To Ann O'Leary

CENTER ON BUDGET AND POLICY PRIORITIES

File: Budget Surplus

July 10, 2000

Dear Friend:

Enclosed please find our new report on the re-estimated federal budget surplus. We're also enclosing a shorter, eight page version of this paper, which is very similar to the executive summary you will find at the beginning of the long report.

These reports examine how much of the re-estimated non-Social Security surplus is available for tax cuts and program initiatives, after taking into account the costs of maintaining current policies, walling off the Medicare Hospital Insurance Trust Fund, and setting aside funds likely to be needed to help restore Medicare and Social Security solvency. We should note that the material in Chapter Three of the full report is not included in the shorter paper. Chapter Three presents our views on the leading national priorities Congress should consider as it debates appropriate uses of the surplus.

Sincerely,

Ellen Nissenbaum

Ellen Nissenbaum
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CENTER ON BUDGET AND POLICY PRIORITIES

July 7, 2000

HOW MUCH OF THE ENLARGED SURPLUS IS AVAILABLE FOR TAX AND PROGRAM INITIATIVES?

Available Funds Should be Devoted to Real National Priorities

by James Horney and Robert Greenstein

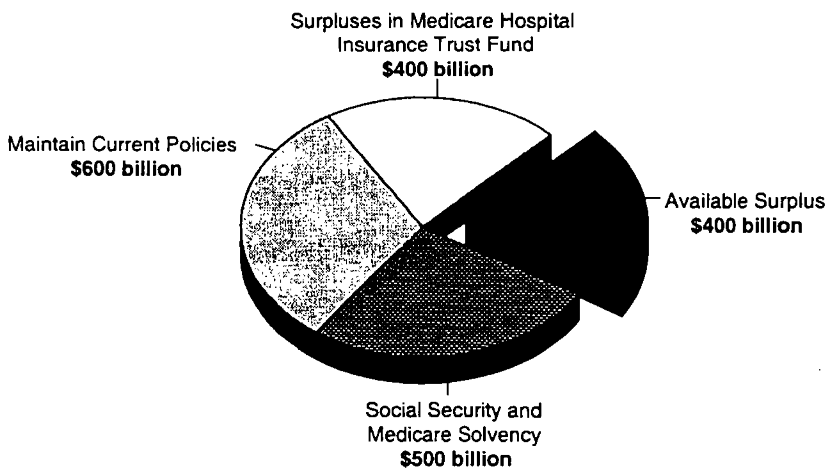
New budget estimates released June 26 by the Office of Management and Budget project that surpluses will total nearly $1.9 trillion over the next 10 years, not counting the surpluses in the Social Security trust funds. These projections are likely to intensify pressures for large tax cuts, and to a lesser extent, increases in expenditures for a variety of programs. Many policymakers and members of the public apparently believe that $1.9 trillion is now available for these purposes.

In fact, the amount available is much smaller than that. When surpluses in the Medicare Hospital Insurance (HI) trust fund are placed off-limits along with Social Security surpluses, as both parties are moving to do, and the cost of maintaining *current* policies in areas such as aid to farmers, middle-class tax burdens, and discretionary spending are taken into account, the $1.9 trillion figure is cut in half. Furthermore, a significant portion of the remaining funds will be needed to help restore long-term Social Security and Medicare solvency, since policymakers in both parties overwhelmingly reject restoring solvency largely or entirely through benefit reductions or payroll tax increases. As a result, the amount actually available for tax cut and program initiatives (other than Social Security and Medicare solvency measures) may be in the vicinity of $400 billion over 10 years rather than $1.9 trillion.

- One of the few things that the President and Congress have agreed on in recent years is that Social Security surpluses should be used only for Social Security, by which they generally mean that the surpluses should be used to pay down the federal debt and not to finance increases in other programs or tax cuts. The arguments for setting the Social Security surpluses to the side in this manner apply equally to

How Much of the Projected Surpluses is Really Available to Fund Changes in Current Tax and Program Policies?

