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THE PROPOSED FISCAL YEAR 1984 BUDGET: WHAT IT MEANS FOR OLDER AMERICANS

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING

UNITED STATES SENATE

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This document has been printed for information purposes. It does not offer findings or recommendations by this committee

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INTRODUCTION

On January 31, 1983, President Reagan submitted his fiscal year 1984 budget request to the Congress.

The staff of the Special Committee on Aging has prepared this information paper discussing those elements of the budget that most directly affect this special group of Americans.

The size of program expenditures for the elderly and their rank within the Federal budget is a measure of the priority placed upon the welfare of older Americans by the Congress. According to current estimates made by the Office of Management and Budget, between 25 and 30 percent of the total Federal budget is now spent on programs directly helping the elderly.

Frequently, estimates about the share of the budget devoted to the elderly vary because of the methodological problems of measuring how much of a given program directly affects elderly persons. For example, there are four major programs that specifically benefit older Americans: Social security old-age and survivors insurance, medicare, supplemental security income, and the programs administered by the Administration on Aging. Numerous other Federal programs benefit elderly persons in a substantial way, e.g., medicaid, disability insurance, veterans' benefits, civil service and military retirement, food stamps, and low-income energy assistance. There are varying ways to measure the degree to which the elderly participate in such programs—depending, for example, whether the elderly are defined as those age 55, 60, or 65 and older, whether benefits to dependents and young survivors of elderly are included, and whether the cash equivalent value of services or in-kind benefits like medical care are included, based upon a particular economic model. Clearly, the conclusions drawn by any such analysis simply reflect the methodology employed.

The following table, prepared by the Office of Management and Budget, lists the programs and program expenditures which can be identified as benefiting persons age 65 and older.

FEDERAL OUTLAYS BENEFITING THE ELDERLY [1]

[Dollars in millions]

	1982 actual	1983 estimate	1984 budget request
Medicare—HHS	$42,633	$48,520	$54,992
Medicaid—HHS	6,044	6,696	7,199
Other Federal health—miscellaneous	2,990	3,411	3,507
Health subtotal	51,667	58,627	65,698

FEDERAL OUTLAYS BENEFITING THE ELDERLY [1]—Continued

[Dollars in millions]

	1982 actual	1983 estimate	1984 budget request
Social security—HHS	$111,589	$122,243	$129,639
Supplemental security income—HHS	2,686	[2] 3,095	[2] 2,747
Veterans compensation and pensions—VA	3,901	4,133	4,328
Other retired, disabled, and survivors benefits—miscellaneous	19,969	21,735	22,816
Retirement and disability subtotal	138,145	151,206	159,529
Administration on Aging—HHS/USDA	626	[3]663	[3]896
Older American volunteer programs—ACTION	86	87	88
National Institute on Aging—HHS	89	89	94
Senior community service employment program—Labor [4]	269	278	211
White House Conference on Aging—HHS	3	1	0
Subsidized housing (section 8 and public)—HUD	3,272	3,932	4,269
FmHA housing—USDA	35	41	47
Elderly housing loans (section 202) [5]	752	758	768
Food stamps—USDA	675	730	659
Nutrition/Puerto Rico [6]	0	50	50
Social services title XX—HHS	308	309	300
Energy assistance—HHS	280	314	222
Other—Miscellaneous	1,091	1,394	1,146
Other subtotal	7,486	8,646	8,751
Total dedicated elderly resources	197,298	218,479	233,979
Percent of total Federal outlays	27.1	27.1	27.6

[1] Reflects outlays, including effects of proposed legislation, for recipients aged 65 and over in most cases. These are estimates based on Federal agency information—which may be administrative counts, samples, or less accurate estimates from Federal, State, and program staff. Other Federal programs that assist the elderly (e.g., consumer activities, USDA Extension Services, National Park Services) have been excluded due to data limitations.

[2] Fiscal year 1983 outlays represent a 13-month benefit period; fiscal year 1984 outlays reflect an 11-month benefit period.

[3] Includes elderly feeding cash/commodity support from USDA.

[4] Legislation is being proposed to broaden HHS, title III program to include senior service employment. DOL fiscal year 1984 outlays represent spendout from prior years budget authority only.

[5] Reflects net disbursements for new direct loans.

[6] New program in fiscal year 1983. Fiscal year 1982 and prior year outlays for nutrition assistance/Puerto Rico included in food stamps program outlays.

Source: Executive Office of the President, Office of Management and Budget, February 1983.

Aside from the methodological problems associated with measuring aggregate Federal expenditures for the elderly, there are related problems of interpretation. While the Federal Government is spending far more for these programs than it spent 10, 20, or 30 years ago, the graphic presentation of such historical numbers, which usually depicts a sharply rising curve, is often misleading. It is often used to convey the idea that Federal spending for the elderly is out of control and that the elderly consume a far larger portion of the budget than their numbers warrant.

A more sophisticated analysis of the expenditure data supports a different conclusion. By far the largest single Federal program is social security, accounting for nearly 60 percent of Federal outlays for the elderly. The social security system, however, is essentially self-financed out of payroll taxes paid by workers and employers. As a self-contained income transfer system, it is not subject to the same budget decisions as can be made with respect to the discretionary funding of other programs. If social security were excluded from the unified budget as it was before fiscal year 1969, on-budget expenditures for the elderly would be less than half of what they now appear to be.

Although there were reasons for including social security within the unified Federal budget, its inclusion raises serious analytical problems when it is compared on the same terms to the rest of the budget. For example, the horizon of the budget process is only 1 year—with 5-year forecasts at most. The horizon of social security is a working career and retirement, and its trustees project estimates of income and outgo over a 75-year period.

Social security is a long-term commitment. When the benefit provisions were enacted and the financing schedules set by law, it was clearly understood that the benefits from these programs would rise with the growing numbers of retired persons, rise with the standard of living, and rise to keep pace with inflation, Thus, what appears from aggregate budget numbers to be a striking growth in expenditures for the elderly is only the normal maturation of previously legislated retirement income commitments. Further, although the Federal Government is primarily funded through general tax revenues paid during the tax years, social security and other retirement benefits represent an outlay to beneficiaries in the current budget year in exchange for cumulative payments by individuals over prior years. The retirement programs thus reflect a sense of investment over time, even though they are operated on a pay-as-you-go basis.

Social security is the largest self-funded program, but by no means the only one. If expenditures for all partially self-funded programs are excluded from 1982 Federal spending estimates, less than 4 percent of the Federal budget would be devoted to programs assisting the Nation's elderly.

It can also be misleading to compare current Federal budget expenditures for the elderly with dollars spent in prior years, if no adjustment is made for the changing value of the dollar. For example, per capita spending for the elderly, according to one estimate, rose from $2,100 in 1971 to $7,400 in 1982, implying a 350-percent increase over 11 years. If those sums are adjusted for inflation, the cumulative increase in per capita benefits is less than 47 percent, or an annual average increase of 3.5 percent in real terms.

Further, this 3.5 percent real increase is very largely due to the compound effects of the one-time, 20 percent increase in social security benefits enacted in 1972. That increase was voted by the Congress in response to 1970 census data indicating that 24.5 percent of the Nation's elderly were living on incomes below the poverty level. Today, elderly poverty is at 15.3 percent. In short, the historical expansion of Federal expenditures looks especially sharp in part because Federal income maintenance support was inadequate for many older persons in previous decades.

Finally, any analysis of expenditures must also take account of related income. With regard to the programs that are financed from general revenues, it may be worth noting that older Americans, who constitute 11 percent of our population, pay roughly 11 to 12 percent of total Federal income tax revenues from individuals.

INCOME MAINTENANCE

Social Security (OASDI)

Under current law, the old-age and survivors insurance (OASI) program is expected to pay out $160.4 billion in benefits to 31.5 million retired workers, their dependents, and survivors in fiscal year 1984.[1] The disability insurance (DI) program is expected to pay out $17.6 billion in benefits to 4.5 million disabled workers and their dependents. Total spending under current law for OASDI in fiscal year 1984, including administrative costs, is estimated to be $183.1 billion, an increase of 17 percent from actual fiscal year 1982 outlays of $156 billion. Increases in OASDI outlays are attributable to an expanding population of beneficiaries, rising benefit amounts resulting from higher average earnings of retiring workers, and automatic cost-of-living adjustments (COLA's).

The administration's estimates of current law spending also reflect savings which the administration estimates will result from its program of continuing disability investigations (CDI's). In fiscal year 1983, the administration is planning to review the disability status of 466,000 social security disability beneficiaries and achieve savings of $650 million as a result of removing individuals from the rolls. In fiscal year 1984, the administration estimates it will review 453,000 social security disability beneficiaries for estimated savings of $1 billion.[2] The President's budget also assumes a COLA of 5.1 percent to be paid in January 1984. Currently, the average monthly benefit for a retired worker is $420.

Social security (OASDI) is financed almost entirely through a payroll tax on employers, employees, and the self-employed. Under current law, the tax rate in 1984 will be 13.4 percent combined on wages and salary, and 9.35 percent on self-employment income. Under current law, income to the OASDI trust funds is expected to increase from an actual $148 billion in fiscal year 1982 to an estimated $162 billion in fiscal year 1984, primarily as a result of an automatic increase in the amount of income subject to taxation. The administration has assumed the automatic taxable wage base will increase from $35,700 in 1983 to $37,800 in 1984.

In recent years, OASI expenditures have been exceeding receipts, and resulting deficits have reduced OASI trust fund reserves. In the Social Security Amendments of 1981 (Public Law 97-123) the Congress authorized the OASI trust fund to borrow from the DI and the hospital insurance (HI) trust funds during 1982 to finance benefit payments through the end of June 1983. By the end of October 1982, the OASI trust fund had a balance of $10 billion, almost $1 billion less than the amount needed to make November benefit payments. In November and December, OASI borrowed $17.5 billion from DI and HI. Without further legislation, OASI will have exhausted this reserve by the end of June and will have to begin delaying benefit payments in July.

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[1] The administration estimates that under current law $28.4 billion of these benefit payments are "unfinanced."

[2] See the discussion of the supplemental security income program for additional budget savings from reviews of SSI disability recipients.

At the end of 1981, the President appointed a 15-member bipartisan National Commission on Social Security Reform to develop a consensus set of recommended solutions to the social security financing problems the Congress could enact in 1983. On January 15, 1983, the National Commission provided its recommendations to the President, and these recommendations were included as legislative proposals in the President's budget. These proposals, if enacted, would increase income to OASDI by $10.4 billion and reduce outlays by $4.1 billion in fiscal year 1984. The major recommendations of the Commission were:

(1) *Shift the annual cost-of-living adjustment from a July to a January payment date beginning with the July 1983 COLA of 5.1 percent which would be payable in January 1984.*—This change would defer an average $20-a-month increase for 6 months for 36 million social security beneficiaries, an average $120-a-year difference in benefits. Total estimated savings for fiscal year 1984 would be $4.2 billion.

(2) *Reimburse the OASDI trust funds in 1983 for the full cost of military service wage credits before 1982 and outstanding uncashed OASDI checks.*—This would be a simple transfer of an estimated $20.5 billion from the general fund in fiscal year 1983.

(3) *Cover new Federal and all nonprofit employees, effective January 1984, and ban all future terminations of coverage by State and local governments.*—This would add an estimated 100,000 new Federal employees and 750,000 nonprofit employees to social security in 1984. In addition, over 200,000 employees of State and local governments who would have left social security in 1983 and 1984 would remain in the system. Estimated additional revenues to OASDI in fiscal year 1984 would be $1.1 billion.

(4) *Move the OASDI tax rate increase scheduled for 1985 to 1984, with a refundable tax credit for the employee's share of the increase; and move part of the OASDI tax rate increase scheduled for 1990 to 1988.*—This would increase the OASDI tax rate 0.3 percent on employers in 1984. Employee payments would be matched by a transfer from the general fund for the employees' share. The estimated revenues from this proposal in fiscal year 1984 are $6.4 billion.

(5) *Set the self-employment OASDI tax rate equal to the combined employer-employee rate in 1984, allowing one-half of the OASDI tax rate to be deducted as a business expense.*—The OASDI tax rate for the 8.8 million individuals with self-employment income would be 3.35 percent higher in 1984, but this expense would be partially offset with the new tax deduction. Estimated revenues from this proposal in fiscal year 1984 would be $1 billion.

