IMPACT OF FEDERAL BUDGET PROPOSALS ON OLDER AMERICANS

HEARING

BEFORE THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

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IMPACT OF FEDERAL BUDGET PROPOSALS ON OLDER AMERICANS

FRIDAY, MARCH 20, 1981

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 5110, Dirksen Senate Office Building, Hon. John Heinz, chairman, presiding.

Present: Senators Heinz, Percy, Grassley, Durenberger, Chiles, Melcher, Burdick, and Dodd.

Also present: John C. Rother, staff director and chief counsel; Becky Beauregard, Eileen Barbera, and Betty M. Stagg, professional staff members; Deborah K. Kilmer and Kathleen M. Deignan, minority professional staff members; Robin L. Kropf, chief clerk; Nancy Mickey and Helen Gross-Wallace, assistant clerks; and Eugene R. Cummings, printing assistant.

OPENING STATEMENT BY SENATOR JOHN HEINZ, CHAIRMAN

Senator HEINZ. Good morning.

Today's hearing is the first of two hearings the committee is holding in Washington to examine the impact on the elderly of the administration's fiscal year 1982 budget.

The Federal Government administers over 160 programs affecting older Americans. It is virtually impossible to devote enough hearing time to deal with all of the budgetary issues surrounding these programs. Therefore, the committee is focusing its proceedings on those proposals in the proposed fiscal year 1982 budget which have the potential to most directly influence the well-being of our Nation's elderly.

Today's hearing will focus on income security issues, especially social security, food stamps, and low-income energy assistance programs.

The committee will conduct a second hearing next Friday to look at the budget proposals as they affect health and human services programs. Through our hearings, we hope to better understand the rationale of the proposals developed by the administration, the potential effects of implementing those proposals, and possible alternative measures to achieve similar savings.

The committee intends to move quickly but thoroughly in its examination of the administration's proposed budget. We are doing this so that we can submit our views to the appropriate Senate committees as they develop their budget reconciliation proposals for the Budget Committee over the next few weeks.

In the last two decades, the Federal Government has initiated vital programs for older Americans that have contributed to their economic security. In spite of our many successes, however, there is much unfinished business.

Today, we are confronted by hard economic times; times in which it is increasingly difficult to allocate new resources for new and expanded programs. For the moment, we must concentrate our efforts on protecting the existing quality of life that is now threatened by persistently high rates of inflation.

The high rates of inflation already have reduced the standard of living of many elderly people. Those on fixed incomes have been most seriously affected by inflation, especially the spiraling cost of such essential items as energy and health care.

Efforts to control inflation cannot be considered in isolation from other Federal policies. Some of these policies may require deferral of needed and justified social spending programs. However, this does not mean that those who are most vulnerable in our society, particularly the low-income elderly, should be made to make undue sacrifices. These people must be protected. And that is one of our major concerns in holding this hearing.

We do have several witnesses to hear from today. I am sure they have a great deal to offer us in our preview of the administration's budget. But before calling our first witness, I would like to yield to any member of the committee who wishes to make a statement. Senator Percy.

STATEMENT BY SENATOR CHARLES H. PERCY

Senator Percy. Thank you, Mr. Chairman, very much, indeed. I would ask unanimous consent that my full statement be incorporated in the record, and I would like to read a few comments from it.

Senator Heinz. Without objection.[1]

Senator Percy. With inflation running at the rate of 13 percent, I think there is no group in America that is more harshly affected than the elderly. So that this is why the Reagan economic recovery program is so vital to this country. It is aimed at bringing down inflation.

And I think the mandate the President received is the fact that the Budget Committee, Democrats and Republicans, voted unanimously, 20 to nothing, to support these cuts in spending programs, is extraordinarily important.

The President's program is designed to lower the rate of inflation by cutting Government spending and stimulating economic growth. The citizens of this country have demanded sweeping action to resolve our current economic crisis, and the President responded with his hard-hitting plan. It calls for some sacrifice now, but a promise of a better tomorrow.

In the process of putting the President's plan into action, the Special Committee on Aging, because of its mandate to study matters of concern to the elderly, has the responsibility to assess the impact of these budget reduction proposals on the more than 25 million older Americans in this country.

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[1] See next page.

For older Americans, the budget news on balance is pretty good. The President has made it very clear, most recently on Wednesday when he met with the Senate leadership, that he will not support cuts in Federal programs which make up the so-called "safety net" for the disadvantaged and the elderly. With these revisions, he has kept his word.

The President has not proposed cuts in core social security benefits on which millions of older Americans depend. The President has not proposed cuts in medicare, which pays about 40 percent of all personal health expenditures for those 65 years of age and older.

The President has not proposed cuts in supplemental security income benefits for the needy aged, blind, and disabled. Last, the President has steadfastly refused to reduce or eliminate the cost-of-living increase in social security benefits scheduled to take effect in July.

There are, however, proposed reductions in some social security payments, food stamps, and low-income energy assistance, which will affect older Americans.

I am very eager to hear the administration witnesses, Mr. Swoap, Under Secretary, Department of Health and Human Services; and Mr. Dickey, to have them fully explain the proposals and what they expect their impact to be on the elderly.

I also welcome the opportunity to hear from the groups which represent the interests of senior citizens and have firsthand knowledge from their membership about the benefits these programs provide.

The only disadvantage, Mr. Chairman, I have seen in our becoming chairmen of committees is that sometimes we have to excuse ourselves. I am chairing a hearing later in the morning, but I hope that we can reach our panel by that time.

Thank you.

Senator HEINZ. Thank you.

[The prepared statement of Senator Percy follows:]

PREPARED STATEMENT OF SENATOR CHARLES H. PERCY

Mr. Chairman, with inflation running at an annual rate of 13 percent, there is no greater enemy of the elderly than an economic policy which allows the cost of living to skyrocket year after year.

That is why I support the President's program. It is designed to lower the rate of inflation by cutting Government spending, and stimulating economic growth. The citizens of this country have demanded sweeping action to resolve our current economic crisis, and the President has responded with a hard-hitting plan that calls for some sacrifice now, with a promise of a better tomorrow.

In the process of putting the President's plan into action, the Special Committee on Aging, because of its mandate to study matters of concern to the elderly, has the responsibility to assess the impact of these budget reduction proposals on the more than 25 million older Americans in this country.

With all new major initiatives come some misconceptions and misunderstandings. The President's economic recovery program is no exception. I have received thousands of letters from elderly Illinoisans expressing fears about one aspect of the plan or another. Some are understandable, because some benefits will be cut. But others have no foundation whatsoever.

So the purpose of this hearing, and the two to follow, is twofold—to get the facts about these proposals and then make an honest assessment of their effect on the elderly both for those who will be directly affected and for the legislative committees which will review them.

I have great hope that the President's plan will work. I cannot emphasize enough the critical need to bring inflation under control.

Older family units continue to have, on the average, about one-half the income of their younger counterparts. That means that they spend proportionately more of their incomes for food, fuel, housing, and health care, all the necessities of living.

In 1980, inflation took a heavy toll. Food costs went up 8.5 percent; housing 15.7 percent, transportation 17.8 percent, medical care 10.9 percent and energy, a whopping 31 percent. With these nondiscretionary expenses increasing at such a rapid rate, it does not take long for inflation to eat up the value of modest—and many times fixed—pension and investment incomes.

It is no wonder that the poverty rate among the elderly is considerably higher than for the population as a whole—15.1 percent compared to 11 percent. The greatest injustice we can do to the elderly and the poor is to allow inflation to continue unchecked.

Some of my elderly constituents have written to me urging my support of wage and price controls as a way to deal with these enormous price increases. On the face of it, this seems to be the easiest way to reduce inflation.

Our experience with controls, however, proves that they are one of the worst ways to deal with inflation. They distort prices. They lead producers to seek unorthodox outlets for legitimate price increases—like expensive foreign oil over which we have no control. When we tried controls, inflation was about 4 percent a year. When they were lifted, the pressures were released and inflation zoomed up to 12 percent. Only with discipline of restrained government was President Ford able to reduce inflation to 4.8 percent in 1976.

In short, Mr. Chairman, we have come to understand that our currency's value has been seriously undermined for the past 15 years and the way to restore its integrity is to cut our deficit spending and set our own fiscal house in order. That is exactly what the President proposes in his economy recovery plan.

For older Americans, the budget news on balance is pretty good. The President has made it very clear—most recently on Wednesday when he met with the Senate leadership—that he will not support cuts in Federal programs which make up the so-called safety net for the disadvantaged and the elderly. With these budget revisions, he has kept his word.

The President has not proposed cuts in core social security benefits on which millions of older Americans depend.

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There are, however proposed reductions in some social security payments, food stamps, and low-income energy assistance which will affect older Americans.

I am very eager to hear the administration witnesses—Mr. Swoap, Under Secretary of the Department of Health and Human Services and Mr. Hoagland, Administrator-designate of the Food and Nutrition Service—fully explain the proposals and what they expect their impact to be on the elderly.

And I also welcome the opportunity to hear from the groups which represent the interests of senior citizens and have first-hand knowledge from their memberships about the benefits these programs provide.

Senator HEINZ. Senator Chiles.

STATEMENT BY SENATOR LAWTON CHILES

Senator CHILES. Mr. Chairman, I want to commend you for holding this series of hearings on the impact of budget proposals on the elderly.

The Senate Committee on Aging has been responsible for assuring that most of the social services and health programs provide for the special needs of the elderly.

In the past, members of this committee have authored legislation to mandate that programs meet the particular needs of the elderly. Such programs are now law, including the health and mental health programs, the energy assistance, employment, transportation, and the income maintenance programs.

Our concern as a committee is that this attention to the elderly's need is not lost.

This committee has already taken significant steps this year to protect the elderly, including the committee resolution which states our objection to the taxation of social security benefits.

Several of us on this committee who are also on the Budget Committee voted this week to preserve the cost-of-living adjustment in the social security program.

This committee held a series of hearings last year on the needs of social security; and we learned a great deal about the system's short- and long-term financial problems. I personally believe that this Congress must act to correct these problems. And we need to do it this year.

I am delighted to see you hold these hearings; and I know that they are going to be beneficial.

Senator HEINZ. Thank you.

Senator Grassley, do you have an opening statement?

Senator GRASSLEY. Yes, Mr. Chairman. Before referring to my statement, though, I would like to comment on what has been referred to here by Senator Percy; namely, the work of the Budget Committee for the last 3 days.

As a member of that Budget Committee, I was overwhelmed with the unexpected bipartisan support of the President's programs, and the close working relationship between Senator Hollings and Senator Domenici. I was also amazed at the overwhelming mutual support of the overall goals, even though there were some specific differences between individual members and sometimes between the political parties. But for the most part, it was the most harmonious and unexpectedly harmonious, I might say, deliberations that I have had the opportunity to participate in in the 6 years that I have been in the Congress of the United States.

So I think that the Budget Committee's deliberations and our decisions leading to now, a determination of the impact through this hearing of some of these programs, and the impact of the budget cuts on these programs is very opportune. And I hope that we come out with a mutual understanding that some changes have to be made, as the President suggested; but that nothing is cast in stone, and that these hearings can still be fruitful to such an understanding.

We are going to try to attempt this morning and next week to assess the impact, both positive and negative, of the 1982 budget proposals sent to Congress by President Reagan. It will be my hope that the witnesses here this morning and those who appear next Friday will help the Senate in its budget deliberations, by presenting us with the details and the informed projections that are so necessary in the budget process.

These facts should address all aspects of older Americans income security programs. I say that because there has got to be a cooperation between private and public. And there is a relationship between the private and public income security programs.

Certainly of primary importance is the security of retirement benefits in America. Both private and public pension plans, social security, as well as personal savings and investments, contribute to the health and well-being of our senior citizens.

But just as importantly, the role of capital formation is served. The reserves accumulated in these retirement pools provide the stimulus for investment that maintain a strong economy; the single most important factor in maintaining income security for our elder citizens.

And then another aspect that I think is so important, but because we focus so much attention just on specific programs in isolation, and because we focus just on senior citizens per se without considering our long-term goals of mainstreaming senior citizens, the intergenerational bond that assures sound retirement for today's senior citizens by today's young workers.

This intergenerational bond must be preserved, whether it be maintained by social security, by private pension, by investments, by savings, or a combination of all, through a sound economy.

In addressing the major retirement income program needs of the future, I hope the witnesses will not overlook employment opportunities and the incentives for older Americans. Every survey that I have seen indicates employment needs as well as the desirability of employment for the elderly. And this is going to grow as a major issue in the years to come.

