THE WHITE HOUSE

WASHINGTON

'96 NOV 15 PM6:34

November 15, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines
Carol H. Rasco

SUBJECT: Welfare Reform Administrative Issues in Food Stamps, Supplemental Security Income (SSI) and Medicaid with Significant Budgetary Impact

One of the most difficult resource decisions you will make in the 1998 budget is how to correct the problems you identified in the enacted welfare reform bill within an aggregate spending path that leads to a balanced budget in 2002. The overarching decision is whether to spend more or less for welfare reform fixes than the $13 billion over 5 years now in our 1998 budget planning. This reserve roughly corresponds to the savings from the bill above and beyond the Administration's proposal.

Potential Legislative Fixes. In the near future, we will discuss with you a number of legislative proposals that address the concerns you articulated when you signed the bill. While it is possible to address, in part, all the issues you raised within the $13 billion, more expansive proposals could easily cost much more. For example, bridging the differences on immigrants and Food Stamps could cost as much as $22 billion over five years and $5 billion in 2002.

Additional Near-Term Administrative Issues. In addition to the broader question of aggregate welfare spending, we are raising to your attention three potential -- and time-sensitive -- administrative fixes for Food Stamps, SSI children, and Medicaid. All three decisions are on a faster track because they have an immediate impact on benefits to individuals, are subject to statutory deadlines, and/or are important to the state planning process. However, a decision to implement all three at this time would require substantial budgetary resources (ranging from $1 to $10 billion over 1998-2002) and reduce funding available for later legislative changes. In addition to cost, there are political implications to softening the impact of the welfare bill administratively in the near-term. These decisions -- in particular a decision on SSI children -- may raise advocates' expectations for the welfare fixes the Administration will later propose through legislation, and, at the same time, jeopardize the Administration's ability to sell our future legislative proposals to Congress -- such as fixes to the immigrants provisions and welfare-to-work proposals. This memo seeks your decisions on the three near-term administrative issues in the context of overall funding for welfare reform fixes in your 1998 balanced budget.

A. NEAR TERM ADMINISTRATIVE DECISIONS

1. Food Stamp Time Limits for Childless Adults

Current Law. The welfare reform bill limited Food Stamps for childless adults to 3 months in 3 years. Individuals are exempt from the time limit if they are: under 18 or over 50 years of age; responsible for the care of a child or incapacitated household member; medically certified as physically or mentally unfit for employment; pregnant; or exempt from the Food Stamp work requirements. This provision is estimated to save approximately $3 billion over 1998-2002. When States fully implement this provision in 1997, almost 800,000 individuals will be ineligible to receive Food Stamps each month. These individuals may only stay on the program if they are working over 20 hours per week or participating in an intensive workfare program. We do not expect States to establish costly workfare slots for this group, given limited State resources and pressures to create jobs for the welfare population. About half of these individuals have no other income other than Food Stamps, putting their average monthly income at $171 or 28% of the poverty level. Over 40% of this group is made up of women.

The law provides an exemption for cities, counties, or states with unemployment rates above 10%, at State request, and allows States to request waivers for any group of individuals residing in an area that "does not have a sufficient number of jobs to provide employment for the individuals." The Administration assumed a very strict interpretation of "insufficient jobs" when the bill passed, but we have the ability to define the criteria for areas with insufficient jobs more broadly as a part of implementation. Since there is substantial latitude in the law for how the Administration interprets exemptions and waivers, the Administration can substantially reduce the numbers of individuals actually denied benefits. You indicated that you would work to fix this provision when you signed the legislation.

The Food Stamp issue is very time-sensitive because the time limit goes into effect on November 22, 1996, at which time people subject to the time limit will receive notices stating that they are subject to a 3-month clock. If we do not have a final decision very soon on areas to be exempted from the time limit, several hundred thousand people will be threatened with a loss of benefits unnecessarily. States are already preparing their internal guidance and formulating waiver requests. Oregon, Louisiana, West Virginia, and Washington have already submitted requests.

Option #1 -- Provide waivers only for areas with serious impediments to employment, such as a rural town with only one major employer. While employment may be below 10%, no jobs may be available if the major employer is not hiring. This option would provide relief to few areas. The baseline assumes *de minimis* use of the waiver authority, and this option roughly corresponds to the baseline (i.e., it would not have any costs over 1998-2002). Options #2 and #3 below propose waiver policies that would exempt more people and therefore add costs over 1998-2002.

Option #2 -- Limit waivers to broader geographic-based criteria, such as areas defined as "labor surplus areas" by the Department of Labor (DOL). These are areas with at least two years experience of unemployment 20% higher than the national average. This interpretation could exempt up to 30% of those subject to the time limit who are living in areas with historically high unemployment, albeit under the threshold in the bill. Geographic-based exemptions are arguably an appropriate exercise of the discretion Congress granted. This option would cost $1 billion over 1998-2002 and $0.18 billion in 2002.

Option #3 -- Establish broad waiver criteria in addition to geography. The Department of Agriculture (USDA) and some outside groups have proposed guidance that ranges from exempting areas heavily dependent on declining industries, such as coal mining, to providing waivers to groups of individuals who face fewer employment opportunities due to insufficient job skills, for example, persons without a high school education. The proposed guidance would exempt an individual without a high school diploma from the time limit if she lives in an area where the unemployment rate for people without a high school diploma exceeds 10% -- effectively exempting an individual without a high school diploma from the time limit even though she lives in an area with only 4.3% overall unemployment. Another way of formulating the option would be to exempt anyone without a high school diploma who has actively tried to find employment but who has been unsuccessful. The theory would be that if they are unable to find a job appropriate to their skill level, then there must be insufficient jobs available.

Exempting entire classes of individuals goes beyond what Congress contemplated in providing exemptions to the provisions. While individuals without a complete high school education do face a tougher labor market than others, it is not reasonable to assume that they cannot find employment without regard to local economic circumstances. In addition, some might perceive an exemption for this group to be an education disincentive. Highly preliminary estimates show that exempting persons without a high school diploma could exclude 45% of those subject to the time limit. In total, USDA's proposed guidance could exempt between 65 to 75% of those subject to the time limit and therefore cost as much as $2 billion over 1998-2002 and $0.33 billion in 2002. It is unlikely that all States will take full advantage of such broad exemption criteria; however, the Administration would have to defend the position that lack of a high school diploma is a qualification for Food Stamps.

[***Recommendation.*** We recommend Option #2, which would allow States to exempt areas with historically high unemployment relative to the national average, even though it is below the threshold in the bill.

Advocates will argue that Option #2 is not broad enough because it fails to address the particular difficultly individuals with limited skills face in finding employment. Many will lose their food stamps even though they are looking for but cannot find work. Rather than administratively exempting a specific group of individuals from this policy, we could consider

exploring a legislative solution -- similar to the Administration's proposal last year -- for those who are looking for work but cannot find jobs.]

2. Extension of Waivers Granting Transitional Medicaid Benefits

At the time you signed the welfare reform bill, 20 States had waivers that included authority to extend transitional Medicaid benefits beyond the normal 12 months (in some cases up to 36 months). Six more requests are pending. Before welfare reform, the Administration's policy was to establish budget neutrality across the AFDC, Medicaid and Food Stamps programs over the lifetime of the waiver. Typically, costs from additional Medicaid and Food Stamps benefits were offset by expenditure reductions projected to result from decreases in the AFDC caseload.

Since welfare reform replaced AFDC with a block grant, we can no longer project Federal savings resulting from lower AFDC caseloads. OMB and HHS agree that past Medicaid expenditures related to welfare waivers should be forgiven. OMB and USDA also agree that all past and future Food Stamps waivers should continue to be budget neutral. At issue is whether the future costs of extended transitional Medicaid benefits for current and pending Medicaid waivers should continue to be held to a budget neutrality standard. This issue is a priority because pressure is growing from 26 States on waivers given enactment of welfare reform. Absent a timely decision, some States could opt to suspend their expanded transitional benefits.

Option #1 -- Require States to adhere to budget neutrality for current waivers. The Administration could require States that want to continue their waivers to establish that the extension of transitional Medicaid benefits is budget-neutral. Because there are no longer any savings to the Federal government from the block-granted AFDC program, budget neutrality would require that the Federal government pay 0% of the costs (i.e., provide no Federal match) for the extended transitional benefits.

It is likely that States will continue to provide the transitional benefits waivers only if they believe they can finance them through State savings from the new welfare reform block grant. If transitional Medicaid really has the desired effect, however, States will reap substantial benefits from lower welfare benefits costs.

States may argue that requiring them to re-establish budget neutrality is a "breach of the contract" under which their waivers were granted. However, all Federal Medicaid waivers provide for renegotiation if a change in Federal law occurs. Moreover, this policy is consistent with the consensus policy to enforce budget neutrality in the Food Stamps program after the enactment of welfare reform.

Option #2 -- Modify the budget neutrality policy for the 26 States with waivers or pending applications. The Administration wants to promote welfare-to-work initiatives, of which extended transitional Medicaid benefits policy has been a cornerstone in the past. This

option would effectively grandfather all states that were trying to do this prior to welfare reform. This would increase the likelihood that the 20 states with current waivers will continue the extended transitional benefits and that another six would begin them. The Health Care Financing Administration (HCFA) actuaries have not completed their estimate of the costs of this option; however, early information suggests that this option could cost between $160 million and $200 million over 1998-2002.

