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ELEMENTARY, SECONDARY AND VOCATIONAL EDUCATION AID

History.

Traditionally, public education has been supported primarily by state and local funds. In 1920, the federal government contributed only .03% to the cost of all public education. During the late 1950s, the federal role in public education began to grow, and today 8.1% of all money spent on public elementary and secondary education comes from the federal government.

o Programs.

Federal aid to elementary, secondary and vocational education falls into five major program areas:

-- Impact Aid.

- * Provides direct federal aid to school districts where parents either work for the federal government or live on federal property or Indian lands, or both.

-- Aid to Disadvantaged Students.

- * Provides aid to states and school districts to support compensatory services for educationally disadvantaged children.

-- Indian Education.

- * Provides federal grants for educational programs for Indian children and adults.

-- Vocational and Adult Education.

- * Programs assist youth in preparing for careers and adults who are in need of training or retraining.

-- Aid to Handicapped Children.

- * Provides federal funds to help states and localities educate handicapped children.

o Costs.

- In 1962, the federal government spent \$448 million on aid to elementary, secondary and vocational education.
- By 1980, outlays for such aid had risen to \$6.7 billion, representing a 14-fold increase.

o Coverage.

-- Impact Aid.

* Provides aid to approximately 2,000 school districts.

-- Aid to Disadvantaged Students.

* Serves 4.5-5.5 million children.

-- Indian Education.

* The Education Department program serves about 325,000 Indian children and about 11,000 Indian adults.

-- Vocational and Adult Education.

* In 1982, served about 18 million individuals (includes state and local support).

-- Aid to Handicapped Children.

* Serves 4.0 million children.

o Administration Action to Date.

-- For 1982:

* President Carter requested \$7.5 billion.

* President Reagan requested \$5.2 billion.

* Congress approved \$6.3 billion.

-- For 1983:

* President Reagan requested \$4.3 billion.

* Congress approved \$6.7 billion.

The President's Proposals for FY 1984.

o Impact Aid.

-- Reduce spending from the 1983 level of \$480.2 million to \$455 million in 1984.

o Aid to Disadvantaged Students.

-- Reduce spending from the 1983 level of \$3.2 billion to \$3.0 billion in 1984.

-- Increase funding for the principal Chapter 1 program, grants to local school districts, by \$42 million. This program reaches about 14,000 of the nation's 16,000 school districts.

o Indian Education.

- Eliminate the Department of Education's program, but maintain Bureau of Indian Affairs' education programs for Indians living on or near reservations.

o Vocational and Adult Education.

- Combine the categorical grant programs for vocational and adult education, which totalled \$823.7 million in 1983, into a \$500 million consolidated grant.

o Aid to Handicapped Children.

- Maintain budget level at the 1983 appropriation of \$1.1 billion.
 - * Increase state grants by \$28.2 million.
 - * Reduce special purpose funds, the federal discretionary program, by that same amount.

o Math and Science.

- Initiate a three-part program to enhance the quality of teaching at the nation's elementary and secondary schools and to enable more students to receive adequate math and science training.
 - * National Science Foundation (NSF) would fund programs to improve the quality of pre-college science and mathematics teaching through collaborative projects with universities, local education agencies, and industry.
 - A total of \$14 million would be set aside for this program in 1983, and \$19 million in 1984.
 - * A new Education Department program would distribute block grants to the states to help train additional secondary school math and science teachers. The program would support training for an additional 5,000 to 10,000 individuals each year.
 - The block grant awards would total \$50 million per year.
 - * A joint NSF and Education Department program would provide awards to outstanding pre-college math and science teachers.
 - Each winner's school would receive a \$5,000 grant to be used to improve its math and science programs.

Justification (General).

Proposed changes would:

- o Reduce the rate of growth in federal spending.
 - Federal costs have grown far out of line with increases in services, rising 14-fold since 1962.
 - * Much of this growth in spending is due in part to complicated, burdensome and unnecessary federal requirements.
 - * Changing the structure of the programs to eliminate these requirements would help provide better service at lower cost.
 - The proposals would save \$500 million in 1984.
- o Restore state and local responsibility for aid to education.
 - States and localities are better able to determine the specific needs of their regions than is a distant and inflexible bureaucracy in Washington.
 - Providing simplified block grants to states will not only reduce administrative burdens, but will also give the states the flexibility they need to make more efficient use of funds.

Justification (Specific).

- o Impact aid.
 - The proposed request includes \$455 million for aid to school districts.
 - * Most of these funds -- \$446 million -- would go to payments for children who both live on federal property and have a parent who works on federal property.
 - * This represents an increase of \$100 million over the level of payments for these children in 1993.
 - No funds are requested for school construction in light of the recent appropriation of \$60 million for that purpose contained in the bi-partisan employment bill, recently signed by the President.

o Aid to disadvantaged students.

-- The proposed reduction in total in aid to disadvantaged students largely reflects reductions in the two accounts as follows:

* Reduce funding for migrant education programs from the 1983 level of \$255.7 million to \$129.4 million in 1984, achieved by:

- Tightening the definition of "migrant". Studies by the Department indicate that 46% of the children receiving aid were not truly migrant because their education was not interrupted by their families' moving.

- Allowing a student to participate in the program for two years after having been deemed migrant rather than the current five years, an unnecessarily long period of time.

* Reduce funding for handicapped education programs from the 1983 level of \$146.5 million to \$104.8 million in 1984.

- Under the present system, \$603 continues to be paid for the education of each child who leaves the state institutions and enrolls in local public schools even though the amount required for the education of their handicapped peers in the regular schools is only \$245.

o Indian education.

-- The proposed elimination of Indian education programs at the Department of Education reflects two key facts:

* Indians are eligible to participate in all Education Department programs as long as the meet criteria applied to all individuals. In some of these programs, in fact, Indian participation is disproportionately high.

- For example, \$180 million of the \$465 million 1984 budget for Impact Aid will benefit Indians.

* Department of Education programs that are intended to be primarily of benefit to Indians duplicate programs at the Interior Department.

o Vocational and adult education.

