,108	1,445	1,791	2,154

*Formerly the Department of Education.

Program Description

The Guaranteed Student Loan (GSL) program was authorized by the Higher Education Act of 1965. The program provides loan guarantees and interest subsidies to States, private lending institutions, and eligible students. Parents and graduate and professional school student borrowers can also finance higher education costs through the less subsidized GSL auxiliary loan program.

Proposed Change

The Higher Education Act would be amended to:

- Increase the "origination fee" charged on new loans from 5% to 10%.
- Apply the need analysis to students at all income levels and limit loans to those students who will qualify after taking into account family contributions and other financial aid (e.g., Pell Grants, G.I. bill).
- Allow graduate and professional students to borrow only under the auxiliary loan program and increase the loan limits under the auxiliary loan program for these students from $3,000 to $8,000 per year and from $15,000 to $40,000 for all years.
- Increase the insurance premiums paid on GSL's to the Federal Government by:
  - — increasing the premium charged lending institutions in the Federally Insured Loan program, which insures 5% of all new loans, from 0.25% to 1.0%; and
  - — initiating a reinsurance premium charged State and private guarantee agencies, which insure 95% of all new loans, equal to 50% of the annual income which these agencies earn from insurance premiums they charge participating lending institutions.
- Limit special allowance interest benefit payments to in-school and deferment periods plus a two-year period following graduation or withdrawal from school (exclusive of deferment periods).

Rationale

The current program provides complete Federal subsidization of interest during a student's postsecondary education and subsidizes any interest above 9% after school completion and deferments. This encourages students to borrow regardless of financial need from their first year in school and can

needlessly cause students to amass high levels of debt. These debt levels in turn allow decreased reliance on family savings and student work. Federal expenditures to pay interest subsidy entitlements in this program have increased by over seven-fold between 1977 and 1981, from $331 million to $2.4 billion.

Since 1978 the primary beneficiaries of GSL loans have been middle and upper income families who could afford to invest their own funds, which were "freed up" by the guaranteed loans, or the GSL funds themselves in money market funds and similar savings instruments yielding high returns — in essence making money on their "free" Federal loans at the taxpayers' expense. The effective rate of Federal subsidy of a student loan has been as high as 19%.

Effects of the Proposed Change

- Starting in 1982, only undergraduate students with demonstrated financial need will receive some 2.9 million federally insured loans amounting to about $6.3 billion. In addition, about 943,000 auxiliary loans to parents and to graduate and professional school students will be insured, amounting to some $2.5 billion.
- In 1983, an estimated 2.8 million undergraduate students will receive federally insured loans amounting to about $5.9 billion. In addition, an estimated $1.8 million auxiliary loans totalling about $4.4 billion will be insured.

Civil Service Retirement

AGENCY: Office of Personnel Management FUNCTIONAL CODE: 600

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	—	32,849	34,262	36,435	38,350	40,005	41,324
Outlays	—	19,436	21,543	23,516	25,386	27,277	29,249
REAGAN BUDGET							
Budget Authority	—	32,849	34,254	36,223	37,873	39,362	40,553
Outlays	—	19,412	21,054	22,417	23,928	25,567	27,339
PROPOSED SAVINGS							
Budget Authority	—	—	8	212	477	642	770
Outlays	—	24	489	1,099	1,458	1,710	1,910

Program Description

Civil Service Retirement (CSR) annuities are protected against inflation by being indexed to the Consumer Price Index. Full CPI adjustments are made each year.

Proposed Change

Cost-of-living adjustments (COLA) would be limited to the lesser of the increase in the CPI or the annual increase in General Schedule pay for Federal employees. Annuitants whose annuity in any given year is 120% or more of the annuity of current retirees with the same grade/step and length of service would not receive a COLA increase. If the annuity is more than 100% but less than 120% the adjustment would be 75% of the COLA increase. Conforming changes will be effected in the other Executive Branch retirement systems.

Rationale

Annuities have been rising much faster than pay. Because annuities of new retirees are usually based on their recent wages, their annuities are much lower than the annuities of those who retired several years ago, even when their service history is identical in length and grade level. Further, Federal workers who retire are treated better than those who stay on the job because their income is given greater protection from inflation.

Effects of the Proposed Change

- To rectify past excessive adjustments, this proposal would hold down future COLA's until annuities of those who retired some time ago are once again in parallel with the annuities of new retirees. The proposal would ensure that annuitants would not receive more in annuity payments than they would receive in salary had they not retired.
- The proposal would remove an incentive for valuable senior personnel to retire.
  - — In 1980, 57% of career employees at the pay ceiling who were eligible to retire did so. Only 17% of comparable employees retired in 1978.
  - — The number of workers retiring at ages 55 to 59 — relatively early compared to private enterprise — has increased dramatically from 16% of eligibles in 1978 to 75% in 1980.
- The discrepancy between annuities of persons retiring at the same grade-step would be reduced.