Option #3 -- Propose legislation. Should the Administration be accused of treating waiver and non-waiver states inequitably, we could propose legislation to create a new optional Medicaid benefit to allow all states to provide extended transitional benefits. In combination with the forgiveness of budget neutrality for grandfathered states, such a legislative proposal could cost between $1.0 billion and $1.4 billion between 1998 and 2002, and between $.2 and $.3 billion in 2002.

[***Recommendation.*** We recommend Option # 2, to grandfather the 26 states that have waivers administratively. We also recommend that you consider *all* welfare reform legislative fixes at the same time, and thus we do not at this time recommend legislation to create a new optional Medicaid benefit for extended transitional benefits.]

3. SSI Childhood Disability Definition

Current Law. The welfare reform bill provided a new, tightened definition of childhood disability for the Supplemental Security Income (SSI) program, consistent with the Administration's proposal. However, the statutory language is not precise, and the Social Security Administration (SSA) has substantial discretion in drawing the eligibility line to implement the new law. The Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) scoring was based on a similar understanding of the impact of the provision at the time of enactment. The SSI childhood disability provision in the final welfare reform bill was scored at $8.4 billion in savings over 6 years and $1.9 billion in 2002, and was estimated to remove 190,000 children out of 1 million from the rolls by September 1997. Since enactment, advocates and some Senate moderates have argued for an implementation policy that is significantly less restrictive. We are asking for your decision on this issue soon so that SSA may begin processing the approximately 7,000 new cases a week that they have held since August.

Option #1 -- Implement the law consistent with the scoring assumptions and general understanding at time of passage. This would significantly tighten eligibility compared to the law before the enactment of welfare reform. Under this option, 190,000 of the 1 million children now on the rolls would become ineligible for SSI. Most of the children who would lose eligibility under this option have mental impairments, including the behavioral disorders that were the impetus for the changes to the program, such as conduct disorder, learning disabilities, or Attention Deficit Hyperactivity Disorder (ADHD). A greater number are mentally retarded. Others have a chronic physical disease that is episodic, or is fully or partially controlled by

medication, such as asthma, epilepsy, or hemophilia. Still others have a condition such as cerebral palsy that, in that child's case, does not seriously impair more than one area of the child's functioning. This option does not add costs to the baseline.

Option #2 -- Modify the disability determination process to (a) limit the impact of tightened eligibility requirements on children with multiple physical impairments, and (b) require adjudicators to complete a standard form that will promote greater uniformity in decision making and lead to more allowances than would otherwise occur. Both of these changes can be accomplished administratively, were suggested by SSA, and make programmatic sense. Under this option, 145,000 children would be removed from the rolls by next September -- 45,000 fewer children than under Option #1.

To ameliorate the hardship for these children's families, under Option #2 we would also seek legislation to retain Medicaid eligibility for all children now on the rolls who lose SSI. OMB estimates that, under current Medicaid law, 77% of the children who lose SSI would retain Medicaid because of other qualifying factors; new legislation would provide for those children not covered under current Medicaid law. Option #2 would cost $2.4 billion over 1998-2002, including less than $0.5 billion for the legislative proposal. The 2002 cost would be $0.5 billion.

Note that Option #2 is a more lenient policy than the one the Administration and Congress proposed. If we choose this option, we will have to justify changing our policy post-enactment.

Option #3 -- Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases. Option 3 would add to Option 2 two features that are intended to preserve benefits for the children with the most serious disabilities not covered by Option 2: additional recognition of children with chronic or episodic illnesses such as AIDS, and an added assessment of children on the borderline. While SSA believes adjudicators will be able to learn the new procedures, this option would be more administratively difficult, time-consuming, and costly for SSA to implement than Option 2. Under this option, 100,000 children would be ineligible for SSI -- 90,000 fewer than under Option #1. Option #3 would cost $4.2 billion over 1998-2002 and $0.9 billion in 2002.

Option #4 -- Provide for a significantly lower severity standard in determining eligibility. This option is supported by advocates, Senator Daschle, and some Senate moderates from both parties. The Senate moderates argue that their explicit legislative strategy during the welfare reform negotiations was to insist on a definition that was ambiguous enough to satisfy the Republican leadership but would still give SSA the latitude to use a more lenient definition. Given that SSI cash benefits link these children to Medicaid coverage, and that the welfare reform bill simultaneously makes many other changes to the welfare system that could affect these families, advocates argue that it is appropriate to err on the side of SSA using its legal discretion to keep more children on the rolls. Under this option, 45,000 children would become ineligible for SSI -- 145,000 fewer than under Option #1.

There would undoubtedly be significant negative reaction to this option from the Republican majority, and it could be represented as negotiating in bad faith. Option #3 would cost $6.4 billion over 1998-2002 and $1.5 billion in 2002.

Option #5 -- Defer the SSI decision and make it with other 1998 budget decisions in December. Unlike the relatively inexpensive and uncontroversial recommendations on the Food Stamps and Medicaid issues, action on the SSI proposals will have significant budgetary and political impact. Choosing a spending option now will reduce the funds available for other welfare fixes by 20-30%, may disappoint advocates, and/or may portray the Administration as undermining the intent of the welfare bill -- thus threatening the success of future legislative changes to the welfare bill in Congress. Therefore, a decision could be delayed until the end of December when the Administration will be closer to defining an entire welfare reform fixes agenda. Within the context of a broader welfare reform package, this decision may be less vulnerable to criticism and give the Administration additional time to build Congressional support. However, there are a number of very compelling reasons to make a timely decision -- the Administration is required by statute to provide guidance on November 22, 300,000 current recipients will be notified about potential changes in eligibility this month, and 7,000 SSI applications per week will continue to go unprocessed.

[***Recommendation.*** OMB recommends Option #2, using administrative discretion to moderately soften the original policy and retain SSI eligibility for 45,000 children who would otherwise lose benefits, and at the same time seek Congressional support for retaining Medicaid for all children now on the rolls.

DPC staff recommends Option # 3. This option would use administrative discretion to further expand the number of children who could meet the standard, and provide special protections for children on the borderline. SSA has had difficulty giving us a clear profile of these children, and it is difficult to be confident that SSA's rules reliably discern the most severe impairments. This option would provide extra assurance that children on the borderline will be properly evaluated. The disability community, members of Congress like Senators Daschle and Chafee, and leading editorial writers have made this a major issue, and might not even see this standard as taking adequate advantage of our latitude to assist children with impairments. We should also consider the challenges that many of these low-income families will face under welfare reform.]

B. THE OVERALL 1998 BUDGET ISSUE

In the context of a five-year balanced budget, any resources allocated to welfare reform make the task of reaching balance more difficult. Since the current plan for reaching balance by 2002 is already challenging our ability to find the necessary savings with acceptable policies, it is important to recognize that a decision to spend more than $13 billion over five years will require further offsetting savings. The fact that administrative actions drive up spending in no way diminishes the need to find more offsets if we want to balance in 2002. At the same time,

whether you decide to spend more or less than $13 billion to fix the welfare bill will influence your options on the immediate administrative issues.

Option #1 -- Limit welfare resources to $13 billion. The recommendations in this memo would spend about $3.6 - $5.4 billion over five years on the three near-term administrative issues. With the $8-$10 billion remaining in the $13 billion reserve, you would have sufficient resources to propose a repeal of most of the Food Stamp and Medicaid immigrant bans (but not SSI), a legislative fix for the Food Stamp 18-to-50s provision, other changes to mitigate the deep Food Stamp cuts, and expanded contingency funding.

On the other hand, if you choose the highest cost options on the administrative issues, you would spend $10 billion before even discussing the larger legislative fixes. This would leave about $3 billion to address the other problems with the bill. These resources would be exhausted by an exemption for immigrant children from the Food Stamp ban and a limited relaxing of the cap on the Food Stamp shelter deduction. You would not be able to make other legislative fixes within this total.

Option #2. Do not limit resources for welfare reform fixes to $13 billion at this time. If you choose to spend more than the $13 billion reserve, you will sharply limit your ability to meet demands for spending in other areas. Our current outline of the 1998 budget spends $284 billion on non-defense discretionary programs in 1998, about half of which is for your priorities. For every additional $2 billion you choose to spend on welfare fixes over five years, we would either need to increase the non-priority cut by 1% in 1998 (and freeze that level in the out-years), or selectively reduce priority programs. The non-priorities include important government functions such as Veterans Affairs (VA) medical care, tax collection, aviation safety, and the administration of Social Security benefits. Even if we protect your highest priorities -- say, in education and the environment -- we are left with programs such as Ryan White AIDS treatment, the National Institutes of Health, and Women, Infants and Children (WIC). If we look outside discretionary spending for these offsets, we face similarly unpalatable choices in Medicare and Medicaid, farm entitlements, civil service retirement, and veterans benefits.

C. DECISION ON OVERALL BUDGET STRATEGY

______ Option #1. The maximum available for welfare reform fixes is $13 billion, including the decisions below. **(Recommendation)**

______ Option #2. Spend in accord with the administrative decisions below. Revisit the overall funding levels for welfare reform when we make final 1998 budget decisions.

D. DECISIONS ON NEAR TERM ADMINISTRATIVE ISSUES

1. Food Stamp Waiver Guidance

______ Option #1. Provide waivers only for areas with serious impediments to employment. No additional cost.

______ Option #2. Limits waivers to geographic-based criteria. Cost: up to $1 billion over 1998-2002; up to $0.2 billion in 2002. **(Recommendation)**

______ Option #3. In addition to exemptions for geographic-based criteria, exempt all persons without a high school education from time limits. Cost: up to $2 billion over 1998-2002; up to $0.3 billion in 2002.