- The program simplification and combination of vocational and adult education programs into a consolidated grant is expected to result in administrative savings, resulting from elimination of unnecessary recordkeeping requirements, reports and other paperwork burdens.
- States and localities have consistently and substantially "overmatched" federal vocational education spending. This program, popular with the states and scheduled for turnback under the New Federalism, is not a high federal priority and should not be funded at high levels in a time of federal fiscal restraint.

o Aid to handicapped children.

- The increase in state grants is intended to maintain the federal share of the average excess educational cost of handicapped children at its current level of about 8%.
- About 40,000 more children are expected to be served.

o Math and science.

- The resources required for this critical undertaking will result in significant improvement in the ability of the nation's schools to upgrade the quality of math and science education.

Questions and Answers.

- o Fairness. By proposing the elimination of Indian programs and reducing aid to disadvantaged students, isn't the President again cutting the budget on the backs of the neediest in our society?
 - Existing programs which provide support for all children are sufficient to provide for the education of Indians.
 - Under the Administration's proposal, the federal share of the cost of programs to aid disadvantaged students would be 14% in 1984. This proposed level is substantially higher than the entire federal share of elementary and secondary education financing -- 7.7%.
- o Math and science. With other programs being cut at the Department of Education, how can the Administration justify creating this new program?
 - A strong economy and national defense will require a technically skilled work force.
 - But objective measures have shown a steady decline over the last 15 years in pre-college math and science skills.
 - * Only one-sixth of high school graduates have taken junior and senior level courses in science and math.
 - * One-third of U. S. high schools do not offer sufficient math courses to prepare graduates for engineering schools.
 - * If all students were to take just one more math or science course, more than 30,000 additional teachers would be required.
 - * Other programs are being cut because they are of lower priority.

- o Department of Education. Has the President given up on abolishing the Department of Education?
 - The President continues to support the dismantlement of the Cabinet-level Department of Education.
 - A limited federal role in education is appropriate. Thus, the President's budget proposals for 1983 and 1984 have attempted to limit the federal role and return more responsibility and authority to the states.
 - * In the 1983 budget, the President proposed the establishment of a Foundation for Education Assistance, which was intended to restore a more appropriate federal-state balance by reducing the power of federal education officials to interfere in state and local decisions.
 - * The Congress has not yet accepted the President's initiative in this area.
 - * The 1984 budget continues to reflect these goals.
 - In the meantime, alternative approaches for dismantling the Department of Education remain under consideration.

ENERGY ASSISTANCE

History.

In 1977, the federal government established a home energy assistance program at the Community Services Administration in order to provide assistance to needy families who had difficulty paying increasing energy prices.

When CSA was dismantled in 1981, the Low Income Home Energy Assistance Program was transferred to the Department of Health and Human Services.

o The Program.

- Provides grants to states to help low-income citizens pay rising energy costs.
- States are allowed to set eligibility standards within broad federal guidelines.
- The aid can be in the form of direct cash assistance to needy households, direct payments to fuel vendors on behalf of the needy, or payments to public housing building operators.
- The grant also permits states to allocate up to 15% of their funds for low-cost residential weatherization.

o Coverage.

- Since FY 1980, about 7 million households have participated in the program each year.

o Cost.

- In FY 1977, when the program was established at CSA, the budget was \$200 million.
- In FY 1981, when the program was moved to HHS, the budget had reached \$1.95 billion -- an increase of nine times in just four years.

o Administration Action to Date.

-- For FY 1982:

- * President Carter requested \$1.9 billion.
- * President Reagan requested \$1.4 billion.
- * Congress approved \$1.9 billion.

-- For FY 1983:

- * President Reagan requested \$1.3 billion.
- * Congress approved \$2.0 billion.

The President's Proposals for FY 1984.

- o Reduce budget authority by \$686 million to a level of \$1.3 billion in FY 1984.
- o Revise state allotment formula to better direct funds to low-income heating needs by targeting:
 - States with severe winter climates.
 - States with larger numbers of low-income households.

Justification.

- o Refocuses benefits on those who were originally intended to be assisted: low-income families and individuals whose health and life would be endangered by inability to provide against severe cold.
 - The current grant formula is based on 1979-80 data regarding fuel prices and 1976 data regarding low-income population distribution. The formula does not reflect shifts in poverty populations nor the changes in fuel prices.
 - The proposed formula would eliminate the Virgin Islands, Puerto Rico, and other trust territories from the program.
- o Achieves significant budgetary savings without causing undue hardship for those in need of heating assistance.

Questions and Answers.

- o Reduced funding. How can we provide assistance to those who need it with the budget cut so drastically?
 - The Administration's proposed new formula targets the grants in such a way as to:
 - * Provide grants at the FY 1982-83 level to states that have the most severe cold weather conditions, such as those in the Northeast and North central regions.
 - * Reduce grants to states that need them the least -- those that have more moderate climates or fewer low-income households -- thereby enabling larger expenditures in cold states while reducing overall spending.
 - In the last two years, some fuel prices have dropped sharply in real terms, reducing low-income families' energy costs.
- o Distribution of grants. Which states will lose funds and how will their low-income residents meet their heating costs?
 - Some of the Southern states will probably receive the greatest reductions in their grant allotments. These States, however, are better able to withstand the reductions, primarily because they have the mildest climates.
 - Still, these States will continue to receive grants for heating aid during unseasonably severe cold weather.
- o Help for the long-term unemployed. How can we ensure that those who have lost their jobs in the hardest hit industries will be protected?
 - The Administration's proposed formula for allocating grants to the States utilizes the latest Census data, in which the number of long-term jobless is included.
 - States may disregard federal unemployment compensation benefits when determining eligibility, which would automatically qualify many of the long-term unemployed for low-income energy assistance.

FOOD STAMPS

History.

The food stamp program began in 1961 on an experimental basis, and was made permanent in 1964. As a pilot program in 1961, the program's purpose was as much to remove agricultural surpluses from the market as it was to improve the diet of low-income families.

o Program.

- The federal government provides food stamps to recipients, who then redeem them at participating grocery stores for food.
- The recipient family must have a gross income of no more than 130% of the poverty line.
- In order to qualify for food stamps, able-bodied adults must register for and accept available employment.

o Major program changes.