The steady elimination of mandatory retirement in the public and private sectors will enhance the option of full- or part-time employment. In this regard, I would like to hear the views of the witnesses and what they have to say on the earnings limitation test, which is still in effect for social security payment recipients.

In closing, I would urge the witnesses to address the specifics, as they see them, of the proposed cuts in a number of the nonretirement benefit programs administered by the Social Security Administration. These have been added to the basic old-age and survivors' insurance program. Many believe that these programs threaten the continued solvency of the basic social security program.

I thank you and look forward to your testimony.

Senator HEINZ. Senator Burdick, do you have an opening statement?

Senator BURDICK. No statement.

Senator HEINZ. Senator Dodd, do you have an opening statement?

Senator DODD. No; I don't.

Senator HEINZ. All right, we welcome you here this morning, Mr. Swoap. I would just like to make one additional observation.

As Senator Percy has pointed out, the Reagan administration has gone to considerable lengths to weave a safety net, a formidable one in many respects, under our senior citizens. It includes social security and SSI. It also includes a commitment to the continuation of Older Americans Act programs.

I think it should be noted that there were some people on both sides of the Capitol that wanted, according to news reports, to reduce the cost-of-living index for senior citizens on social security. And I think it is fair to say that if the President hadn't spoken out as strongly and repeatedly as he has spoken out, those cost-of-living adjustments for senior citizens might well have fallen to an excessive enthusiasm of budget cutting here on the Hill.

The committee does recognize the contribution of the President and all of the members of his administration, which they have been making and will continue to make, to our senior citizens.

The purpose of this hearing is to make sure that the fabric of the safety net as it affects senior citizens is wholly sound and intact. We will be looking for holes that were unintended and gaps that were not planned.

We welcome you this morning Under Secretary Swoap.

Senator GRASSLEY. Would the Senator yield for 1 minute on one of the points he brought up?

Senator HEINZ. Yes.

Senator GRASSLEY. I was at a meeting where the President was asked this week whether or not he had changed his mind at all on the cost-of-living index for social security recipients effective July 1, and he spoke vociferously in opposition to the change in that. He spoke in terms of his making a commitment to the electorate before the last election that such a change would not be proposed by him. And he is sticking by that commitment.

To get his program through Congress, the President needs the support of senicr citizens. They make up the bulk of the population most affected by inflation.

And I think it also lends itself to the point of view that any discussion of that change of formula ought to be discussed in conjunction with an overall review of the social security system, and not discussed in isolation, as a budget matter.

Senator HEINZ. Senator Chiles.

Senator CHILES. Mr. Chairman, if I might just comment on your comments. I am delighted to hear you say that we are looking for gaps in the net, because I think there are some gaps in the net.

The proposal of the administration is to delete entirely the minimum payment for social security.

I proposed the amendment several years ago that froze the minimum payment to keep it from going up any further. And I think that we could delete the minimum payment in the future.

But of the 3 million people who are now getting that minimum payment, some 1.1 million are below the poverty line.

We also know in some of the nutrition programs, health programs, again, there are some problems with what is happening to the elderly. And I am delighted that the committee is going to look to see where are there gaps in the safety net. The safety net is good, I think, but it needs to be more than rhetoric; it needs to actually weave the kind of net that we told our senior citizens that it is weaving.

Senator HEINZ. Very well, Mr. Swoap.

STATEMENT OF HON. DAVID B. SWOAP, WASHINGTON, D.C., UNDER SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. SWOAP. Thank you very much, Mr. Chairman, and members of the committee. It is a pleasure for me to be here today. Secretary Schweiker and I and the members of the administration certainly do share the commitment that all of you have expressed; that we maintain the safety net and we maintain the commitment to the Nation's elderly and the neediest of our population, who must rely on many of the programs that we have addressed.

I will be proceeding to discuss the aspects of the President's program for economic recovery that concern the Department of

Health and Human Services and that are of particular interest to this committee.

I would like to commend you, Mr. Chairman, as your colleagues have done, for offering us this opportunity to present the President's program and to explore it in detail.

As you know, my confirmation was Tuesday, and this is my maiden appearance before a committee; but I am particularly pleased that it is this committee, the Senate Special Committee on Aging.

I will be discussing today the specific issues and proposals relating to the social security program of old-age, survivors, and disability insurance (OASDI), the supplemental security income program (SSI), the medicare and medicaid programs, the social services programs, and other related programs that we administer. We believe that these proposals are meritorious in and of themselves.

Yet, they are also a part of the larger program the President has outlined. As we discuss the specific proposals, we must keep in mind the importance of the President's economic recovery plan—the total package of initiatives designed to restore the health and vigor of the national economy. We must not lose sight of the benefits that will accrue to all citizens, including the aged on fixed income, with enactment of the President's program for economic recovery.

And at this point, I would like to digress slightly from my prepared remarks. I will be simply abbreviating my prepared remarks.

I would request the permission of the committee to insert the full text in the record.

Senator HEINZ. Without objection.[1]

Mr. SWOAP. The President's overall economic recovery program, as I have indicated, will have major benefits for the elderly, for the more than 90 percent who draw public pensions, for the 20 percent who draw private pensions, and for the 25 percent who have some earnings.

These benefits generally will come in four areas:

First of all, retirement benefits will be strengthened. Increases in productivity and real earnings growth per capita for the working population of the United States will greatly strengthen the economic base available for retirement benefits, both public and private.

Much of the financial weakness of both OASI and private pensions in the last decade has been due to the abrupt decline during the 1970's in the postwar record of per capita real income growth.

The economic recovery program of the President, by stimulating long-term growth and productivity increases, will benefit the social security program greatly over the next several decades.

Second, we think it will have a major impact on reducing inflation. I would refer to the table[2] that shows the fiscal year CPI increases expected by the previous administration in the 1982 budget, the revised economic assumptions, and the effect upon inflation that the current administration has presented.

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[1] See page 53.
[2] See charts and tables beginning on page 11.

For example, from 1980 to 1984, it was expected under the previous administration's projections that we would see the CPI going from a current annual growth of about 13.5 percent down to only 7.7 percent in 1984.

Under the economic recovery program of the President, we expect that it will fall from the current level of about 13.5 to 5.5 percent in 1984.

Now, the difference between 7.7 and 5.5 percent may not sound substantial, but it has a substantial effect upon family incomes. For example, the median family income between 1974 and 1979 increased from $8,273 to $12,611. But in real terms, in 1967 constant dollars, the median family income went from $5,496 to $5,793—that is a percentage change between 1974 and 1979 of only 5.4 percent.

If we are successful in bringing down the inflation rate, as the President fully expects to do, we will see a significant increase of those figures; so that between 1979 and 1984, we would expect a growth in real income from 5.4 to 8 percent.

So I think the impact upon the reduction in inflation and the resultant benefits it should provide to the people in the Nation's population who must rely on fixed incomes, Mr. Chairman, cannot be overstated.

Third, as you indicated, Mr. Chairman, our goal is to maintain the safety net programs. Almost all of the 25 million Americans aged 65 or older rely, at least in part, on the safety net programs, which the President's budget does maintain. For the most part, these programs are indexed directly to inflation.

Specifically, in 1982, the elderly receiving medicare will continue to receive benefits as at present, based on the cost and length of illness.

In 1982, the 94 percent of the aged who are retired and draw social security benefits will continue to receive their monthly checks, adjusted for inflation. And I will be addressing my attention later in my testimony specifically to the question of social security financing and the commitment that this administration has to maintaining the fiscal integrity of the trust funds.

Other income protection programs for the elderly, notably supplemental security income and Federal pensions, will also be maintained at current benefit levels.

Fourth, with regard to jobs, a large segment of the aged population does continue to work. But many more would like to work. And many of those who work can only find part-year jobs at low pay. Over time, the President's program will greatly increase the number of job opportunities in our economy as it replaces stagflation with real growth. The elderly, like the poor and minorities, will benefit disproportionately from these increased opportunities, just as they have suffered disproportionately from the economic slowdowns of the 1970's.

Much of the newspaper comment about the shortrun impacts of the President's program on the 1982 budget and the economy has missed the essential purpose of our proposals: A long-term revitalization of the American economy which will greatly increase the disposable income available to all Americans, both young and elderly, and avoid different generations and different income classes having to compete for a fixed income base because the gain to one group is a loss to another.

I would like now to direct the attention of the committee to some tables and graphs that are in the back of my prepared testimony. We do have some prepared charts.[1] I am sorry that they were not available this morning. They are being used elsewhere.

But I did want to share with the committee some of our concerns about the overall growth in Federal social programs and the percentage of that growth as it relates to the entire Federal budget.

Between 1950 and 1960, as you look at outlays in billions of dollars in the various social programs which are of concern to this committee, we saw an increase of 82 percent; between 1960 and 1970, that more than doubled, so that we had an increase of 188 percent. But from 1970 to 1980, as you can see, that line took an abrupt upward turn; we had an increase in the last decade alone of 313 percent in Federal social programs.

That is mirrored as well in the bar graph that shows public and private expenditures for social welfare in this country. As you can see, between 1970 and 1975, Federal expenditures went from $77.3 to $169.4 billion. And in the 3 years between 1975 and 1978, the Federal share leapt $240.3 billion. And you can see comparable increases in other Government programs.

If you look at our Department alone, the HHS budget, in 1970, stood at $48.7 billion. The total Federal budget was $196.6 billion. In 1982, it is expected that our budget will have gone from $48.7 to $250.7 billion. As a percentage of the Federal budget, in 1970, our percentage was 24.8 percent. That will go to over 36 percent in 1982.

If you then look at some other comparisons, which are further back in that series of tables, Mr. Chairman and members of the committee, you will see that all of the departments, excluding HHS and Defense, in the Reagan proposals were reduced 13.4 percent from the Carter budget. But the HHS budget was reduced only 3.5 percent from the Carter budget. So even with the cuts that have occurred, as Secretary Schweiker has so frequently stated, the Department of Health and Human Services, the people's Department, has sustained a significantly smaller cut than all of the other departments in the Federal budget, with the exception of Defense. With 36 percent of the Federal budget, the HHS share of reductions was only 20.5 percent.

The increase in the HHS budget from fiscal year 1981 to fiscal year 1982 is $21.5 billion. And when we are talking of cuts, we often lose sight of the fact that we still have within the budget of this Department a major increase between the current fiscal year and the next fiscal year. As you look at all of the increases in total Federal outlays between fiscal year 1981 and fiscal year 1982, we have 54 percent of the increase. So the Department of Health and Human Services has again a substantially higher percentage of the increase in Federal outlays that will be occurring between this fiscal year and the one to come.

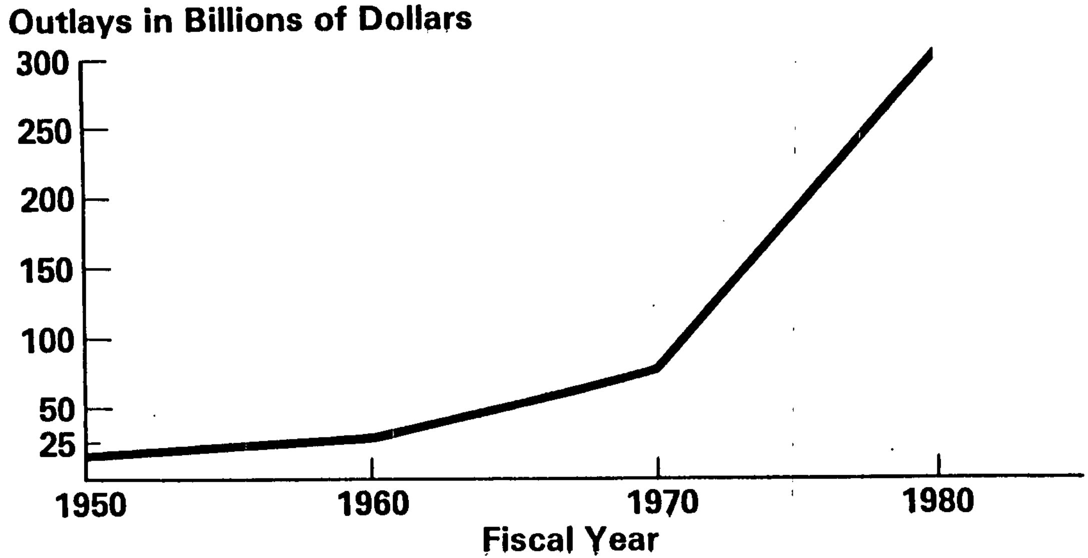
[Charts follow:]

[1] See charts and tables beginning on next page.