(6) *Include half of the social security benefit in taxable income for beneficiaries with adjusted gross incomes in excess of $20,000 (single), and $25,000 (joint), beginning for taxable year 1984.*—Revenues from the added tax payments would be transferred to the OASDI trust funds. This proposal would increase income taxes for an estimated 3.5 million social security beneficiaries in 1984. Estimated revenues from this proposal would be $1.1 billion in fiscal year 1984.

Additional recommendations from the Commission which have significance for financing include four recommendations to improve the adequacy of benefits for small groups of survivors and divorced

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beneficiaries; a recommendation to enact a "stabilizer" after 1987, automatically basing the COLA on wage increases instead of price increases whenever trust fund reserves decline below 20 percent of annual outlays; a recommendation to enact further changes to fully resolve the 75-year financing shortfall in OASDI: and recommendations to authorize further borrowing from HI, and reallocation of the tax rates between OASDI and DI.

SOCIAL SECURITY (OASDI)

[In billions]

	Fiscal year—				
	1982	1983	1984	1985	1986
Income:					
Present law [1]	$148.0	$163.6	$162.0	$180.0	$197.4
Proposed legislation [2]		184.1	172.4	196.1	214.8
Increase [3]		20.5	10.4	16.1	17.4
Outlays:					
Present law [1]	156.0	171.3	183.1	197.2	212.3
Proposed legislation [2]		169.2	179.0	192.7	207.5
Savings [3]		−2.1	−4.1	−4.5	−4.8

[1] Estimates of trust fund operations under present law based on the President's budget assumptions from Social Security Administration, Office of the Actuary, Feb. 7, 1983.
[2] Calculations of trust fund operations under proposed legislation prepared by staff of the Special Committee on Aging.
[3] Estimates of revenues and savings from proposed legislation are from the Budget of the U.S. Government—Fiscal Year 1984, and are preliminary. Reestimates have not yet been prepared by the Social Security Administration.

Supplemental Security Income

Financed by Federal general revenues, supplemental security income (SSI) provides cash assistance to needy aged, blind, or disabled persons. The maximum Federal monthly payment since July 1982 is $284.30 for an eligible individual and $426.40 for an eligible couple. These amounts have been automatically adjusted in July of each year for increases in the cost of living. In addition, more than half of the States supplement the Federal payment with a payment that varies from State to State.

Currently, about 3.6 million persons receive Federal SSI payments. Another 416,000 have incomes too high to be eligible for Federal payments but receive federally administered State supplements. Of those receiving Federal payments, about 1.4 million recipients qualify by reason of age; and 2.2 million by reason of disability or blindness. Approximately 20 percent of disabled recipients and 34 percent of blind recipients are over the age of 65, however, and are not classified as "aged recipients" because they initially qualified under the program by reason of disability or blindness.

Under current law, spending for SSI benefits would decline from $8.8 billion in fiscal year 1983 to $7.5 billion in fiscal year 1984. This decline, however, is because the two fiscal years are not strictly comparable. Since the first day of the first month of fiscal year 1984 falls on a weekend, the first benefit check for 1984 is paid on the last weekday of 1983, thus making 1983 a fiscal year of 13 monthly benefit payments and 1984 a fiscal year of 11 monthly benefit payments. If the two fiscal years were adjusted to include 12 monthly benefit payments each, then spending for SSI benefits under current law would be approximately $117 million more in fiscal year 1984 compared to fiscal year 1983, under administration estimates.

Under current law, the average number of aged recipients of Federal SSI payments is projected to decline by 90,000 to 1,205,000 in 1984, and the number of blind and disabled Federal SSI recipients is projected to decline by 5,000 to 2,150,000 in 1984. The average Federal monthly payment to aged recipients is projected to rise from $126 in 1983 to $131 in 1984. During the same period, the average Federal monthly payment to blind and disabled recipients is projected to rise from $205 in 1983 to $217 in 1984.

The President's fiscal year 1984 budget proposes to increase spending for SSI benefits by $85 million in fiscal year 1983 and by $341 million in fiscal year 1984, which are the sum effects of four administration legislative proposals. The following table lists these four proposals and the amount of costs/savings which the administration estimates will result.

IMPACT OF PROPOSED SSI BUDGET CHANGES [1]

[Outlays in millions]

Proposal	Effective date	Budget impact: Fiscal year 1983	Budget impact: Fiscal year 1984
Postpone cost-of-living adjustment by 6 months, from July 1983 to January 1984.	July 1983	−$110	−$145
Disregard an additional $30 per month of OASDI income from SSI payments.	July 1, 1983	+195	+530
Allow SSA to recover SSI overpayments from OASDI benefits	Oct. 1, 1983		−30
Modify existing provision regarding "windfall" benefits to SSI recipients entitled under OASDI and SSI.	Oct. 1, 1983		−14
Total proposed changes		+85	+341

[1] Administration estimates.

Of these four proposals, the one that affects all SSI recipients is the administration proposal to delay the SSI cost-of-living adjustment (COLA) by 6 months. Under current law, the SSI COLA, like the social security COLA, is based on the percentage increase in the Consumer Price Index for urban wage earners and clerical employees (CPI–W) from the first quarter of one year to the next. The administration's budget estimates are based on a projected COLA of 5.1 percent in 1983. The faster than expected drop in inflation, however, has caused the Congressional Budget Office to believe that the percentage change in the CPI–W between January through March 1982, and January through March 1983, is more likely to be 4.1 percent. Using CBO estimates, the projected savings from the COLA in fiscal year 1984 would be $40 million less than the administration estimates (i.e., $70 million in savings compared with $110 million estimated by the administration for fiscal year 1984). Using a 4.1-percent COLA, the maximum SSI payment for an individual would rise by $11 per month ($17 per month for couples). Deferring the COLA would therefore mean that individuals receiving SSI would forego this amount of monthly income for 6 months in calendar 1983.

To partially offset the impact of the COLA delay, however, the budget recommends adoption of a proposal by the National Commission on Social Security Reform to raise the amount of OASDI income disregarded under SSI. In the SSI program, under current law, $20 per month of unearned income is disregarded in determining the countable income and SSI benefits. The National Commission recommended that the disregard of social security income be increased by an additional $30 per month, raising the total disregard of social security income under SSI to $50 per month. As of December 1981, 50 percent of all SSI recipients also received social security benefits, although more aged SSI recipients tended to also receive social security: 70 percent of aged recipients receive social security benefits, while only 38 percent of blind recipients and 36 percent of disabled recipients also receive social security. For SSI recipients who also receive social security, increasing the disregard to $50 per month would more than offset the income foregone through the COLA delay. But for SSI recipients who do not receive social security, the $11 monthly income lost to the COLA delay would not be offset. The impact of the budget proposal on different SSI recipients is shown in the following table.

ADMINISTRATION'S SSI PROPOSALS: IMPACT ON RECIPIENTS

Benefit date	Income	
	Individuals receiving OASDI and SSI	Individuals receiving only SSI
February 1983	[1] $304	[1] $284
July 1983	[2] 334	[1] 284
January 1984	[3] 345	[3] 295

[1] Individuals receiving OASDI and SSI have $20 more because of $20 disregard.
[2] Increases in SSI disregard of OASDI income from $20 to $50.
[3] Assumes an SSI COLA of 4.1 percent (CBO estimate). The President's budget asumes a 5.1 percent COLA.

The third legislative proposal for SSI deals with recovery of SSI overpayments. Under current law, the Secretary of HHS is authorized to recover SSI overpayments by adjusting future payments or by recovery from the recipient. Recovery of overpayments is to be made with a view to avoiding penalizing the individual who is without fault. Recovery of overpayments is not required if the individual is without fault and if recovery would defeat the purpose of the program, or be against equity or good conscience, or the amount to be recovered is so small as to impede efficient or effective administration. The President's budget proposes, under these same general conditions, to allow recovery of SSI overpayments from benefits payable under other programs administered by the Social Security Administration (black lung and OASDI) for a net saving of $30 million in fiscal year 1984. The administration proposed cross-program recovery of SSI overpayments in its fiscal year 1983 budget—a proposal which Congress did not accept.

The fourth legislative proposal in the budget concerns the adjustment of SSI benefits to avoid so-called "windfall" payments to SSI recipients who are also receiving social security. Under current law, new applicants for social security have any retroactive social security payments reduced by the amount of SSI payments which the individual received—and would not have received—if the monthly payments under social security had been made when regularly due, rather than retroactively. For example, individuals frequently apply for SSI and social security disability at the same time. Because it often takes longer to begin the social security disability payments, the individual receives SSI payments during the interim which are higher than they would have been if the social security disability benefits had been paid at the same time. The excess SSI benefits are now withheld from the social security retroactive payment and the sum is transferred to the general fund of the Treasury, out of which SSI is financed. The budget proposal would expand this existing policy of reducing retroactive social security payments for new applicants and make it apply to all cases where a lump-sum retroactive payment is made to social security beneficiaries who were also receiving SSI. The savings from this proposal are estimated by the administration to be $14 million in fiscal year 1984.

The administration estimates of current law spending for SSI also reflect savings which the administration estimates will result from its program of continuing disability investigations or CDI's. In fiscal year 1983, the administration is planning to review the disability status of 174,000 SSI recipients for estimated savings of $15 million from people removed from the rolls. In fiscal year 1984, the administration estimates it will review another 174,000 SSI recipients and achieve savings of $115 million in the SSI program.

Federal Civilian Retirement and Disability

Federal civilian retirement and disability programs include a number of plans covering individuals in the legislative, judicial, and executive branches of the Federal Government. The largest of these is the civil service retirement system (CSRS) which provides retirement, survivors, and disability insurance protection to 2.7 million Federal civilian employees. In fiscal year 1984, under present law, the CSRS is expected to pay out over $22.1 billion in benefit payments to 2 million retired, disabled, or survivor annuitants. The average monthly CSRS retirement annuity in 1981 was $962. For a worker retiring in 1981, at age 55, with 30 years' service, the average monthly annuity was $1,242. Total Federal retirement program outlays for fiscal year 1984 under existing law are expected to be $22.9 billion.

FEDERAL CIVILIAN RETIREMENT AND DISABILITY

[In billions]

	Fiscal year—				
	1982	1983	1984	1985	1986
Income:					
Present law	$31.9	$35.1	$36.3	$38.1	$40.1
Proposed legislation			37.8	42.7	44.4
Increase			1.5	4.6	4.3

FEDERAL CIVILIAN RETIREMENT AND DISABILITY—Continued

[In billions]

	Fiscal year—				
	1982	1983	1984	1985	1986
Outlays:					
Present law	19.6	21.3	22.9	24.7	27.0
Proposed legislation			22.5	23.6	25.5
Savings			−.4	−1.1	−1.5

In 1982, as part of the Omnibus Budget Reconciliation Act (Public Law 97-253), the Congress enacted the first substantial reductions in the annual cost-of-living adjustment (COLA) for Federal civilian annuitants. Under these provisions, partial COLA's will be paid in 1983, 1984, and 1985, to Federal nondisability retirees under age 62. The partial COLA will be equal to half of the inflation rate written into the law (6.6 percent in 1983, 7.2 percent in 1984, and 6.6 percent in 1985) unless actual inflation exceeds the legislated rates. If the CPI exceeds these rates, the COLA will be increased to incorporate 100 percent of the excess. An estimated 195,000 civil service retirees will receive a reduced COLA in April 1983. The table below provides an example of the COLA's that would be paid to retirees under 62 under different rates of inflation. Federal retirees 62 years of age and older, and all survivor and disability annuitants will continue to receive a full COLA based on the increase in the Consumer Price Index (CPI). In addition to the partial COLA reduction, payment of all COLA's is delayed a month a year beginning in 1983. As a result of this change, COLA payments will be made in April 1983, May 1984, and June 1985.

Examples of 1983 COLA's for Federal retirees under age 62—In percent

CPI increase:	*COLA*
3	3.3
4	3.3
5	3.3
6	3.3
7	3.7
8	4.7
9	5.7

The fiscal year 1984 Reagan budget assumes enactment of a number of legislative changes in Federal civilian retirement programs that would increase revenues to these programs by $1.456 billion and reduce outlays by $0.362 billion in fiscal year 1984. The Reagan administration has proposed two types of changes in Federal civilian retirement programs. The first is a freeze in the 1984 COLA for Federal civilian annuitants. Under this provision, no COLA would be paid to any annuitants in 1984. The June 1985 COLA would be based on the calendar year 1984 increase in the CPI. In addition, partial COLA's for retirees under 62, which expire under current law in 1985, would be made permanent. Beginning in 1986, Federal retirees under age 62 would receive an annual COLA equal to half of the CPI increase in the previous year.