- Prior to January 1979, recipients were required to purchase food stamps at a certain percentage of the stamps' face value, that percentage being determined by the recipient's income level.
- Effective January 1979, Congress eliminated the purchase requirement and made the stamps free to eligible recipients.

o Coverage.

- In 1965, 400,000 persons received food stamps. By 1975 that number had increased by more than 42 times, to 17.1 million.
- In 1981, more than 22 million people -- one out of every ten Americans -- received food stamps.

o Costs.

- In 1965 the food stamp program cost \$35 million. By 1977 the cost had risen more than one hundred times to \$5.4 billion.
- Outlays doubled from \$5.4 billion in 1977 to more than \$11 billion in 1981.
- Food stamp spending per participant, adjusted for the increase in the price of food, grew 12.4% between 1977 and 1981.

o Administration Action to Date.

-- For FY 1982:

* President Carter had proposed:

- Total funding of \$12.4 billion for the food stamp program.
- Delaying increases in the program's various cost-of-living measures.

* President Reagan proposed:

- Total funding of \$10.6 billion for the food stamp program and a separate nutrition assistance grant for Puerto Rico.
- Numerous major programmatic reforms, including proposals to:
 - a) Establish a gross income eligibility standard of 130% of the poverty line.
 - b) Require retrospective accounting and periodic reporting of income.
 - c) Delay increases in the program's cost-of-living measures.
 - d) Prohibit participation by boarders.
 - e) Prohibit children living with parents from filing as separate households.
 - f) Establish a separate nutrition assistance grant for Puerto Rico.
 - g) Reduce allotments for households with children eligible for free school lunches.

* Congress approved:

- Total funding of \$11.3 billion for food stamps and the nutrition assistance grant for Puerto Rico.
- All major programmatic reforms proposed by the Reagan Administration except for the proposal to reduce allotments for households with children eligible for free school lunch, plus:
 - a) Adjustments to the Thrifty Food Plan.
 - b) Creation of an optional workfare program.
 - c) A prohibition against participation by strikers except if they were eligible prior to the strike.

-- For FY 1983:

* President Reagan proposed:

- Total funding of \$10.4 billion for food stamps and nutrition assistance for Puerto Rico.
- Major programmatic reforms that would:
 - a) Revise food stamp rounding rules so that amounts in excess of whole dollar figures would be dropped from benefit payments.
 - b) Require able-bodied food stamp applicants to begin job search activities as soon as they apply for Food Stamps.
 - c) Eliminate federal matching for all payments errors by 1986.
 - d) Reduce allotments by an additional 5¢ for each additional dollar of income received by the household.
 - e) Discontinue exclusion of certain types of cash income in determining benefit levels.
 - f) Count energy assistance payments as income in determining household eligibility and benefit levels.

* Congress approved:

- Total funding of \$11.6 billion for food stamps and nutrition assistance for Puerto Rico.
- Major programmatic reforms, including:
 - a) Modified versions of the Administration proposals on rounding rules, job search requirements and federal matching of payment errors.
 - b) Cuts in the value of the Thrifty Food Plan.
 - c) Revisions in the calculation of standard utility allowances.

The President's Proposals for FY 1984.

o Hold states liable for payment errors exceeding 3% of benefits.

-- This means that if a state makes food stamps available to persons who are ineligible to receive them, and that the total amount of these errors exceeds 3% of total benefits paid out by the state under this program, the state will be liable to the federal government for the amount in excess of 3%.

- o Simplify the benefit calculation by standardizing the shelter and earnings deductions.
 - This proposal would simplify the process of determining a household's net income by:
 - * Eliminating the deduction for shelter expenses and replacing it with a larger standard deduction.
 - * Eliminating the 18% earnings deduction and replacing it with a standard \$75 deduction.
- o Simplify the definition of "household" by requiring all individuals living together to file as a single household for food stamp benefit calculations.
- o Simplify food stamp application procedures for households containing AFDC recipients.
 - This reform would allow AFDC households, which have already undergone eligibility tests for that program, to automatically qualify for food stamps.
- o Require each state to adopt a mandatory community work experience program (CWEP).
 - This provision would assure that all able-bodied food stamp recipients would have to find work in the private sector or perform useful public services when no private job was available.
- o Delay the cost-of-living adjustment from October 1983 to April 1984.

Justification (General).

- o These changes would continue to reduce the growth in the cost of entitlement programs without jeopardizing assistance to the truly needy through:
 - Targeting benefits to those most in need.
 - Reducing the \$1 billion in overpayments made every year.
- o These changes would save \$741 million in FY 1984.

Justification (Specific).

- o Hold states liable for errors exceeding 3% of benefits.
 - States currently do not have sufficient incentive to improve administration.
 - * Benefits are 100% federally-funded.
 - * States do not share costs.

- As a result, \$1 out of every \$10 in food stamp benefits is issued in error.
- Current law target error rates are 7% for FY 1984, and 5% for FY 1985 and beyond.
- AFDC and Medicaid already have 3% error rate targets; food stamps should have the same.
- o Simplify food stamp benefit calculation by standardizing shelter and earnings deduction.
 - The current calculation of deductions is a complicated procedure, often leading to caseworker errors in the computation of benefits.
- o Simplify definition of a household by requiring all individuals living together to file as a single household for food stamp benefit calculations.
 - Recipients qualify for higher food stamp benefits when filing as separate households than when applying as a single household.
 - Current law allows recipients to gain status as separate households (and correspondingly higher benefits) even though they live together and depend on each other for support.
 - This reform will help to curb such abuses.
- o Simplify food stamp application procedures for households containing AFDC recipients.
 - Rather than continuing present complicated rules to determine eligibility for food stamps, AFDC households would receive a standard food stamp allotment.
- o Require states to adopt CWEP.
 - Present regulations require able-bodied recipients to register their availability for work, and to seek work in the private sector.
 - This proposal would require anyone who could not find a private sector job to do public service work through mandatory CWEP program, coordinated with the voluntary CWEP program (proposed to become mandatory) already in operation as part of AFDC.
- o Cost-of-living adjustment delay.
 - This proposal is part of the government's overall COLA delay policy.