2. Transitional Medicaid Benefits

___ Option #1. Budget neutrality for current and pending transitional Medicaid benefit waivers. No additional costs.

___ Option #2. Modify budget neutrality policy for the 26 states with ongoing or pending waivers. Cost $0.2 billion over 1998-2002; $0.04 billion in 2002. **(Recommendation)**

___ Option #3. Propose legislation to create a new optional Medicaid benefit to allow all States to provide extended transitional benefits. Cost: $1.0-$1.4 billion over 1998-2002; $0.2- $0.3 billion in 2002.

3. SSI Childhood Disability Definition

______ Option #1. 1997 Administration policy. No additional cost.

______ Option #2. Relax eligibility requirements relative to the Administration's proposals (Option #1) and propose legislation to ensure that all children currently on SSI rolls retain Medicaid coverage. Cost: $2.4 billion over 1998-2002; $0.5 billion in 2002. **(OMB Recommendation)**

______ Option #3. Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases than under Option # 2. Cost: $4.2 billion over 1998-2002 and $0.9 billion in 2002. (**DPC Recommendation**)

______ Option #4. Significantly lower standard of severity than options 1 or 2. Cost: $6.4 billion over 1998-2002; $1.5 billion in 2002.

______ Option #5. Defer SSI decision until December. No immediate cost, but 7,000 applications per week continue to go unprocessed.

CLOSE HOLD

Document No. 194353

WHITE HOUSE STAFFING MEMORANDUM

DATE: 11/15/96 ACTION/CONCURRENCE/COMMENT DUE BY: 11/19/96

SUBJECT: Welfare Reform Issues

	ACTION	FYI		ACTION	FYI
✓VICE PRESIDENT	✓	☐	McCURRY been bagged per hone.	☐	✓
PANETTA	✓	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
ICKES John has not seen	✓	☐	QUINN	☐	☐
✓LIEBERMAN	✓	☐	RASCO	☐	☐
RAINES	☐	☐	REED	✓	☐
BAER	☐	☐	SOSNIK	☐	☐
CURRY	☐	☐	STEPHANOPOULOS	✓	☐
✓EMANUEL	✓	☐	STIGLITZ	☐	☐
GIBBONS	☐	☐	STREETT	☐	☐
HALE	☐	☐	✓TYSON	✓	☐
✓HERMAN	✓	☐	HAWLEY	☐	☐
HIGGINS	☐	☐	WILLIAMS	✓	☐
✓HILLEY	✓	☐	Bowles	✓	☐
KLAIN	✓	☐	Angell	✓	☐
LAKE	☐	☐	Foley	✓	☐
LINDSEY	☐	☐		☐	☐

REMARKS:

Please advise

RESPONSE:

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CLOSE HOLD

Staff Secretary
Ext. 6-2702

THE WHITE HOUSE

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'96 NOV 15 PM 6:33

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Carol H. Rasco

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[***Recommendation.*** We recommend Option #2, which would allow States to exempt areas with historically high unemployment relative to the national average, even though it is below the threshold in the bill.

Advocates will argue that Option #2 is not broad enough because it fails to address the particular difficultly individuals with limited skills face in finding employment. Many will lose their food stamps even though they are looking for but cannot find work. Rather than administratively exempting a specific group of individuals from this policy, we could consider

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States may argue that requiring them to re-establish budget neutrality is a "breach of the contract" under which their waivers were granted. However, all Federal Medicaid waivers provide for renegotiation if a change in Federal law occurs. Moreover, this policy is consistent with the consensus policy to enforce budget neutrality in the Food Stamps program after the enactment of welfare reform.

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option would effectively grandfather all states that were trying to do this prior to welfare reform. This would increase the likelihood that the 20 states with current waivers will continue the extended transitional benefits and that another six would begin them. The Health Care Financing Administration (HCFA) actuaries have not completed their estimate of the costs of this option; however, early information suggests that this option could cost between $160 million and $200 million over 1998-2002.

Option #3 -- Propose legislation. Should the Administration be accused of treating waiver and non-waiver states inequitably, we could propose legislation to create a new optional Medicaid benefit to allow all states to provide extended transitional benefits. In combination with the forgiveness of budget neutrality for grandfathered states, such a legislative proposal could cost between $1.0 billion and $1.4 billion between 1998 and 2002, and between $.2 and $.3 billion in 2002.

[***Recommendation.*** We recommend Option # 2, to grandfather the 26 states that have waivers administratively. We also recommend that you consider *all* welfare reform legislative fixes at the same time, and thus we do not at this time recommend legislation to create a new optional Medicaid benefit for extended transitional benefits.]

3. SSI Childhood Disability Definition

Current Law. The welfare reform bill provided a new, tightened definition of childhood disability for the Supplemental Security Income (SSI) program, consistent with the Administration's proposal. However, the statutory language is not precise, and the Social Security Administration (SSA) has substantial discretion in drawing the eligibility line to implement the new law. The Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) scoring was based on a similar understanding of the impact of the provision at the time of enactment. The SSI childhood disability provision in the final welfare reform bill was scored at $8.4 billion in savings over 6 years and $1.9 billion in 2002, and was estimated to remove 190,000 children out of 1 million from the rolls by September 1997. Since enactment, advocates and some Senate moderates have argued for an implementation policy that is significantly less restrictive. We are asking for your decision on this issue soon so that SSA may begin processing the approximately 7,000 new cases a week that they have held since August.

Option #1 -- Implement the law consistent with the scoring assumptions and general understanding at time of passage. This would significantly tighten eligibility compared to the law before the enactment of welfare reform. Under this option, 190,000 of the 1 million children now on the rolls would become ineligible for SSI. Most of the children who would lose eligibility under this option have mental impairments, including the behavioral disorders that were the impetus for the changes to the program, such as conduct disorder, learning disabilities, or Attention Deficit Hyperactivity Disorder (ADHD). A greater number are mentally retarded. Others have a chronic physical disease that is episodic, or is fully or partially controlled by

medication, such as asthma, epilepsy, or hemophilia. Still others have a condition such as cerebral palsy that, in that child's case, does not seriously impair more than one area of the child's functioning. This option does not add costs to the baseline.

Option #2 -- Modify the disability determination process to (a) limit the impact of tightened eligibility requirements on children with multiple physical impairments, and (b) require adjudicators to complete a standard form that will promote greater uniformity in decision making and lead to more allowances than would otherwise occur. Both of these changes can be accomplished administratively, were suggested by SSA, and make programmatic sense. Under this option, 145,000 children would be removed from the rolls by next September -- 45,000 fewer children than under Option #1.

To ameliorate the hardship for these children's families, under Option #2 we would also seek legislation to retain Medicaid eligibility for all children now on the rolls who lose SSI. OMB estimates that, under current Medicaid law, 77% of the children who lose SSI would retain Medicaid because of other qualifying factors; new legislation would provide for those children not covered under current Medicaid law. Option #2 would cost $2.4 billion over 1998-2002, including less than $0.5 billion for the legislative proposal. The 2002 cost would be $0.5 billion.

Note that Option #2 is a more lenient policy than the one the Administration and Congress proposed. If we choose this option, we will have to justify changing our policy post-enactment.

Option #3 -- Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases. Option 3 would add to Option 2 two features that are intended to preserve benefits for the children with the most serious disabilities not covered by Option 2: additional recognition of children with chronic or episodic illnesses such as AIDS, and an added assessment of children on the borderline. While SSA believes adjudicators will be able to learn the new procedures, this option would be more administratively difficult, time-consuming, and costly for SSA to implement than Option 2. Under this option, 100,000 children would be ineligible for SSI -- 90,000 fewer than under Option #1. Option #3 would cost $4.2 billion over 1998-2002 and $0.9 billion in 2002.

Option #4 -- Provide for a significantly lower severity standard in determining eligibility. This option is supported by advocates, Senator Daschle, and some Senate moderates from both parties. The Senate moderates argue that their explicit legislative strategy during the welfare reform negotiations was to insist on a definition that was ambiguous enough to satisfy the Republican leadership but would still give SSA the latitude to use a more lenient definition. Given that SSI cash benefits link these children to Medicaid coverage, and that the welfare reform bill simultaneously makes many other changes to the welfare system that could affect these families, advocates argue that it is appropriate to err on the side of SSA using its legal discretion to keep more children on the rolls. Under this option, 45,000 children would become ineligible for SSI -- 145,000 fewer than under Option #1.

There would undoubtedly be significant negative reaction to this option from the Republican majority, and it could be represented as negotiating in bad faith. Option #3 would cost $6.4 billion over 1998-2002 and $1.5 billion in 2002.

Option #5 -- Defer the SSI decision and make it with other 1998 budget decisions in December. Unlike the relatively inexpensive and uncontroversial recommendations on the Food Stamps and Medicaid issues, action on the SSI proposals will have significant budgetary and political impact. Choosing a spending option now will reduce the funds available for other welfare fixes by 20-30%, may disappoint advocates, and/or may portray the Administration as undermining the intent of the welfare bill -- thus threatening the success of future legislative changes to the welfare bill in Congress. Therefore, a decision could be delayed until the end of December when the Administration will be closer to defining an entire welfare reform fixes agenda. Within the context of a broader welfare reform package, this decision may be less vulnerable to criticism and give the Administration additional time to build Congressional support. However, there are a number of very compelling reasons to make a timely decision -- the Administration is required by statute to provide guidance on November 22, 300,000 current recipients will be notified about potential changes in eligibility this month, and 7,000 SSI applications per week will continue to go unprocessed.