The second group of administration proposed changes would reform the contribution rates and benefit structure of the CSRS to reduce the longrun costs of this program and the Government's share of these costs. The cost of the CSRS is currently about 37 percent of payroll. Employees contribute 7 percent of salary (about one-fifth of the costs) matched by an equal employer contribution. In addition, the Government pays about 23 percent of payroll in interest to the CSRS trust fund and annual general fund appropriations to meet the costs of the program. The Reagan budget assumes five major changes in the CSRS to reduce longrun costs to 22 percent of payroll, and increase the employees' share of the costs to half.

(1) *Increase in employee contribution rate.*—Would increase the 7 percent of salary employee contribution rate to 9 percent in 1984 and 11 percent in 1985.

(2) *Increase in employer contribution rate.*—Would increase the employer contribution rate for the District of Columbia and the U.S. Postal Service to correspond to the increase in the employee contribution rate.

(3) *Actuarial reduction in benefits for early retirement.*—Under current law, CSRS will pay full retirement annuities as early as age 55 for those retiring with 30 years of service. This proposal would pay full annuities only to those retiring at or after age 65 and reduce annuities by an actuarial factor of 5 percent for each year of retirement before age 65. This change would be phased in over 10 years, and would not apply to anyone 55 and over at the time of enactment.

(4) *Base computation of annuities on high 5 years of earnings.*—The current method provides a retirement benefit equal to a proportion of the employee's highest 3 years of earnings. This proposal would extend this period to the highest 5 years, reducing for most retirees the average earnings used in computing the benefit.

(5) *Modify replacement rates.*—The current formula for computing benefits pays a percentage of salary (or replacement rate) which is based on years of service. For example, a retiree with 30 years of service now receives 56.25 percent of the average earnings in the highest 3 years. This proposal would reduce these percentages to achieve, in conjunction with the other proposals, a reduction in the total cost of the system to 22 percent of payroll.

The net effect of the Reagan budget reform proposals would be to increase the employee's cost from 7 to 11 percent of salary by raising contributions, and decrease the Government's cost from about 30 to 11 percent of payroll by reducing annuities.

Military Retirement

The military retirement system provides payments to over 1.4 million individuals (primarily retired military personnel). In fiscal year 1984, this system is expected to make $16.8 billion in benefit payments.

MILITARY RETIREMENT

[In billions]

	Fiscal year—				
	Actual 1982	Estimated			
		1983	1984	1985	1986
Outlays:					
Present law	$14.9	$16.1	$17.1	$18.0	$19.3
Proposed legislation			16.8	17.3	18.5
Proposed change			–.3	–.7	–.8

In 1982, the Congress enacted, as part of the Omnibus Budget Reconciliation Act, a reduction in the annual cost-of-living adjustment (COLA) for military retirees under age 62. Under these provisions, military retirement annuitants under 62 will receive for 3 years (1983-85) partial COLA's equal to half of the inflation rate written into the law (6.6 percent in 1983, 7.2 percent in 1984, and 6.6 percent in 1985). If actual inflation exceeds the legislated rates, the COLA will be increased to incorporate 100 percent of the excess. Approximately 860,000 military retirees will receive partial COLA's in 1983.

The President's fiscal year 1984 budget assumes legislation will be enacted to reduce outlays by $282 million in fiscal year 1984. This legislation is intended to make military retirement consistent with other Federal retirement programs. The proposed legislation would eliminate the 1984 cost-of-living adjustment, providing a June 1985 COLA equal to the CPI increase in calendar year 1984. In addition, it would make permanent the payment of partial COLA's to nondisability annuitants under age 62, by providing them only half of the CPI increase, beginning in 1985. These two COLA proposals are identical to proposals for Federal civilian retirement. The proposed legislation would also round all benefit amounts to the next lower dollar, in keeping with similar changes made in other retirement and entitlement programs in the last 2 years. Under other legislation to be proposed, the administration would eliminate the so-called "look-back" provision for future retirees. This provision enables personnel, at the time they retire, to take benefits on the basis of either current pay or earlier pay plus subsequent retirement COLA's, whichever is more advantageous. The proposed legislation would base all retirement benefits on pay at the time of retirement. A similar provision was eliminated in Federal civilian retirement in 1980.

RAILROAD RETIREMENT

The Railroad Retirement Board (RRB), a Federal agency, will administer $5.6 billion in retirement, survivors, and disability benefits to nearly 1 million railroad beneficiaries, their dependents, and survivors in fiscal year 1983. The RRB also administers the so-called "windfall" benefits to roughly 349,700 employees who were vested for social security and railroad retirement benefits on or before January 1, 1975.

Major changes were made in the railroad retirement system in 1981. Because payments have exceeded revenues over the past several years, the Omnibus Reconciliation Act of 1981 and the Economic Recovery Tax Act of 1981 contained major benefit and financing changes agreed to by rail labor and management. Dual benefits were moved to a separate account outside of the railroad retirement trust fund, and benefits paid out of this benefit account were strictly limited to the actual congressional appropriation for the year. In addition, changes were made reducing some future benefits while adding benefits for divorced spouses, remarried widows, and surviving divorced mothers. The legislation further provided for an increase in payroll taxes and limited authority for the railroad retirement system to borrow from the General Treasury against the annual financial interchange owed to the railroad retirement system by the social security system.

As a result of these 1981 changes, the railroad retirement system was projected at the time to be adequately financed until the end of the 1980's, based on moderate economic assumptions and rail employment levels averaging at least 500,000 per year. Since the enactment of the 1981 legislation however, employment levels have declined by nearly 25 percent, and are projected to fall below 400,000 in 1983. Consequently, the railroad retirement system faces new funding problems. The RRB will exceed its borrowing authority in fiscal year 1984, and will be required by current law to cut benefits for tier 2 beneficiaries unless Congress acts to prevent automatic cuts. Current law requires that the social security portion (tier 1) of the benefit payment be paid in full. However, under section 22 of the Railroad Retirement Act, benefits would be reduced in the railroad industry pension (tier 2) portion of the program by an amount equal to the projected unfinanced liability. Rail labor and management have been working toward a package to prevent these automatic benefit reductions.

The President's fiscal year 1984 budget assumes a reduction in railroad retirement benefits consistent with provisions in current law. The President's budget does not include proposals for specific benefit reductions or an infusion of new reserves to prevent the statutorily required benefit reductions. The Railroad Retirement Board estimates that the amount by which railroad retirement benefits would be reduced is $608 million in fiscal year 1984, or a 40-percent reduction in tier 2 benefits.[3] The impact of the reduction on monthly benefit checks is shown in the following table.

Impact of a 40-percent reduction on monthly tier 2 benefits in fiscal year 1984

Type of beneficiary:	*Average monthly reduction*
Employee	$67.60
Spouse	35.01
Survivor	48.25
All	53.66

Source: Railroad Retirement Board.

[3] The President's budget assumes that benefits will be reduced by the amount of the unfinanced liability estimated in the budget to be $532 million in fiscal year 1984. The Railroad Retirement Board estimate, $608 million, is the total annual reduction which, when divided over 12 equal monthly allotments, is necessary to cover the shortfall.

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The administration's budget assumes a 6-month delay in the payment of cost-of-living adjustments under railroad retirement, although itemized savings from such a delay are not detailed in the budget documents. Legally, the 6-month delay in the social security equivalent portion of railroad benefits (tier 1) would flow automatically from the 6-month delay in social security benefits, because the two systems are coordinated. The 6-month delay in the railroad industry (tier 2) portion of the railroad benefit requires separate legislation. The delay in the tier 1 portion of railroad retirement would save the railroad retirement system relatively little, because the benefit increase is essentially reimbursed to the railroad retirement system under the terms of the financial interchange between railroad retirement and social security.

Under the terms of the financial interchange, in June of each year, social security reimburses the railroad retirement system for the prior fiscal year's difference between the benefits which railroad workers would have received from social security had they been directly covered by the social security system, and the payroll tax revenues that would have flowed to social security if active railroad workers were directly covered. However, since there is a lag of at least 9 months between the time railroad retirement pays the social security equivalent benefits and the reimbursement is made, the 6-month delay in tier 1 benefits would significantly alleviate the fiscal year 1984 cash flow problems of RRS, even though there is not a large savings to the system. Delaying the tier 1 COLA will reduce the outlays of the railroad retirement system by approximately $78 to $96 million in fiscal year 1984, depending upon whether the 4.1-percent COLA is assumed (CBO estimate) or a 5.1-percent COLA is assumed (administration estimate). In fiscal year 1985, however, the amount available for the railroad retirement system to borrow from the financial interchange would be reduced by an amount roughly equivalent to the tier 1 COLA's not paid in fiscal year 1984. Delaying the tier 2 COLA (which is 32.5 percent of the tier 1 COLA), would save the railroad retirement system approximately $9.6 million in fiscal year 1984 outlays (using 4.1 percent tier 1 COLA estimate), $12 million assuming a 5.1 percent tier 1 COLA.

In addition, the President's budget recommends funding for the dual benefits account at $350 million. The Railroad Retirement Board estimates that $420 million would be required for full funding. Therefore, the administration's proposed funding level would result in a 17-percent reduction in the windfall portion of the benefits in fiscal year 1984. The impact of this reduction on beneficiaries is shown in the following table:

RAILROAD RETIREMENT DUAL "WINDFALL BENEFITS"—AMOUNTS PAYABLE IN FISCAL YEAR 1984, ASSUMING A 17-PERCENT REDUCTION IN FUNDING

Type of beneficiary	Number receiving windfall benefits	Average monthly amount of full windfall benefits	Average monthly amount after 17-percent reduction	Average monthly reduction
Employee	174,100	$119.84	$99.47	$20.37
Spouse	122,000	95.11	78.94	16.17
Survivor	53,600	49.43	41.03	8.40
All	349,700	100.42	83.35	17.07

Source: Railroad Retirement Board.

VETERANS DISABILITY COMPENSATION

Veterans compensation is payable to living veterans whose earning power is impaired due to a service-connected disability; and to survivors of veterans whose death occurs while on active duty or results from a service-connected disability. In the case of veterans, benefits are based on the extent of impairment, ranging from zero to 100 percent disability. Benefits paid on that basis range from $62 to $1,213 a month.

In 1984, it is estimated that there will be 2.6 million veterans and their survivors receiving compensation benefits. About 30 percent of these will be 65 or older. The veterans compensation program is relatively stable, with participation increasing by less than 1 percent between fiscal years 1982 and 1984. The major source of expansion in program outlays comes from annual legislated increases in benefits to adjust for increases in the cost of living. Compensation rates were increased 7.4 percent in October 1982. The Reagan budget assumes the enactment of legislation to provide a 5.1-percent cost-of-living increase in April 1984. The change in the effective date of the cost-of-living increase reflects a 6-month delay, in keeping with similar proposals for the payment of cost-of-living adjustments in other Federal entitlement programs.

VETERANS COMPENSATION

[In millions]

	Fiscal year—				
	Actual 1982	Estimated			
		1983	1984	1985	1986
Outlays:					
Present law	$9,276	$9,687	$9,885	$10,000	$10,020
Proposed legislation			10,083	10,632	11,036
Proposed change			198	632	1,016

In addition, the Reagan budget assumes enactment of a proposal to adjust cost-of-living increases to veterans benefits for the percent of rated disability of the veteran, beginning in April 1985. Under this proposal, only compensation to veterans with a 100-percent disability and allowances for dependents and clothing would continue to receive a full cost-of-living adjustment. Other compensation benefits would be adjusted as follows:

ADMINISTRATION PROPOSAL TO PAY PARTIAL COLA'S FOR COMPENSATION AND BENEFICIARIES AFFECTED

Percent of rated disability	Percent of COLA	Number of beneficiaries
100	100	139,921
60 to 90	85	242,604
40 to 50	60	300,896
10 to 30	45	1,561,752

In fiscal year 1984, the cost-of-living increase is expected to raise outlays for this program by $198 million.