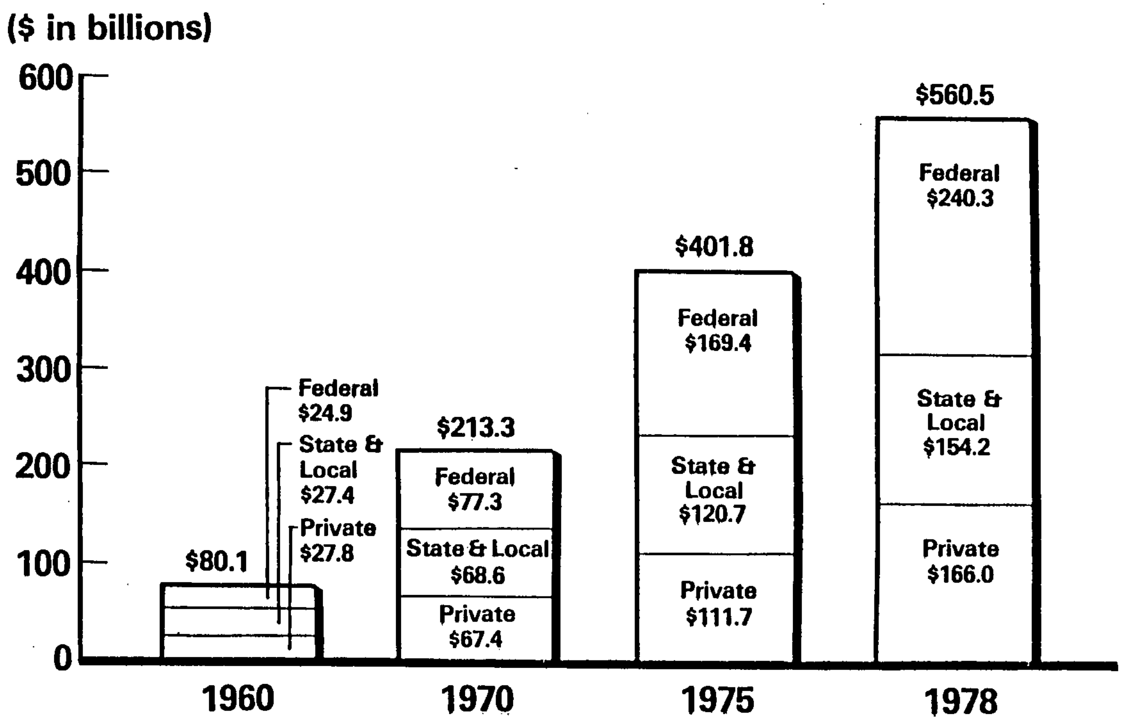
Growth in All Federal Social Programs

(Outlays in Billions of Dollars)

(Includes Programs in HHS, Labor, VA, Education, Agriculture, HUD, and Other Domestic Agencies)



Public and Private Expenditure for Social Welfare



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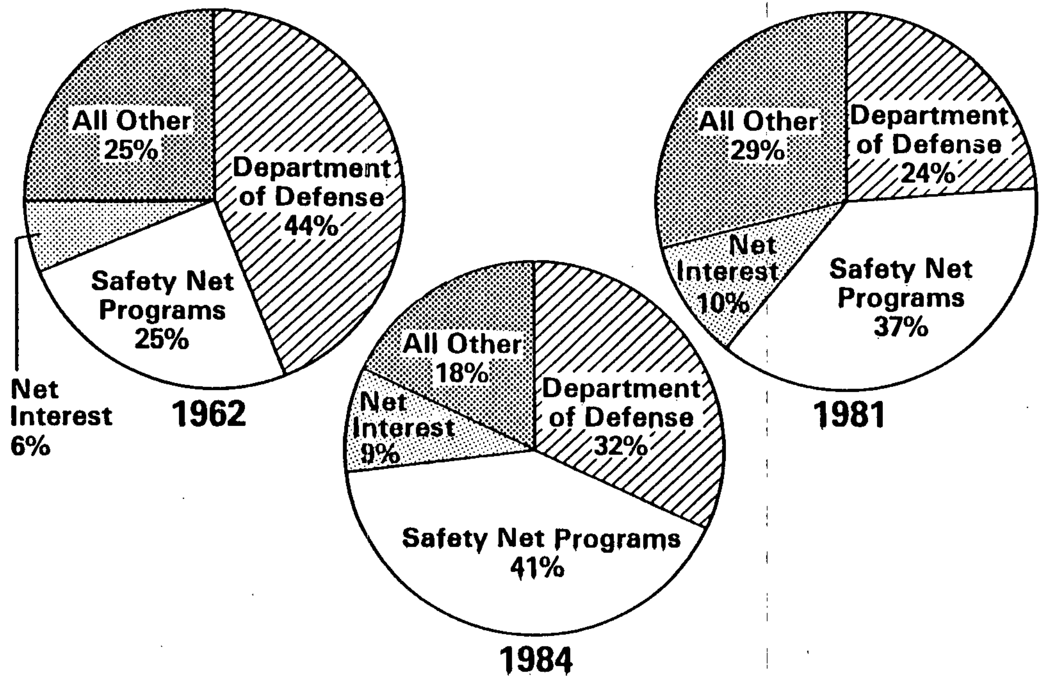
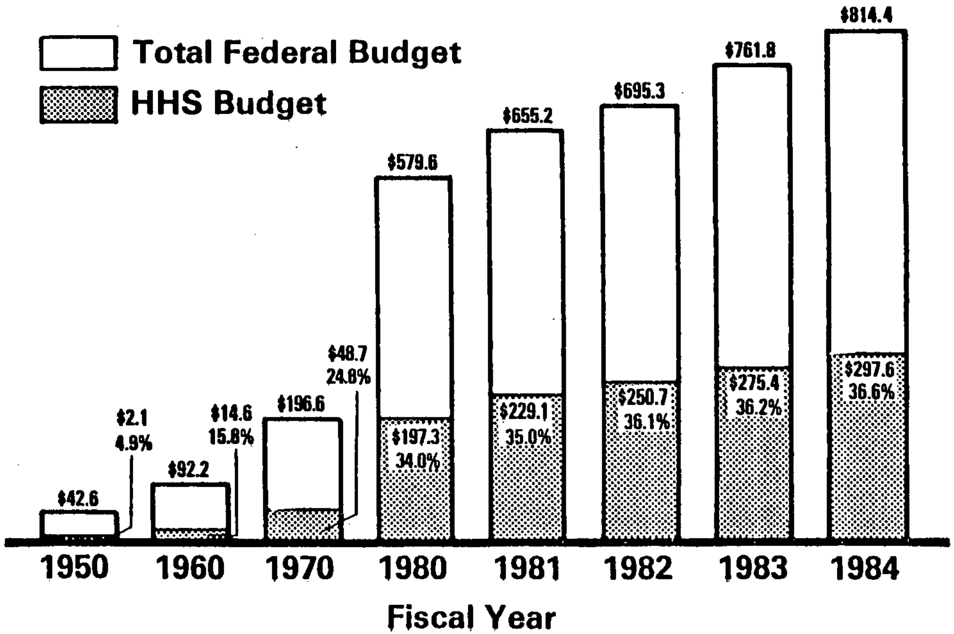
Shift in Budget Priorities
(Percent Composition of Outlays)



HHS Percentage of Federal Budget

Outlays in Billions of Dollars



FY 1982 HHS Budget Changes

All Other Departments Excluding HHS and Defense Were Reduced 13.4% but the HHS Budget Was Reduced 3.5% from the Carter Budget.

With 36% of the Federal Budget, HHS Share of Reductions Was Only 20.5%.

Increase in HHS Budget from FY81 to FY82 Equals $21.5 Billion — 54% of Increase in Total Federal Outlays.

The Cost of Inflation to HHS Programs

A One Percent Increase in Inflation Increases the Cost of:

Medicare	$ 500,000,000
Old Age, Survivors and Disability Insurance	1,400,000,000
Supplemental Security Income	50,000,000
Total	$ 1,950,000,000

The 1981 Medicare Inflation Adjustment and Social Security Cost of Living Adjustment Will Increase the 1982 Costs of These Programs By:

Medicare	$ 5,043,000,000
Old Age, Survivors and Disability Insurance	14,900,000,000
Supplemental Security Income	560,000,000
Total	$20,503,000,000

Block Grant Benefits

- **Improves Services Delivery Effectiveness:**
  - Assigns Responsibility to States
  - Provides States with Resource Control and Flexibility
- **Allows States to Meet Particular Needs and Priorities of Their Citizens**
- **Makes More Efficient Use of Resources:**
  - Eliminates Duplicative Administrative Overhead
  - Removes Unnecessary Federal Requirements

Health Service Block Grant

Consolidates 15 Programs:

- **Community Health Centers**
  - — Primary Health Care Centers
  - — Black Lung Clinics
  - — Primary Health Care
- **Migrant Health**
- **Home Health Services**
- **Maternal and Child Health**
  - — Grants to States
  - — SSI Payments to Disabled Children
- **Hemophilia**
- **Sudden Infant Death Syndrome**
- **Emergency Medical Services**
- **Mental Health and Substance Abuse Services**
  - — Mental Health Services
  - — Drug Abuse Project Grants and Contracts
  - — Drug Abuse Formula Grants to States
  - — Alcoholism Project Grants and Contracts
  - — Alcoholism Formula Grants to States

Appropriation Authorization: $1,138 Million

Preventive Health Service Block Grant

- **Consolidates 11 Programs:**
  - — High Blood Pressure Control
  - — Health Incentive Grants
  - — Risk Reduction and Health Education
  - — Venereal Disease
  - — Immunization
  - — Fluoridation
  - — Rat Control
  - — Lead-Based Paint Poisoning Prevention
  - — Genetic Disease
  - — Family Planning Services
  - — Adolescent Health Services

Appropriation Authorization: $260 Million

Social Services Block Grant

Consolidates 12 Programs:

- Social Services
- Day Care
- State and Local Training
- Child Welfare Services
- Child Welfare Training
- Foster Care
- Child Abuse Prevention and Treatment
- Adoption Assistance
- Developmental Disabilities
- Runaway and Homeless Youth
- Community Services Administration (economic development not included)
- Rehabilitation Services

Appropriation Authorization: $3.8 Billion

Energy and Emergency Assistance Block Grant

- **Consolidates Two Major Programs:**
  - — Emergency Assistance Under the Social Security Act – both HHS and CSA Components
  - — Low-Income Energy Assistance

- **Funds Can Be Provided for:**
  - — Home Energy Costs
  - — Low-Cost Weatherization
  - — Temporary Financial Assistance, Food, Clothing, Shelter
  - — Emergency Medical Care
  - — Emergency Social Services

Appropriation Authorization: $1.4 Billion

Mr. SWOAP. During some of the testimony on the House side, there was a concern that many of the figures that I have presented were distorted because of the inclusion of social security. And the indication was that if we took social security out, then we wouldn't see the major increases that I have been describing. If you look at the data, however, exactly the opposite is true.

In constant dollars, all Federal social spending was 2.57 times higher in 1980 than in 1965. That is including social security. If you factor out social security, Federal social spending was 3.23 times higher in 1980 than in 1965. So I think whether you include social security or exclude it, we still have seen a massive increase in the social programs with which we are concerned.

I would now like to direct my attention to some specific effects of our recommendations on the population and programs, specifically with regard to the elderly, Mr. Chairman.

There are approximately 25 million persons aged 65 or older; 15 percent, or 3.8 million, have incomes, including Federal cash assistance, below the poverty level. At the same time, if you include in-kind income and other sources of income transfer, you will find that percentage is substantially lower.

With regard to the safety net programs, the major safety net programs provide substantial assistance and protection for the elderly.

Approximately 95 percent of the aged receive social security and medicare benefits.

Social security in particular plays a major role in alleviating poverty. For example, there are roughly 15 million elderly or their dependents whose incomes would fall below the poverty level if they were not receiving social security benefits.

These benefits, including the cost-of-living increase in social security, to which you referred, Mr. Chairman, and adjustments in medicare benefits to offset rising medical care prices, are fully protected in the administration's budget.

In the supplemental security income program, there are 1.8 million aged persons receiving SSI benefits. Their cost-of-living increases, again, are fully protected.

With regard to other HHS programs that provide important additional assistance for the elderly, here are a few examples.

In the Administration on Aging, nutrition activities are maintained at the 1981 current services level, and States are given important additional discretion on how the funds will be used.