[***Recommendation.*** OMB recommends Option #2, using administrative discretion to moderately soften the original policy and retain SSI eligibility for 45,000 children who would otherwise lose benefits, and at the same time seek Congressional support for retaining Medicaid for all children now on the rolls.

DPC staff recommends Option # 3. This option would use administrative discretion to further expand the number of children who could meet the standard, and provide special protections for children on the borderline. SSA has had difficulty giving us a clear profile of these children, and it is difficult to be confident that SSA's rules reliably discern the most severe impairments. This option would provide extra assurance that children on the borderline will be properly evaluated. The disability community, members of Congress like Senators Daschle and Chafee, and leading editorial writers have made this a major issue, and might not even see this standard as taking adequate advantage of our latitude to assist children with impairments. We should also consider the challenges that many of these low-income families will face under welfare reform.]

B. THE OVERALL 1998 BUDGET ISSUE

In the context of a five-year balanced budget, any resources allocated to welfare reform make the task of reaching balance more difficult. Since the current plan for reaching balance by 2002 is already challenging our ability to find the necessary savings with acceptable policies, it is important to recognize that a decision to spend more than $13 billion over five years will require further offsetting savings. The fact that administrative actions drive up spending in no way diminishes the need to find more offsets if we want to balance in 2002. At the same time,

whether you decide to spend more or less than $13 billion to fix the welfare bill will influence your options on the immediate administrative issues.

Option #1 -- Limit welfare resources to $13 billion. The recommendations in this memo would spend about $3.6 - $5.4 billion over five years on the three near-term administrative issues. With the $8-$10 billion remaining in the $13 billion reserve, you would have sufficient resources to propose a repeal of most of the Food Stamp and Medicaid immigrant bans (but not SSI), a legislative fix for the Food Stamp 18-to-50s provision, other changes to mitigate the deep Food Stamp cuts, and expanded contingency funding.

On the other hand, if you choose the highest cost options on the administrative issues, you would spend $10 billion before even discussing the larger legislative fixes. This would leave about $3 billion to address the other problems with the bill. These resources would be exhausted by an exemption for immigrant children from the Food Stamp ban and a limited relaxing of the cap on the Food Stamp shelter deduction. You would not be able to make other legislative fixes within this total.

Option #2. Do not limit resources for welfare reform fixes to $13 billion at this time. If you choose to spend more than the $13 billion reserve, you will sharply limit your ability to meet demands for spending in other areas. Our current outline of the 1998 budget spends $284 billion on non-defense discretionary programs in 1998, about half of which is for your priorities. For every additional $2 billion you choose to spend on welfare fixes over five years, we would either need to increase the non-priority cut by 1% in 1998 (and freeze that level in the out-years), or selectively reduce priority programs. The non-priorities include important government functions such as Veterans Affairs (VA) medical care, tax collection, aviation safety, and the administration of Social Security benefits. Even if we protect your highest priorities -- say, in education and the environment -- we are left with programs such as Ryan White AIDS treatment, the National Institutes of Health, and Women, Infants and Children (WIC). If we look outside discretionary spending for these offsets, we face similarly unpalatable choices in Medicare and Medicaid, farm entitlements, civil service retirement, and veterans benefits.

C. DECISION ON OVERALL BUDGET STRATEGY

______ Option #1. The maximum available for welfare reform fixes is $13 billion, including the decisions below. **(Recommendation)**

______ Option #2. Spend in accord with the administrative decisions below. Revisit the overall funding levels for welfare reform when we make final 1998 budget decisions.

D. DECISIONS ON NEAR TERM ADMINISTRATIVE ISSUES

1. Food Stamp Waiver Guidance

______ Option #1. Provide waivers only for areas with serious impediments to employment. No additional cost.

______ Option #2. Limits waivers to geographic-based criteria. Cost: up to $1 billion over 1998-2002; up to $0.2 billion in 2002. **(Recommendation)**

______ Option #3. In addition to exemptions for geographic-based criteria, exempt all persons without a high school education from time limits. Cost: up to $2 billion over 1998-2002; up to $0.3 billion in 2002.

2. Transitional Medicaid Benefits

___ Option #1. Budget neutrality for current and pending transitional Medicaid benefit waivers. No additional costs.

___ Option #2. Modify budget neutrality policy for the 26 states with ongoing or pending waivers. Cost $0.2 billion over 1998-2002; $0.04 billion in 2002. **(Recommendation)**

___ Option #3. Propose legislation to create a new optional Medicaid benefit to allow all States to provide extended transitional benefits. Cost: $1.0-$1.4 billion over 1998-2002; $0.2- $0.3 billion in 2002.

3. SSI Childhood Disability Definition

______ Option #1. 1997 Administration policy. No additional cost.

______ Option #2. Relax eligibility requirements relative to the Administration's proposals (Option #1) and propose legislation to ensure that all children currently on SSI rolls retain Medicaid coverage. Cost: $2.4 billion over 1998-2002; $0.5 billion in 2002. **(OMB Recommendation)**

______ Option #3. Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases than under Option # 2. Cost: $4.2 billion over 1998-2002 and $0.9 billion in 2002. **(DPC Recommendation)**

______ Option #4. Significantly lower standard of severity than options 1 or 2. Cost: $6.4 billion over 1998-2002; $1.5 billion in 2002.

______ Option #5. Defer SSI decision until December. No immediate cost, but 7,000 applications per week continue to go unprocessed.

THE WHITE HOUSE

WASHINGTON

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November 15, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines
Carol H. Rasco

SUBJECT: Welfare Reform Administrative Issues in Food Stamps, Supplemental Security Income (SSI) and Medicaid with Significant Budgetary Impact

One of the most difficult resource decisions you will make in the 1998 budget is how to correct the problems you identified in the enacted welfare reform bill within an aggregate spending path that leads to a balanced budget in 2002. The overarching decision is whether to spend more or less for welfare reform fixes than the $13 billion over 5 years now in our 1998 budget planning. This reserve roughly corresponds to the savings from the bill above and beyond the Administration's proposal.

Potential Legislative Fixes. In the near future, we will discuss with you a number of legislative proposals that address the concerns you articulated when you signed the bill. While it is possible to address, in part, all the issues you raised within the $13 billion, more expansive proposals could easily cost much more. For example, bridging the differences on immigrants and Food Stamps could cost as much as $22 billion over five years and $5 billion in 2002.

Additional Near-Term Administrative Issues. In addition to the broader question of aggregate welfare spending, we are raising to your attention three potential -- and time-sensitive -- administrative fixes for Food Stamps, SSI children, and Medicaid. All three decisions are on a faster track because they have an immediate impact on benefits to individuals, are subject to statutory deadlines, and/or are important to the state planning process. However, a decision to implement all three at this time would require substantial budgetary resources (ranging from $1 to $10 billion over 1998-2002) and reduce funding available for later legislative changes. In addition to cost, there are political implications to softening the impact of the welfare bill administratively in the near-term. These decisions -- in particular a decision on SSI children -- may raise advocates' expectations for the welfare fixes the Administration will later propose through legislation, and, at the same time, jeopardize the Administration's ability to sell our future legislative proposals to Congress -- such as fixes to the immigrants provisions and welfare-to-work proposals. This memo seeks your decisions on the three near-term administrative issues in the context of overall funding for welfare reform fixes in your 1998 balanced budget.

A. NEAR TERM ADMINISTRATIVE DECISIONS

1. Food Stamp Time Limits for Childless Adults

Current Law. The welfare reform bill limited Food Stamps for childless adults to 3 months in 3 years. Individuals are exempt from the time limit if they are: under 18 or over 50 years of age; responsible for the care of a child or incapacitated household member; medically certified as physically or mentally unfit for employment; pregnant; or exempt from the Food Stamp work requirements. This provision is estimated to save approximately $3 billion over 1998-2002. When States fully implement this provision in 1997, almost 800,000 individuals will be ineligible to receive Food Stamps each month. These individuals may only stay on the program if they are working over 20 hours per week or participating in an intensive workfare program. We do not expect States to establish costly workfare slots for this group, given limited State resources and pressures to create jobs for the welfare population. About half of these individuals have no other income other than Food Stamps, putting their average monthly income at $171 or 28% of the poverty level. Over 40% of this group is made up of women.

The law provides an exemption for cities, counties, or states with unemployment rates above 10%, at State request, and allows States to request waivers for any group of individuals residing in an area that "does not have a sufficient number of jobs to provide employment for the individuals." The Administration assumed a very strict interpretation of "insufficient jobs" when the bill passed, but we have the ability to define the criteria for areas with insufficient jobs more broadly as a part of implementation. Since there is substantial latitude in the law for how the Administration interprets exemptions and waivers, the Administration can substantially reduce the numbers of individuals actually denied benefits. You indicated that you would work to fix this provision when you signed the legislation.

The Food Stamp issue is very time-sensitive because the time limit goes into effect on November 22, 1996, at which time people subject to the time limit will receive notices stating that they are subject to a 3-month clock. If we do not have a final decision very soon on areas to be exempted from the time limit, several hundred thousand people will be threatened with a loss of benefits unnecessarily. States are already preparing their internal guidance and formulating waiver requests. Oregon, Louisiana, West Virginia, and Washington have already submitted requests.