Veterans Pensions

Pensions are paid to needy wartime veterans who are age 65 or older, or who have a permanent and total disability not connected to their service. Survivors of wartime veterans may also qualify for pension benefits on the basis of need. The benefit amount is related to the pensioner's income. Currently, the average monthly pension amount is $251 for pensioners and $121 for survivors. Pension benefits are automatically indexed to the cost of living, receiving the same increase as social security in July of each year.

VETERANS PENSIONS

[In millions]

	Fiscal year—				
	Actual 1982	Estimated 1983	Estimated 1984	Estimated 1985	Estimated 1986
Outlays:					
Present law	$3,879	$3,954	$3,940	$3,957	$4,079
Proposed legislation		3,808	3,872	3,807	3,906
Proposed change		−46	−68	−150	−173

Outlays from this program are relatively stable, remaining under present law at about $3.9 billion in fiscal years 1982 through 1984. The increase in outlays from the annual cost-of-living adjustments (COLA's) is offset by a decline in the number of pension recipients resulting from a tightening of eligibility rules in 1978. In 1984, an estimated 1.7 million veterans and survivors will receive benefits, compared to 2 million who received benefits in 1981.

The Reagan budget assumes legislation to delay annual COLA's by 6 months will also apply to veterans pensions. As a result, payment of the anticipated 5.1 percent July 1983 COLA would be deferred to January 1984. This change would reduce outlays by an estimated $68 billion in fiscal year 1984.

Food Stamps

The food stamp program was created in 1964 to increase the food purchasing power of low-income households. Since its inception, the program has been of enormous benefit in meeting the basic daily living needs of these households and 2.3 older Americans in particular.

Food stamp program eligibility and benefit amounts are federally established. Income eligibility standards vary according to whether a household has special expenses for shelter, dependent care, and/

or medical care. Each participating household's monthly food stamp allotment is detemined by reducing the maximum monthly allotment to which it would be entitled if it had no countable income, by 30 percent of any countable income. Maximum monthly allotments are calculated based on the Department of Agriculture's "thrifty food plan" estimates of the cost of a nutritionally adequate diet. These allotments are adjusted to household size and periodically adjusted for food price changes.

Congressional efforts since 1977 have focused on reducing the continually increasing cost of the food stamp program by restricting eligibility and growth in benefit amounts. For fiscal year 1983, as well as 1982, decreases in food stamp program expenditures are resulting from several past program changes. The major changes affecting older Americans involve delays and revisions in the measurement periods of cost-of-living adjustments to the standard deduction and benefit levels, respectively. These reductions have resulted in a decline in food purchasing power. Achieved decreases in total program costs have not been as great as anticipated, primarily because of increased participation among eligibles due to the elimination of the purchase requirement (EPR) in 1977, high food price inflation, and increasing rates of unemployment in the Nation. The administration estimates that, under current law, benefit payments for the food stamp program will total $11.2 billion in fiscal year 1983 and $10.9 billion in fiscal year 1984.

President Reagan's fiscal year 1984 budget assumes a reduction of approximately $1 billion in program costs resulting from the implementation of several administration proposals. Almost $700 million in reductions is expected to result from proposals requiring States to assume funding liability for overpayments that exceed 3 percent, as well as specific streamlining measures to decrease erroneous payments.

The major administration proposals that would affect the food stamp benefits of older Americans are as follows:

(1) *Freezing the annual cost-of-living adjustments for benefits (thrifty food plan) for 6 months for a savings of $30 million in fiscal year 1984.*—This savings amount varies from the $105 million in savings estimated by the Congressional Budget Office (CBO) due to the administration's more optimistic economic assumptions.

(2) *Eliminating the existing shelter deduction used to calculate the value of food stamps.*—The shelter deduction would be replaced with an increased standard deduction from $85 to $140. Enactment of the proposal is assumed, *in combination with* the cost-of-living delay, to save $100 million in fiscal year 1984. This proposa' would have the most adverse effects on those recipients with high shelter deductions for such items as heating. Since a high percentage of elderly beneficiaries have higher than average shelter deductions, they would be heavily impacted.

(3) *Changing the definition of household so that unrelated people living together would be required to file as one household regardless*

of their living arrangements.—As with shelter deductions, a high percentage of elderly beneficiaries would be adversely affected. These individuals live in the same dwelling but maintain separate living arrangements and therefore receive benefits separately. This proposal is estimated to save $70 million in fiscal year 1984.

In summary, about $200 million of the $1 billion in savings from the adminstration's food stamp proposals would be achieved by reducing food stamp benefits to participating households. Taken together, the benefit reduction proposals are estimated by CBO to decrease the average household benefit by $7 to $8 monthly, or by about 7 percent. The administration's budget also included a supplemental appropriations request of $1.2 billion for fiscal year 1983.

Low-Income Energy Assistance Program

The current energy assistance program for low-income and elderly households is authorized by the Omnibus Budget Reconciliation Act of 1981. Under the provisions of this legislation, the Secretary of Health and Human Services provides grants to States for the purpose of making financial assistance available to low-income households with home energy costs that are excessive in relation to household incomes. Funds are provided in the form of direct cash assistance, direct payments to fuel vendors, or payments to public housing building operators.

Eligibility for program benefits is limited to households where one or more individuals qualify for aid to families with dependent children (AFDC), supplemental security income (SSI), food stamps, or income-related veterans programs. Households with incomes below 150 percent of poverty or 60 percent of a State's median income also qualify for assistance. The law specifically requires that priority be given to households with a member who is aged or handicapped.

The program is currently authorized for each of fiscal years 1982, 1983, and 1984, at a funding level of $1.875 billion. For fiscal year 1982, a total of $1.875 billion was appropriated for the low-income energy assistance program (LIEAP). During deliberations on the 1983 continuing resolution, Congress added $100 million to LIEAP, bringing the annual appropriation for fiscal year 1983 to $1.975 billion.

In its 1984 budget request, the administration has proposed $1.3 billion for LIEAP. Under this proposal, grants would be made available to States for assistance to low-income households for their heating costs, weatherization, crisis assistance, and some cooling costs. In addition, the administration is proposing legislation that would more precisely direct funds to States which have the most severe winter climates and the greatest concentration of low-income families. The legislation would also provide States greater flexibility in determining income eligibility requirements and payment levels, and would reduce Federal reporting requirements. The $1.3 billion request for LIEAP represents an approximately 34-percent reduction in funding from the fiscal year 1983 appropriated level.

HEALTH

MEDICARE

Medicare is a two-part, federally administered, health insurance program which serves as the major source of insurance for acute medical care services for the aged and disabled. It is estimated for fiscal year 1984 that 26 million aged and 3 million disabled Americans will participate in the medicare program.

Part A, hospital insurance (HI), is financed through payroll taxes and is available without charge to eligible enrollees. HI covers inpatient hospital, posthospital skilled nursing facility, and home health services with specified deductibles and coinsurance amounts.

Part B, supplemental medical insurance (SMI), is financed by premiums (about one-quarter) and an appropriation from general revenues (about three-quarters). After beneficiaries meet a $75 annual deductible, SMI pays 80 percent of allowed charges for medical and health-related services and supplies, including payments to physicians and hospital outpatient facilities.

Since 1970, medicare outlays have increased at an average annual rate of 17.6 percent, totaling over $50 billion in fiscal year 1982. The fiscal year 1984 administration budget projects that, if current service levels remain the same, medicare's Federal outlays will increase to $66.5 billion. According to the Congressional Budget Office, most of this growth is attributable to increases in benefit expenditures per capita, which reflect both rapid inflation in health care prices and increases in per capita use of services. For example, between 1980 and 1984, medicare inpatient hospital expenditures for the elderly are estimated to increase an average of 18.3 percent a year, while physician reimbursements are estimated to increase an average of 20.4 percent a year. Although the rapid rise of health costs affects the entire medical care system, medicare's reimbursement incentives contribute to the growth of costs.

In 1982, Congress enacted several significant provisions to control the rate of increase of medicare costs. Estimated fiscal year 1983 savings are $2.7 billion. Although Congress did increase the SMI premium amount for 2 years to equal 25 percent of program costs, the majority of changes were aimed at controlling the costs of hospital services and the services of hospital-based physicians. Congress also directed the Secretary of Health and Human Services to develop a plan to change the way that medicare pays for hospital services from a retrospective, cost-based payment to a prospective system. In additional provisions, Federal employees were included in the medicare program; and employers were directed to provide the choice of the same coverage offered to younger workers to older workers between the ages of 65 to 69. Congress also added two cost-effective benefit expansions which will provide medicare coverage for hospice care and allow medicare to prepay for health maintenance organizations and other prepaid competitive medical plans.

The administration's fiscal year 1984 budget request proposes to reduce estimated medicare outlays by an additional $1.86 billion in fiscal year 1984, from an estimated $66.5 to $64.7 billion. The majority of proposed savings would come from increased beneficiary cost-sharing. The proposals are divided into three categories, (1) medicare benefit and premium changes, (2) provider reimbursement, and (3) program management.

1. MEDICARE BENEFIT AND PREMIUM CHANGES

(a) Restructure Beneficiary Hospital Cost-Sharing and Provide Coverage for Unlimited Hospital Days

This proposal would add a copayment equal to 8 percent of the hospital deductible ($352 in 1984) for each day of inpatient hospital care from day 2 to day 15 in a spell of illness, which would then be reduced to 5 percent of the deductible for each day of care for days 16 through 60. After 60 days of copayment, the beneficiary would not be required to make any further copayments for any hospital costs for the remainder of the year. The proposal would also limit the number of times that a beneficiary is liable to pay the hospital deductible to two per year, and would reduce the skilled nursing facility copayment (applicable to days 21 to 100) from 12.5 percent of the deducible to 5 percent of the deductible. The proposal would be effective January 1, 1984.

Under current law, a medicare beneficiary going into a hospital is required to pay a deductible (the average cost of 1 day of hospital care) but is not required to pay any coinsurance until the hospital stay exceeds 60 days. The beneficiary pays an amount equal to one-quarter of the deductible for days 61 through 90. If hospitalization is required beyond 90 days, the beneficiary can draw on a non-renewable lifetime reserve of 60 days, but must pay an amount equal to one-half of the deductible for each of these days. Once the lifetime reserve days are exhausted, the beneficiary is responsible for the full cost of hospitalization until that spell of illness is concluded. In order to begin a separate spell of illness, 60 days must elapse between hospital discharge and the next admission.

According to the administration, their proposal would save $710 million in fiscal year 1984, and $6.77 billion through fiscal years 1984-88. $435 million of the estimated 5-year savings would be shifted as costs to the medicaid program. The coinsurance proposal would generate an estimated total incurred savings of $2.619 billion in calendar year 1984, while the total incurred costs of the catastrophic coverage would be an estimated $1.470 billion. Catastrophic coverage, for purposes of this estimate, covers incurred costs from the proposals to provide unlimited hospital day coverage, the elimination of current coinsurance requirements, hospital deductible limits of two per year, and lowered SNF coinsurance. Subcontracting the costs of catastrophic coverage from increased coinsurance leaves a total estimated savings of $1.149 billion for calendar year 1984, or $710 million when adjusted to fiscal year savings.

The range of beneficiary copayment liability would be from $1,530 a year for 61 or more continuous days of care, to over $2,300 a year if different spells of illness resulted in two hospital deductibles, with most inpatient days being subject to the higher 8 percent copayment.

Although averages are misleading in terms of individual beneficiary liability, they can indicate the impact of the copayment proposals. Approximately 20 percent of all elderly medicare enrollees have at least one hospital stay in a year. The likelihood of a hospital stay and the length of the average stay increase with age. The average length of stay is 10.5 days for all elderly, but 11.7 days for those age 80 and above. Based on one spell of illness and average stay, the average additional beneficiary copayment would equal $268 for all elderly, and $301 for those age 80 and above.

Further, beneficiaries using hospital services also would have additional out-of-pocket costs which would include the hospital deductible, SMI premiums, and the SMI deductible which will equal almost $600 in 1984. This figure does not include SMI coinsurance (20 percent), physician charges in excess of medicare's reasonable charges when physicians do not accept assignment, or the out-of-pocket costs for services, such as outpatient drugs and eyeglasses that are not covered by medicare.

The Health Care Financing Administration has estimated that approximately 29 percent of total per capita personal health care expenditures for the elderly are paid directly out-of-pocket. Based on 1981 estimates, 1981 average per capita expenditures for out-of-pocket costs by the elderly were $914, excluding premium costs for part B and supplemental insurance.