Six million aged persons received medicaid benefits. The aged account for 15 percent of all medicaid beneficiaries and 30 percent of all medicaid expenditures.

In title XX, social services, 20 percent of all Federal funds are expended for the elderly.

Returning for the minute to social security, I would like to address again, in a comparative context, the value of benefits today in terms of purchasing power in comparison with 25 years ago. From 1955 to 1980, social security benefits have increased about 60 percent more than prices. A small part of this increase is due to ad hoc benefit increases enacted before 1974. But most is due to the reflection of workers' higher wages in their benefit amounts. None of this increase is attributable to the automatic cost-of-living increase.

The CPI in December 1980 was 322 percent of the CPI in December 1955.The average social security benefit awarded in 1955 was $70. In December 1980, it was $359. If benefits had only kept up with the CPI, the December 1980 amount would be about $225. So social security beneficiaries have found that they have not only been protected by a safety net, but have received substantial insulation from the increase in the level of prices.

Now, I will describe for the committee the specific impact that budget cuts will have on the elderly, and then go into substantially greater detail, going beneath some of the initial numbers.

First, let me summarize the overall changes in the budget to put these comments in perspective.

The initial comparison I will be giving you is between the budget being reviewed by this committee and the Carter budget. And then in turn I want to describe the differences between the current and future levels of services.

In the aggregate, the HHS budget for 1982 was reduced $9 billion below the Carter budget for 1982, which as I mentioned before was a 3.5-percent reduction compared with the 13.4-percent cut that all other agencies, except Defense, sustained. Overall, the HHS budget is up $21.5 billion over 1981; over half, as I mentioned, of the total increase in Federal outlays.

If you look at programs that directly benefit the elderly—social security benefits, medicare, supplemental security income, and the Older Americans Act—the entire net HHS increase of $21.5 billion is attributable to the increased benefits and services in these four programs. The entire increase of $21.5 billion is attributable to increased benefits for the persons with whom this committee is concerned.

If you look at the $9 billion in reductions, the only savings proposal which directly affects benefits now received by the aged in the four major program areas that I mentioned is repeal of the social security minimum, which has a saving of approximately $1 billion, including offsetting SSI increases. Of this amount, about $700 million represents reduced Federal payments to the elderly who have incomes above SSI eligibility cutoff levels. And I will be addressing some of the details of the minimum benefits in just a few moments, but I want to stress that point; that about $700 million of the $1 billion represents reduced payments to the elderly who have incomes above the SSI eligibility cutoff levels.

Other social security changes do not directly affect benefit amounts to the elderly; for example, the student benefit reduction, the lump-sum death benefit, and items of that kind, although there may be some ancillary impact on families with whom an elderly person might live.

With regard to program reductions indirectly affecting the elderly, many HHS activities provide services, as you know, to the population at large, including the elderly. Recommendations to consolidate programs into block grants at reduced funding levels, and other savings proposals, could have an impact on the amount of services now going to the elderly. The magnitude, however, cannot be determined, principally because we cannot predict at this point what priorities the States will establish under the block grants and the medicaid cap proposal.

Major service activities which the elderly participate in, Mr. Chairman, include medicaid, title XX, the energy and emergency assistance block grant, and other health services which are the subject of two block grants—one for basic health services, and one for preventive health services.

If, therefore, you assume that the changes I have described will result in comparable reductions in service activities across the board—and I do not expect that to happen, because I expect, as has been the case in the past, that priority attention will be directed to the elderly—but if you assume that there is an across-the-board phenomenon, an estimate as to the possible indirect effect of general program cuts in the four areas that I just described would total in the neighborhood of $750 million.

Therefore, considering the direct and indirect benefit changes, the reduction total affecting the elderly could be approximately $1.5 billion of the $9 billion. However, as I said, it is important to keep in mind that that is in comparison to the Carter budget.

If we look at the difference between the 1981 fiscal year and the 1982 fiscal year with regard to the budget proposed by this administration, we see a net increase of $20 billion of spending for the elderly. And I think it is important to keep those two facts in juxtaposition.

And the cuts that I just described don't take into account the fact that some of the other safety net programs will be picking up the affected people. So that when I mention the cut in the social security minimum, we will have some of the other safety net programs, such as supplemental security income, picking up the slack.

In addition, there is an important fact to be underscored with regard to my comments at the outset. And that fact is that the elderly will benefit from the restored health of the economy, both in terms of inflation reduction and employment opportunities.

So as you take the President's proposals in toto, I think you will find that our attention has been directed toward identifying changes that can occur with the least impact upon the people who are greatest in need and who currently are forced to live on fixed incomes and who currently sustain the brunt of the inflationary spiral.

I would like to assure you, Mr. Chairman, that as the President stated so forcefully in his address to the Nation, none of our proposals represents in any sense a turning away from our commitment to the aged and others who are most in need and must depend for support upon existing public programs. The safety net of social programs upon which these Americans must rely will remain intact.

I would like to now begin to review briefly some of the effects of the proposals.

First, the financing of the social security program:

In the past few years, this huge and vital program has suffered continual financing difficulties which have sapped public confidence in the security of its commitments. Those who rely on social security benefits fear that the funds will run out and that their checks will stop; the workers who pay the taxes that finance these benefits see an ever-larger bite being taken from their paychecks at a time when they have serious doubts that they will ever collect benefits themselves.

You and I know that these fears will not be realized. We also know that to place the program on a sound financial basis will require hard work and tough choices on the part of the administration and the Congress in the months to come.

The administration has already moved forcefully to address the first of these tasks through President Reagan's economic program of budget and tax reductions. We at HHS are addressing the second of these tasks through a working group created by Secretary Schweiker, which I chair, to deal explicitly with social security financing issues.

And I might say to the committee that we are looking as comprehensively and as diligently and as completely as we can at all of the options that are available so that when we do present a proposal to you, it will insure the fiscal integrity of the trust fund, so that we will not be back before you in another 2 or 3 years asking you to deal again with another social security crisis.

Let me review briefly our most recent projections of the status of the social security trust funds, based on these new economic assumptions I described earlier.

First, we continue to project that the OASI trust fund will experience cash-flow problems in mid-1982. Its assets at the beginning of 1982 will amount to only about 13 percent of projected 1982 expenditures, and they would continue to decline over the course of the year.

However, the combined balances in the old-age, survivors, disability and hospital insurance trust funds over the next 5 years appear to be substantially healthier than previous estimates showed. Both the DI and HI trust funds would grow in absolute dollars, and as a percentage of annual expenditures, after 1981.

So if you took the assets of all three of these programs and combined them, either through interfund borrowing or through reallocation of the tax rate, you would find that the combined assets of the three programs would decline as a percent of annual expenditures from 23 percent at the beginning of this year to 14 percent by 1985. But that would be the low point. At that point, we would begin to realize the benefit of the tax rate increases that are in the current law for 1985 and later. So at that point it would drop, we estimate, to 14 percent, and then start back up.

These projections assume the continuation of present law expenditures. If we assume adoption of the proposals recommended in the President's fiscal year 1982 budget, the financial status of the trust funds is improved. The projections taking these proposals into account show a decline in the ratio for the three funds combined from 23 percent this year, to 21 percent in 1983 and 1984, and then an increase to 30 percent by 1986. So in contrast to the 14-percent level, with the President's budget proposals, we would see a decline only to the 21-percent level, and then the ratios start to increase.

Although this would represent a very substantial improvement for the three funds combined, action will still be needed to strengthen the OASI trust fund by the early part of 1982. Even with the proposed legislation, the OASI fund is expected to experience cash-flow difficulties by the end of 1982.

I would now like to turn to a brief review of the President's OASDI budget proposals.

First, with regard to the minimum benefit, let me say this: Under social security, the regular benefit formula does not apply to people with very low average earnings; instead, they get a "minimum" benefit—currently $122 for people who would start getting benefits in the future.

Our proposal for eliminating the minimum benefit will not take the entire social security benefit away from anyone now receiving it or from anyone who, under today's law, will become entitled to receive it in the future. However, it will mean that these people will get only the amount to which they are entitled based on the actual covered earnings they had under social security.

Relatively few people who qualify for the minimum benefit were, in fact, self-sufficient on the basis of their own covered earnings during their working years. A majority of the people who qualify for the minimum benefit and would be affected by its elimination have additional resources in the form of pensions from noncovered work, social security benefits as dependents or survivors of covered workers, or SSI payments.

To the extent that the minimum benefit is paid as a "windfall" to people who have other sources of income, that windfall will be eliminated. To the extent the minimum now goes to aged and disabled people who are in real financial need, the supplemental security income—SSI—program is available to meet that need, with payments financed by general revenues.

I should note that we are not proposing any changes in the separate "special minimum" benefit for people who have worked under social security at low wages for many years.

Second, the lump-sum death benefit:

When an insured worker dies, a lump-sum death benefit of $225 generally is paid to the deceased worker's surviving spouse. If there is no qualified spouse, the lump-sum death benefit is paid to any person who paid the burial expenses. Our proposal would not eliminate this benefit, but would limit payment to cases where there is either a surviving spouse or surviving child beneficiaries. With this change, the payment would fulfill its basic purpose.

And I would like to emphasize that, Mr. Chairman, because there is a belief that is held in some quarters that we are eliminating the lump-sum death benefit entirely. And we are not. It is not the same proposal that had been sent to the Congress previously. We have retained the payment of death benefit where there is a surviving spouse or surviving child.

Senator HEINZ. By unanimous consent, that is emphasized in the text.

Mr. SWOAP. I agree. In italics, perhaps.

Mr. Chairman, while the proposals that I have described are not sufficient to assure adequate social security reserves in and of themselves, the President's proposals, if promptly enacted by the Congress, constitute an important $22.5 billion step over the next 5 years toward placing social security on a sound financial basis.

I would now like to turn to other areas in which we are making recommendations that will affect older Americans.

First, the Older Americans Act itself:

Since the inception of the Older Americans Act, in 1965, the programs supported under its title III, grants for State and community programs on aging, have been the chief operational vehicle for striving to realize the law's objectives. Authority for the establishment of State agencies on aging was included in the original law. That act called for the establishment, in each State, of a single agency to be primarily responsible for coordinating all programs and activities related to the purposes of the Older Americans Act. Authority for the establishment of area agencies on aging was included in the 1973 amendments.

The administration is committed to providing adequate services for older Americans and will shortly submit to Congress a full legislative proposal in the form of a draft bill extending the Older Americans Act programs administered by HHS for 3 years. This bill will restore significant discretion to the States in administering the title III program and will improve the act in other ways as well.

Our major proposals will:

First, merge the three separate social and nutrition services authorities under title III into one. As part of their overall consolidation, the current provisions for special reimbursement from the U.S. Department of Agriculture for meals served under title III will be eliminated. These funds will be included in the allocation to the States as part of the consolidated title III. This provision should have no impact on the level of services offered under title III.

We propose as well to change State and area planning requirements so that each State can decide whether the State agency and the area agencies will submit plans for 2-, 3-, or 4-year cycles.

We would propose to grant greater flexibility to the Department in the use of research and discretionary project funds under title IV.

With regard to the social services block grant——

Senator HEINZ. Let me just say at this point, for the benefit of the members of the committee, that the committee intends to hold hearings on your proposals on the Older Americans Act on April 23. We have chosen that date anticipating that the administration will have computed its proposals by that time. Thus, we will have the details of the legislation before the committee.

Mr. SWOAP. Yes, sir, we appreciate that sense of timing and that consideration. In fact, we have a number of legislative proposals to get up to the Hill. We are working on them as fast as we can. We hope to have the specifics to you and work closely with your staff in the development of those recommendations.

Senator HEINZ. Please proceed.

Mr. SWOAP. As you will recall, we are proposing to the Congress a series of four block grants: one for basic health services, one for preventive health services, one for social services, one for energy and emergency assistance.

With regard to the third in that listing, the consolidation of many of the social services grant-in-aid authorities administered by the Department into a block grant is an important element in the

President's program. The social services block grant consolidates 12 social services authorities into a single block grant authority covering the purposes of the consolidated programs. And I believe, Mr. Chairman, at the end of my prepared statement, you will see a specific listing of which 12 programs those are.

We believe that this approach to social services will resolve several problems caused by the multiplicity and categorical nature of the present Federal-State social services programs.

First, it allows States and localities the flexibility they need to distribute social services funds and to give priority to services which best meet the needs of the residents of the State.

Second, by eliminating many burdensome Federal administrative requirements, standards, and the like, the block grant will permit more efficient State and local administration, thus freeing resources for the provision of services.