— A person who retired at GS-15/4 in May 1973 recieves $8,868 more a year than a retiree in that grade and step who retired in May 1981.

— At GS-5/4, a May 1973 retiree receives $2,796 more than a May 1981 retiree.

- Protection of Federal annuities with full (100%) CPI adjustments is a far more generous benefit than that ordinarily provided by the private sector. Non-Federal retirees generally are afforded only partial inflation protection—70% for the majority.

Military Retirement

AGENCY: Department of Defense FUNCTIONAL CODE: 051

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	13,840	15,036	16,600	17,922	19,113	20,273	21,457
Outlays	13,729	15,000	16,560	17,880	19,068	20,226	21,407
REAGAN BUDGET							
Budget Authority	13,840	15,036	16,511	17,732	18,856	19,959	21,111
Outlays	13,729	15,000	16,471	17,690	18,811	19,912	21,061
PROPOSED SAVINGS							
Budget Authority	0	0	89	190	257	314	346
Outlays	0	0	89	190	257	314	346

Program Description

Military Retirement annuities are protected against inflation by being indexed to the Consumer Price Index. Full CPI adjustments are made each year.

Proposed Change

Cost-of-living adjustments (COLA) would be limited to the lesser of the increase in the CPI or the annual increase in Basic Pay for military personnel. The objective of the change is to reach a point where people on the retired rolls will not receive higher annuities than those about to retire. Thus, annuitants whose annuity in any given year is 120% or more of the annuity of current retirees with the same rank/grade and length of service would not receive a COLA increase for that year. If the annuity is more than 100%, but less than 120%, the adjustment would be 75% of the COLA increase. These changes would extend to personnel retired from all the uniformed services, including the Coast Guard, the Commissioned Corps of the Public Health Service, and the Commissioned Corps of the National Oceanographic and Atmospheric Administration.

Rationale

With annuities rising so much faster than pay, new military retirees are finding their annuities much lower than the annuities of those who retired several years ago even when their service history is identical.

Protection of Military annuities with full (100%) CPI adjustments is an overly generous benefit compared to the private sector. Non-Federal retirees generally are afforded only partial inflation protection — 70% for the majority.

- 60% of the military retired population receive higher annuities than they would receive if retiring under today's pay scales.
- The difference for many is large — as much as 21% higher for members who retired under the 1973 pay scales.

Effects of the Proposed Change

- The proposal would hold down future COLA's to these annuitants until their annuities are once again drawn into a reasonable relationship with the annuities new retirees are now receiving.
- An incentive would be removed for valuable senior personnel to retire early.

Railroad Retirement and Railroad Unemployment and Sickness Insurance

AGENCY: Railroad Retirement Board FUNCTIONAL CODE: 601

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	4,675	5,121	5,493	5,775	6,069	6,228	6,408
Outlays	5,294	5,328	5,722	6,067	6,334	6,642	6,939
REAGAN BUDGET							
Budget Authority	4,675	5,121	—	—	—	—	—
Outlays	5,294	5,328	—	—	—	—	—
PROPOSED SAVINGS*							
Budget Authority	—	—	5,493	5,775	6,069	6,228	6,408
Outlays	—	—	5,722	6,067	6,334	6,642	6,939

***Rail workers' payroll taxes would be directly credited to the Social Security trust funds and rail retirees' social security benefits would be directly administered by the Social Security Administration. The overall effect of this proposal would reduce the Federal budget deficit as follows:**

1983	1984	1985	1986	1987
-248	-374	-502	-508	-596

Program Description

The Federal Railroad Retirement Board (RRB), located in Chicago with 76 district offices, administers selected fringe benefits for railroad workers and their families:

- Social Security–equivalent benefits, including Medicare;
- "windfall" benefits, wholly subsidized by American taxpayers;
- a multi–employer rail industry pension plan financed by special payroll taxes and exempt from Employee Retirement Income Security Act of 1974 (ERISA) standards;
- special unemployment insurance (UI) compensation, which is directly federally administered and outside the normal State systems; and
- a sickness insurance plan, like others in the private sector which are based on contractual agreements.