The administration proposal would provide a coverage tradeoff for this increased out-of-pocket cost in the form of catastrophic coverage for hospital services beyond 60 days of copayment. Currently, 0.6 percent of the beneficiaries use this amount of hospital services.

The administration's proposal raises several issues, the most critical of which is the impact of increased coinsurance on low- to moderate-income beneficiaries. A combination of medicaid and private insurance would probably protect about 70 percent of beneficiaries from the increase in out-of-pocket costs, to the extent that beneficiaries can continue to afford rapidly increasing private insurance premiums. The remaining 30 percent would face higher costs. According to CBO, increased hospital coinsurance would have the greatest impact on the oldest of the elderly and those with lower incomes (often the same group) because these groups use hospital services more.

The administration supports increased copayments, as do many others, as a mechanism to encourage consumers to not overutilize health care services. To the extent that private insurance and medicaid picked up the increased costs, utilization would not be discouraged. In 1981, the median household income for aged medicare beneficiaries was $10,447. Only 17 percent of the elderly were in households with incomes over $25,000. Many believe that any increase in out-of-pocket costs must be balanced with the ability of those elderly with low to moderate incomes to afford such costs.

(b) Index Part B Deductible to the Medicare Economic Index

Currently, the amount of the part B deductible can only be changed by an act of Congress. In 1981, the part B deductible was increased for the first time since 1972 from $60 to $75. This proposal would index the part B deductible to the Medicare Economic

Index (MEI), which reflects changes in the input costs for physician services and in general earnings. According to the administration, indexing the deductible will alleviate the discrepancy between the fixed deductible amount and rising part B costs, which have grown 250 percent between 1972 and 1981. Under this proposal the deductible would increase to $80 in 1984, and to $100 by 1988. Estimated fiscal year 1984 savings are $50 million. Savings from 1984 through 1988 are estimated to be $1.115 billion. $84 million of the estimated 5-year savings will appear as increased costs to the medicaid program. The proposal would become effective January 1, 1984.

The administration proposed to index the part B deductible to the Consumer Price Index as part of last year's budget recommendations, but Congress rejected the proposal.

(c) Modify the Rate of Increase of the Part B Premium

Prior to the enactment of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982, annual increases in the part B premium were limited to the lower of the percentage of which social security cash benefits most recently increased, or the increase in the costs of the program. A provision in TEFRA will change this method of calculating part B premiums for 2 years beginning in July 1983, to hold the part B program constant at 25 percent of program costs. The current method of calculating premiums will resume in 1985.

The administration's proposal would increase the percentage of premiums to program costs after 1985. The proposal would allow the current premium of $12.20 a month to continue for an additional 6 months so that the next increase would coincide with the next cost-of-living increase for social security payments in January 1984. For calendar year 1984, the premium would rise to the TEFRA-defined level of 25 percent of program costs. Beginning in calendar year 1985, the premium would rise 2½ percentage points per year so that by calendar year 1988, the premium would be set at a fixed rate to equal 35 percent of estimated program costs. This proposal would result in a reduction in premium income in 1984 of $368 million, and an estimated increase in premium income of $9.8 billion from fiscal years 1985 through 1988. $500 million of this estimated increase in premium income would be paid by the medicaid program. Under this proposal, premiums would increase to $14.80 in 1984, $18.60 in 1985, $22.80 in 1986, $27.60 in 1987, and $33.30 in 1988. The proposal would become effective July 1, 1983.

(d) Begin Medicare Coverage on the First Day of the Month Following the Month in Which Age 65 is Achieved

Under current law, eligibility for medicare begins on the first day in the month in which an individual's 65th birthday occurs. The Reagan budget proposes to defer eligibility to the first day of the month following the month of the 65th birthday. The proposal assumes that this change should not result in a gap of insurance coverage for most individuals since employer-based group health plans extend until the beginning of medicare coverage. This would result in an increased cost to employers and individuals not covered by employer-based health plans.

The administration estimates that this proposal would reduce outlays for fiscal year 1984 by $215 million and by $1.5 billion over a 5-year period. It is assumed by the administration that $94 million of these savings over the 5-year period would be shifted as increased costs to the medicaid program. The proposal would become effective October 1, 1983.

The proposal was included in the administration's budget last year and rejected by Congress.

(e) Establish a Voluntary Voucher Program Beginning in 1985

This proposal would create a voluntary voucher program for medicare beneficiaries. According to the administration, this proposal would build on a similar provision enacted in TEFRA which allows medicare to prepay health maintenance organizations (HMO's) and other competitive medical plans. The administration states that the purpose of this proposal is to provide beneficiaries a choice of electing to receive services through a private health benefits plan, rather than mandating participation in medicare. The private plans participating in the program would be expanded to include private insurers as well as the HMO's and other competitive medical plans authorized under TEFRA. These plans would receive as premiums 95 percent of the average adjusted medicare per capita cost from the Federal Government, and would be required to provide a benefits package that is at least equivalent to that provided by medicare. The proposal would become effective January 1, 1985.

In the absence of specific legislation, critics of the proposal are concerned this proposal would differ from the HMO TEFRA provision by eliminating many of the specific requirements an HMO must meet to participate in the medicare program. An added concern is that the proposal might eliminate the requirement that HMO's must "plow back" profits into added benefits. Congress did not adopt any voucher proposals last year.

This proposal is estimated to cost $50 million in 1985, and $200 million over a 5-year period.

2. PROVIDER REIMBURSEMENT

(a) Establish Prospective Payments for Hospitals

The administration is proposing a system for medicare to pay hospitals a rate established in advance for each discharge (case), adjusted by diagnosis and other factors such as surgery or the presence of a secondary diagnosis, effective October 1, 1983. The proposed mechanism for establishing these prospective payment rates is based on the diagnosis-related group (DRG) classification system developed by Yale University and tested in the State of New Jersey. Prices would be established on a national basis with an adjustment for area wages. Capital and direct teaching costs, such as intern and resident salaries, would continue to be reimbursed on a cost basis. Indirect teaching costs would be reimbursed through a lump-sum payment to the institution. Adjustments would be made, although not yet defined, for patients having extraordinary lengths of stay, "outliers."

Currently, hospitals are reimbursed under a cost-based system which pays on the basis of what hospitals spend. The lack of incentives for cost-consciousness and the rapid increase in hospital costs (three times the rate of inflation in 1982) led Congress to direct the Department of Health and Human Services in 1982, to develop a new reimbursement system based on prospective payment.

The administration's proposal is currently being debated in Congress. Several major issues have emerged. First, whether the prospective payment system should be for medicare only or encompass all payers. Second, whether the DRG's are accurate enough to adequately measure the severity of illness of patients. Third, whether the quality assurance and utilization review mechanisms the administration has proposed are adequate to insure accessibility of quality care for medicare beneficiaries and protect against fraud and abuse of the new payment system.

A CBO analysis of the administration's proposal shows that the DRG system, as proposed, would underpay approximately 34 percent of participating hospitals, while overpaying 4 percent. Hospitals with fewer than 100 beds would receive a 23-percent increase from current reimbursement levels while those with more than 300 beds would face a 6-percent reduction. Hospitals in rural areas would gain 19 percent as a group while urban hospitals would lose 4 percent. One reason offered for these differences, although accurate measures are not available, is that larger, urban, teaching hospitals tend to have the sicker patients within each DRG category.

The administration has stated that the prospective payment system would cost no more than the current system. Savings are estimated to be equal to savings estimated to be achieved through hospital reimbursement changes enacted last year as part of TEFRA. These changes extended the former hospital routine cost limits to include ancillary costs, changed reimbursement from a per-diem to per-case basis adjusted by case-mix, set new reimbursement limits and established a target yearly rate of increase for each hospital.

The TEFRA changes, followed by the introduction of a prospective payment system, are estimated to save $1.5 billion in fiscal year 1984, and $20.2 billion over a 5-year period.

(b) Reduce the Target Rate of Hospital Cost Increase by 1 Percentage Point

TEFRA established a target rate of increase in hospital costs per case which is to be effective through 1985. Under TEFRA, this target cost per case equals the previous year's target increased by the percentage increase in the hospital market basket, plus 1 percentage point.

The administration's proposal would hold hospitals' target rate of increase to the change in the hospital market basket only, thus excluding the 1 percent. (Their proposed change would be in effect until superseded by the prospective payment system.) This proposal would constrain the rate of increase in medicare beneficiaries' hospital deductible.

This proposal is estimated to save $80 million in fiscal year 1984, and $340 million over a 5-year period. The proposal would become effective October 1, 1983.

(c) Freeze Physician Reimbursement for 1 Year

Medicare reimburses for physician services on a "reasonable charge" basis. A reasonable charge for services to a specific patient is defined as the lowest of the actual charge billed that patient, the customary charge made by that physician to his patients for that service in a preceding year, or the prevailing charge by comparable physicians in a geographic area for that particular service. The customary and prevailing charge screens are updated annually to reflect changes in physician charges; in addition, increases in the prevailing charges are further constrained by the Medicare Economic Index.

Under the administration's proposal, the customary and prevailing charge screens used for fee screen year 1984 (July 1, 1983 through June 30, 1984) would be frozen at the levels used in fee screen year 1983. The proposal would become effective August 1, 1983.

This proposal could encourage more physicians to not accept assignment, i.e., not accept medicare's reasonable charges as payment in full. Currently, only about 50 percent of physicians accept assignment. In the instance where physicians do not accept assignment, at least a portion of the proposed savings under this proposal may be borne by the beneficiary in paying the difference between what medicare covers and the actual physician charges. A similar proposal, one which would have limited the Physician Economic Index to 5 percent, was offered by the administration as part of last year's budget, but was rejected by Congress.

Estimated savings from this proposal are $100 million in fiscal year 1984 and $5.2 billion over a 5-year period.

(d) Lower Reimbursement to Home Health Agencies for Durable Medical Equipment

This proposal would reduce part A reimbursement to home health agencies for durable medical equipment from 100 percent of cost to 80 percent of cost and would allow these agencies to bill the beneficiary for the difference. Currently, a medicare beneficiary has the choice of renting or purchasing durable medical equipment from a supplier under part B (in which case, the beneficiary would be liable for a $75 deductible and a 20-percent copayment) or through a home health agency under part A (in which case, 100 percent of the reasonable cost is covered by medicare).

The administration states that this proposal would provide an incentive to beneficiaries and home health agencies to constrain unnecessary use of durable medical equipment. Savings under this proposal would be through either reduced use of equipment or cost-shifting to beneficiaries. Estimated savings are $15 million in fiscal year 1984, and $105 million over a 5-year period. This proposal would become effective October 1, 1983.

(e) Other Provider Reimbursement Changes

The administration is proposing to eliminate the waiver of provider liability for uncovered medicare services for an estimated savings of $10 million in fiscal year 1984, and $50 million over a 5-year period. This proposal would become effective October 1, 1983. Currently, medicare pays providers for certain uncovered or medically unnecessary services furnished to an individual if the provider could not have known that payment would be disallowed.

The administration is also proposing to eliminate the requirement for mandatory utilization review activities by hospitals and skilled nursing facilities for an estimated savings of $58 million in fiscal year 1984, and a 5-year savings of $310 million. This proposal would become effective October 1, 1983.

3. PROGRAM MANAGEMENT

The administration proposes to *authorize HHS to employ competitive purchasing procedures for the procurement of laboratory services, durable medical equipment, and other medical supplies for beneficiaries.*

The administration believes that substantial economies of scale would be realized through more competitive procurement of laboratory services, durable medical equipment, and other medical supplies for medicare beneficiaries. Currently, it is generally the physician or retail supplier who selects the source of services and equipment required by a beneficiary.

According to the administration, the proposal includes safeguards to insure that beneficiaries would have adequate access to needed equipment and services, and that beneficiaries' out-of-pocket expenditures would be limited to required coinsurance and deductible payments. Estimated savings from this proposal are $9 million in fiscal year 1984, and $133 million over a 5-year period.