The social services block grant to the States consolidates 10 major authorities from our Department, including social services, day care, State and local training, child welfare services, child welfare training, foster care, child abuse prevention and treatment, adoption assistance, developmental disabilities, and runaway and homeless youth.

Two authorities currently administered by other Federal agencies, Mr. Chairman, are also included—the Community Services Administration and Vocational Rehabilitation Services. Our budget request for this consolidated grant authority represents 75 percent of current funding levels, or $3.8 billion for fiscal year 1982.

With regard to the other block grant proposals, the health block grant recommendation specifically, the administration proposes to replace 15 categorical health service programs with the health services block grant. The States would receive a percentage of the funds now available under the existing categorical programs and would make decisions based on their own assessments of health services needs within their own boundaries.

As with the social services block grant, we believe that the States can better administer these funds, given added flexibility, and can make better judgments about the allocation of funds and services.

You will see as well, at the end of the prepared statement, Mr. Chairman, a listing, again, of the specific items we would propose to include in two health service block grants.

Finally, with regard to the fourth block grant, which deals with energy and emergency assistance, we are proposing to establish a block grant authority to the States for providing energy and emergency assistance for needy households. Under our proposal, the funds could be used to assist households in meeting home energy needs, to provide cash or in-kind assistance for emergency situations, for emergency medical care or social services, and other similar uses as the State deems appropriate.

The States will have broad discretion in all aspects of the program, including the use of funds, the population eligible for coverage, the types and forms of assistance provided, and levels of payment.

Thus, each State will be able to design a program which can best respond to its own particular needs.

The block grant consolidates two major programs. One of these—the low-income energy assistance program—provides grants to States to help low-income households meet their home heating and medically necessary cooling needs. This program, which is totally federally financed, has evolved in 5 years from a $200 million crisis intervention program, administered by the Community Services Administration, to a $1.85 billion grant program which subsidizes energy costs in all States.

Although States do have flexibility in many program areas, there is still a myriad of Federal restrictions and requirements to which the States must adhere. For example, States must use the bulk of their funds for general energy assistance to the low-income population and are not allowed to use more than a small portion for energy crisis situations. Due to the unpredictability of the weather in certain States, this may not be efficient and could be downright wasteful.

States also must submit highly detailed and extensive reports as to how they determined payment levels and on expenditures and uses of the funds which add significantly to the expense of administering the program while resulting in nonproductive uses of scarce program funds.

The other program being consolidated, emergency assistance authorized by title IV–A of the Social Security Act, also has some serious shortcomings:

First, it has both burdensome Federal requirements and limitations which constrain its utility. For example, it can only be used to assist needy families with children, and States are not allowed to specify what type of emergencies will be covered.

Second, it provides Federal funds for energy needs which are also covered under the energy assistance program.

Third, coverage is uneven throughout the country. Twenty-five States do not participate, many because they do not agree with the Federal requirements imposed on the use of the funds. As a result, in States which have not elected to participate, some families have been forced to join welfare rolls when denied temporary relief during crisis situations or when faced with an unpredictable need.

Provisions of emergency assistance, which all States can provide under the proposed block grant, can make the difference between a one-time payment to cope with an emergency and a long-term stay on welfare. The only restriction is that the funds are used to meet the purpose of the program. Reporting requirements will be simple.

Our proposal will insure that funds are available to all States to aid low-income people for whatever emergencies the States see fit to cover. It will consolidate the functions now provided under the separate programs and at the same time give States the opportunity to efficiently direct the funds to where they are most needed. By eliminating the cost to the States of Federal redtape and complications that now accompany the programs, and the layers of Federal personnel now needed to direct, approve, and oversee the State programs, a significant amount of money can be saved.

Let me now turn to the President's proposals with regard to medicare and medicaid, starting with proposals to increase the cost effectiveness of the medicaid program.

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In 1970, the cost of the medicaid program to the States and the Federal Government was $5.2 billion. This year, the program will cost approximately $29 billion. It has more than quintrupled in this decade.

Medicaid expenditures have increased more than 15 percent per year for the last 5 years. Under the hospital reimbursement approaches generally used today, the higher a provider's costs or charges the higher the reimbursement. Close observers of the health care scene point to the cost-increasing biases in the program's requirements and in the health care system overall as the source of difficulty.

Consequently, there is no incentive for price competition. At the same time, health care consumers are not always cognizant of the costs of the services they use. They are generally insulated from the financial consequences of using services inappropriately or excessively.

This situation can be remedied only by reestablishing market incentives for the delivery of health care. The administration, therefore, will be proposing comprehensive health financing and medicaid reforms which promote competition.

It will of course take time to develop and fully implement these comprehensive changes.

In the interim, we are proposing that a ceiling be placed on medicaid funding to limit the program's growth. Additionally, we are proposing that title XIX of the Social Security Act be modified to provide greater flexibility to States so that they may reorganize their medicaid programs to deliver care more effectively and at lower cost.

For 1981, the limit would be established by reducing the current base estimate by $100 million. This ceiling would be increased 5 percent for fiscal year 1982. After 1982, Federal spending would be increased based on the rate of inflation as measured by the GNP deflator. We believe that this degree of restraint can be achieved by States without reducing necessary services for the needy.

With increased flexibility in program requirements, States also will be able to implement more cost-effective approaches to delivering care to the needy. Currently, States are unable to take many steps which could make their medicaid programs more cost-effective.

The combination of an interim ceiling on the Federal contribution to each State's medicaid program and enactment of our proposals to provide greater latitude to improve program effectiveness will stimulate States to improve their programs while adjusting program spending to a more acceptable level.

We are also proposing the repeal of several amendments to medicare and medicaid adopted by the Congress in late 1980. These involve low-priority benefit expansions that cannot be justified in light of the need for budget austerity.

The items include expanded medicare coverage for hospital care related to performance of dental procedures, the recognition of free-standing alcohol detoxification facilities and outpatient rehabilitation facilities as separate providers under medicare, and minor home health benefits. None of these expansions would take effect before June 30, so no current benefits would be reduced.

Finally, we are proposing a number of other changes to improve medicare program efficiency and effectiveness. These include elimination of the current automatic reimbursement bonus paid to hospitals for routine nursing services to medicare beneficiaries, elimination of the one-time deferral of PIP reimbursements, movement to a competitive-bid system for medicare contractors and institution of an administrative hearing procedure to more effectively combat fraud and abuse in the medicare program.

In conclusion, Mr. Chairman, I want to reemphasize the importance of these programs. They address a wide area of concerns but have common goals:

First, guaranteeing that the basic social security program upon which millions of Americans currently depend and to which many millions more will look in the future, is fiscally sound and will remain the primary means to insure income to those who can no longer work.

Second, tightening administration of the SSI program.

Third, providing flexibility and funding to States to enable them to more directly design and control their programs to better serve the needs of their residents.

Fourth, increasing the cost-effectiveness of medicare and medicaid.

Fifth, restoring significant discretion to the States in administering provisions of the Older Americans Act.

To meet these goals, the President's program for economic recovery—of which these proposals are an important part—should be given prompt consideration and action.

That concludes my testimony, Mr. Chairman. I will now be happy to answer any questions you may have.

I would simply like to reemphasize that all of us are engaged in the very difficult task of allocating scarce resources to those persons who, through no fault of their own, are entitled by legitimate need to receive aid from the various Government programs.

We recognize that we may differ on the specific points at which our attention has been addressed, but you have my commitment that we in the Department are proceeding with as much care, precision, and compassion as we possibly can to achieve the overall budget reductions that will restore the overall health of the American economy, and at the same time, meet the needs of the persons with whom we are concerned.

Senator HEINZ. Thank you very much.

Your testimony may be the most complete and extensive testimony that this committee has ever received. You have covered a very large area.

I am going to observe, and ask the members of the committee to observe, a 5-minute questioning rule. We can come back for a second round of questioning for those who are so interested. I have some questions I want to start with regarding the medicaid cap.

Now, is it your view that if we cap medicaid, as proposed, that there will be no shifting of hospital costs to either medicare or to other health insurers?

Mr. SWOAP. It is possible that some shifting will occur, Senator, although we think there are several program constraints that will militate against that and will work against that happening.

The medicare program, as you know, has a number of limitations already built into it in the form of coinsurance and limitations on inpatient hospital stays or nursing home stays. And we think that a transfer from medicaid to medicare may not occur to the extent to which others have described.

It is very difficult to quantify what the overall impact would be on medicare expenditures. It depends on how States respond to the medicaid cap, and on what we approve.

Senator HEINZ. Let me give you an example of a situation in which I think a shift of hospital costs from medicaid to medicare might occur. Under current law, medicare part A, the hospital insurance deductible, is picked up by most States under the medicaid program for patients who are medicaid eligible.

With a cap placed on medicaid, States could eliminate the medicaid payment for the medicare deductible. But medically indigent patients would not be able to pay the deductible. And what the hospitals would do is write that lack of payment off as a medicare bad debt. In that case, the cost would be paid by the Federal Government. By the medicare program. Would you agree that is a possibility?

Mr. SWOAP. That is a possibility. But as I indicated, I think there will be other things working in this program mix that will militate against it. One of the specific things that I would point out is that we have been working very closely with the National Governors Association to develop proposals that will provide them with flexibility in the administration of the medicaid program itself, so that the necessity for those further steps will be lessened.

Specifically, we have in mind requesting a very broad waiver authority from Congress which we have indicated specifically to the States that we will use to meet some or all of their recommendations for providing flexibility in the medicaid program.

Specifically, the Governors came to us with a list of eight or nine items. They point out that States need much more flexibility to act as prudent purchasers of drugs or durable medical equipment and to implement such things as prospective reimbursement policies. These are all things that we plan to provide the States.

Senator HEINZ. Mr. Swoap, on that point, I believe the National Governors Association may have submitted a list as large as 11 or 12. When do you anticipate that your proposals for increased flexibility under medicaid will be submitted?

Mr. SWOAP. The proposal for the broad waiver authority will be coming very shortly, within the next week or two.

Senator HEINZ. Let me draw your attention, then, to another kind of potential problem with capping medicaid. In your statement, you indicated that a very substantial portion of medicaid expenditures—some 30 percent—go to pay for extended care. As medicaid costs are limited, one of the things that the Governors are going to start looking for is ways to reduce cost for extended care. Now, if the administration goes ahead and eliminates all PSRO and utilization review, you open up the door for the placement of extended care patients in skilled nursing facilities, which are then reimbursable under medicare. And you also open up the door for the substantially increasing medicare costs through inappropriate placement, which may no longer be controllable. How do you respond to the assertion that this could happen?

Mr. SWOAP. Chiefly, Senator, by citing the limitation that presently exists in medicare but not in medicaid on nursing home coverage. So that I think even if that were to happen, they would encounter the limitations which already exist.

Senator HEINZ. Well, the present limitation is 60 days on skilled nursing?

Mr. SWOAP. No; it is 100 days.

Senator HEINZ. Under medicare?

Mr. SWOAP. Yes; 100 days.

Senator HEINZ. Thank you. That is a very long and extensive stay. And people could be even more inappropriately placed if they were put in standard hospital beds. Both are quite expensive. Both are reimbursable under medicare. It seems to me you do run a risk in this area. I see my time has expired. Let me ask you this. Are there any studies at HHS, perhaps in the Health Care Financing Administration, that indicate that there will be any cost transfers to medicare under the medicaid cap?

Mr. SWOAP. We are looking at that right now, Senator. We do have some preliminary data. As I say, we have not completed the assessment of the interaction between the things you mention and the things that I have described that will also be happening at the State level.

Senator HEINZ. What do the preliminary data show?

Mr. SWOAP. The data, as I recall—and let me see if I can dig that out quickly——

Senator HEINZ. Let me restate the question. Do the preliminary data, which I assume was prepared by the Health Care Financing Administration, show any estimates of increased medicare costs?

Mr. SWOAP. Yes.

Senator HEINZ. Let me ask, if I may, that you submit the more extensive information for the record.

Mr. SWOAP. If I might do that for the record in some detail, Mr. Chairman?

Senator HEINZ. Fine.

[Subsequent to the hearing, Mr. Swoap submitted the following information:]

EFFECT OF MEDICAID CAP ON MEDICARE REIMBURSEMENT OF HOSPITALS AND SKILLED NURSING FACILITIES [1]

A cap on Federal matching funds for medicaid would affect medicare primarily through increased medicare reimbursement of hospital and SNF bad debts for medicare/medicaid dual eligibles whose deductible and coinsurance payments would no longer be paid by the medicaid program. In fiscal year 1982, it is estimated that the 4 million medicare/medicaid dual eligibles will be expected to account for approximately $440 million in medicare hospital cost sharing (inpatient hospital deductible, inpatient and outpatient hospital coinsurance, and SNF coinsurance). Under current law and regulations, medicaid reimburses approximately 80 percent of this amount, or about $350 million.