Option #1 -- Provide waivers only for areas with serious impediments to employment, such as a rural town with only one major employer. While employment may be below 10%, no jobs may be available if the major employer is not hiring. This option would provide relief to few areas. The baseline assumes *de minimis* use of the waiver authority, and this option roughly corresponds to the baseline (i.e., it would not have any costs over 1998-2002). Options #2 and #3 below propose waiver policies that would exempt more people and therefore add costs over 1998-2002.

Option #2 -- Limit waivers to broader geographic-based criteria, such as areas defined as "labor surplus areas" by the Department of Labor (DOL). These are areas with at least two years experience of unemployment 20% higher than the national average. This interpretation could exempt up to 30% of those subject to the time limit who are living in areas with historically high unemployment, albeit under the threshold in the bill. Geographic-based exemptions are arguably an appropriate exercise of the discretion Congress granted. This option would cost $1 billion over 1998-2002 and $0.18 billion in 2002.

Option #3 -- Establish broad waiver criteria in addition to geography. The Department of Agriculture (USDA) and some outside groups have proposed guidance that ranges from exempting areas heavily dependent on declining industries, such as coal mining, to providing waivers to groups of individuals who face fewer employment opportunities due to insufficient job skills, for example, persons without a high school education. The proposed guidance would exempt an individual without a high school diploma from the time limit if she lives in an area where the unemployment rate for people without a high school diploma exceeds 10% -- effectively exempting an individual without a high school diploma from the time limit even though she lives in an area with only 4.3% overall unemployment. Another way of formulating the option would be to exempt anyone without a high school diploma who has actively tried to find employment but who has been unsuccessful. The theory would be that if they are unable to find a job appropriate to their skill level, then there must be insufficient jobs available.

Exempting entire classes of individuals goes beyond what Congress contemplated in providing exemptions to the provisions. While individuals without a complete high school education do face a tougher labor market than others, it is not reasonable to assume that they cannot find employment without regard to local economic circumstances. In addition, some might perceive an exemption for this group to be an education disincentive. Highly preliminary estimates show that exempting persons without a high school diploma could exclude 45% of those subject to the time limit. In total, USDA's proposed guidance could exempt between 65 to 75% of those subject to the time limit and therefore cost as much as $2 billion over 1998-2002 and $0.33 billion in 2002. It is unlikely that all States will take full advantage of such broad exemption criteria; however, the Administration would have to defend the position that lack of a high school diploma is a qualification for Food Stamps.

[***Recommendation.*** We recommend Option #2, which would allow States to exempt areas with historically high unemployment relative to the national average, even though it is below the threshold in the bill.

Advocates will argue that Option #2 is not broad enough because it fails to address the particular difficultly individuals with limited skills face in finding employment. Many will lose their food stamps even though they are looking for but cannot find work. Rather than administratively exempting a specific group of individuals from this policy, we could consider

exploring a legislative solution -- similar to the Administration's proposal last year -- for those who are looking for work but cannot find jobs.]

2. Extension of Waivers Granting Transitional Medicaid Benefits

At the time you signed the welfare reform bill, 20 States had waivers that included authority to extend transitional Medicaid benefits beyond the normal 12 months (in some cases up to 36 months). Six more requests are pending. Before welfare reform, the Administration's policy was to establish budget neutrality across the AFDC, Medicaid and Food Stamps programs over the lifetime of the waiver. Typically, costs from additional Medicaid and Food Stamps benefits were offset by expenditure reductions projected to result from decreases in the AFDC caseload.

Since welfare reform replaced AFDC with a block grant, we can no longer project Federal savings resulting from lower AFDC caseloads. OMB and HHS agree that past Medicaid expenditures related to welfare waivers should be forgiven. OMB and USDA also agree that all past and future Food Stamps waivers should continue to be budget neutral. At issue is whether the future costs of extended transitional Medicaid benefits for current and pending Medicaid waivers should continue to be held to a budget neutrality standard. This issue is a priority because pressure is growing from 26 States on waivers given enactment of welfare reform. Absent a timely decision, some States could opt to suspend their expanded transitional benefits.

Option #1 -- Require States to adhere to budget neutrality for current waivers. The Administration could require States that want to continue their waivers to establish that the extension of transitional Medicaid benefits is budget-neutral. Because there are no longer any savings to the Federal government from the block-granted AFDC program, budget neutrality would require that the Federal government pay 0% of the costs (i.e., provide no Federal match) for the extended transitional benefits.

It is likely that States will continue to provide the transitional benefits waivers only if they believe they can finance them through State savings from the new welfare reform block grant. If transitional Medicaid really has the desired effect, however, States will reap substantial benefits from lower welfare benefits costs.

States may argue that requiring them to re-establish budget neutrality is a "breach of the contract" under which their waivers were granted. However, all Federal Medicaid waivers provide for renegotiation if a change in Federal law occurs. Moreover, this policy is consistent with the consensus policy to enforce budget neutrality in the Food Stamps program after the enactment of welfare reform.

Option #2 -- Modify the budget neutrality policy for the 26 States with waivers or pending applications. The Administration wants to promote welfare-to-work initiatives, of which extended transitional Medicaid benefits policy has been a cornerstone in the past. This

option would effectively grandfather all states that were trying to do this prior to welfare reform. This would increase the likelihood that the 20 states with current waivers will continue the extended transitional benefits and that another six would begin them. The Health Care Financing Administration (HCFA) actuaries have not completed their estimate of the costs of this option; however, early information suggests that this option could cost between $160 million and $200 million over 1998-2002.

Option #3 -- Propose legislation. Should the Administration be accused of treating waiver and non-waiver states inequitably, we could propose legislation to create a new optional Medicaid benefit to allow all states to provide extended transitional benefits. In combination with the forgiveness of budget neutrality for grandfathered states, such a legislative proposal could cost between $1.0 billion and $1.4 billion between 1998 and 2002, and between $.2 and $.3 billion in 2002.

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On the other hand, if you choose the highest cost options on the administrative issues, you would spend $10 billion before even discussing the larger legislative fixes. This would leave about $3 billion to address the other problems with the bill. These resources would be exhausted by an exemption for immigrant children from the Food Stamp ban and a limited relaxing of the cap on the Food Stamp shelter deduction. You would not be able to make other legislative fixes within this total.

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___ Option #1. Budget neutrality for current and pending transitional Medicaid benefit waivers. No additional costs.

___ Option #2. Modify budget neutrality policy for the 26 states with ongoing or pending waivers. Cost $0.2 billion over 1998-2002; $0.04 billion in 2002. **(Recommendation)**

___ Option #3. Propose legislation to create a new optional Medicaid benefit to allow all States to provide extended transitional benefits. Cost: $1.0-$1.4 billion over 1998-2002; $0.2- $0.3 billion in 2002.

3. SSI Childhood Disability Definition

_____ Option #1. 1997 Administration policy. No additional cost.

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_____ Option #3. Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases than under Option # 2. Cost: $4.2 billion over 1998-2002 and $0.9 billion in 2002. **(DPC Recommendation)**

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_____ Option #5. Defer SSI decision until December. No immediate cost, but 7,000 applications per week continue to go unprocessed.

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THE WHITE HOUSE

WASHINGTON

'96 NOV 15 PM6:34

November 15, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines
Carol H. Rasco

SUBJECT: Welfare Reform Administrative Issues in Food Stamps, Supplemental Security Income (SSI) and Medicaid with Significant Budgetary Impact

One of the most difficult resource decisions you will make in the 1998 budget is how to correct the problems you identified in the enacted welfare reform bill within an aggregate spending path that leads to a balanced budget in 2002. The overarching decision is whether to spend more or less for welfare reform fixes than the $13 billion over 5 years now in our 1998 budget planning. This reserve roughly corresponds to the savings from the bill above and beyond the Administration's proposal.

Potential Legislative Fixes. In the near future, we will discuss with you a number of legislative proposals that address the concerns you articulated when you signed the bill. While it is possible to address, in part, all the issues you raised within the $13 billion, more expansive proposals could easily cost much more. For example, bridging the differences on immigrants and Food Stamps could cost as much as $22 billion over five years and $5 billion in 2002.

Additional Near-Term Administrative Issues. In addition to the broader question of aggregate welfare spending, we are raising to your attention three potential -- and time-sensitive -- administrative fixes for Food Stamps, SSI children, and Medicaid. All three decisions are on a faster track because they have an immediate impact on benefits to individuals, are subject to statutory deadlines, and/or are important to the state planning process. However, a decision to implement all three at this time would require substantial budgetary resources (ranging from $1 to $10 billion over 1998-2002) and reduce funding available for later legislative changes. In addition to cost, there are political implications to softening the impact of the welfare bill administratively in the near-term. These decisions -- in particular a decision on SSI children -- may raise advocates' expectations for the welfare fixes the Administration will later propose through legislation, and, at the same time, jeopardize the Administration's ability to sell our future legislative proposals to Congress -- such as fixes to the immigrants provisions and welfare-to-work proposals. This memo seeks your decisions on the three near-term administrative issues in the context of overall funding for welfare reform fixes in your 1998 balanced budget.

A. NEAR TERM ADMINISTRATIVE DECISIONS

1. Food Stamp Time Limits for Childless Adults

Current Law. The welfare reform bill limited Food Stamps for childless adults to 3 months in 3 years. Individuals are exempt from the time limit if they are: under 18 or over 50 years of age; responsible for the care of a child or incapacitated household member; medically certified as physically or mentally unfit for employment; pregnant; or exempt from the Food Stamp work requirements. This provision is estimated to save approximately $3 billion over 1998-2002. When States fully implement this provision in 1997, almost 800,000 individuals will be ineligible to receive Food Stamps each month. These individuals may only stay on the program if they are working over 20 hours per week or participating in an intensive workfare program. We do not expect States to establish costly workfare slots for this group, given limited State resources and pressures to create jobs for the welfare population. About half of these individuals have no other income other than Food Stamps, putting their average monthly income at $171 or 28% of the poverty level. Over 40% of this group is made up of women.