- It restrains program costs without reducing benefits (only reducing the growth in benefits).
- Low inflation rates in the past year ensure that recipients will not be hurt by the COLA delay.

Questions & Answers.

- o Denying adequate nutrition. Won't cuts in food stamps condemn low-income Americans to inadequate nutrition levels?
 - The proposed changes will not become effective until FY 1984. In the interim, the Administration is requesting more than \$1 billion in supplemental 1983 funds to ensure that the nutrition needs of low-income Americans are met.
 - An estimated 21.5 million persons are expected to receive food stamps in FY 1984, a recovery year -- nearly five million more recipients than in the 1974-75 recession.
 - Food stamp benefits for the more than 4 million recipients with little or no income will be virtually unchanged by these proposals.
 - Recipients with higher incomes will have their benefits adjusted only marginally, this to more accurately reflect their real need for nutrition assistance.
 - Food stamps will remain available to all families with incomes below 130% of the poverty line.
- o Elderly recipients. The elderly poor have special needs; will this fact be taken into account?
 - The food stamp program's protections for the elderly remain intact, including the exemption from the regular income and asset limits and the special deduction for high medical expenses.
 - The proposal to revise the definition of "household" will also allow elderly persons living with their children to apply as separate households.
- o Waste, fraud and abuse. How can we be sure the Administration's efforts to ferret out waste, fraud, and abuse won't deny some needy persons adequate nutritional benefits?
 - Erroneous food stamp issuance costs the taxpayers more than one billion dollars a year; reducing fraud and waste must be a top priority if we are to have the funds to assist those in greatest need of help.
 - Eliminating fraud and waste in this and all programs is an important part of slowing overall spending growth, which is essential to achieving economic recovery, and which in turn provides the promise of more jobs and higher real incomes. The best way to help the poor is by helping them become self-sufficient.

- Adequate protections are provided in the review process to ensure that those who need assistance will continue to receive it.
- o Families living together. If economic conditions force two families to share living quarters, why should food stamp benefits be reduced?
 - If two families are sharing quarters, both should be required to contribute to their combined living expenses.
 - These living costs are proportionately less because of economies in sharing quarters.
 - Food stamp benefits should be provided only to the extent of need. It is better to target aid to those who are unable to meet their living expenses in any living arrangement.
- o Working for benefits. Isn't it unfair to force food stamp recipients to work for their benefits?
 - If they are able to work, then it is only fair that they do so in order to receive benefits.
 - It is particularly unfair to tax low-income Americans to support beneficiaries who are able to work but unwilling to do so.
- o Increasing the cost of the food stamp program. Won't making AFDC recipients automatically eligible for food stamps greatly increase the cost of the program?
 - On the contrary, it will reduce the cost of the program by reducing administrative costs and duplication of efforts.
 - It will also assist the needy by cutting red tape.
- o The 3% solution. What evidence is there that the states will be able to hold errors to 3% or less?
 - The 3% rule is already in effect with regard to AFDC, a program where the states share the costs.
 - * The error rate is lower in that program for precisely that reason.
 - * The new rule proposed by the Administration will give the states an incentive to reduce errors in the food stamp program as well by making errors costly to them.

- o Freezing benefits. If food prices are continuing to go up, how can you justify freezing food stamp benefits?
 - Benefits are not being frozen; administrative procedures are being tightened to ensure that benefits will go only to those who are entitled to them -- that is, to families with incomes below 130% of the poverty line.
 - Cost-of-living increases will continue; the only difference is that they will take effect in April instead of October.
 - Food price increases have moderated substantially in recent months.
 - * Food prices rose only 4.3% in 1981 and only 3.1% in 1982.
 - * Food prices have been essentially level for the past four months.
- o CBO study. Recently, the Congressional Budget Office released a study saying the President's food stamp budget changes for next year will hurt the poor. A USDA official conceded that budget cuts would reduce benefits for millions of beneficiaries. How can the President justify these actions?
 - The budget request for FY 1984 does cut food stamp funding from this year's \$11.8 billion to \$10.3 billion.
 - Three reforms account for most of savings:
 - * Require states (which actually run the program) to reduce error rates -- about \$400 million will be saved by tightening Administration;
 - * Change way eligibility is calculated -- to save up to \$300 million;
 - * Delay COLA adjustment for 6 months. CBO says this is major benefit reduction but low food inflation (only about 1 percent over last 6 months) means little real impact on beneficiaries.
 - The proposed reforms would mean:
 - * Increased benefits (averaging about \$4.40 a week) for about 40 percent of the 8 million households now getting stamps.
 - * Reductions for about 35 percent (averaging about \$6.25 a week).
 - * No change for the rest.

-- These changes are relatively minor in view of the fact that:

* Spending is almost \$4 billion more than in 1980.

* Almost 4 million more people receiving them than in 1980.

#

HEALTH CARE

History.

Before the initiation of the "Great Society," the federal government played a very minor role in the provision of health care services. In 1963, the federal government spent, exclusive of veterans' benefits, only \$623 million on health care services. This represented 0.5% of the total federal budget of \$111 billion.

o Programs.

Currently two major federal government programs, combined with one tax provision, finance or help finance health care:

-- Medicare:

- * Established under the Social Security Act in 1966, this program provides medical care for Americans over 65 and for the disabled.
- * Medicare is financed by general revenues, payroll tax contributions and beneficiary premiums.

-- Medicaid:

- * Established at the same time as Medicare, this program provides grants to states to assist them in providing medical care to low-income families and individuals.
- * The federal government provides states with open-ended matching payments for their expenditures, with the federal matching rate (based upon state per-capita income) ranging from 50 to 78% of the cost of the program.

-- Tax subsidies:

- * Federal tax laws help finance health care by allowing employees to exclude from their taxable income the insurance premiums paid by their employers.
- * This subsidy will finance an estimated \$29 billion worth of health care coverage in 1984.

o Coverage.

- Medicare currently covers 29 million people.
- Medicaid now provides health care benefits for 22 million people. Beneficiaries include almost 10 million needy children, 3 million disabled Americans, and 3.5 million elderly.

- Medicare and Medicaid together cover approximately 27 million senior citizens, or about 99% of that age group.
- The two programs cover approximately 5 million disabled Americans.
- Approximately 62 million employees benefit from the tax subsidy.

o Costs.