Currently, bad debts account for about 5 percent of inpatient medicare cost sharing for all beneficiaries. Since 5 percent is the average overall income classes, it is likely that the bad debt rate for low-income individuals would be much higher.

Estimating the exact amount of this coinsurance which would become an obligation of the medicare program is difficult, principally because of uncertainties regarding the amount of flexibility which would be granted to the States to deal with

[1] Source: Office of the Actuary, Department of Health and Human Services.

the medicaid cap and the extent to which individual States would take advantage of this additional flexibility.

As an example of a likely scenario which would result in a minimum additional cost to the medicare program, suppose the States are successful in eliminating medicaid liability for approximately two-thirds of the $350 million in cost sharing now paid by medicaid (this could be easily accomplished by simply making the two-thirds of dual eligibles who are not cash recipients ineligible for medicaid), and further suppose that 25 to 30 percent of this amount results in bad debts. This would result in an additional cost to the medicare program of approximately $65 million, which is about 15 percent of the $440 million in cost sharing estimated for dual eligibles in fiscal year 1982.

Mr. SWOAP. The preliminary estimates of simply the phenomena that you describe, without the interaction of the items I mentioned, show a possible range from $65 million to $440 million. But, as I say, I think that the States, in utilizing the flexibility that we will provide them under the broad waiver authority, Senator, will not be required to undertake some of these shifts that you describe.

Senator HEINZ. Thank you. Senator Percy.

Senator PERCY. Thank you, Mr. Chairman.

One of these questions deals with expressions of concern by constituents, about losing medicare benefits if the monthly minimum benefit under social security is eliminated. They ask whether anything would happen to medicare eligibility under the proposals of the Department.

One question I would like to pursue now is the Department's attitude on assistance to the elderly for energy.

In addition to utility costs going up, all other expenses, including food, are going up. The elderly cannot turn the temperature down many times as other people can, so they are hit with a big energy bill every month.

There are about 17 million eligible households eligible for low-income energy assistance payments.

Can you give us the number of elderly households that are actually receiving payments today from your Department?

Mr. SWOAP. With 20 States reporting expenditures through the close of the first quarter, which was the end of December of 1980, approximately 40 percent of the households receiving assistance were headed by senior citizens.

Senator PERCY. So roughly how many households would that be? If you don't have that offhand, please submit it for the record.

Mr. SWOAP. I will do that, if I may.

[Subsequent to the hearing, Mr. Swoap supplied the following information:]

The Department of Health and Human Services provides the funds with which States make payments to households. The States administer the energy program and are responsible for the development and implementation of a plan which assures that the funds are targeted to those who are in most need of assistance.

Reports by the States for the first quarter the energy program was in operation show that about 400,000 elderly households were served during that period (October through December 1980). This figure represents about 40 percent of all households for which reports were received that quarter.

No conclusion should be drawn from this statistic because it reflects activity during the startup period of the program. Later data should show a substantial increase in the total number of elderly actually served.

Senator PERCY. Now, most of us in the Congress are members of the Alliance To Save Energy that Hubert Humphrey and I founded 4 years ago. And I serve as chairman.

We have just authorized filing suit against your Department.

Are you familiar with that authorization?

Mr. SWOAP. Yes, sir, I am.

Senator PERCY. I have discussed it with Senator Schweiker and told him I don't want to start a new relationship with a former colleague of ours by filing suit against him. However, the authorization provides energy assistance supplements, but the checks keep going out and nothing is done to retrofit that house to save energy.

And so we provided a set-aside authorization so that they can fix those houses up. You get your money back in 1 or 2 years on those kinds of improvements. And yet politicians, departments, and bureaus love to send checks out. And this is wasteful, because those people are going to live for years in those homes. They are uncomfortable living in those homes, as cold as they are today, but they don't have the capital funds to make that investment.

Now, what has the Department done about that? Congress clearly perceived the need, authorized it, and not a penny, that I know of, has been spent in those areas.

Mr. SWOAP. We have moved to redress that very problem.

In the design of the fourth block grant I mentioned, the energy and emergency assistance block grant, you will see for the first time that the kind of weatherization concerns that you have expressed will now be the subject of that expenditure.

Senator PERCY. There is a great worry when you say, "It will be permitted." I don't imagine politicians are any different at the local level than they are here. They love to send out checks to people—look at what we are doing for you.

And yet, you know, retrofitting is an energy saver that is going to save the Federal Government money. And as long as we are taking the money out of the so-called windfall profits tax and paying it to people to supplement for their energy needs, I don't know whether the people at the local level are ever going to do anything.

And now we are just diffusing the decision. If we don't do it here, why would they be expected to do it down there?

And though I don't like regulations that force people to do things, sometimes you just have to say, look, this is in the national interest; we can't afford to keep paying forever these high costs. It is in the national security interest we stop this oil flow coming in from the outside. And we have to do something about it.

Would the Department please look at it from a practical standpoint? Take a couple of test cases. Try them in my State or Pennsylvania.

The degree of ongoing, day-by-day comfort is so much greater in a retrofitted house than it is in one that is not. Energy was cheap before but now it is expensive. And it is coming right out of the hide of the elderly and low-income people.

And I really urge the Department on this. The Alliance is not going to file suit against Dick Schweiker. However, the authority is there; 200 Members of Congress are behind this private organization. Every major labor union and business is saying, do something about this particular problem. Don't let these homes that are sieves stay that way, wasting and squandering energy. Let's figure out a way to do something about it, and just not say, well, we are delegating that to local authorities.

Is that good business?

Mr. SWOAP. We think it is good business because they are closest to the problems at hand.

Senator PERCY. It ain't necessarily so that those closest to the problem are the best able to solve it.

Mr. SWOAP. In the design of the block grant, we did try to address that concern. It is my understanding that the Department of Energy also with regard to large-scale weatherization will be designing another block grant that will be specifically for this purpose and so that it cannot be spent for anything else.

Senator HEINZ. Let me just say to Senator Percy's benefit before he leaves that the committee, on April 9, will be holding a hearing on this very issue of how we can begin to address the problem that the Senator has just quite articulately stated.

Senator PERCY. I will be here.

Senator HEINZ. And we hope we have the administration well represented. I am sure we will.

Thank you, Senator Percy.

Senator Dodd.

Senator DODD. Thank you, Mr. Chairman.

Before Senator Percy leaves, I was going to suggest that that is probably the case in any place but in Cook County. They run things so well there, Mr. Chairman.

But I would like to underscore his concern. It is a very appealing argument to talk about returning to the States and localities the management, the administration, the funds to run these programs. I find that many people in my own State find that that approach has some appeal.

But without going into the same depth that the Senator from Illinois did, I would hope that the administration might be willing to examine some pilot programs in these areas before making the determination, the political determination, that this is absolutely the best way to go.

We have seen a lot of the problems of the Federal bureaucracy in running and administering the programs. And to suggest somehow this will not be the case at the local or State level is to engage in a presumption that is a little dangerous when you consider who the people will be that will suffer as a result of poor administration on the local or State level.

Let me just address a couple of specific questions to you, if I can.

First, you are aware, I am sure, that the National Governors Association has raised some very serious concerns about the medicaid cap. They have raised concerns about the costs and their ability to make this dramatic shift all at one time. And, I am wondering whether or not you have taken a look at what the National Governors Association says, since normally one would assume, if you work on the assumption that Senator Percy has just suggested, that this would be to their political benefit. I find it somewhat intriguing that the Governors of the 50 States are raising some real concerns about their ability to make this dramatic shift all in one fell swoop.

I wonder if you might address that.

Mr. SWOAP. Surely. We have been working very closely, as I mentioned, with the National Governors Association to try to address a number of their specific concerns. They have suggested to us several specific places in the medicaid program where flexibility ought to be provided and where we intend to provide it with regard to the broad waiver authority that I mentioned.

Second, though, I think we should observe that we have had operating in various forms over the last 5 or 10 years block grant programs that are a kind of microcosm of the kind of thing we have in mind.

Title XX itself is a form of a block grant that enables the States to select their priorities.

Third, we are designing the block grants so that there will be interfund, inter-block-grant reallocation authority so that they can take 10 percent from one block and put it in another block if, as Senator Percy mentioned, there is a State that wants to do something specific in additional energy assistance, for instance. So they could do that in that situation.

And then, fourth, with regard to the administrative issue, I don't have the figures immediately in front of me, but as I recall, the State administrative costs in the social services programs alone run about 10 percent. In the low-income and energy assistance, they can go up to 7½ percent. Much of those administrative costs, we think, can absolutely be saved, both at the State level and at the Federal level, as we reduce this shifting of the funds, with the attendant freight charges to Washington and back.

And we think that the States, with that flexibility, will be able to achieve savings that they can then use for programing purposes rather than administrative purposes.

Senator DODD. Let me ask you about the monthly minimum benefit.

There was a survey done in Connecticut—it was fairly recently—which showed that with the food stamp program, a lot of the elderly just did not take advantage of that program. And the survey indicated, first, elderly people were just not aware what they were eligible for; second, as is the case with most older Americans, there was this sense of pride that somehow they were taking something that they had not paid for, that was not theirs; that they hadn't contributed to. It is a sense I might add, that I think is entirely false, but that was what the survey showed.

By eliminating dramatically—and I say "dramatically" because, as you know, there has been at least a proposal going back some 4 years to eventually phase this out—but to do this dramatically, and considering the fact that many older Americans may not be aware they would be eligible under SSI to pick up some of the difference here, does the administration have any proposals at all on how they intend to inform older Americans that they qualify on this, so that many people not aware of it, then would become aware of it, and they would not be hurt as a result of the burdens of inflation falling on them?

Mr. SWOAP. Senator, as you know, we have been moving to consolidate the application point at which senior citizens can secure these various services. So first we had of course the social security program itself. And then in 1974, we had supplemental security income that was administered out of the local district offices. And, recently, we added the proviso that food stamp applications could be taken in the same office so that on a one-stop visit they could be informed of and be enabled to apply for these various programs.

Senator DODD. My time is up. But as to the one-stop shopping, the fact is, a lot of these people don't realize it. You have got to get them to come in, even for that.

Mr. SWOAP. Yes; although the overwhelming majority are receiving social security, or are receiving benefits from one of the social security programs.

I would like to comment on the minimum benefit question itself and address how many people really will be affected by the elimination of the minimum benefit.

Currently, there are just slightly over 3 million people who are receiving the minimum benefit. Of that group, there are several subgroups that are not affected at all: Those that are dually entitled, who receive an amount equal to the higher of their own workers' benefit or a benefit based on their spouse's or their deceased spouse's earnings record. Approximately 1 million beneficiaries receiving the minimum benefit are dually entitled and will not be affected by the reduction. For this group, the spouse's benefit would be increased to make up for the reduction in their benefit.

Second, there are approximately 500,000 who are receiving SSI. And for those who are eligible under the supplemental security income program, the loss of the minimum benefit would, of course, be made up by the SSI program, through increases in their SSI payment.

Senator DODD. Do you have any indications of how many of that 2.5 million would qualify for SSI as a result of dropping the minimum benefit?

Mr. SWOAP. Yes, we do; about 80,000 would be newly eligible for SSI. However, there is an additional group who will not be affected by the elimination of the minimum benefit—those that have an earned benefit which is equal to the minimum. There are approximately 200,000 in that category.

That leaves about 1.3 million who are potentially affected by the reduction.

The breakdown of those persons potentially affected by the elimination of the minimum is as follows:

About 360,000 are Federal, State, or local government annuitants. Many of those are the ones who have windfall benefits. Those are the ones for whom we are trying to provide a more equitable benefit.

As I mentioned earlier, about 80,000 would be newly eligible for SSI. About 500,000 are now eligible for SSI but are not receiving benefits. In addition, recent GAO data suggest that there may be as many as 100,000 additional people drawing minimum benefits who are primarily dependent on the earnings of a nonretired spouse or on a spouse's pension from noncovered employment.

So that when you add up all of those subgroups, it is a total of over 1 million people who have other resources on which they can rely.

So, based on these figures and assuming that none of these groups overlap, approximately 1.3 million who are potentially affected, there is a group of only slightly over 200,000 that will probably sustain a reduction as the result of the elimination of the minimum benefit.

Senator DODD. Thank you. I apologize for going over.