The law provides an exemption for cities, counties, or states with unemployment rates above 10%, at State request, and allows States to request waivers for any group of individuals residing in an area that "does not have a sufficient number of jobs to provide employment for the individuals." The Administration assumed a very strict interpretation of "insufficient jobs" when the bill passed, but we have the ability to define the criteria for areas with insufficient jobs more broadly as a part of implementation. Since there is substantial latitude in the law for how the Administration interprets exemptions and waivers, the Administration can substantially reduce the numbers of individuals actually denied benefits. You indicated that you would work to fix this provision when you signed the legislation.

The Food Stamp issue is very time-sensitive because the time limit goes into effect on November 22, 1996, at which time people subject to the time limit will receive notices stating that they are subject to a 3-month clock. If we do not have a final decision very soon on areas to be exempted from the time limit, several hundred thousand people will be threatened with a loss of benefits unnecessarily. States are already preparing their internal guidance and formulating waiver requests. Oregon, Louisiana, West Virginia, and Washington have already submitted requests.

Option #1 -- Provide waivers only for areas with serious impediments to employment, such as a rural town with only one major employer. While employment may be below 10%, no jobs may be available if the major employer is not hiring. This option would provide relief to few areas. The baseline assumes *de minimis* use of the waiver authority, and this option roughly corresponds to the baseline (i.e., it would not have any costs over 1998-2002). Options #2 and #3 below propose waiver policies that would exempt more people and therefore add costs over 1998-2002.

Option #2 -- Limit waivers to broader geographic-based criteria, such as areas defined as "labor surplus areas" by the Department of Labor (DOL). These are areas with at least two years experience of unemployment 20% higher than the national average. This interpretation could exempt up to 30% of those subject to the time limit who are living in areas with historically high unemployment, albeit under the threshold in the bill. Geographic-based exemptions are arguably an appropriate exercise of the discretion Congress granted. This option would cost $1 billion over 1998-2002 and $0.18 billion in 2002.

Option #3 -- Establish broad waiver criteria in addition to geography. The Department of Agriculture (USDA) and some outside groups have proposed guidance that ranges from exempting areas heavily dependent on declining industries, such as coal mining, to providing waivers to groups of individuals who face fewer employment opportunities due to insufficient job skills, for example, persons without a high school education. The proposed guidance would exempt an individual without a high school diploma from the time limit if she lives in an area where the unemployment rate for people without a high school diploma exceeds 10% -- effectively exempting an individual without a high school diploma from the time limit even though she lives in an area with only 4.3% overall unemployment. Another way of formulating the option would be to exempt anyone without a high school diploma who has actively tried to find employment but who has been unsuccessful. The theory would be that if they are unable to find a job appropriate to their skill level, then there must be insufficient jobs available.

Exempting entire classes of individuals goes beyond what Congress contemplated in providing exemptions to the provisions. While individuals without a complete high school education do face a tougher labor market than others, it is not reasonable to assume that they cannot find employment without regard to local economic circumstances. In addition, some might perceive an exemption for this group to be an education disincentive. Highly preliminary estimates show that exempting persons without a high school diploma could exclude 45% of those subject to the time limit. In total, USDA's proposed guidance could exempt between 65 to 75% of those subject to the time limit and therefore cost as much as $2 billion over 1998-2002 and $0.33 billion in 2002. It is unlikely that all States will take full advantage of such broad exemption criteria; however, the Administration would have to defend the position that lack of a high school diploma is a qualification for Food Stamps.

[***Recommendation.*** We recommend Option #2, which would allow States to exempt areas with historically high unemployment relative to the national average, even though it is below the threshold in the bill.

Advocates will argue that Option #2 is not broad enough because it fails to address the particular difficultly individuals with limited skills face in finding employment. Many will lose their food stamps even though they are looking for but cannot find work. Rather than administratively exempting a specific group of individuals from this policy, we could consider

exploring a legislative solution -- similar to the Administration's proposal last year -- for those who are looking for work but cannot find jobs.]

2. Extension of Waivers Granting Transitional Medicaid Benefits

At the time you signed the welfare reform bill, 20 States had waivers that included authority to extend transitional Medicaid benefits beyond the normal 12 months (in some cases up to 36 months). Six more requests are pending. Before welfare reform, the Administration's policy was to establish budget neutrality across the AFDC, Medicaid and Food Stamps programs over the lifetime of the waiver. Typically, costs from additional Medicaid and Food Stamps benefits were offset by expenditure reductions projected to result from decreases in the AFDC caseload.

Since welfare reform replaced AFDC with a block grant, we can no longer project Federal savings resulting from lower AFDC caseloads. OMB and HHS agree that past Medicaid expenditures related to welfare waivers should be forgiven. OMB and USDA also agree that all past and future Food Stamps waivers should continue to be budget neutral. At issue is whether the future costs of extended transitional Medicaid benefits for current and pending Medicaid waivers should continue to be held to a budget neutrality standard. This issue is a priority because pressure is growing from 26 States on waivers given enactment of welfare reform. Absent a timely decision, some States could opt to suspend their expanded transitional benefits.

Option #1 -- Require States to adhere to budget neutrality for current waivers. The Administration could require States that want to continue their waivers to establish that the extension of transitional Medicaid benefits is budget-neutral. Because there are no longer any savings to the Federal government from the block-granted AFDC program, budget neutrality would require that the Federal government pay 0% of the costs (i.e., provide no Federal match) for the extended transitional benefits.

It is likely that States will continue to provide the transitional benefits waivers only if they believe they can finance them through State savings from the new welfare reform block grant. If transitional Medicaid really has the desired effect, however, States will reap substantial benefits from lower welfare benefits costs.

States may argue that requiring them to re-establish budget neutrality is a "breach of the contract" under which their waivers were granted. However, all Federal Medicaid waivers provide for renegotiation if a change in Federal law occurs. Moreover, this policy is consistent with the consensus policy to enforce budget neutrality in the Food Stamps program after the enactment of welfare reform.

Option #2 -- Modify the budget neutrality policy for the 26 States with waivers or pending applications. The Administration wants to promote welfare-to-work initiatives, of which extended transitional Medicaid benefits policy has been a cornerstone in the past. This

option would effectively grandfather all states that were trying to do this prior to welfare reform. This would increase the likelihood that the 20 states with current waivers will continue the extended transitional benefits and that another six would begin them. The Health Care Financing Administration (HCFA) actuaries have not completed their estimate of the costs of this option; however, early information suggests that this option could cost between $160 million and $200 million over 1998-2002.

Option #3 -- Propose legislation. Should the Administration be accused of treating waiver and non-waiver states inequitably, we could propose legislation to create a new optional Medicaid benefit to allow all states to provide extended transitional benefits. In combination with the forgiveness of budget neutrality for grandfathered states, such a legislative proposal could cost between $1.0 billion and $1.4 billion between 1998 and 2002, and between $.2 and $.3 billion in 2002.

[***Recommendation.*** We recommend Option # 2, to grandfather the 26 states that have waivers administratively. We also recommend that you consider *all* welfare reform legislative fixes at the same time, and thus we do not at this time recommend legislation to create a new optional Medicaid benefit for extended transitional benefits.]

3. SSI Childhood Disability Definition

Current Law. The welfare reform bill provided a new, tightened definition of childhood disability for the Supplemental Security Income (SSI) program, consistent with the Administration's proposal. However, the statutory language is not precise, and the Social Security Administration (SSA) has substantial discretion in drawing the eligibility line to implement the new law. The Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) scoring was based on a similar understanding of the impact of the provision at the time of enactment. The SSI childhood disability provision in the final welfare reform bill was scored at $8.4 billion in savings over 6 years and $1.9 billion in 2002, and was estimated to remove 190,000 children out of 1 million from the rolls by September 1997. Since enactment, advocates and some Senate moderates have argued for an implementation policy that is significantly less restrictive. We are asking for your decision on this issue soon so that SSA may begin processing the approximately 7,000 new cases a week that they have held since August.

Option #1 -- Implement the law consistent with the scoring assumptions and general understanding at time of passage. This would significantly tighten eligibility compared to the law before the enactment of welfare reform. Under this option, 190,000 of the 1 million children now on the rolls would become ineligible for SSI. Most of the children who would lose eligibility under this option have mental impairments, including the behavioral disorders that were the impetus for the changes to the program, such as conduct disorder, learning disabilities, or Attention Deficit Hyperactivity Disorder (ADHD). A greater number are mentally retarded. Others have a chronic physical disease that is episodic, or is fully or partially controlled by

medication, such as asthma, epilepsy, or hemophilia. Still others have a condition such as cerebral palsy that, in that child's case, does not seriously impair more than one area of the child's functioning. This option does not add costs to the baseline.

Option #2 -- Modify the disability determination process to (a) limit the impact of tightened eligibility requirements on children with multiple physical impairments, and (b) require adjudicators to complete a standard form that will promote greater uniformity in decision making and lead to more allowances than would otherwise occur. Both of these changes can be accomplished administratively, were suggested by SSA, and make programmatic sense. Under this option, 145,000 children would be removed from the rolls by next September -- 45,000 fewer children than under Option #1.