- Total federal spending for health care (including programs operated by the Department of Defense and Veterans Administration) has soared from \$5.5 billion in 1965 to \$74.6 billion in 1981, increasing more than 13 times and consuming more than 11% of the federal budget.
- While total public and private spending for health care rose rapidly over this period (\$42 billion in 1965 to \$287 billion in 1981) the federal share of all health care costs more than doubled -- from 13% in 1965 to 29% in 1981.

o Administration Action to Date.

-- For FY 1982:

* President Carter requested a total outlay level of \$46.6 billion for Medicare, and \$18.2 billion for Medicaid.

- Medicare.

- a) The proposed outlays level assumed \$400 million in legislative savings from a number of minor reimbursement and coverage reforms.
- b) Regulatory savings of \$300 million were also assumed, primarily from improvements in the ineffective PSRO program.
- c) The Carter budget also made the unrealistic assumption that the hospital industry's voluntary effort to hold down costs would produce savings of \$800 million.

- Medicaid.

- a) The Carter Administration budget assumed 1982 savings of approximately \$100 million in Medicaid, including a mix of minor savings proposals and several benefit expansions.

* President Reagan proposed expenditures of \$47.1 billion for Medicare, and \$17.2 billion for Medicaid.

- Medicare.

- a) The Reagan Administration proposed the following Medicare reforms: repeal of unnecessary benefit expansions, modest increases in hospital and outpatient deductibles, and some minor reimbursement reforms.
- b) Total 1982 savings assumed from these reforms: approximately \$1.4 billion.

- Medicaid.

- a) The Reagan Administration proposed to limit the rate of increase in Medicaid to 5% in 1981 and to the level of the GNP deflator in subsequent years.
- b) States were to be given flexibility to manage the program more efficiently and effectively.
- c) Savings of \$1 billion in 1982 were assumed.

* Congressional action:

- Medicare.

- a) Congress enacted the Administration-backed Medicare reforms as part of the Omnibus Reconciliation Act of 1981 (OBRA).
- b) Total Medicare budget approved: \$46.6 billion.

- Medicaid.

- a) Congress adopted many of the Reagan Administration proposals in OBRA for giving the states greater freedom to manage their programs more effectively.
- b) Target rates were established for growth in state Medicaid programs, and the federal match was reduced for states failing to achieve targets.
- c) Savings in 1982 from the establishment of target rates, combined with the impact of other federal welfare program changes, were nearly \$400 million.
- d) Total Medicaid budget approved: \$17.4 billion.

-- For FY 1983:

* President Reagan proposed Medicare expenditures of \$49.5 billion, including legislative and regulatory savings measures totaling \$3.1 billion; and a Medicaid budget level of \$17.1 billion was proposed, including \$2.0 billion in legislative and regulatory savings.

- Medicare: The Administration proposed reform of physician and hospital reimbursement, integration of federal workers into the hospital insurance program, and making Medicare coverage secondary to private group insurance coverage for the working aged.

- Medicaid: The Administration proposed a number of reforms designed to increase the responsibilities of beneficiaries and their families to pay a portion of the cost of needed care and to eliminate excessive subsidies to state programs.

* Congressional action:

- Medicare.

a) Congress adopted a Medicare reform package embodying the basic thrust of the Reagan proposals; these reforms were part of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA).

b) Total savings for 1983: \$2.7 billion.

c) Total Medicare budget approved: \$53 billion.

- Medicaid.

a) Congress adopted, in modified form, the Reagan Administration proposals to increase beneficiary responsibility for care financed by Medicaid.

b) Congress rejected most of the Administration's proposals to reduce federal subsidies for portions of the Medicaid program.

c) Total savings for 1983: \$200 million.

d) Total Medicaid budget approved: \$19.3 billion.

The President's Proposals for FY 1984 (Highlights).

o For Medicare (Highlights):

- Provide catastrophic hospital cost protection while reforming user cost-sharing.
- * Currently, beneficiaries pay a deductible (approximately \$350 in 1984) for the first day of hospital care for each hospital admission in a spell of illness. The Medicare program pays the full cost for the 2nd through the 60th day of care. From the 61st to 90th day of care, beneficiaries pay 25% of the deductible for each day in the hospital; after the 90th day, the beneficiary has unlimited liability for the cost of care except for 60 lifetime reserve days during which patients pay 50% of the deductible for each day.
- * Under the Administration proposal, beneficiaries would pay, for each spell of illness, the deductible that is now required, as well as 8% of the deductible for the 2nd through 15th day of care, and 5% of the deductible for the 16th through the 60th day, without any limit on covered hospital days. Medicare would pay the full cost after 60 days.
- * For low-income elderly who could not afford the Medicare cost-sharing, the patient costs of hospitalization would be covered by Medicaid.
- Replace Medicare's current wasteful and inflationary hospital reimbursement system with fixed prospective payments.
- * Rates would be set for each of 467 diagnosis-related groups, with adjustments for local wages and exclusion of capital and medical education expenses.
- * Hospitals with costs lower than the established rates could keep the difference.
- * The Department of Health and Human Services would monitor hospitals to ensure that the quality of and access to care was maintained.
- * This proposal was incorporated in large part in the social security reform legislation the President approved earlier this year.
- Impose a one year freeze on recognized physician fees and for one year limit hospital cost increases to inflation in the cost of goods and services purchased by hospitals.

- Delay increases in the Supplementary Medical Insurance (SMI) premium for six months (from July 1983 to January 1984) and, instead, raise the premium on January 1, 1985, from 25% to 27.5% of program costs, growing to 35% by 1988.
- Index the SMI deductible to the Medicare economic index.
- Establish a program of voluntary vouchers to enable beneficiaries to purchase the health insurance that best suits their needs.
 - * Beneficiaries would have a choice of health care plans as alternatives to Medicare.
 - * Election of a voucher would be purely voluntary and beneficiaries could return to Medicare if they were dissatisfied.
 - * The government would pay an amount equal to 95% of the per-person costs of the Medicare program.
- o For Medicaid (Highlights):

- Require states to set nominal co-payments for Medicaid services to help deter unnecessary use of services.
- To ensure that Medicaid remains the payer of last resort, require states to seek medical support from absent parents who have employer-subsidized health insurance available which could cover the AFDC family at reasonable cost.

o For the private insurance market:

- Limit the tax-free exclusion of employer-paid health insurance premiums to \$175 per month for a family plan and \$70 per month for an individual plan.