Senator HEINZ. Senator Grassley.

STATEMENT BY SENATOR CHARLES E. GRASSLEY

Senator GRASSLEY. I want to supplement something that Senator Percy was saying, and ask everybody in the room, and on the committee, not to judge all local and State officials by the reputation that Cook County might have. I think there is that tendency if we don't make clear that we have over 3,000 counties in this country and we have 50 State legislatures and 50 Governors and all of that. And I cannot disagree with some of the things he said, for instance, many State legislators are as prone to want to send out checks as we at the Federal level are, thereby making ourselves popular with the public at large.

But conversely, I think it can be legitimately added that we at the Federal level don't have a curb on compassion.

I think there is a feeling here in Washington that we are the only people who are compassionate toward the needs of the poor and the low income and the elderly. And I think that from what I know about my service in the State legislature, as well as other people at the local and State level, that we cannot presume and should not presume and we do a disservice when we do presume—and we are going to ruin the opportunity for these programs to succeed—if we don't understand that State legislators and local officials have the same compassion toward the elderly and the poor that we do in Washington; and maybe, because they are closer to it, hopefully even more.

I think as we talk about the future, hopefully there will be several years for this program not only to get going, but with administrations that will pursue the transfer of programs from the Federal level to the State level, so that we can see if this experiment is actually going to work. I don't like to use the word "experiment," but compared to the last 30 or 40 years, I think we have to look at some of the things we are doing as new ground, even though they fit into the 200-year tradition of our country very well.

This is going to focus on the Governors of the 50 States. There is not going to be any job in the country during the next few years that will be a tougher job than that of being Governor of a State, not only because of the increased responsibilities that we want them to have as Republicans, and that those in the Reagan administration want them to have, but also because the public-at-large is going to be encouraged to be looking at the Governors and the State legislatures more for a response.

It all adds up to the fact that we have got to consider that we are a geographically vast nation. Our population is very heterogeneous. Our social problems are not the same in the large cities as they are in the small towns. It adds up to the fact that our States can adjust better to the divergent needs of our people than we can here in Washington. Pouring this country into just one mold, as we have been trying to do for the last 30 or 40 years, hasn't served the needs of our people with as much elasticity of the programs as we should.

So I think that that overview needs to be kept in mind as we consider these programs. I think we need to be helpful to the Governors of our States.

Now, that is an opening statement I want to make. And then I want to make a special request of you. I would like to have you ask Senator Schweiker to bring before the Cabinet level the fact that as we are transferring programs from categorical grants to block grants and from the Federal level to the State level, we are not going to know exactly how we are going to affect every individual. You have subgroups, tens of thousands of people that are going to be affected by elimination of the minimum social security benefit. And I think we need a departmental task force that is going to review all of these programs, and particularly HHS programs, and USDA programs—food stamps, primarily—that will review every one of the subgroups to see whether or not they are being adversely affected.

In other words, this would be a task force that would be an appeal by Members of Congress or by the citizenry at large in which we can say, "Did you realize your program might affect this subgroup in a certain way?" And I suggest that so that we will have a pinpoint to bring these problems to, and so that there will be a review.

And then I think that the end result of this will be to enhance public confidence in these programs. And if we do that, we will know that wherever people are going to be affected—many results cannot be anticipated as we are making our suggestions—but we know that there will be a review of them; and if there is a need then for a readjustment, a readjustment will be made.

Mr. SWOAP. Thank you, Senator. I am happy to report that what you just requested has recently been put into place.

Senator GRASSLEY. I am always late.

Mr. SWOAP. The President has just created a series of Cabinet Councils, of which one is the Cabinet Council on Human Resources, where we do have shared representation from my own Department, from the Department of Labor, from the Department of Agriculture, from the Department of Education, and a number of others, to do the very kind of thing that you are describing. And, presently, we are looking at all of the impacts of the work—proposals that our Department has made as it affects all of the other departments.

And so we will be pursuing that kind of interdepartmental attention to the kinds of questions you raised.

I would like to also observe that with regard to the block grant proposal itself, that it is not just a theoretical model that we are going to try out; it is something that we think is undergirded by a substantial amount of justification in terms of the effect on the programs themselves.

The General Accounting Office, on March 3, just came out with a report in which they examine this whole question of returning management of health and social services programs to the States. And in that report, they concluded that the categorical grants system has fostered an unwieldy and fragmented system for delivering public social services.

They concluded that categorical grants are too restrictive to meet actual service needs, and they cause administrative problems at the State and local level.

They go on to observe that:

National priorities defined through the categorical grants, with State and local government matching requirements, induce these governments into ventures which they might otherwise have pursued with their own funds. As the result of the matching requirements to obtain the Federal funds, some needed State and local program efforts not consistent with national priorities are unsuccessful when competing with the federally supported programs for limited State and local funds.

They go on to say:

Legislative consolidation of like or similar programs is the most effective solution to, No. 1, State and local governments' problems caused by the proliferation of categorical grant programs; and No. 2, Federal agencies' inability to portray unified approaches to deal with social issues and population needs.

Senator GRASSLEY. I want to correct a statement I just made. I used the word "curb" instead of "corner" on compassion. I hope my point got across. I was going to say that we, at the Federal level, do not have that in our own bailiwick, that we are the only ones concerned.

Senator HEINZ. Senator Durenberger.

Senator DURENBERGER. Thank you.

Do you know if you have an item in your budget to implement the 9-digit ZIP code?

Mr. SWOAP. No; I don't believe so.

Senator DURENBERGER. I am opposed to that.

I was going to ask you a question about the administrative problems and costs for identifying and computing all of the minimum benefit changes under social security. But listening to your response, the gratuitous response to Chris Dodd's questioning, I assume you have this narrowed down to the point where all the "windfallers" have been pretty well identified.

So my question is, why not eliminate the minimum just for the windfallers and not for the balance of the population?

Mr. SWOAP. In terms of the mathematics, we have it narrowed down to the groups I mentioned. But if you were to confine the approach solely to the so-called windfallers, that would be much more administratively complex than just eliminating the minimum benefit altogether.

Senator DURENBERGER. Do you have an idea of the cost of the complexity?

Mr. SWOAP. We have looked at that in conjunction with other statistics relative to our proposals affecting the disability insurance program, sir. Overall, they project upwards of 9,000 work-years over the next 2 years. We are trying to determine how realistic those estimates are. Frankly, I don't have the separation, but I can get that to you.

Senator DURENBERGER. Would you consider an alternative approach to this once you get the cost figures, if they show you that it might be very difficult without very substantial expenditures, as difficult to try to eliminate windfallers?

Mr. SWOAP. Yes; if the alternative did not have a cost-benefit curve that was worse than the one that we are presenting. In other words, we think we have substantial, but defensible program savings at very minor administrative cost. Sometimes the alternatives that are presented do increase administrative costs but do not increase program savings.

Senator DURENBERGER. Russell Long couldn't get here this morning. That is why I am asking you those questions.

Speaking of windfall, let me do what everybody else has done today, and that is to try to educate you on the problem of weatherization and income assistance.

Have you ever heard of Murray County, Minn.?

Mr. SWOAP. No, sir, I have not.

Senator DURENBERGER. I'll bet few people in the room have.

Senator MELCHER. I have.

Senator DURENBERGER. Thank you, John.

Well, that is one of those small local counties, 1 of the 3,000 counties that Chuck talked about. And during the past 2 years, they have done a pretty darned good job, with a combination of giving elderly priority under the income assistance program and with the weatherization program, Mr. Secretary, to do what Chuck in particular told you needs to be done.

Now, you talked about DOE having a separate weatherization program.

The last time I heard its status in the budget process, it had been dumped into CDBG.

Do you know whether that is true or not?

Mr. SWOAP. Frankly, I don't. There is a plan, as I understand, to create a further block grant just for large-scale weatherization projects. And since it is not in our Department, I am regrettably not familiar with the details. But that is my impression—that there is going to be another block grant to deal solely with the weatherization issue.

Senator DURENBERGER. Well, let me just close this by speaking about the importance of the fact that I don't think the question here is whether you trust local government or not, whether you use Cook County or Murray County as an example; but rather whether you limit the resources that they need.

The average income assistance payment in this county is probably somewhere in the neighborhood of $500. The average weatherization cost would be $1,200 to $1,500. If you limit the resources, what are they going to do? Obviously, if they have to spread the load, they are going to go to the $500 payment rather than the $1,500 payment. And you are thereby killing weatherization and you are killing all of the things that Chuck talked about.

When John and I and people in this room worked on the windfall profits tax in the Finance Committee, we recognized that we were making the right decision in terms of the windfall profits tax; but we also realized over the next 10 years we would be bringing in something close to three-quarters of $1 trillion into this National Government as part of the price of getting energy independence in this country.

At least when it was in our committee, we applied the proceeds of that windfall profits tax to offsetting the impact of price increases that come with decontrol on the people of this country.

We also dealt with the issue of conservation. We also dealt with the issue of alternative energy.

Since we did that, the whole thing has been aborted. The windfall profits tax is now being used to balance the budget. Prices are being used to get us to conserve. And while every penny that is added onto gasoline or every dime that is added onto home heating oil in this country is supposed to get us to conserve, it is putting more and more of these people into a position where they cannot afford to stay in their homes.

So, I tell you, if this administration's policy is to use price as a way to get us to conserve, then by God, this administration had better do something about weatherization and income assistance. And I don't think this $1.4 billion program, no matter how effective and nonregulatory you think you are going to make it, is going to be able to put the right kind of tools in the hands of the Murray County commissioners for them to do the kinds of things that have to be done—the combination of weatherization and income assistance.

Mr. SWOAP. I do recognize that concern, Senator Durenberger, as does, of course, the President and the Secretary and our Department. As we encounter the task of allocating these increasingly scarce resources on an equitable basis, we run into the very kinds of questions you mention.

Let me say that one of the ways that we hope to address that—and I think this undergirds the President's insistence that the cost-of-living index not be altered for social security recipients and others—is that within that cost-of-living index, as you know, is a component for energy costs. And so that as energy costs go up partly as the result of decontrol, we want to see the energy component and the full cost-of-living index retained for the people that you have described.

Second, we do have that 10-percent allocational authority between the blocks. And I hope that in places like Murray County they will find some additional funding available through that source.

Third, let me mention something I haven't touched on up to this point, and that is, the savings proposals we are making in the AFDC area.

We have a series of 25 to 26 proposals in AFDC that would save both the Federal Government and the States in the neighborhood of $1 billion, about $1.2 billion for the Federal Government, and about $1 billion for the States.

As the States realize their savings from those kinds of management improvements, it would be my hope that that would free up the resources again to direct to the people that are most in need in these areas.

Senator DURENBERGER. Will there be an elderly priority in this emergency block grant?

Mr. SWOAP. I don't believe that we presently have that in, Senator Durenberger. I am aware that there is a type of priority in the present law. But we do again want to give the States the maximum freedom to make these kinds of decisions that they have to make.

Senator DURENBERGER. Well, I imagine if there is a message from this committee, it would be that you consider that the priority in the previous law was very appropriate, and that that kind of flexibility might not be appropriate.

Senator HEINZ. Senator Melcher.

Senator MELCHER. Mr. Secretary, I don't think you are to blame for concocting this term of "windfall" in this regard. And so I am not trying to point a finger at you here. But I hardly think anybody living in the real world of low-income people, the real world of middle-income people in the United States, the real world of affluent people in the United States, considers $122 a month a windfall. I think that is an unfortunate term. It is being used to indicate that these people shouldn't get it.

Well, they certainly should get it, because it is the law. And it is not an overly generous law. They ought to get $122 a month.

But my point in this morning's hearings is this:

When you look at the elderly, aren't they thinking that SSI, supplemental security income is welfare?

Mr. SWOAP. Yes; I think that is how it is construed, as a means-tested program for the aged, blind, and disabled.

Senator MELCHER. And so they have to subject themselves to that sort of scrutiny, that sort of examination, and that sort of reduction in their assets. And since they have to subject themselves to those things, they are not going to be very likely to do it. But if they should do it, they will have to go through these tests and accept probably what many of the elderly, a vast majority of the elderly, consider a demeaning and undignified situation.

Is there any evidence at all that this will save the Treasury any money?

Mr. SWOAP. Yes; there is.

Senator MELCHER. This particular group might be getting $122 a month, or slightly less. If they rearrange themselves so that they fit these tests, they will probably take home and get a check every month for at least $228; is that right?