Total Non-Social Security Surplus FY2001-2010: $1.9 trillion



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How Much of the Enlarged Surplus is Available for Tax and Program Initiatives?

Available Funds Should be Devoted to Real National Priorities

James Horney
Robert Greenstein

CENTER ON BUDGET AND POLICY PRIORITIES

July 7, 2000

file: budget Surplus

CENTER ON BUDGET AND POLICY PRIORITIES

FAX

From the desk of...
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Center on Budget and Policy Priorities

To: Shirley Sagawa - 456-6244
Date: 5/31/00
RE: Ideas to consider in mid-session review

8 pages following.

CENTER ON BUDGET AND POLICY PRIORITIES

To: Gene Sperling, Jack Lew, Bruce Reed, Larry Summers, Melanne Verveer

From: Bob Greenstein

Subject: Some ideas for consideration in mid-session review

Date: May 31, 2000

I understand you will be discussing possible initiatives for inclusion in the mid-session review. We are in the midst of a long-term project to identify promising initiatives that could be taken to assist low-income families (particularly working families), and I thought it might be useful to dash off a quick memo to suggest some ideas for your consideration. I'm sure you're already considering some of these. (I've not included here some obvious candidates I presume you're already discussing, such as further expansion of Head Start and child care subsidies.) I've tried to be brief in describing these ideas; I can provide further detail if you'd like.

Proposals Discussed in this Memo

1. **Continuing a program that sunsets and an initiative in the Administration's FY 2001 budget.**

   - The provisions of the 1997 Balanced Budget Act that provide assistance to elderly persons between 120 percent and 175 percent of the poverty line in paying their Medicare premiums expire September 30, 2002. These provisions should be improved; changes that the Republicans insisted on making in 1997 to the Administration's proposal on this matter have not worked out well. Why not improve this provision so it works more effectively and extend it? I'm sure you don't want it simply to expire.

- The Administration's FY 2001 budget includes 120,000 new housing vouchers. But it assumes *no* further incremental vouchers in years after that. The budget should assume at least 100,000 new vouchers each year for the next 10 years.

  A recent HUD report, based on Census data, shows the numbers of low-income households with what HUD terms "worst case housing needs" has reached an all-time high. In addition, the research on vouchers used for mobility purposes continues to be very encouraging. As Gene Sperling noted in a speech last fall, "New research on HUD's experimental housing mobility program...[is] showing that increased housing mobility brings not only economic opportunity but also a significant reduction in behavioral problems for children including reduced juvenile arrest rates, injuries, and victimization of crime, while having positive health and mental health impacts for parents and heads of households." Finally, important new research being released today by the Manpower Demonstration Research Corporation shows stunning gains under Minnesota's innovative welfare reform program — some of the best results ever found for a welfare reform program. The gains MDRC found are much greater among families with housing vouchers than among those with no housing assistance.

2. **Reducing elderly poverty, especially for poor seniors with modest Social Security benefits, without touching Social Security solvency.**

This can be done through targeted SSI improvements that should be difficult for Republicans to criticize. An important report the Social Security Administration transmitted to Congress last month (in compliance with a provision in the Ticket to Work legislation) shows that some key provisions of the SSI benefit structure have not been adjusted for inflation *in 28 years*, causing combined SSI/Social Security benefits for low-income elderly and disabled people to fall in real terms.

Probably the most important such feature is the SSI provision that disregards $20 a month of Social Security and other income in determining SSI benefits. Had this $20 kept pace with inflation, it would now be about $80.

This disregard could be raised either to $80 or to a lesser amount. An increase in the disregard could be made with respect to all other income, or just with respect to Social Security income. The result would be significant poverty reduction, especially for poor elderly women who worked (or whose deceased spouses worked) in low-wage jobs. Some of these women also would gain Medicaid eligibility. This initiative could be presented as reducing poverty in old age among people — especially widows — who receive small Social Security checks.