Medicare outlays

Fiscal year:	*In billions*
1983 estimate	$57.359
1984 current services	66.537
1984 proposed savings	1.856
1984 proposed budget	64.681

Proposed savings

Legislative initiatives:	*In millions*
Restructure cost-sharing and catastrophic coverage	−$710
Freeze physician fees	−700
Reduce hospital cost target rate	−80
Part B premium changes	(+368)
Index part B deductible	−50
Delay initial eligibility	−215
Eliminate mandatory utilization review	−58
Copayment for equipment from home health agencies	−15
Competitive purchasing for labs and DME	−9
Waiver of provider liability	−10
FICA/SECA increase	(+332)
Other	−9
Total savings	1,856

MEDICAID

The medicaid program provides matching funds to States to finance medical care for low-income persons who are in families with dependent children, or who are aged, blind, or disabled. Federal financial participation in the medicaid program is based on a matching rate according to a State's per capita income. Although the program is governed by a mixture of Federal and State eligibility requirements, the States are responsible for the administration of their respective medicaid programs. It is estimated that 3.6 of the 22.1 million medicaid recipients are elderly.

Program expenditures are heavily weighted toward institutional services, especially long-term care. Federal and State spending for nursing home care equaled 43 percent of total program costs in calendar year 1982, while inpatient hospital care represented 34 percent.

According to HCFA, in fiscal year 1984, Federal expenditures for medicaid, including the impact of proposed legislation, would reach an estimated $20.8 billion, an increase of 7.6 percent compared to 1983. As a result of the growing fiscal pressures at the State and local level, Federal spending reductions enacted in 1981, and greater flexibility provided to the States under the 1981 Omnibus Reconciliation Act and TEFRA, the rate of increase in medicaid expenditures has declined considerably over the last 2 years. Current law medicaid outlays are projected to increase by 10 percent between 1982 and 1983, and by 9.1 percent between 1983 and 1984. This compares to an average annual rate of increase of 15 percent between 1975 and 1980.

The administration proposals contain three major initiatives: (1) To require mandatory nominal cost-sharing by recipients; (2) to improve third-party liability collection, and (3) to extend reductions in Federal payments to the States.

1. REQUIRE NOMINAL COST-SHARING BY MEDICAID RECIPIENTS

As a result of TEFRA, States are allowed not to impose cost-sharing charges on mandatory services provided to the categorically needy (i.e., individuals receiving cash assistance under the AFDC or SSI programs). States previously only were allowed to impose such charges on services for the medically needy (i.e., individuals with income above the cash assistance standards), and on optional services for the categorically needy. Congress prohibited States from imposing copayments for nursing home patients, children under 18, and categorically needy persons enrolled in health maintenance organizations as well as on services related to pregnancy, emergency services, and family planning services. Congress also specified that no individual may be denied services because of his or her inability to pay cost-sharing charges.

The administration is proposing to require a mandatory $1 per visit copayment from the categorically needy and $1.50 per visit copayment from the medically needy for physician, clinic, and hospital outpatient services. Also a $1 and $2 copayment per day would be required of the categorically and medically needy respectively, for inpatient hospital services. The administration proposed mandatory copayments as part of last year's budget, but Congress rejected the proposal in favor of the compromise outlined above. Estimated savings from this proposal are $249 million in fiscal year 1984, and $1.4 billion over a 5-year period.

2. IMPROVE THIRD-PARTY LIABILITY COLLECTIONS

The administration's fiscal year 1984 budget contains two initiatives designed to improve medicaid collections from third-party payers. The first, which is expected to save $6 million in fiscal year 1984 and $37.6 million over 5 years, would require, as a condition of medicaid eligibility, that an applicant assign his or her rights to directly collect any third-party benefits to the State medicaid agency. Since medicaid is the payer of last resort, the administration contends that this would enhance the State's ability to collect health insurance benefits from third-party payers.

The second initiative is a regulatory proposal which would require State child support enforcement agencies to petition the court to include medical support as part of the child support order whenever health care coverage is available to the absent parent at reasonable cost. This proposal is estimated to save $96 million in fiscal year 1984, and $564.6 million over a 5-year period.

3. EXTEND REDUCTION IN FEDERAL PAYMENTS

Under the 1981 Reconciliation Act, Federal payments to States for medicaid were reduced by 3, 4, and 4.5 percent in 1982, 1983, and 1984 respectively. A State may qualify for a percentage point offset to these reductions if it has a qualified hospital cost review program, an unemployment rate which exceeds 150 percent of the national average, or fraud and abuse recoveries greater than 1 percent of Federal expenditures. In addition, States may earn back all or part of the reductions if expenditures remain below specific target amounts.

This proposal would extend the Reconciliation Act reduction, including the offsets, at 3 percent in 1985 and beyond for an estimated savings of $525 million in 1985, and a 4-year savings of $2 billion. The proposal would have no impact in fiscal year 1984. The proposal would result in a direct cost shift to States and has the potential to cause States to make further reductions in their medicaid programs.

Medicaid outlays (Federal share)

Fiscal year:	*In billions*
1983 estimates	$19,333
1984 current services	21,181
1984 proposed savings	.293
1984 proposed budget	20,799

Proposed savings

	In millions
Regulatory initiative: Third-party collections from child support	−$89
Legislation initiatives:	
Mandatory copayments	−249
Assignment of rights	−6
Crossover claims	−1
Impact of AFDC proposals	−93

	In millions
Impact of medicare	+56
Total savings	−293

Public Health Service

The Public Health Service (PHS) of the Department of Health and Human Services administers a wide array of health programs in the areas of health research, manpower, planning, disease control, and service delivery. Outlays for PHS were $8.3 billion in fiscal year 1982, and will be an estimated $8.2 billion in fiscal year 1983. The administration is proposing to reduce the PHS budget in fiscal year 1984, for an estimated budget authority of $7.7 billion and estimated outlays of $7.9 billion. This net decrease in budget authority is primarily due to a proposed reduction of $230 million for the Health Resources and Services Administration. Fiscal year 1984 proposed savings include the elimination of the health planning program, a 33-percent reduction in programs for health professions education, and the elimination of one-time health teaching facilities construction and loan repayment costs.

Health Research

Eighty to ninety percent of fundamental or basic research is financed by the Federal Government. Most of this research is carried out by the National Institutes of Health. Increased Federal involvement in biomedical research caused outlays to rise 12.5 percent annually between 1970 and 1981, or 4.3 percent after adjusting for inflation. There was no increase in Federal expenditures for health research in fiscal year 1982, and only a slight increase in fiscal year 1983, for a funding level of $4 billion. The administration is proposing an increase of $73 million, or 2 percent in budget authority for the National Institutes of Health.

The National Institute on Aging (NIA) plays the lead role in the development of knowledge about the aging process and the health of the elderly. Since 1977, Federal funding for the Institute's research programs on aging has doubled. From 1981 to 1982, the NIA's budget was increased slightly above the level required to maintain 1981 programs. The administration requested $84.56 million for fiscal year 1983. The first concurrent resolution on the budget assumed $82.54 million. The 1982 continuing resolution provided $93.996 million. The administration is requesting $95.670 million in budget authority for NIA in fiscal year 1984.

Veterans Health

The Veterans Administration (VA) delivers inpatient and ambulatory care to veterans through a nationwide health care system comprised of hospitals, nursing homes, outpatient clinics, and domiciliary care facilities. Expenditures for veterans medical care increased by 13.1 percent annually between 1970 and 1981, from $1.8 billion in fiscal year 1970 to $7 billion in fiscal year 1981. This increase is attributed primarily to an increase of 155 percent in the number of patients treated and to increases in the cost of providing medical care. Costs in the VA system were somewhat restrained during this period by a 63-percent decrease in the median length of hospital stay. Spending for veterans medical care is expected to continue to grow rapidly because of demographic trends, as well as increasing health care costs. The number of veterans over age 65 will more than double in the 1980's.

The administration's budget request includes no major policy changes and requests a funding level of $8.3 billion for fiscal year 1984. This is a 5-percent increase over the fiscal year 1983 funding level of $7.9 billion.

Employee Health Benefits

The administration is proposing placement of a cap on the amount of tax-free employer contributions to employee health benefit plans. The proposal would treat employer health benefit contributions over the cap as income to the employee. The proposed cap would be $175 per month for family coverage, or $70 per month for individual coverage. Currently, about 30 percent of those with employment-based health coverage receive employer contributions above these limits.

Proponents of this proposal view it as a mechanism to eliminate the current bias toward rich, first-dollar coverage insurance plans. They contend this type of coverage encourages overuse of health services, since neither the consumer nor the physician has any incentive to control costs. Critics cite administrative problems, potential disincentives to have older or high-risk workers, and regional and industrywide differences in premiums among reasons for opposing the proposal. Critics also say that reductions in health benefit packages are most likely to come from the elimination of services such as preventive care and mental health, rather than increased cost-sharing on more expensive services such as hospital care.

The proposal is estimated to result in $2.3 billion in increased revenues, or $31 billion over a 5-year period. To the extent that the administration's proposal was successful in encouraging employees to choose less comprehensive coverage, savings would be much less than anticipated.

ADMINISTRATION ON AGING

Under the Older Americans Act, the Federal Government finances the delivery of services through 57 State and territorial units on aging and approximately 670 area agencies on aging. In December 1981, the comprehensive amendments to the Older Americans Act were signed into law (Public Law 97-115). These amendments provide for a 3-year reauthorization of the act through fiscal year 1984.

The Administration on Aging (AoA) implements most of the programs authorized under the act with the exception of title V, the senior community services employment program. This program is administered by the Department of Labor. (Specific action on title V is covered under the employment section of this print.)

State agencies receive Federal funds, on a formula grant basis, which they award to area agencies based on State-approved area plans. Area agencies on aging coordinate and implement the plans and, where needed, purchase social and nutritional services with the formula grant funds. The vast majority of funds under the act are made available under title III, and support the operation of such activities as information and referral, outreach, transportation, legal services, counseling, senior centers, nutrition, and a variety of in-home services. In addition to funding services and service systems for the elderly, the Older Americans Act authorizes a program of discretionary grants for training, research, and demonstration projects which are designed to improve both the knowledge base and skills of personnel working in the field of aging, and demonstrate systems to improve the quality of services to the elderly. Finally, the act authorizes AoA to make direct grants to certain qualified Indian tribal organizations for the provision of services to older Indians, and provides support for the Federal Council on Aging. Prior to the 1981 amendments to the act, funding was available to support a National Information and Resource Clearinghouse on Aging.

In addition to these programs, the Older Americans Act also authorizes a food commodities program administered by the Department of Agriculture. This program supplements the nutrition programs authorized under title III. The U.S. Department of Agriculture (USDA) program provides reimbursement to States based on the number of meals served. States have the option of accepting the reimbursement in cash, commodity foods, or a combination of both.

For fiscal year 1982, Older Americans Act programs were funded by a continuing resolution. The amount provided by the resolution represented an approximately 4-percent decrease from the fiscal year 1981 funding level. For fiscal year 1982, programs operated by the Administration on Aging were funded at a level of $636.5 million, title V of the OAA was funded at $277.1 million, and the USDA commodities program received $93.2 million in funding.

Older Americans Act programs are again funded under the authority of a continuing resolution for fiscal year 1983. The resolution provides for $671.7 million in funding for programs operated by the Administration on Aging, $281.9 million for the title V program, and $100 million in funding for the USDA commodities program.

In the fiscal year 1984 budget request, the Reagan administration has proposed to consolidate programs authorized by the Older Americans Act into grant programs administered by the Department of Health and Human Services. A total of $998 million is proposed for State and area agency-operated programs which finance nutrition, transportation, in-home, legal, and employment services, as well as economic development opportunities for persons 60 years of age or over. The consolidation would include activities currently funded by the elderly nutrition commodities program, administered by the USDA, and the Department of Labor's senior community service employment program (title V). Under the consolidated programs, the proposed budget authority of $998 million represents a decrease of approximately $56 million from the fiscal year 1983 funding level.

In budget details provided by the Department of Health and Human Services, the administration estimates that 9 million older persons will participate in AoA-funded aging programs in fiscal year 1984. Of these, the Department estimates that 4.7 million will be low-income participants. In addition, the administration has indicated that it plans to maintain the fiscal year 1983 level of daily meals (both congregate and home-delivered) through improved management procedures. It is currently estimated that 734,000 daily meals will be served under the nutrition progam in fiscal year 1983. In fiscal year 1984, the administration proposes to reduce the title III-C nutrition program by $32 million, but maintains that initiatives, such as site consolidation, training, and improved financial management practices will reduce the per-meal costs by 2 percent below the 1983 level.