To ameliorate the hardship for these children's families, under Option #2 we would also seek legislation to retain Medicaid eligibility for all children now on the rolls who lose SSI. OMB estimates that, under current Medicaid law, 77% of the children who lose SSI would retain Medicaid because of other qualifying factors; new legislation would provide for those children not covered under current Medicaid law. Option #2 would cost $2.4 billion over 1998-2002, including less than $0.5 billion for the legislative proposal. The 2002 cost would be $0.5 billion.

Note that Option #2 is a more lenient policy than the one the Administration and Congress proposed. If we choose this option, we will have to justify changing our policy post-enactment.

Option #3 -- Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases. Option 3 would add to Option 2 two features that are intended to preserve benefits for the children with the most serious disabilities not covered by Option 2: additional recognition of children with chronic or episodic illnesses such as AIDS, and an added assessment of children on the borderline. While SSA believes adjudicators will be able to learn the new procedures, this option would be more administratively difficult, time-consuming, and costly for SSA to implement than Option 2. Under this option, 100,000 children would be ineligible for SSI -- 90,000 fewer than under Option #1. Option #3 would cost $4.2 billion over 1998-2002 and $0.9 billion in 2002.

Option #4 -- Provide for a significantly lower severity standard in determining eligibility. This option is supported by advocates, Senator Daschle, and some Senate moderates from both parties. The Senate moderates argue that their explicit legislative strategy during the welfare reform negotiations was to insist on a definition that was ambiguous enough to satisfy the Republican leadership but would still give SSA the latitude to use a more lenient definition. Given that SSI cash benefits link these children to Medicaid coverage, and that the welfare reform bill simultaneously makes many other changes to the welfare system that could affect these families, advocates argue that it is appropriate to err on the side of SSA using its legal discretion to keep more children on the rolls. Under this option, 45,000 children would become ineligible for SSI -- 145,000 fewer than under Option #1.

There would undoubtedly be significant negative reaction to this option from the Republican majority, and it could be represented as negotiating in bad faith. Option #3 would cost $6.4 billion over 1998-2002 and $1.5 billion in 2002.

Option #5 -- Defer the SSI decision and make it with other 1998 budget decisions in December. Unlike the relatively inexpensive and uncontroversial recommendations on the Food Stamps and Medicaid issues, action on the SSI proposals will have significant budgetary and political impact. Choosing a spending option now will reduce the funds available for other welfare fixes by 20-30%, may disappoint advocates, and/or may portray the Administration as undermining the intent of the welfare bill -- thus threatening the success of future legislative changes to the welfare bill in Congress. Therefore, a decision could be delayed until the end of December when the Administration will be closer to defining an entire welfare reform fixes agenda. Within the context of a broader welfare reform package, this decision may be less vulnerable to criticism and give the Administration additional time to build Congressional support. However, there are a number of very compelling reasons to make a timely decision -- the Administration is required by statute to provide guidance on November 22, 300,000 current recipients will be notified about potential changes in eligibility this month, and 7,000 SSI applications per week will continue to go unprocessed.

[***Recommendation.*** OMB recommends Option #2, using administrative discretion to moderately soften the original policy and retain SSI eligibility for 45,000 children who would otherwise lose benefits, and at the same time seek Congressional support for retaining Medicaid for all children now on the rolls.

DPC staff recommends Option # 3. This option would use administrative discretion to further expand the number of children who could meet the standard, and provide special protections for children on the borderline. SSA has had difficulty giving us a clear profile of these children, and it is difficult to be confident that SSA's rules reliably discern the most severe impairments. This option would provide extra assurance that children on the borderline will be properly evaluated. The disability community, members of Congress like Senators Daschle and Chafee, and leading editorial writers have made this a major issue, and might not even see this standard as taking adequate advantage of our latitude to assist children with impairments. We should also consider the challenges that many of these low-income families will face under welfare reform.]

B. THE OVERALL 1998 BUDGET ISSUE

In the context of a five-year balanced budget, any resources allocated to welfare reform make the task of reaching balance more difficult. Since the current plan for reaching balance by 2002 is already challenging our ability to find the necessary savings with acceptable policies, it is important to recognize that a decision to spend more than $13 billion over five years will require further offsetting savings. The fact that administrative actions drive up spending in no way diminishes the need to find more offsets if we want to balance in 2002. At the same time,

whether you decide to spend more or less than $13 billion to fix the welfare bill will influence your options on the immediate administrative issues.

Option #1 -- Limit welfare resources to $13 billion. The recommendations in this memo would spend about $3.6 - $5.4 billion over five years on the three near-term administrative issues. With the $8-$10 billion remaining in the $13 billion reserve, you would have sufficient resources to propose a repeal of most of the Food Stamp and Medicaid immigrant bans (but not SSI), a legislative fix for the Food Stamp 18-to-50s provision, other changes to mitigate the deep Food Stamp cuts, and expanded contingency funding.

On the other hand, if you choose the highest cost options on the administrative issues, you would spend $10 billion before even discussing the larger legislative fixes. This would leave about $3 billion to address the other problems with the bill. These resources would be exhausted by an exemption for immigrant children from the Food Stamp ban and a limited relaxing of the cap on the Food Stamp shelter deduction. You would not be able to make other legislative fixes within this total.

Option #2. Do not limit resources for welfare reform fixes to $13 billion at this time. If you choose to spend more than the $13 billion reserve, you will sharply limit your ability to meet demands for spending in other areas. Our current outline of the 1998 budget spends $284 billion on non-defense discretionary programs in 1998, about half of which is for your priorities. For every additional $2 billion you choose to spend on welfare fixes over five years, we would either need to increase the non-priority cut by 1% in 1998 (and freeze that level in the out-years), or selectively reduce priority programs. The non-priorities include important government functions such as Veterans Affairs (VA) medical care, tax collection, aviation safety, and the administration of Social Security benefits. Even if we protect your highest priorities -- say, in education and the environment -- we are left with programs such as Ryan White AIDS treatment, the National Institutes of Health, and Women, Infants and Children (WIC). If we look outside discretionary spending for these offsets, we face similarly unpalatable choices in Medicare and Medicaid, farm entitlements, civil service retirement, and veterans benefits.

C. DECISION ON OVERALL BUDGET STRATEGY

______ Option #1. The maximum available for welfare reform fixes is $13 billion, including the decisions below. **(Recommendation)**

______ Option #2. Spend in accord with the administrative decisions below. Revisit the overall funding levels for welfare reform when we make final 1998 budget decisions.

D. DECISIONS ON NEAR TERM ADMINISTRATIVE ISSUES

1. Food Stamp Waiver Guidance

______ Option #1. Provide waivers only for areas with serious impediments to employment. No additional cost.

______ Option #2. Limits waivers to geographic-based criteria. Cost: up to $1 billion over 1998-2002; up to $0.2 billion in 2002. **(Recommendation)**

______ Option #3. In addition to exemptions for geographic-based criteria, exempt all persons without a high school education from time limits. Cost: up to $2 billion over 1998-2002; up to $0.3 billion in 2002.

2. Transitional Medicaid Benefits

____ Option #1. Budget neutrality for current and pending transitional Medicaid benefit waivers. No additional costs.

____ Option #2. Modify budget neutrality policy for the 26 states with ongoing or pending waivers. Cost $0.2 billion over 1998-2002; $0.04 billion in 2002. **(Recommendation)**

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'96 NOV 15 PM6:33

November 15, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines
Carol H. Rasco

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Option #2 -- Modify the budget neutrality policy for the 26 States with waivers or pending applications. The Administration wants to promote welfare-to-work initiatives, of which extended transitional Medicaid benefits policy has been a cornerstone in the past. This

option would effectively grandfather all states that were trying to do this prior to welfare reform. This would increase the likelihood that the 20 states with current waivers will continue the extended transitional benefits and that another six would begin them. The Health Care Financing Administration (HCFA) actuaries have not completed their estimate of the costs of this option; however, early information suggests that this option could cost between $160 million and $200 million over 1998-2002.

Option #3 -- Propose legislation. Should the Administration be accused of treating waiver and non-waiver states inequitably, we could propose legislation to create a new optional Medicaid benefit to allow all states to provide extended transitional benefits. In combination with the forgiveness of budget neutrality for grandfathered states, such a legislative proposal could cost between $1.0 billion and $1.4 billion between 1998 and 2002, and between $.2 and $.3 billion in 2002.

[***Recommendation.*** We recommend Option # 2, to grandfather the 26 states that have waivers administratively. We also recommend that you consider *all* welfare reform legislative fixes at the same time, and thus we do not at this time recommend legislation to create a new optional Medicaid benefit for extended transitional benefits.]

3. SSI Childhood Disability Definition

Current Law. The welfare reform bill provided a new, tightened definition of childhood disability for the Supplemental Security Income (SSI) program, consistent with the Administration's proposal. However, the statutory language is not precise, and the Social Security Administration (SSA) has substantial discretion in drawing the eligibility line to implement the new law. The Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) scoring was based on a similar understanding of the impact of the provision at the time of enactment. The SSI childhood disability provision in the final welfare reform bill was scored at $8.4 billion in savings over 6 years and $1.9 billion in 2002, and was estimated to remove 190,000 children out of 1 million from the rolls by September 1997. Since enactment, advocates and some Senate moderates have argued for an implementation policy that is significantly less restrictive. We are asking for your decision on this issue soon so that SSA may begin processing the approximately 7,000 new cases a week that they have held since August.