The General Accounting Office concluded (GAO Report HRD 81–27, March 9, 1981):

> ". . .the railroad retirement program has evolved from a staff retirement plan to a social security plus private pension plan. . . the purpose and structure of the railroad retirement program have been fundamentally changed since its beginning. . . the Federal Government has helped the program increase benefits and add more categories of beneficiaries by (1) allowing railroad retirement to interface with and receive support from social security, and (2) providing general revenue appropriations to pay for dual (windfall) benefits. Such assistance, and the need for additional revenues to meet future program liabilities, *raise questions as to the Federal Government's role and responsibilities in supporting the railroad retirement program.*" (Emphasis added)

Proposed Change

Reorganize RRB, restoring the rail industry's pension to the private sector, and treat rail employees the same as all other private sector employees, providing social insurance through Social Security and regular State UI programs.

Rationale

The Administration reorganization proposal would defederalize railroad retirement. This would restore the rail industry's pension to the private sector, completing a decade of evolution. This would end an inappropriate Federal function and free railroad labor and management from the need to petition Congress to enact legislation to conform the rail pension system to their collectively bargained labor contract. In the future, the rail sector pension plan would operate like other multi–employer private pension plans.

- Retirees' benefits and employees' rights would be unchanged due to the reorganization.
- While restructuring railroad retirement in 1974, both the House and Senate Committees concluded:

  "the Railroad Retirement system is today, in essence, a *company pension program administered, for historical reasons, by the Federal Government. . .* Future changes in (industry pension) benefits will arise out of collective bargaining between railroads and the unions.

  Under these circumstances, the character of the Railroad Retirement system differs substantially from other systems having a Trust Fund managed by the Secretary of the Treasury.

  The Committee, therefore, feels that the Railroad Retirement Account should be treated similarly to trust funds established for the payment of other private pension plans. . . ". (Emphasis added)

This fall, GAO "recognize(d) that matters involving the benefits and rates, especially for the private pension component, are negotiated through the collective bargaining process." (GAO Report HRD 81–112, September 24, 1981).

- Railroad employees are among the most organized and best represented workers in America; their union leaders currently bargain on an industry–wide basis with railroad operators on pensions, wages, work rules, and health and welfare benefits. Existing Federal laws insure fair bargaining and guarantee needed protections to both railroads and their employees.
- Rail earnings will *average* $31,880 in 1983, placing rail employees among the highest paid workers in America.
- The average rail employee receives 105% or 5% *more* in rail pension income upon retiring than his take home pay according to a Congressional Budget Office (CBO) study (The Railroad Retirement System Benefits and Financing, December 1981).
- Rail pensions are among the richest multi–employer pensions. Railroaders' pensions *exceed* Federal Civil Service or Military Retirement payments for comparable earnings, according to GAO (HRD 79–41, June 8, 1979), and they exceed the pensions available in "the utilities and other transportation industries", according to CBO.
- Federal taxpayers *directly* subsidize railroad retirement — because it combined Social Security and industry pension benefits — by $379 million in 1982. This yearly taxpayer subsidy exceeds $750 per rail employee.
- Rail labor and management collectively bargained sound financing of the rail pension and sought Congressional enactment of their agreement. Historical reasons for Federal involvement in an industry pension have disappeared. The rail sector declared that even under "worst case" assumptions, uninterrupted annuities are assured by the labor and management agreement enacted this summer.
- By ending the inappropriate Federal involvement:
  - — the rail industry's pension will be free to invest outside of Federal debt securities and receive higher returns;

— both the nationwide Social Security system and the industry pension plan could provide better targeted service to beneficiaries;

— the rail industry's pension will no longer be intertwined with Social Security; and

— collectively bargained private pensions would no longer have to contend with the "changing viewpoints — and whims — of both the executive and legislative branches of government", alleviating the concern expressed recently by the head of a major rail union.

Effects of the Proposed Change

- Ending Executive Branch administration of the rail industry pension would:

  — abolish a Federal agency;

  — reduce the Federal deficit by over $0.2 billion starting in 1983, and result in a $0.6 billion deficit reduction by 1987;

  — end an inappropriate Federal function;

  — avoid future raids on the Federal Treasury from this industry pension; and,

  — reduce Federal Government costs as a percent of GNP by 0.1%.

- Individuals would *not* receive lower private pension benefits. They would receive Social Security and Medicare benefits directly from the Social Security Administration and the Health Care Financing Administration. And, a few individuals now *denied* benefits under the railroad pension plan would receive payments from Social Security.

- Rail workers would become eligible for higher unemployment benefits typically available under the State unemployment insurance systems.

- Social Security, in a unique arrangement, has contributed $18 billion to railroad retirement since 1951; annually, Social Security pays over $1.6 billion to railroad retirement for social security equivalent benefits. This transfer would end as Social Security would directly administer Social Security benefits for retired rail workers and their familes.