In addition to reductions proposed in the nutrition program, the administration's fiscal year 1984 budget proposes decreases in the senior employment program (title V) of $4.8 million, in State agency administration of $2 million, and in training and research activities (title IV) of $17 million. Reductions in the title IV area represents a decrease of over 75 percent from the fiscal year 1983 funding level, and would significantly reduce training, research, and discretionary programs in aging.

OLDER AMERICANS ACT PROGRAMS

[Budget authority in millions]

	Fiscal year 1982 appropriation	Fiscal year 1983 appropriation	Fiscal year 1984 budget request
Title II:			
National Clearinghouse	$0.6		
Federal Council on Aging	.15	$0.18	$0.18
Title III:			
State administration	21.7	21.7	20.0
Social services	240.9	240.9	240.9
Congregate meals	286.7	319.1	291.0
Home-delivered meals	57.4	62.0	58.0
Title IV: Training, research and discretionary projects	22.2	22.2	5.0
Title V: Senior community service employment [1]	277.1	281.9	277.1
Title VI:			
Grants to Indian tribes	5.7	5.7	5.7
USDA commodities program	93.2	100.0	[2] 100.0

[1] In the fiscal year 1984 budget proposal, the administration has requested a change in the senior community service employment to an employment and economic development category.

[2] In the fiscal year 1984 budget proposal, the USDA commodities program is shown as a transfer to the Administration on Aging.

OLDER AMERICANS VOLUNTEER PROGRAMS

The older Americans volunteer programs (OAVP), administered by the ACTION agency, were reauthorized in 1981, under the Omnibus Budget Reconciliation Act. The programs consist of the retired senior volunteer program (RSVP), the foster grandparent program (FGP), and the senior companion program (SCP). These programs serve a dual purpose of uniting the time and energy of mature, experienced, and skilled people with unmet community and individual needs. Opportunities are provided for persons 60 years of age and over to volunteer their services to the community, by working with the emotionally disturbed, the mentally retarded, the physically handicapped, the infirmed, and the isolated elderly.

The ACTION office has estimated that in fiscal year 1982, over 354,000 older volunteers served in 1,031 locally operated older Americans volunteer programs.

For fiscal year 1983, the volunteer programs are authorized at $100.7 million. In the fiscal year 1984 budget request, the Reagan administration proposes to fund these programs at a level of $87.9 million. For fiscal year 1983, these programs are operating under the authority of a continuing resolution at a level of $87.9 million.

For fiscal year 1984, the administration estimates that the RSVP program will support 359,000 part-time volunteers providing service in the areas of health, nutrition, education, the problems of troubled youth, refugee assistance, crime prevention, and other community services. Additionally, it estimates that 18,100 foster grandparent volunteers will serve about 54,000 children, and approximately 4,800 volunteers in the SCP program will provide long-term care services to about 17,000 frail and elderly persons.

OLDER AMERICANS VOLUNTEER PROGRAMS

[Budget authority in millions]

	Fiscal year 1982 appropriation	Fiscal year 1983 appropriation	Fiscal year 1984 request budget
RSVP	$26.388	$27.445	$27.445
FGP	46.079	48.400	48.400
SCP	12.107	12.016	12.016
Total	84.637	87.861	87.861

SOCIAL AND COMMUNITY SERVICES

SOCIAL SERVICES BLOCK GRANT

The Omnibus Budget Reconciliation Act of 1981 created the social services block grant (SSBG) which authorizes a wide variety of community social services to individuals and families. The social services block grant succeeded a similar but somewhat more restrictive program of social services grants to States under title XX of the Social Security Act. Title XX programs were designed to prevent or reduce dependency, prevent neglect or abuse of children and adults, prevent or reduce inappropriate institutionalization, and provide a limited range of services to individuals in institutions.

Under the SSBG, States receive allotments based on population, and largely determine the services they wish to provide to meet the specific needs of people in their local communities. Those services include foster care, child and adult protective services, homemaker services, family planning, preparation and delivery of meals, transportation, counseling, supportive health services, and day care for adults. Income eligibility and targeting provisions for serving certain population groups previously required under title XX were repealed under the block grant legislation. The Reconciliation Act authorized funding for the SSBG at the level of $2.4 billion in fiscal year 1982, $2.45 billion in fiscal year 1983, $2.5 billion in fiscal year 1984, $2.6 billion in fiscal year 1985, and $2.7 billion in fiscal year

1986 and thereafter. The 1983 continuing resolution funded the program at the authorized level of $2.45 billion. In the fiscal year 1984 budget request, the Reagan administration has proposed the continuation of this program at its authorized level of $2.5 billion.

Programs under the SSBG are not age-specific, and it has been difficult to identify the number of elderly served, as well as the types of services they have received. Various surveys that have been conducted on this issue suggests that between 10 and 20 percent of the SSBG grant funds directly benefit elderly persons. Applying an average figure of 15 percent to the $2.5 billion proposed by the administration, funding for the elderly would be approximately $375 million for fiscal year 1984 under this program.

Social services block grant budget authority

	In billions)
Fiscal year 1981 level	$3.0
Fiscal year 1982 level	2.4
Fiscal year 1983 estimate	2.45
Fiscal year 1984 budget proposal	2.5

Community Services Block Grant

Community action against poverty has been carried out by a nationwide network of over 850 community action agencies, federally administered by the Community Services Administration (CSA).

The Omnibus Budget Reconciliation Act of 1981 abolished CSA, and replaced its activities and funding with a community services block grant, to be administered by the Department of Health and Human Services. The community services block grant provides funds for antipoverty efforts, such as services to secure employment, to gain adequate housing, and for needed emergency assistance. The Reconciliation Act authorized annual funding of $389.4 million, with States receiving allotments based on the amounts they received from CSA in fiscal year 1981. States are required to pass on most of their allotments to local governments and private nonprofit agencies to conduct antipoverty activities.

For fiscal year 1983, these programs are funded under the authority of a continuing resolution at a level of $360.5 million. In the fiscal year 1984 budget proposal, the administration has requested no funding for the community services block grant. Instead, the administration has proposed that States use other sources of funding for antipoverty programs, particularly funds provided under the social services block grant. As indicated under the social services block grant section, the administration has proposed a $50-million increase in program funding. In justifying this phaseout and suggesting funding through the social services block grant, the administration maintains that States would gain greater flexibility, because the SSBG contains fewer restrictions, and as such, States would be able to develop the mix of services and activities which are most appropriate to the unique social and economic needs of their residents.

Community services block grant budget authority

	In millions
Fiscal year 1981 appropriations	$526.4
Fiscal year 1982 appropriations	366.1

	In millions
Fiscal year 1983 appropriations	360.5
Fiscal year 1984 Reagan budget request	....

LEGAL SERVICES

The Legal Services Corporation (LSC) was established to fund State and local agencies that provide civil legal assistance to the poor. Formed in 1974, it is a private, nonprofit corporation, whose community offices are the major source of legal assistance to the low-income elderly. In 1982, persons 60 years and older made up 14 percent of the total caseload of all LSC programs.

The LSC is currently operating under the authority of a continuing resolution at a level of $241 million effective through September 30, 1983. For fiscal year 1984, the Reagan administration proposed that the Corporation not be reauthorized, and that no further separate Federal funding be provided. The administration has proposed that the funding made available to the States under the social and community services block grants, be used for legal service activities.

Legal Services Corporation

	In millions
Fiscal year 1982 continuing resolution	$241.0
Fiscal year 1983 continuing resolution [1]	241.0
Fiscal year 1984 Reagan budget	....

[1] Expires on Sept. 30, 1983.

HOUSING

ASSISTED HOUSING

The Department of Housing and Urban Development (HUD) administers three major programs to improve rental housing conditions for low-income individuals and families. First, the section 8 program provides assistance in the form of rental payments, to encourage the construction of new units, the substantial rehabilitation of existing units, and the use of standard existing units. Second, the section 202 program provides direct Federal long-term loans for the construction of rental housing for low-income persons who are elderly or handicapped. Section 8 housing assistance payments are used in conjunction with the section 202 program. Third, the public housing program is a locally operated program in which public housing agencies engage and assist in the development of public housing projects which may be newly constructed, rehabilitated, existing, or leased. Over 43 percent of all assisted housing units under these programs are occupied by older Americans.

Over the last 2 years, Federal funding for assisted housing programs has been gradually reduced. Both the Senate and the House considered, but did not pass, comprehensive housing program revisions in 1982. In the absence of authorizing legislation, Congress did not appropriate new fiscal year 1983 funds for section 8 new construction/substantial rehabilitation and public housing programs. The following table indicates the number of assisted housing units for which funding has been made available in fiscal years 1981, 1982, and 1983.

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING, FISCAL YEAR 1981-83 UNIT RESERVATIONS BASED ON CONGRESSIONAL ACTION

	Fiscal year 1981		Fiscal year 1982	Fiscal year 1983
	Before rescission	After rescission		
Section 8:				
New construction/substantial rehabilitation	85,344	51,500	26,735	0
Section 202	18,800	18,400	17,200	14,000
Existing	132,907	107,100	74,296	67,146
Subtotal—section 8	237,051	177,000	118,231	81,146
Public housing	42,000	30,396	24,000	[1] 2,000
Total	279,051	207,396	142,231	83,146

[1] Indian housing units.

The administration's proposed fiscal year 1984 budget for assisted housing programs contains several major elements. Similar to last year's budget, the President recommends shifting Federal housing efforts almost exclusively into rental assistance for tenants in existing housing by (1) virtually terminating the new construction of section 8 and public housing projects; (2) replacing at a reduced subsidy level, the old programs with a vouchering system (the housing payment certificate program); and (3) authorizing a program of grants to States and local governments for the rehabilitation of low-income properties.[4]

The new housing certificate payment program would replace the current section 8 existing housing program. Families could pay any amount of rent and then pay out or keep the difference between that rent and the worth of the housing payment certificate. The administration estimates that the average initial certificate would be worth about $1,900 per recipient household. The amount of subsidy would vary by a family's geographic location, size, and average income. Specifically, the payment standard would equal private market rents in the 40th percentile of the market. The standard tenant contribution assumed would be 30 percent of adjusted family income. Funds are provided in the fiscal year 1984 budget for 120,340 certificates, 80,000 as net additions to assisted housing with most of the remainder for section 8 existing program conversions.

For fiscal year 1984, the administration proposes to continue the provision section 8 new construction/substantial rehabilitation subsidies for 10,000 units for the elderly and handicapped built under the section 202 direct loan program.

Congregate Housing Services

The Congregate Housing Services Act, passed in 1978, authorized HUD to award grants to public housing authorities and section 202 housing sponsors, to provide nutritional meals and supportive services to partially impaired elderly and handicapped persons, allowing them to remain in their own dwellings, and out of expensive institutions. These 3- to 5-year grants require supplemental funding from other community sources to support the delivery of serv-

[4] See community development section of this information paper.

ices. The law prohibits the duplication of existing services and sets up a procedure for coordinating them with congregate housing services through the local area offices on aging. Specifically, congregate housing services projects are required by law to provide at least two meals per day, 7 days a week, at central dining facilities. Homemaker, housekeeping, personal assistance, counseling, transportation, and other necessary supportive services may be offered as needed. Program participants are required to pay a fee for the services they receive based on their ability to pay.

In enacting the congregate housing services legislation, Congress was responding to two pressing problems—the growing number of frail Americans and the skyrocketing cost of health care. At that time, evidence was presented to the authorizing committee, demonstrating that the provision of relatively low-cost meals and other support services in a residential setting could prevent premature, expensive institutionalization in nursing homes, as well as unnecessarily long hospital stays.

At the end of 1982, over 63 congregate housing services projects had been funded, committing the $20 million appropriated for the program by the Congress in fiscal years 1979 and 1980. The fiscal year 1983 HUD and independent agencies appropriations bill provided $3.5 million for the continued funding of 28 existing congregate housing services projects for 1½ to 2 years. An additional $500,000 was appropriated for new projects in rural areas.

As with the administration's fiscal year 1983 budget, the fiscal year 1984 budget contains no request for additional funding for the congregate housing services program.

COMMUNITY DEVELOPMENT

The community development block grant (CDBG) program provides entitlement grants to all large cities and urban counties, and discretionary grants to selected smaller communities. The discretionary grants are made either by the Department of Housing and Urban Development or by States, if they have elected to administer the program. Funds may be used for a wide variety of community and economic development activities, largely at the discretion of recipient communities. These activities include housing rehabilitation, infrastructure improvement, public facilities, and public services, all to benefit principally low- and moderate-income people.