It should be noted that a step such as this is needed anyway as an accompaniment to the improvement in Social Security widows' benefits that the President has spoken of and the Vice President has proposed. If Social Security widows' benefits are raised but this SSI disregard is not increased, then improving Social Security widows' benefits will cause a number of poor widows to lose a full dollar in SSI for each dollar they gain in Social Security. Moreover, those pushed over the SSI income limit by the improvement in Social Security widows' benefits will lose Medicaid eligibility *and be made worse off as a result.*

A second SSI improvement should be considered -- the SSI assets limits should be adjusted. They are now just $2,000 for individuals and $3,000 for couples. The recently issued SSA report notes that if these limits had kept pace with inflation since the SSI program was created in 1972, they would currently be $6,000 and $9,000, respectively. Raising the SSI assets limits to those levels is unlikely to be feasible, but some increase in these levels should be made. There was an increase enacted in 1984 under President Reagan, at a time when there was much less appreciation of the importance of assets for low-income people than there is today. Since then, 16 years have passed with no adjustment. Shouldn't the Clinton Administration propose an increase 16 years later?

3. Unemployment Insurance.

There are serious problems in the UI system. *There also is a real possibility of reform this year.* About 18 months ago, the Labor Department, in conjunction with the Interstate Conference of Employment Security Administrators, instituted a discussion of UI reform that has included representatives of both business and labor, as well as the states. In the past few weeks, these deliberations have led to tentative agreement on a package that consists of: UI benefit reforms that would be of particular value to lower-income workers (and to the long-term unemployed during recessions); increases in state funding for the employment service and for administration of UI; and an end to the 0.2 percent FUTA surtax. (There are three primary worker improvements: lowering the unemployment rate target for extended benefits so these benefits will trigger somewhat sooner in a recession; better coverage for part-time workers; and reforms to ensure the system uses the latest available wage data in determining eligibility for benefits.) There is considerable interest in this package (including the benefit improvements) among key Ways and Means Committee Republicans, among others. I'd strongly urge the Administration to include funding for this or a similar package in the revised budget. If that is done, action in September might be possible.

4. Modernizing assets rules.

Under the asset rules that govern major federal means-tested programs such as SSI, food stamps, and Medicaid, a worker's vested funds under a defined benefits pension plan are exempt from assets tests, but funds that a worker has in a defined contribution plan are counted. Funds in a DC count against the assets limits in these programs regardless of whether there are penalties for early withdrawal of these funds. The asset rules essentially require workers with DCs who fall on hard times to choose between consuming some of their retirement savings and meeting their family's current needs.

I believe there would be considerable bipartisan sympathy for addressing this issue. These assets rules were written in the early 1970s, when DBs were more widespread and few lower-income workers had DCs. Now, a few decades later, this is beginning to emerge as a problem. It is likely to be a big problem when the next economic downturn hits, and formerly middle-income workers sink temporarily into poverty status. This matter ought to be addressed. The principle should be that funds that a worker has in an employer-sponsored pension plan are exempt from the assets tests in these programs regardless of whether the plan is a DB plan or a DC plan. How could Republicans who love DCs oppose that?

5. Initiatives Targeted on Children, Youth, and Families with Children.

A. Boosting college attendance among high school graduates from lower-income families.

Work by Thomas Kane and David Ellwood of Harvard, among others, indicates that the availability of financial aid has a large effect on college attendance by low-income youth. This work shows that the current financial aid structure for lower-income families is sufficiently complex and opaque that many do not understand aid is readily available. This is a problem that needs to be addressed. The main types of steps needed seem to be: to make college aid for lower-income youth more transparent and easier to access; and to make it more ample. Options include.

- Substantially simplify rules for Pell grants and other government-supported grants and loans, for example by eliminating assets tests and scaling back other complex requirements. Also consider creating a category of students who automatically qualify for the maximum Pell grant without having to navigate a complex eligibility process. (Such a category could, for example, consist of youth whose families receive food stamps, or those whose families receive free school lunches or some other means-tested benefit.)

- Increase Pell grant amounts significantly.

- Make the Hope credit refundable. (One presumably would do one or the other of the last two items here. Simplification of the Pell grant process is needed in either case.)