Justification (General).

o Reduce growth of federal spending.

- The cost of health care services has grown much more rapidly than other programs. At current services levels, Medicare is expected to grow by 16.1%, or \$8.5 billion, next year, compared to average overall budget growth of 5.4%. The Medicaid budget would grow \$1.8 billion, or 9%.

-- The President's proposals will:

- * Save \$2.0 billion in Medicare and Medicaid for 1984, and a total of \$27.9 billion from 1984 to 1988.

- * Increase tax collections by \$2.3 billion in 1984 and \$31.4 billion in 1984-88.

o Reduce health price increases.

- Health care costs have risen much faster than the inflation rate.
 - * From 1966 (the year Medicare and Medicaid began) to 1981, general prices rose 80% and medical prices rose 522% -- or 6-1/2 times as fast.
 - * The cost of the average hospital stay jumped from \$316 in 1965 to \$2,168 in 1981 -- an increase of 6 times.
 - * The cost of health insurance rose 15.9% last year -- the biggest increase ever.
- Rapidly rising medical costs are due largely to the lack of cost-consciousness among both users and suppliers of health care. Costs can easily be passed onto the taxpayers through the reimbursement procedure.
- Requiring beneficiaries to assume a small percentage of health care costs introduces a market force that constrains users from requesting, and suppliers from suggesting, medically unnecessary services.
- Reducing tax subsidies for excessive insurance coverage will promote cost-consciousness among purchasers of coverage and provide additional incentives to seek cost-effective methods of providing and financing care.

Justification (Specific).

o For Medicare:

- Provide catastrophic hospital cost protection while improving user cost sharing.
 - * In most cases, the present cost-sharing structure provides no deterrent to avoid unnecessary use of hospital services once a patient is admitted and pays the deductible. Severely ill patients, however, face a potentially unlimited financial burden.
 - * The Administration's proposed reforms would:
 - Discourage unnecessary use of hospital services while not inhibiting necessary admissions.
 - Protect the 170,000 Medicare beneficiaries who each year suffer an illness requiring more than 60 days in the hospital.
 - Reduce the maximum amount a person would have to pay for a 150-day continuous hospital stay by almost 90% from \$13,475 to \$1,530.

* This proposal would save \$663 million in FY 1984.

-- Reform hospital reimbursement.

* Medicare's cost-based reimbursement system encourages inefficiency in the delivery of hospital service by reimbursing hospitals for virtually whatever costs they claim.

* The Administration's proposed prospective payment system will create incentives for hospitals to limit cost increases.

-- Freeze on fees and limit on hospital cost increases.

* These freezes would ask health care providers to accept a temporary limitation on reimbursement increases comparable to the COLA freezes that are asked of federal workers, the military, federal retirees, and social security beneficiaries.

* Because of the current low rates of inflation, these freezes would not impose any significant burden on physicians or hospitals.

* The one-year freeze would save \$780 million in 1984 rising to \$6.0 billion by 1988.

-- Delay scheduled increases in the SMI premium for one year and raise it to 35% of program costs by 1988.

* SMI is a voluntary program for the aged who want to buy additional medical outpatient insurance.

* When the SMI program began, beneficiary premiums were supposed to finance 50% of SMI program costs; the remaining 50% was to be financed by general revenues.

* Since 1972, however, the SMI premium increase was limited by the rate of increase of social security benefits and fell to below 25% of program costs.

* In view of the economic difficulties confronting the working population, this proposal would return partially to the original legislative intent of SMI financing split more evenly between those who choose SMI coverage and the taxpayer, consistent with the original program design.

-- Index the SMI deductible to the Medicare economic index.

* This proposal would keep the economic value of the deductible (now \$75) constant in real terms, so that taxpayers are not unintentionally forced to finance increasing shares of SMI participants' medical costs.

-- Institute a voluntary voucher.

- * The availability of vouchers would encourage cost competition among both private and Medicare health care providers, slowing the growth of health costs.

o For Medicaid:

-- Recipient fees.

- * Requiring recipients to pay a small fee (\$1 for an out-patient visit, for instance) would not deter a poor person from seeing a doctor, but would help to discourage unnecessary visits.

-- Seeking medical support from absent parents.

- * Where financially possible, parents have the obligation to pay for their family's health care.
- * This proposal would save \$90 million in FY 1984.

Questions & Answers.

- o Reducing budget at expense of the poor and aged. Isn't the Administration trying to reduce health care expenditures at the expense of those who really need health care and simply can't afford its high cost?
 - No. The Reagan Administration would still be devoting more funds to health than ever before -- \$74 billion in 1984.
 - The President's budget would continue to provide health care for 99% of the aged as well as for the non-aged, needy poor.
 - Expenditure savings would come largely from administrative efficiencies or reasonable efforts to discourage medically unnecessary use of health services.
- o Cutting off health care to the poor. How many poor people would lose their health benefits?
 - Under the President's proposals, nearly 47 million people would receive health care benefits in 1983 -- approximately the same number of people as in 1982.
 - All of the genuinely needy would continue to be served by available health care services.
- o Quality of health care. How can health care costs be cut without cutting health services or quality of health care?
 - The administration's reforms are designed to root out waste and duplication.
 - President Carter's Inspector General of HEW estimated that in 1977 there was between \$4.1 and \$4.6 billion in waste, fraud and abuse in the Medicaid program alone.
 - Instead of hurting either quality or access, the president's proposals would improve them.
 - * Slowing health care price increases would make care more easily affordable to those who are not covered by federal health care programs.
 - * If health services are absolutely free, individuals tend to use them regardless of their real needs. This, in turn, adds unnecessary costs to these programs, increases prices, and forces taxpayers and other health care users to pay more.
 - * Overuse of health care services is unfair in that those who do not really need health services are permitted to jeopardize access to them by people who really do need them.