Option #1 -- Implement the law consistent with the scoring assumptions and general understanding at time of passage. This would significantly tighten eligibility compared to the law before the enactment of welfare reform. Under this option, 190,000 of the 1 million children now on the rolls would become ineligible for SSI. Most of the children who would lose eligibility under this option have mental impairments, including the behavioral disorders that were the impetus for the changes to the program, such as conduct disorder, learning disabilities, or Attention Deficit Hyperactivity Disorder (ADHD). A greater number are mentally retarded. Others have a chronic physical disease that is episodic, or is fully or partially controlled by

medication, such as asthma, epilepsy, or hemophilia. Still others have a condition such as cerebral palsy that, in that child's case, does not seriously impair more than one area of the child's functioning. This option does not add costs to the baseline.

Option #2 -- Modify the disability determination process to (a) limit the impact of tightened eligibility requirements on children with multiple physical impairments, and (b) require adjudicators to complete a standard form that will promote greater uniformity in decision making and lead to more allowances than would otherwise occur. Both of these changes can be accomplished administratively, were suggested by SSA, and make programmatic sense. Under this option, 145,000 children would be removed from the rolls by next September -- 45,000 fewer children than under Option #1.

To ameliorate the hardship for these children's families, under Option #2 we would also seek legislation to retain Medicaid eligibility for all children now on the rolls who lose SSI. OMB estimates that, under current Medicaid law, 77% of the children who lose SSI would retain Medicaid because of other qualifying factors; new legislation would provide for those children not covered under current Medicaid law. Option #2 would cost $2.4 billion over 1998-2002, including less than $0.5 billion for the legislative proposal. The 2002 cost would be $0.5 billion.

Note that Option #2 is a more lenient policy than the one the Administration and Congress proposed. If we choose this option, we will have to justify changing our policy post-enactment.

Option #3 -- Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases. Option 3 would add to Option 2 two features that are intended to preserve benefits for the children with the most serious disabilities not covered by Option 2: additional recognition of children with chronic or episodic illnesses such as AIDS, and an added assessment of children on the borderline. While SSA believes adjudicators will be able to learn the new procedures, this option would be more administratively difficult, time-consuming, and costly for SSA to implement than Option 2. Under this option, 100,000 children would be ineligible for SSI -- 90,000 fewer than under Option #1. Option #3 would cost $4.2 billion over 1998-2002 and $0.9 billion in 2002.

Option #4 -- Provide for a significantly lower severity standard in determining eligibility. This option is supported by advocates, Senator Daschle, and some Senate moderates from both parties. The Senate moderates argue that their explicit legislative strategy during the welfare reform negotiations was to insist on a definition that was ambiguous enough to satisfy the Republican leadership but would still give SSA the latitude to use a more lenient definition. Given that SSI cash benefits link these children to Medicaid coverage, and that the welfare reform bill simultaneously makes many other changes to the welfare system that could affect these families, advocates argue that it is appropriate to err on the side of SSA using its legal discretion to keep more children on the rolls. Under this option, 45,000 children would become ineligible for SSI -- 145,000 fewer than under Option #1.

There would undoubtedly be significant negative reaction to this option from the Republican majority, and it could be represented as negotiating in bad faith. Option #3 would cost $6.4 billion over 1998-2002 and $1.5 billion in 2002.

Option #5 -- Defer the SSI decision and make it with other 1998 budget decisions in December. Unlike the relatively inexpensive and uncontroversial recommendations on the Food Stamps and Medicaid issues, action on the SSI proposals will have significant budgetary and political impact. Choosing a spending option now will reduce the funds available for other welfare fixes by 20-30%, may disappoint advocates, and/or may portray the Administration as undermining the intent of the welfare bill -- thus threatening the success of future legislative changes to the welfare bill in Congress. Therefore, a decision could be delayed until the end of December when the Administration will be closer to defining an entire welfare reform fixes agenda. Within the context of a broader welfare reform package, this decision may be less vulnerable to criticism and give the Administration additional time to build Congressional support. However, there are a number of very compelling reasons to make a timely decision -- the Administration is required by statute to provide guidance on November 22, 300,000 current recipients will be notified about potential changes in eligibility this month, and 7,000 SSI applications per week will continue to go unprocessed.

[***Recommendation.*** OMB recommends Option #2, using administrative discretion to moderately soften the original policy and retain SSI eligibility for 45,000 children who would otherwise lose benefits, and at the same time seek Congressional support for retaining Medicaid for all children now on the rolls.

DPC staff recommends Option # 3. This option would use administrative discretion to further expand the number of children who could meet the standard, and provide special protections for children on the borderline. SSA has had difficulty giving us a clear profile of these children, and it is difficult to be confident that SSA's rules reliably discern the most severe impairments. This option would provide extra assurance that children on the borderline will be properly evaluated. The disability community, members of Congress like Senators Daschle and Chafee, and leading editorial writers have made this a major issue, and might not even see this standard as taking adequate advantage of our latitude to assist children with impairments. We should also consider the challenges that many of these low-income families will face under welfare reform.]

B. THE OVERALL 1998 BUDGET ISSUE

In the context of a five-year balanced budget, any resources allocated to welfare reform make the task of reaching balance more difficult. Since the current plan for reaching balance by 2002 is already challenging our ability to find the necessary savings with acceptable policies, it is important to recognize that a decision to spend more than $13 billion over five years will require further offsetting savings. The fact that administrative actions drive up spending in no way diminishes the need to find more offsets if we want to balance in 2002. At the same time,

whether you decide to spend more or less than $13 billion to fix the welfare bill will influence your options on the immediate administrative issues.

Option #1 -- Limit welfare resources to $13 billion. The recommendations in this memo would spend about $3.6 - $5.4 billion over five years on the three near-term administrative issues. With the $8-$10 billion remaining in the $13 billion reserve, you would have sufficient resources to propose a repeal of most of the Food Stamp and Medicaid immigrant bans (but not SSI), a legislative fix for the Food Stamp 18-to-50s provision, other changes to mitigate the deep Food Stamp cuts, and expanded contingency funding.

On the other hand, if you choose the highest cost options on the administrative issues, you would spend $10 billion before even discussing the larger legislative fixes. This would leave about $3 billion to address the other problems with the bill. These resources would be exhausted by an exemption for immigrant children from the Food Stamp ban and a limited relaxing of the cap on the Food Stamp shelter deduction. You would not be able to make other legislative fixes within this total.

Option #2. Do not limit resources for welfare reform fixes to $13 billion at this time. If you choose to spend more than the $13 billion reserve, you will sharply limit your ability to meet demands for spending in other areas. Our current outline of the 1998 budget spends $284 billion on non-defense discretionary programs in 1998, about half of which is for your priorities. For every additional $2 billion you choose to spend on welfare fixes over five years, we would either need to increase the non-priority cut by 1% in 1998 (and freeze that level in the out-years), or selectively reduce priority programs. The non-priorities include important government functions such as Veterans Affairs (VA) medical care, tax collection, aviation safety, and the administration of Social Security benefits. Even if we protect your highest priorities -- say, in education and the environment -- we are left with programs such as Ryan White AIDS treatment, the National Institutes of Health, and Women, Infants and Children (WIC). If we look outside discretionary spending for these offsets, we face similarly unpalatable choices in Medicare and Medicaid, farm entitlements, civil service retirement, and veterans benefits.

C. DECISION ON OVERALL BUDGET STRATEGY

______ <u>Option #1</u>. The maximum available for welfare reform fixes is $13 billion, including the decisions below. **(Recommendation)**

______ <u>Option #2.</u> Spend in accord with the administrative decisions below. Revisit the overall funding levels for welfare reform when we make final 1998 budget decisions.

D. DECISIONS ON NEAR TERM ADMINISTRATIVE ISSUES

1. Food Stamp Waiver Guidance

______ Option #1. Provide waivers only for areas with serious impediments to employment. No additional cost.

______ Option #2. Limits waivers to geographic-based criteria. Cost: up to $1 billion over 1998-2002; up to $0.2 billion in 2002. **(Recommendation)**

______ Option #3. In addition to exemptions for geographic-based criteria, exempt all persons without a high school education from time limits. Cost: up to $2 billion over 1998-2002; up to $0.3 billion in 2002.

2. Transitional Medicaid Benefits

____ Option #1. Budget neutrality for current and pending transitional Medicaid benefit waivers. No additional costs.

____ Option #2. Modify budget neutrality policy for the 26 states with ongoing or pending waivers. Cost $0.2 billion over 1998-2002; $0.04 billion in 2002. **(Recommendation)**

____ Option #3. Propose legislation to create a new optional Medicaid benefit to allow all States to provide extended transitional benefits. Cost: $1.0-$1.4 billion over 1998-2002; $0.2- $0.3 billion in 2002.

3. SSI Childhood Disability Definition

______ Option #1. 1997 Administration policy. No additional cost.

______ Option #2. Relax eligibility requirements relative to the Administration's proposals (Option #1) and propose legislation to ensure that all children currently on SSI rolls retain Medicaid coverage. Cost: $2.4 billion over 1998-2002; $0.5 billion in 2002. **(OMB Recommendation)**

______ Option #3. Further ease standard by greater recognition of chronic illness and re-assessment of borderline cases than under Option # 2. Cost: $4.2 billion over 1998-2002 and $0.9 billion in 2002. **(DPC Recommendation)**

______ Option #4. Significantly lower standard of severity than options 1 or 2. Cost: $6.4 billion over 1998-2002; $1.5 billion in 2002.

______ Option #5. Defer SSI decision until December. No immediate cost, but 7,000 applications per week continue to go unprocessed.