B. Child support reforms

There is significant bipartisan interest in this. Federal rules call for states to send to the federal government a portion of the child support paid for a child who is receiving cash assistance benefits. Most states divide *all* of the child support payments made for such children between the feds and the state, with the child receiving *none* of the payment. This also holds true for arrearage payments that cover months when the family was receiving cash assistance.

This procedure is supposed to result in the reimbursement of federal and state welfare costs incurred on behalf of such children. But this procedure is increasingly recognized as unwise — it effectively results in a 100 percent marginal tax rate on these child support payments; the child has the same income regardless of whether the father pays or not. Little wonder many of these fathers fail to pay (or pay lesser amounts "under the table"). The result is lower child support payments than would otherwise be made — and greater child poverty. Moreover, this system creates disincentives for those fathers to work "on the books;" if they do so, they will have their paychecks garnished for child support payments that will go entirely to the federal and state governments rather than their children.

Reforms are needed in child support financing that result in a greater share of child support payments going to the custodial families. Reps. Nancy Johnson and Ben Cardin have both introduced bills to this effect (Cardin's is better), and there is interest in this among Ways and Means members from both parties.

This could be coupled with another child support initiative — substantial demonstration projects to test some exciting new ideas to boost employment among, and child support collections from, low-income non-custodial fathers. Interest in measures to raise employment among such fathers is mounting on both sides of the aisle.

C. Child abuse/child welfare

There also is some bipartisan interest on the Hill in improvements in the child welfare system, particularly with regard to children whose parents have substance abuse problems. In the Senate, Senators Rockefeller, DeWine, Snowe, and Dodd have introduced legislation to this effect. In the House, the relevant subcommittee chair (Nancy Johnson) and the key staffer (Ron Haskins) want to act this year. The Administration should have a proposal on the table, along with funding for it.

D. Boosting youth employment (especially among minority males)

A new paper by Paul Offner indicates that despite the great economy, labor force participation rates among young minority males (age 20-24) not in school or in prison have actually declined a bit since the early 1990s. (Labor force participation among minority females in the same age groups has risen significantly.)

In 1994, the Administration proposed a Youth Employment and Skills demonstration program (YES). Designed in part by Larry Katz, YES would have established a major demonstration of a saturation employment program for disadvantaged youth. YES was included in the crime bill conference report, but was one of a slew of prevention programs removed from the bill late one night after the conference report initially went down on the House floor. A large demonstration to test saturation employment strategies for youth, along the lines of YES but with some modifications, could be proposed again.

In the late 1970s, the Carter Administration launched a major demo known as the Youth Incentive Entitlement Pilot Project. Under it, saturation employment strategies were used in a number of high-poverty areas. The results were dramatic — the black youth unemployment rate in these cities fell all the way to the level of the white rate. The demonstration was supposed to determine whether this approach produced lasting effects — i.e., whether it led to higher employment rates among the individuals who had participated in the project *after* their period of participation ended. Unfortunately, the Reagan Administration terminated the demo and the evaluation before these questions could be answered.

For years, many poverty researchers have thought a variant of this approach should be mounted and tested. That is what YES would have done. YES modified the approach reflected in the Carter-era demonstration to reflect current labor-market conditions, as well as welfare reform and related behavioral concerns. For example, it would have disqualified individuals who failed to honor their child support obligations or committed a crime after enrolling in the project. Under a new project today, some further modifications would be needed. Targeted saturation employment efforts may be an important component of what is needed to bring some of these youth into the labor force and accord them the job experience that can encourages otherwise-reluctant private employers to be willing to hire them.

E. Demonstrations to Reduce the Number of Uninsured Children

The crop insurance conference report that will become law in coming weeks includes the guts of an Administration proposal to make it easier to use the data that a school maintains on free school lunch certifications to identify low-income children who may be eligible for health insurance but are unenrolled. How best to use the school lunch and WIC programs to reach and enroll uninsured children, however, is something about which we know very little.

Yet this is really important. Effective use of the school lunch and WIC programs to reach and enroll uninsured children in Medicaid and CHIP could be the single most important step toward reducing the number of uninsured children.

