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BUDGET

1/1/96

Draft WH/OMB summary of key points on low income programs -- developed for Rivlin to present to President, others at 10:00, 1/2/96

ISSUES IN REFORMING ENTITLEMENT PROGRAMS

AFDC

- Essential Program Elements. A reformed AFDC program must have tough work requirements, time limits, and increased State flexibility. It must also retain certain features of current law: It must provide a guarantee of assistance to all individuals who meet certain State- and Federally-defined criteria. Its funding mechanism should respond automatically to changes in economic and demographic conditions. It should give States strong incentives to share in program financing and to match Federal funds, but allow flexibility in setting income eligibility and benefit levels. Individuals in like circumstances must be treated equally.
- Administration Position. The conference report on welfare reform converts AFDC and related programs into a capped block grant. The block grant fails to address almost of all the essential elements of the current program. The Administration supports the Coalition proposal, which replaces AFDC with a conditional time-limited entitlement and provides an automatic response to countercyclical increases in need while increasing State flexibility.
- Potential Fallback Position. If a cash assistance block grant were to be enacted, several modifications and more adequate protections for children would be needed. These would include a much more responsive countercyclical mechanism triggered by changes in child poverty, continued effective State financial participation, objective State-defined eligibility criteria, and guarantees of equitable treatment for families in like circumstances. Also needed would be: stronger performance bonuses, lower block grant transfer provisions, greater flexibility in setting family caps, vouchers for children of teen mothers denied cash assistance, guaranteed Medicaid eligibility for cash recipients, individual responsibility contracts, higher work program funding, and higher time-limit exemptions.

Child Care

- Essential Program Elements. Current child care programs provide a guarantee for all AFDC recipients required to work or who are moving off welfare into work. Capped amounts are also provided for low-income families at-risk of going on to welfare. Federal and State governments share in program financing.
- Administration Position. The Conference report block grants three mandatory child care programs -- two of which are open-ended -- and increases Federal funding by \$1.8 billion over 7 years -- too little to meet the child care needs of those required to work. The Administration supports the Coalition bill, which maintains the child care guarantee for AFDC recipients required to work and those transitioning off welfare for work.
- Potential Fallback Position. If the new child care block grant were to be enacted, we would need an additional \$3-\$4 billion in Federal funds above the Conference level, which would be matched by States (as the Conference currently requires). Lower funding add-ons are possible if more realistic work requirements are established. Current law health and safety protections, which are dropped in the conference report, should be restored.

Food Stamps

- Essential Program Elements. The current Food Stamps program automatically responds to increases in need for assistance. It serves as the national uniform safety net for nutrition.
- Administration Position. HR 4 would allow States that met certain conditions to elect a Food Stamps block grant. It would also impose a cap on the program that, while adjusting for some elements, would not preserve the program's ability to respond to changing circumstances (such as erosion of wages). The Administration has no such proposals and is opposed to any proposal which would undermine this universal safety net program's ability to respond to increased need
- Potential Fallback Position. None.

Child Protection Services and Training Programs (Mandatory)

- Essential Program Elements. The four foster care and adoption assistance services, training, and administration programs are open-ended entitlements to States and allow States to respond automatically to increases in need for services.
- Administration Position. The Conference block grants four currently open-ended foster care and adoption assistance programs for placement services, training, and administration. The bill also repeals the Family Preservation & Support and Independent Living programs. These provisions reduce funding by \$0.4 billion. The Administration would maintain current law in each of these programs. The Administration opposes block granting and capping the open-ended programs because of rising abuse and neglect problems. Caseloads could also potentially increase due to dramatic changes elsewhere in the social safety net, which make cuts in child welfare programs especially dangerous.
- Potential Fallback Position. None.

Child Nutrition

- Essential Program Elements. The child nutrition program ensures that millions of children get nutritious meals in schools and other settings.
- Administration Position. HR 4 would allow one state in each of the seven USDA regions to run a school block grant demonstration for five years. States that adopt this block grant would not be required to serve all needy students. The Administration is opposed to block granting these important nutrition programs nationwide.
- Potential Fallback Position. If a child nutrition/school lunch block grant demonstration were enacted, the Administration would prefer considerably reducing the number of States. Only minor changes would be needed in the structure of the demonstrations.

MEDICAID

- Essential Program Elements.

- **Federal Medicaid entitlement must be retained:** this requires a definition of mandatory beneficiaries and benefits, and enforcement of the entitlement through Federal courts:

- Mandatory beneficiaries: must include AFDC and SSI recipients -- post welfare reform, low-income pregnant women, children, and elderly and disabled Medicare beneficiaries, as well as individuals transitioning from welfare to work and other post-welfare transitions.
 - Mandatory benefits: must include a Federally-required benefit package that could be negotiated so long as it remains comparable to the basic mandatory benefits under current law.
 - Right of action: the Federal entitlement requires that individuals ultimately have a right of action in federal court to enforce their eligibility to Medicaid.

- **Federal financial partnership must be preserved:** The Federal matching structure, coupled with a new per capita cap to limit the rate of increase in spending, is the mechanism through which the Federal government would maintain its guaranteed financial partnership with states as they respond to changing economic and demographic realities in their state.

- **Meaningful flexibility to States must be assured:** Within this structure, States must be given unprecedented flexibility in how to operate their Medicaid programs, organize their delivery systems through managed care and other innovative arrangements, and pay providers.

- Administration Position: The conference position does not preserve the Federal Medicaid entitlement to meaningful benefits or enforcement through the Federal courts. The block grant structure fails to preserve the Federal financial partnership through economic and demographic changes.

- Potential Fallback Position.

- **Medicaid entitlement:**

- Beneficiaries: Eligibility simplification can be pursued in which some currently mandatory Medicaid coverage groups that are now classified as "grandfathered" could be made optional.

- **Benefits:**

- Mandatory benefits could be redefined so long as the core benefit provisions remain -- including such basic benefits as inpatient hospital, physician services, family planning, diagnostic services, nursing home and home health services, and child health screening, diagnosis and treatment (EPSDT).
- Substantial new state flexibility could be negotiated in how states make available optional benefits -- this would lessen current law constraints for optional benefits about comparability of benefits among groups and statewideness.

- **Enforcement:**

- Eligibility: there is no viable option to maintaining the individual's right of action in Federal court regarding their entitlement to Medicaid. However, it could be made explicit that a state administrative process must be exhausted prior to court-filing.
- Benefits: For disputes regarding benefits, deductibles, and copayments, a health plan or HMO process, and a state administrative process, could be required, with appeal only to state courts, unless the claim exceeded certain threshold amounts.

-- **Federal financing:** The administration cannot accept any fixed block or formula grant proposal, other than revision in the current formula cap on DSH.

- The administration could begin to consider variable caps based on state costs, but there is a great deal of uncertainty about the distributional impact of such a proposal.
- The disproportionate share (DSH) cut and remaining payment policy could be negotiated.
- Transitional and/or hold-harmless pools can be negotiated, as well as pooled funding for federally qualified health centers and rural health centers.