In fiscal year 1982, $2.4 billion went to 732 large cities and urban counties while over $1 billion was distributed to smaller communities.

For fiscal year 1983, a funding level of $3.456 billion was provided for the CDBG program. The President's budget requests $3.5 billion for this purpose for each of fiscal years 1984, 1985, and 1986. The increase is intended to accommodate a new $75 million program for Indian tribes. In addition, the administration proposes to provide CDBG recipients with more flexibility in addressing their individual community and economic development needs by expanding the list of eligible activities to include new housing.

The administration proposes to terminate the section 8 moderate rehabilitation program and the rehabilitation loan fund and substitute a new grant program for subsidizing the rehabilitation of rental units. The new rental rehabilitation grants program would be linked with the modified section 8 housing payment certificate program discussed in the assisted housing section of this paper. When a unit is rehabilitated under this program, it would be made available to low-income tenants with housing payment certificates. The program would provide grants to States and units of local government for up to half the cost of rehabilitating rental properties. The administration is proposing an authorization of $150 million for fiscal year 1984 for this new program.

WEATHERIZATION

The Department of Energy is responsible for administering the weatherization assistance program. The primary goal of the program is to make the Nation's existing housing stock more energy efficient. In fiscal year 1982, the program provided $144 million to States with approved plans for weatherizing the homes of households with incomes at or below 125 percent of the poverty level. This amount represented roughly a 20-percent cut from the fiscal year 1981 funding level of $182 million. The Department of Energy reports that 155,028 units were weatherized in calendar year 1982, bringing the program's total production to 905,739 homes. The Department has indicated that most of the dwellings that have been weatherized were occupied by the elderly. For fiscal year 1983, weatherization programs are funded under the Interior Appropriations Act of 1983, at a level of $145 million (Public Law 97–394).

No funds for weatherization have been requested by the administration in its fiscal year 1984 budget proposal. The administration has proposed the elimination of categorical funding of the Federal weatherization program along with the dismantlement of the Department of Energy. In justifying the phaseout of the weatherization program, the administration has indicated that "the needs of low-income households in adjusting to higher energy prices can be met through other programs, such as the low-income energy assistance program in the Department of Health and Human Services." Under the low-income energy assistance program (LIEAP), States may use up to 15 percent of their allocation for weatherization activities. As mentioned in an earlier section, the administration has proposed to reduce LIEAP funding by $675 million for fiscal year 1984.

EDUCATION

Title I of the Higher Education Act set farsighted goals in the area of continuing education for older citizens and other adults. However, this title has not been funded recently as efforts to control Federal spending have intensified.

The title I–B educational outreach program was funded at $15 million for fiscal year 1981. During fiscal year 1981, the Reagan administration requested a rescission of $12.8 million of the program. Congress agreed to this request, and the program subsequently retained $2.2 million of the $15 million for the maintenance of educational outreach offices at the State level.

The Omnibus Budget Reconciliation Act of 1981 placed a ceiling of $8 million on the level of funding for adult education for fiscal years 1982, 1983, and 1984. Both the continuing resolution for fiscal year 1982, and the Reagan budget for fiscal year 1983, contained no funding for this program. Although an authorization remains in place for educational outreach activities under the Omnibus Budget Reconciliation Act of 1981, the program was essentially phased out by the end of the 1982 fiscal year.

EMPLOYMENT

Currently, two Federal programs provide employment opportunities and assistance to older persons. These programs are the senior community services employment program under title V of the Older Americans Act (OAA), and the employment training program authorized under section 109 of title I of the Job Training Partnership Act.

The senior community services employment program (SCSEP) was recently reauthorized under the 1981 amendments to the Older Americans Act, and is administered by the Department of Labor. The program provides part-time employment opportunities in community service activities for low-income persons aged 55 and over. Participants may work up to 1,300 hours per year, or an average of 20 to 25 hours per week, in a wide variety of community service activities. During the 1981-82 program year, 54 percent of the job placements were in services to the general community, while 46 percent were in services to the elderly. The program provides substantial support to nutrition services, recreation and senior centers, and outreach and referral services for older persons.

The program is operated by eight national contractors and 57 State units on aging throughout the country. In fiscal year 1982, Federal funding was provided to support 54,200 jobs slots, although it is estimated that approximately 84,000 persons participated in the program during this time.

In December 1981, the Comprehensive Amendments to the Older Americans Act were signed into law (Public Law 97-115). The act authorized the following amounts for title V: Fiscal year 1982, 277.1 million; fiscal year 1983, $296.5 million; fiscal year 1984, $317.3 million.

Consistent with provisions of the Older American Act Amendments of 1981, the title V program is "forward funded." That is, appropriations for this program are used during the annual period which begins July 1 of the calendar year immediately following the beginning of the Federal fiscal year, and ends on June 30 of the following calendar year. Congressional action on several appropriations measures during fiscal year 1982 assured funding for the title V program at a level of $277.1 million through June 30, 1983. In addition, during deliberations on the 1983 continuing resolution, Congress added $4.8 million to title V, thereby bringing the annual appropriation for the SCSEP year (July 1, 1983 to June 30, 1984) to $281.9 million.

In its fiscal year 1984 budget request, the administration has proposed to consolidate separate programs authorized by the Older Americans Act into grant programs administered by the Department of Health and Human Services (DHHS). SCSEP is one of the programs that would be consolidated under the new proposal. In budget details provided by DHHS, the administration proposes creation of a new employment and economic development function under the Administration on Aging. Although specific provisions included in the consolidation proposal are not yet known, the administration has indicated that it will be submitting legislation to Congress which will include transferring the administration of the title V program, previously under the Department of Labor, to the Administration on Aging in DHHS. The administration is proposing a funding level of $277.1 million for the employment and economic development in fiscal year 1984.

The provisions of the Job Training Partnership Act (JTPA) of 1982 were adopted by the Congress to replace the Comprehensive Employment and Training Act (CETA) programs. No funding levels for the new JTPA programs were specified by the legislation, but the continuing appropriations resolution for fiscal year 1983 provided $3.7 billion for job training programs, which will be in transition from the old CETA system throughout fiscal year 1983. In fiscal year 1982, $3 billion was appropriated for CETA, although the program operated with an additional $700 million in carryover money. JTPA programs are scheduled to begin October 1, 1983. For fiscal year 1984, the Reagan administration budget requests $3.6 billion for these programs.

Section 109 of title I of JTPA authorizes the second major Federal employment program directed toward elderly employment opportunity and assistance needs. Under this section of the law, special training programs are authorized for economically disadvantaged workers aged 55 and over. The program was created to facilitate the continued participation of older persons who are not currently in the labor force. Under this section, 3 percent of the funds available for State and local programs are to be directed toward older worker training programs. The Reagan budget requests $1.9 billion for title I for fiscal year 1984. Three percent of this total would make $57 million available for section 109 activities.

The Equal Employment Opportunity Commission (EEOC) is responsible for enforcement of the Age Discrimination in Employment Act. A report by the EEOC placed the number of complaints received during fiscal year 1980 at 8,799; the number exceeded 10,000 by the end of fiscal year 1981. Age discrimination charges constitute a significant portion of the EEOC's caseload. The age-related jurisdiction is the fastest growing of all civil rights enforcement statutes. Under a continuing resolution in effect through September 30, 1983 (Public law 97-377), funding for the EEOC for fiscal year 1983 was $142.7 million. The fiscal year 1984 budget request is $155.3 million.

TRANSPORTATION

Assistance for mass transportation is provided by the Federal Government through a variety of formula and discretionary grant programs. The majority of funds are reserved for capital projects; grants are also provided for operating assistance, planning activities, demonstration projects, and research.

Budget authority of approximately $4 billion is requested by the administration for mass transit in fiscal year 1984. These funds are to be used primarily for capital projects, such as construction and rehabilitation of bus and rail facilities, and replacement and repair of rolling stock. Presently, the Urban Mass Transportation Act (UMTA) is the primary source of funding for mass transit programs, and contains a number of provisions which benefit older persons, either directly or indirectly. UMTA was most recently amended by the Surface Transportation Assistance Act of 1982 (STAA). The STAA significantly restructures Federal assistance for mass transit programs previously authorized under UMTA. Beginning in 1984, the existing discretionary grant program will be funded with 1 cent of the 5-cent-per-gallon new motor fuels tax increase, and will be used for capital projects. In addition, a new grant program (section 9) begins in 1983 and will be financed by highway user taxes in the first year and general revenues thereafter. This program will distribute funds on a formula basis for capital and, to a limited extent, operating projects in both urban and rural projects. The STAA requires that 97 percent of section 9 funds be allocated to cities with populations of 50,000 and over, and 3 percent be provided to cities with populations under 50,000.

As mentioned above, several provisions in the Urban Mass Transportation Act provide assistance for the elderly. They include: Section 16(b)2 under the urban discretionary grant program (section 3); section 18 under the nonurban formula grant program; and section 5 under the urban formula grant program.

Section 3 of UMTA provides urban discretionary grants for purposes such as rehabilitation of transit facilities, new technologies, innovative transit demonstration projects, and technical planning assistance. In fiscal year 1984, the Surface Transportation Assistance Act will fund discretionary grants from the mass transit account of the highway trust fund (1 cent per gallon of the new motor fuels tax). Section 16(b)2 of UMTA, as amended by the STAA, authorizes 3.5 percent of these discretionary grant funds to be set aside for capital assistance grants to States, local agencies, and private nonprofit groups, for transit services to the elderly and handicapped. This represents a 1.5-percent increase from the fiscal year 1982 level. Section 16(b)2 was funded at a level of $33 million in fiscal year 1982 and $56 million in fiscal year 1983. In its fiscal year 1984 budget proposal, the Reagan administration has requested $1.1 billion for the discretionary grant program. Applying 3.5 percent to this amount would provide approximately $31 million for programs funded under section 16(b)2.

Section 18 of UMTA provides formula transit grants for capital and operating purposes in nonurbanized areas with populations of 50,000 or less. This grant program was designed to expand access to transportation in rural areas, many of which have high proportions of elderly residents. The program was funded at a level of $68 million in each of fiscal years 1982 and 1983. In fiscal year 1984, formula grants for nonurbanized areas will be funded under provisions of the Surface Transportation Assistance Act. The STAA mandates that approximately 3 percent of section 9 funds be allocated for nonurban formula grants. In the fiscal year 1984 budget proposal, the Reagan administration has requested approximately $2 billion for section 9 formula grants. Using the 3 percent set-aside of the section 9 moneys, approximately $58 million will be available for nonurban formula grants.

Finally, section 5 of UMTA provides grants to all urbanized areas (populations over 50,000) on a formula basis, and permits the moneys to be used for capital operating purchases at the discretion of the individual localities. Section 5 also contains the requirement that localities provide reduced fares in nonpeak hours to elderly and handicapped individuals. Section 5 was funded at a level of $1.4 billion in fiscal year 1982 and $1.2 billion in fiscal year 1983. Under provisions in the STAA, the section 5 program will be terminated at the end of fiscal year 1983 and replaced by the section 9 program in fiscal year 1984. In fiscal year 1984, the administration is requesting approximately $1.9 billion (97 percent of the section 9 moneys) to fund urban formula grants.

URBAN MASS TRANSPORTATION ADMINISTRATION

[Budget authority in millions]

	Fiscal year 1982 actual	Fiscal year 1983 estimate	Fiscal year 1984 budget request
Funding from the general fund (UMTA):			
Urban discretionary grants (section 3)	$1,680	$1,606	
Section 16(b)2 [1]	(33)	(56)	
Urban formula grants, section 5	1,365	1,200	
Nonurban formula grants, section 18	68	68	
Formula grants, section 9 [2]			$1,974
Funding from the mass transit account of the highway trust fund (STAA):			
Formula grants		550	
Discretionary grants			1,250
Section 16(b)2 [1]			(31)

[1] For fiscal year 1982 and 1983, section 16(b)2 was allocated 2 percent of the urban discretionary grant funds (section 3). Beginning in 1984, and under provisions of the STAA, section 16(b)2 is allocated 3.5 percent of the discretionary grants under the highway trust fund of the mass transit account.

[2] Of the total for the section 9 program, $58 million (3 percent) is allocated for nonurban formula grants; $1.9 billion (97 percent) is allocated for urban formula grants.

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