- A recent Urban Institute study finds that 75% of all uninsured children aged 6-11 from low-income families (families below 200% of poverty)— and 65% of all uninsured low-income children aged 12-17 — participate or have siblings who participate in the school lunch program.

- Some 48% of uninsured low-income children under age 6 are members of families that participate in WIC.

Substantial demonstration projects with rigorous evaluations designed to find how best to use the school lunch and WIC programs effectively to reduce the numbers of uninsured children could be significant.

F. Assisting poor families with children that have high shelter costs by improving the food stamp shelter deduction

The majority of the budget savings from the welfare law came from the food stamp program. A modest portion of those savings related to welfare reform goals. But other food stamp savings provisions had nothing to do with welfare reform and were simply budget cuts designed to balance the budget while making room for Republican tax cuts. In signing the law, the President singled out the cut in the food stamp shelter deduction as one such provision that should be reversed. The Administration proposed reversing this cut in 1997 but was not successful.

Now this issue has been reopened on a bipartisan basis on the Hill. Legislation introduced by Senators Kennedy, Specter, Jeffords, Collins, Daschle, Leahy and 16 other Senators— and by a bipartisan group of 112 House members headed by Rep. Jim Walsh in the House — would make a *partial* restoration of this cut. Their bill would raise (but not remove) the ceiling on the shelter deduction for families with children and then index it. This merits serious consideration. It has a modest cost.

If no change is made, the food stamp benefits of poor families with children that pay over half their income for housing and have no government rent subsidy will become increasingly inadequate as the years pass. As the rents charged such families continue rising, the cap on the food stamp shelter deduction that these families are allowed to take will remain frozen. This will create gradually increasing pressures on families to scrimp on food to pay rent and utility bills (or vice versa).

Removal of the cap on this shelter deduction was the centerpiece of the food stamp improvements the Administration won in the 1993 budget package, and was one of Leon Panetta's domestic priorities in that package. The repeal of the Administration's 1993 provision — and the imposition of a permanent freeze on the shelter deduction cap — remains one of the welfare law's black marks.

G. Restoring Funding for the Social Services Block Grant

The Social Services Block Grant, which helps fund an array of services for low- and moderate- income children, seniors, and disabled people, was historically funded at a $2.8 billion level. In recent years, it has been subject to a series of cuts, both for budget-balancing purposes and to provide funds to appropriators constrained by unrealistic limits on discretionary spending. Consideration could be given to restoring this block grant to its historic $2.8 billion level.

6. Kid Save.

Another idea that merits exploration is to deposit a fixed amount of money into a savings account for a child, from which the funds can be withdrawn only for certain designated programs such as post-secondary education, training, retirement, etc. If this approach is followed, there should be some targeting — i.e., the contributions should be focused on children in families with incomes below some level ($75,000?, $80,000?). Families that have high incomes don't need the government to make deposits into bank accounts for their children.

7. Broadening Family Care.

The "Family Care" proposal in the Administration's FY 2001 budget is outstanding. Should there be a deal in September, I would hope it would be among the Administration's top priorities.

One possibility would be to expand the proposal to provide funds to allow states to cover other adults (i.e., other than parents) who are not elderly or disabled, at least up to 100 percent of the poverty line. That would represent a very important step forward in reducing the ranks of the uninsured.

8. Benefits for Legal Immigrants.

In addition to the proposals in the Administration's FY 2001 budget, I'd urge consideration of the following:

- Provide a state option to extend Medicaid coverage, during their first five years in the United States, to legal immigrants who have entered the country after August 22, 1996 and have become *disabled after entry*. Currently, states can't even elect to cover these people under Medicaid.

- Make refugees and asylees eligible for benefits without regard to whether they are in their first seven years in the United States. Currently, those who enter after August 22, 1996 are eligible only for seven years. The problem is that some elderly and disabled refugees will be too old or frail to complete the naturalization process and will have their benefits summarily cut off at the seven-year point. At a minimum, the seven-year limit should be lifted for those refugees and asylees who are elderly or disabled.