- Railroad retirement assets — $3.6 billion — would be transferred to the new, private rail industry pension corporation. These reserves would help assure the financial integrity of the rail industry's pension plan and could be invested in non–Federal securities.

Veterans Disability Compensation

AGENCY: Veterans Administration (VA) FUNCTIONAL CODE: 701

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	8,530	9,604	10,293	11,100	11,675	12,272	12,820
Outlays	8,426	9,488	10,316	11,039	11,627	12,222	12,774
REAGAN BUDGET							
Budget Authority	8,530	9,604	10,146	10,668	11,227	11,799	12,318
Outlays	8,426	9,487	10,170	10,607	11,179	11,749	12,272
PROPOSED SAVINGS							
Budget Authority	—	—	147	432	448	473	502
Outlays	—	1	146	432	448	473	502

Program Description

Compensation is payable to veterans and their survivors based on disabilities incurred in or aggravated by active military service, death while on active duty, or death resulting from service–connected disabilities. Beneficiaries are rated 10% to 100% disabled on the basis of average earnings impairment for any particular disability, with benefit payments ranging from $54 to $1,016 per month on that basis. Benefits to survivors are based on the military grade of the veteran at the time of discharge or death. Total beneficiaries are expected to increase from 2,632,000 in 1981 to 2,638,000 in 1982 and to 2,644,000 in 1983. Large annual funding increases are caused primarily by annual cost–of–living increases.

Proposed Change

Eliminate the current provision of law which provides payment at the 100% rate to veterans who are rated between 60% and 90% disabled and who are judged to be "unemployable," even though they also receive Social Security, SSI, or Federal retirement benefits.

Dependents allowances would be restricted to veterans rated 50% or more disabled. Prior to 1978 only veterans rated 50% or more disabled received allowances for their dependents. In 1978, legislation was enacted extending dependents allowances to veterans with 30% and 40% disabilities.

Rationale

- Receipt of other Federal disability or retirement benefits is evidence that these veterans receiving VA "unemployability" payments either do not have the intent or do not have the capability of re–entering the labor market.
- The second proposal would reduce compensation benefits to a large number of veterans with relatively minor disabilities such as flat feet, severe chronic laryngitis, severe convulsive tic, or a moderate ulcer. This would restore the emphasis of this program to aiding those veterans most in need whose service–related disabilities clearly and substantially restrict their employment opportunities.

Effects of the Proposed Change

- About 54,000 veterans who are rated between 60% and 90% disabled, and currently receive "unemployability" compensation, would receive a reduction of benefits averaging $5,212 per year, or 35%.
- 320,000 disabled veterans rated less than 50% disabled would receive an average of $423 per year less in dependents benefits.

Veterans Pensions

AGENCY: Veterans Administration (VA) FUNCTIONAL CODE: 701

Funding

	($ in millions)						
	1981	1982	1983	1984	1985	1986	1987
CURRENT SERVICES							
Budget Authority	3.794	4.048	3.981	4.181	4.290	4.424	4.577
Outlays	3.755	3.940	4.077	4.166	4.271	4.404	4.554
REAGAN BUDGET							
Budget Authority	3.794	4.048	3.915	4.121	4.233	4.368	4.520
Outlays	3.755	3.940	4.015	4.106	4.213	4.347	4.497
PROPOSED SAVINGS							
Budget Authority	—	—	66	60	57	56	57
Outlays	—	—	62	60	58	57	57

Program Description

A pension is payable to wartime veterans or their survivors on the basis of need and disabilities that are considered permanent and total. The program provides income for basic needs of eligible veterans or their survivors. The number of beneficiaries is expected to decrease slightly from 1.953,000 in 1981 to 1.846.000 in 1982 to 1,763.000 in 1983 as WWI and WWII veteran populations decrease. Survivors are defined to include adult students up to the age of 23.

Proposed Change

Legislation is proposed to provide benefit payments for dependent students in secondary schools only up to the age of 19. Students beyond secondary school would not receive benefits past the age of 18.

Rationale

- Providing aid to adult students to attend postsecondary educational institutions is inappropriate to the primary mission of the program — income protection for veterans and survivors. A wide variety of Federal and non-Federal higher education financial assistance programs is already available to aid such students.
- This benefit is not related to education costs, proficiency in school, or the ability to meet educational expenses.
- This legislation makes VA's pension allowance for adult students consistent with a similar Social Security allowance.

Effects of the Proposed Change

About 105,000 students will lose benefits averaging about $290 per year.