- * Modest fees will preserve this vital access to care by restraining the unnecessary use of medical services, thereby allowing more attention to be devoted to those who are genuinely in need.
- Part of the savings from the Medicare cost-sharing for short stays will finance the costs of those with very severe illnesses who will now pay less.
- Bottom line: Those who need health care will still be able to get it under the President's proposals, and those with severe illnesses will have better financial protection than they had before.
- o Hospital reimbursement reform. By reducing Medicare reimbursements, aren't you simply shifting costs to private payers?
 - Medicare pays almost 40% of community hospital inpatient costs. Its inflationary reimbursement policies have contributed to excessive cost increases that burden the government, beneficiaries, and private payers.
 - Through reform of its reimbursement system, Medicare can help other payers by reducing hospital inflation and can set a positive example for the private sector.
- o Raising SMI Premiums. By raising SMI premiums, aren't you imposing an unfair burden on the elderly, who are already going to have a COLA freeze?
 - We are delaying the normal increase for six months and will not start the extra increase until 1985. The increase in SMI premiums will not occur until after the freeze is over.
 - It is not fair to ask the hard-pressed working population to shoulder the burden of an ever-increasing share of Medicare program costs. At a maximum share of 35% by 1980, the beneficiaries would still be paying less than under the original program design, which assumed they would pay 50%.
- o Instituting co-payments. By imposing fees for visits, aren't you discouraging the poor from getting the health service they need?
 - The fees are small (\$1 to \$1.50 for outpatient Medicaid visits and \$1.00 to \$2.00 for inpatient days), so that those dependent on public assistance would not be deterred from receiving health care if they genuinely need it.
 - But some fees are necessary to reduce overuse and restore fairness.

- o Cap of tax subsidy. Isn't the proposed cap simply a highly-disguised tax increase?
 - The current subsidy has distorted private coverage decisions by reducing the cost of health insurance relative to other forms of compensation.
 - * The capped tax subsidy will eliminate the bias in favor of higher-priced coverage and against comparably higher wages.
 - The capped tax subsidy will still provide adequate coverage in all parts of the nation.
 - Employees who wish to have greater coverage will still be able to purchase it.
 - On the other hand, under the President's proposal, employees can avoid having premiums taxed by purchasing more cost-effective health plans.

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HOUSING ASSISTANCE

History.

The Department of Housing and Urban Development was created by act of Congress in 1965. HUD was designed to administer the principal programs by which the federal government provides housing assistance.

o Programs.

There are currently five major low-income housing programs administered by HUD:

-- Public Housing:

- * HUD supports construction of low-income public housing, owned and operated by local public housing agencies, that houses an estimated 1,250,000 families who rent the units.

-- Section 8 Existing Housing Program:

- * Subsidizes 995,000 households living in existing private market rental housing, with rents limited to a maximum "fair market rent" established by HUD.

-- Section 8 New Construction Program:

- * Provides assistance to 550,000 households living in privately owned, newly constructed or rehabilitated rental housing. HUD commits to pay "fair market rents" for 20 to 40 years for these units if the landlord agrees to rent to eligible low-income tenants.

-- Rent Supplement and Rental Assistance Payments (RAP):

- * Provides additional assistance to 186,000 low-income tenants in privately owned housing. Both programs pay the landlord the difference between tenant rent contribution and market rent, although subsidies in the Rent Supplement program are limited to no more than 70% of market rent.

-- Elderly and Handicapped Housing Direct Loan Program:

- * Provides loans to non-profit organizations to build Section 8 subsidized housing for low-income elderly and handicapped tenants. Loans have been used to fund 120,000 units (most of which also receive Section 8 new construction subsidies).

o Coverage.

- HUD rental assistance programs currently subsidize approximately 2.9 million housing units for 8.3 million people.
- In addition, HUD also administers a number of programs that provide interest reduction subsidies.
- In total, HUD provides assistance to 3.5 million households, or 10.3 million people.

o Costs.

- From 1960 to 1973, the cost of subsidized housing assistance, increased eleven-fold -- from \$140 million to \$1.6 billion.
- In only the last 10 years, housing assistance has grown by more than five and a half times -- from \$1.6 billion in 1973 to an estimated \$9.3 billion in 1983. This is a 22-fold increase since 1960. The separate public housing operating subsidy program (included in these figures) has grown from about \$350 million to \$1.55 billion from 1973 to 1983.
- Even with the Administration's proposed revisions, housing assistance outlays are still estimated to increase by \$727 million next year.
- Without the proposed revisions, housing costs would be an additional \$445 million above the President's budget in 1984, and an estimated total of \$1.8 billion over the President's budget by 1987.

o Administration Action to Date.

-- For FY 1982:

* President Carter had proposed:

- An appropriation of \$29.8 billion to support an additional 262,000 units of HUD subsidized housing, split 50/50 between newly constructed units and rent subsidies on existing units.
- No programmatic reforms.

* President Reagan proposed:

- An appropriation of \$19.7 billion in support of an additional 175,000 units of HUD subsidized housing, 45 percent newly constructed units and 55 percent existing units.

- Increased rent payments -- raising rent from 25 to 30 percent of income -- for tenants in HUD subsidized housing, together with standardized and simplified procedures for determining income for eligibility and rent payments.

* Congress approved:

- An appropriation of \$17.4 billion in support of 147,000 units -- 53 percent new and 47 percent existing [Actual program resulted in use of \$12.6 billion (net of rescission) in new authority in support of 89,000 units split 45/55 between new and existing].
- Increasing rents to 30 percent of income and targeting subsidies to lower income households by reducing the income eligibility ceiling from 80 percent of area median income to 50 percent.

-- For FY 1983:

* President Reagan proposed:

- No new appropriations for subsidized housing, a \$2.4 billion rescission of prior year spending authority promised upon contract cancellations, and "swapping" Section 8 Existing Housing program subsidies for older more expensive rental subsidies (the 1983 budget called for a net reduction in the number of units scheduled to come under subsidy by 1987).
- That the Section 8 Existing Housing program be reformed to make it into a modified housing assistance certificates or "voucher" program.
- Counting food stamps as income in assessing rents for HUD subsidized tenants.

* Congress approved:

- A new appropriation of \$8.7 billion that, together with prior year funds for cancelled contracts, should fund 108,000 more units of subsidized housing -- all but 16,000 being existing units.

The President's Proposals for FY 1984.

o For Public Housing:

- Administration proposes that no additional public housing units be funded, although funding would continue for already committed units. New units are expected to replace losses, with the inventory remaining roughly constant at 1.2 million units.

-- Public housing operating subsidies would be changed to a fair market rent (FMR) calculation basis and the separate modernization program would be gradually phased-out. The new FMR operating subsidy system should allow for maintenance and repair funding, comparable to the private rental market.

o For Section 8 Existing Housing Program:

-- Administration proposes to eliminate rent ceilings for subsidized units and provide a housing certificate to the tenant to select the housing which best suits the tenant's needs.

-- The new program would be called the Section 8 "Housing Payment Certificate Program". (The "certificate" is the document issued to tenants which indicates the amount of HUD rent subsidy they will receive).

o For Section 8 New Construction Program:

-- Except for 10,000 units built in conjunction with the Section 202 elderly housing loan program, the Administration proposes to terminate this program and reallocate some of the remaining funds that were going to it into the Housing Payment Certificate Program.

o For Rent Supplement and RAP Programs:

-- Administration proposes to convert tenants in these programs to the Section 8 Existing Housing program, thereby providing a long-term solution for the inadequate funding mechanisms inherent in these programs and substantially reducing the rent burden of many of the Rent Supplement tenants.

Justification (General).

o These reforms will reduce outlays for subsidized housing units from the present level of \$2,768 to \$2,430 per unit in FY 1988.

o These reforms are expected to yield cumulative savings of \$2.5 billion between 1984 and 1988.

Justification (Specific).

o Public housing.

-- This program is very expensive.

* Operating subsidies are projected to exceed \$1.6 billion in budget authority in 1984.

* Construction costs average \$63,000 per unit.

- The program's costs have been growing at an annual rate of 20%, whereas the percent of U.S. households living in substandard housing has declined from 25% in 1960 to 6% in 1980.
- The program has had the effect of concentrating low-income households in economically decaying central cities where job and economic opportunities are limited. The government's own policies have in effect contributed to denying the poor the right to choose where they shall live.
- Replacing present policies with the Section 8 Housing Payment Certificate Program will greatly reduce these problems.
 - * Annual rent subsidies for existing housing (as opposed to new federal housing projects yet to be constructed) under Section 8 Housing Payment Certificate Program would average around \$2,000 per unit.
 - * Recipients would have greater freedom of choice with regard to where they wanted to live.
- o Section 8 Existing Housing Program.
 - Costs under the current program are unnecessarily high. Rental costs for subsidized units exceed comparable private market units' costs by 26%, because landlords have an incentive to raise rents to the published "fair market rent" level, and tenants have no incentive to negotiate their own rents.
 - By providing fixed payment subsidy certificates to tenants under a Housing Certificate Program, tenants would have the incentive and the means to "shop around" for less expensive units.
- o Section 8 New Construction Program.
 - Changes will reduce unnecessary costs. The current annual subsidy -- averaging nearly \$4,000 per family and ranging as high as \$17,000 per family -- is needlessly high.
 - Rent subsidies can be provided much more efficiently by replacing this program with the Section 8 Housing Payment Certificate Program, the cost of which would average about \$2,000 per recipient per year.
- o Rent Supplement and RAP.
 - Folding this program into the Section 8 Existing Housing Program will consolidate similar administrative functions, and thereby reduce administrative costs.

Questions and Answers.

- o Insensitivity to the poor. With poverty levels on the rise, isn't it insensitive to cut back on programs that have no purpose other than to provide decent housing for the poor, the handicapped, and the elderly?
 - The major problem confronting the poor today is not inadequate housing, but inadequate income. The Section 8 Housing Payment Certificate Program is designed to meet that inadequacy by targeting these subsidies to the tenant instead of the landlord. This will:
 - * Give tenants an incentive to "shop around" for less expensive housing units of comparable quality to get the most for their money.
 - * Give low-income families greater freedom to choose where they want to live.
 - The point is this: Compassion cannot be measured by the amount of federal dollars spent. The real measure is the success with which the Administration is able to meet the needs of low-income Americans; the President's proposal will do this.
- o Number of poor hurt. As a result of the Reagan cutbacks, how many millions of poor Americans will be denied adequate housing in the year ahead?
 - Under the Administration's proposals, 3.7 million households would receive HUD-assisted housing subsidies in 1983, and it is projected that this number will rise by 400,000 to 4.1 million in 1985. In contrast, only 3.3 million households received assistance in 1981.
 - Outlays for subsidized housing would continue to rise, from \$6.7 billion in 1981 to just over \$10 billion in 1984 -- or by more than half since President Reagan took office.
 - * This is because the Administration will fulfill existing commitments to build new housing units, while at the same time making necessary economies to bring costs under control in the future.
- o The private sector can't do the job. If the federal government gets out of housing construction entirely, what assurance is there that the poor will be able to find affordable living quarters?
 - Again, the issue is not adequate housing, but adequate income.
 - There is no nationwide rental housing shortage.

- * The vacancy rate for rental housing nationwide has exceeded 5% for the last three years.
- * To the extent that there are spot shortages of rental housing in certain areas, the administration has proposed both a new Rental Rehabilitation Grant program and that new rental housing construction be an eligible activity for Community Development Block Grants.
- The administration's rent subsidy plan will guarantee that the poor have access to the ample supply of existing rental units.
- o Discriminating against the poor. Doesn't the Administration's recent policy of increasing rent across-the-board for federally-owned or subsidized housing and its proposal to count food stamps as part of a tenant's income unjustly discriminate against the poor?
 - Without small 1% of income per year across-the-board increases, many households would be allowed to pay well below 30% of their cash and cash-equivalent income for rent. This would be unfair to unsubsidized low-income households which generally must pay more.
 - Counting food stamps as income merely gives a more accurate accounting of the total cash and cash-equivalent resources available to low-income households for purposes of determining their genuine need for federal assistance.

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