Mr. SWOAP. Right. And it will vary as to whether the States supplement SSI. You know, the savings, however, in the minimum benefit proposal derive not from the group you are discussing, but——

Senator MELCHER. No; I want to discuss this group, because that is what this committee is concerned about. If you are getting beyond the elderly, then you are beyond what we are thinking about today.

Are you thinking about the elderly, primarily?

Mr. SWOAP. Yes; we are, because we are talking about the minimum benefit under OASI. But the group I was addressing were the people, for example, like Federal, State, and local government employees who, because they have a pension in one area and then work in covered employment under social security for a limited time——

Senator MELCHER. You have all these Federal people on a separate computer. How many are there?

Mr. SWOAP. That are in that category?

Senator MELCHER. Yes.

Mr. SWOAP. Let me check those figures again.

As I recall, it was about 360,000, Senator.

Senator MELCHER. Out of how many as the total?

Mr. SWOAP. Out of a total of 1.3 million that are theoretically adversely affected by a reduction in the minimum benefit.

Senator MELCHER. You are talking about 300,000 who are not on low income because you know what their pension is. Is that right?

Mr. SWOAP. About 360,000 who are Federal, State, and local government annuitants; yes.

Senator MELCHER. And you know what their annuity is?

Mr. SWOAP. I am not sure in all cases we do.

Senator MELCHER. How many are Federal? You surely know that much, don't you?

Mr. SWOAP. It is about half, I am told. Of the 360,000, about 180,000 would be Federal. And we don't know the amount of their pension because this program is not a needs tested program, and so they receive the minimum benefit, irrespective of what their pension receipts may be.

Senator MELCHER. Well, I have scanned through our testimony, and I don't come up with any firm belief that you are very solid on how much can be saved or if there is really much of a saving.

You mentioned the $1 billion. But have you offset that as to what might be an increase in SSI?

Mr. SWOAP. Yes; we have. The gross figures we have, indicate that the budget savings in OASDI would be $1.3 billion in fiscal year 1982. The increase in SSI cost that we estimate would be $0.3 billion, with the result we would have net savings of approximately $1 billion in fiscal year 1982. That would grow slightly in fiscal year 1984 and fiscal year 1986.

Senator MELCHER. Mr. Chairman, we have had some problem with the administration's computations. I would like to request that this committee ask the CBO what the Secretary has testified to and see whether they come out with the same figures.

Senator HEINZ. I think that is a good suggestion. I think that would be helpful to the Secretary and to all the members of the committee. This is clearly an area where good numbers are hard to come by. That is an excellent suggestion. We will write a letter to CBO.

Mr. SWOAP. We look forward to working with you and them on those numbers.

Senator MELCHER. Mr. Secretary, back on page 31 where you talk about medicare and medicaid proposals—and in talking about medicaid, let me say this: There isn't any thought in President Reagan's mind or anybody in his administration that somebody who needs health care isn't going to get health care, is there? That somebody is not going to go to the doctor and have a doctor look at them? They are going to be taken care of if they don't have the money, aren't they?

Mr. SWOAP. There is a very widespread complex of proposals at both the Federal and State and local levels for meeting those needs. Yes, sir.

Senator MELCHER. So when push comes to shove, this talk about the Reagan administration somehow putting a cap on medicaid really doesn't mean very much, because when it comes down to the nitty-gritty, as I understand President Reagan, he is going to make sure that the health care benefits are there; that the doctor is there; that the hospital is there; that the bill is paid; isn't that true?

Mr. SWOAP. Yes, sir.

Senator MELCHER. So how are you going to talk about a cap? Now, what if the States refuse to do that? You know, the States and counties and cities and the charities and the Federal Government interplay.

But isn't the Federal Government going to continue to be the area of last resort to pay the bill?

Mr. SWOAP. Well, the cap, of course, will be a cap on the amount of Federal funds that will be provided to the States.

Senator MELCHER. I understand that. But if a State doesn't come up with what is necessary, or if the city or county doesn't come up with what is necessary, if the charities don't come up with what is necessary, isn't Uncle Sam, under medicaid, going to be the final payment, and isn't that payment going to be made?

Mr. SWOAP. Well, that will vary according to the type of person it is. If they are categorically eligible——

Senator MELCHER. We are only talking about medicaid. Right now, I am just talking about medicaid. Forgive me if I seem to be naive, but doesn't that signify that they are eligible?

Mr. SWOAP. Yes. And their needs would continue to be met under the medicaid program, but the amount of Federal dollars that would be committed to it would be capped.

Senator MELCHER. Now, wait a minute.

I understood President Reagan's position to be those bills were going to be paid.

Mr. SWOAP. Yes, sir. But we think there are economies that can occur in the delivery of care services so that the benefits can be paid and the beneficiaries will receive those benefits, but it can be done at lesser overall program costs.

Senator MELCHER. Well, my question is specifically if the State doesn't do it and nobody else does it, it is my understanding what President Reagan has said is that the Federal Government is going to do it.

Now, is that or is that not the case? And if it is the case, then you put "cap" in quotation marks; because if it means that the Federal Government is still going to be the area of last resort and is going to pay the bill, because the bill has to be paid, and the service has to be given, then the cap is something that is sort of a jawbone thing to the States.

But if I am wrong, I want to know. I understand President Reagan to say that those needs are going to be met, and that means the Federal Government is the area of last resort in meeting those needs.

Mr. SWOAP. Well, they are going to be met, but they are going to be met in the context of a cap on Federal funding for this program.

Senator MELCHER. I will ask it another way.

If the State refuses to do it, then the Federal Government is going to refuse to do it, too; is that right?

Mr. SWOAP. No.

Senator MELCHER. If you have the cap for the State and the Federal portion is there, and it is suspended, and the State doesn't come up and take up the slack, then there could be instances where somebody that is sick is not going to get their bill paid?

Mr. SWOAP. Senator, I would observe that neither the States nor the Federal Government could simply, arbitrarily, deny benefits to an individual in need when they meet all of the requirements of the medicaid program. And so they simply could not decide, at a given point, not to meet the requirements in the law to provide those benefits. But it is at that point that the other elements in the safety net, including some of the other delivered programs that the counties and States and the Federal Government maintain, would step in and pick up the slack.

Senator MELCHER. Well, that doesn't really explain to me whether there is going to be more money put out federally when that happens than what you say is going to happen.

But I assume there are going to be instances where you are going to have to review that; is that right?

Mr. SWOAP. We would certainly review that. But as I say, it is our belief that both of us, the Federal and State government, can do the job more cheaply, because of the flexibility that the Governors and others have requested.

Senator MELCHER. Mr. Chairman, I would ask unanimous consent that my prepared statement be entered into the record.

Senator HEINZ. Without objection.

[The prepared statement of Senator Melcher follows:]

PREPARED STATEMENT OF SENATOR JOHN MELCHER

I am apprehensive that the administration's social security proposal eliminating the minimum social security benefit will have a maximum impact on women, who are 76 percent of those beneficiaries and the poorest of the elderly. Data to support this cut is not comprehensive enough to show how beneficiaries will really be affected. Replacing the minimum social security benefit with SSI will require both an income and asset test. For those elderly who are trying to live their lives with independence and dignity, they will feel demeaned if forced onto supplemental security income. This program for the elderly has the stigma of welfare.

I believe funding for medicare should be from General Treasury dollars rather than from the social security payroll tax. Out of this year's social security payroll tax rate of 6.65 percent, medicare will account for 1.3 percent. Medicare was added to social security in 1965. Medicare needs not only to be fully funded, but also to be improved to cover home health care. But, in any event, payment for medicare should be from the general fund—not social security.

FOOD STAMPS

Cutting back on food stamps that would affect the elderly should not be considered. Most elderly are on relatively low, fixed incomes with inflation eating larger and larger portions of their food dollar. Although participation of the elderly in the food stamp program increased significantly since elimination of the purchase requirement in 1978, their rate of participation is still only slightly over 50 percent. Many more need that extra help to maintain a dignified and secure life, to remain in their own homes and communities as long as possible.

Approximately 19 percent of all of the 8 million households that receive food stamps contain an elderly member. And 15 percent of all households that receive food stamps consist solely of either single elderly persons living alone or elderly couples.

I believe it is only fair and decent that the elderly be protected from any cutbacks in the food stamp program—not only in the basic program but also for any specialized deductions.

Any proposal to deny eligibility to any household with gross income over 130 percent of the poverty level must be geared to not eliminate elderly participants. The eligibility for the elderly has to be computed with added deductions including added deductions for drug and medical needs.

ENERGY AND EMERGENCY ASSISTANCE BLOCK GRANT PROPOSALS

Combining the home energy and emergency assistance programs into a block grant to the States makes sense. I am concerned, however, by the significant proposed cutback from the current level. Although administrative costs can be cut back, with the continually and rapidly escalating fuel costs, we must make sure that true hardships are met. The States must demonstrate convincingly that they have the capacity to deliver fuel assistance efficiently and effectively. While many States have already demonstrated their ability to do this, a block grant program will only be effective in each State that has such a program ready to go.

I am also concerned that the current priorities for fuel assistance to low-income households with members who are elderly and handicapped be maintained. I believe it is the mandate of this committee to see that this is done and that a State's effective program must contain that priority. This committee should maintain oversight on these points.

Senator HEINZ. Mr. Under Secretary, I have an innumerable set of questions to ask you, which I am going to submit for a written response to save your time and the committee's time.

These questions have to do with the details of how you propose to structure the medicaid cap. Whether you will take an average of past Federal expenditures and reduce them proportionately for each State. Whether you will calculate and impose 54 different caps, one for each State and territory. So, without objection, those will be incorporated in the record, and also sent to you.

[Subsequent to the hearing, Mr. Swoap supplied the following information:]

Under the proposed medicaid cap, the limit would be structured to reduce Federal expenditures $100 million below the current base estimate for fiscal year 1981. Medicaid funds would be allocated under a formula which maintains each State's current relative share of Federal matching funds for the program as a whole.

Federal expenditures would be allowed to increase 5 percent in fiscal year 1982. After that, Federal spending would rise with the rate of inflation as measured by the GNP deflator.

Senator HEINZ. Now, on page 36 of your testimony, you mentioned that some minor home health benefits were going to be eliminated. Have you got a list of the minor home health benefits that you intend to eliminate?

Mr. SWOAP. I am told that they include removal of the 100-visit limit on medicare; and in other words, maintenance of that limit as it applies to home health benefits, which would save approximately $1 million in 1981 and $6 million in 1982.

Another is the issue of including occupational therapy as a qualifying service for medicaid home health benefits, which is a much larger item, which is approximately $4 million in 1981, and $35 million in 1982.

Senator HEINZ. Are there any others, or is that it?

Mr. SWOAP. I believe that is it in the home health care area.

Senator HEINZ. Mr. Secretary, I would like to turn to an issue that has been raised by a couple of our colleagues, Senator Melcher among them, regarding the social security minimum benefit. It seems to me there is a group of people that may in fact be crashing through the net. It is a group of people, largely women aged 62 to 65, who are receiving a survivor benefit under social security. Because they are neither 65 nor blind nor disabled—but nonetheless meet the income tests of SSI—they would not be eligible for SSI. Do you have any idea of how many of these people there are?

Mr. SWOAP. I suspect the 200,000 figure I mentioned is made up either partly or largely by the group you just described. It is important, however, to include the observation that they may be eligible for food stamps, housing subsidies, medicaid, and other cash assistance, depending upon the jurisdiction where they live.

Senator HEINZ. Is it the administration's intention that the group of people I have described, who may be a part of or all of the group of 200,000, will have their benefits reduced?

Mr. SWOAP. Yes, it is, Senator, in terms of the specific benefit that we are addressing; because we believe that the minimum benefit was created for a certain purpose, and that over the years, it has taken on other characteristics and no longer fulfills that purpose. It is our intention that that benefit be eliminated.

But we do believe that other components of the safety net program will help to meet their needs.

Senator HEINZ. You say that you don't want to hurt anybody who really depends on the Federal Government. But here is a group of people who cannot turn to SSI. The rationale for allowing the minimum benefit to lapse is that anybody who really needs the income will qualify for SSI. That is the basic song sung by the choir. Yet, here is a group of as many as 200,000 people who are getting a survivor benefit and could suddenly find out they don't have any income to live off of. I am not sure that the administration was aware of that set of people. You tell me you were aware?

Mr. SWOAP. Yes, sir; we were aware of that group. But we would also note that in many cases we are not talking about $122 being the sole amount of their subsistence. There are all the other income transfer programs that I described that are in place either to meet their housing needs, their food needs, or some of the other basic subsistence needs.

Senator HEINZ. Well, it seems to me that that does represent a problem, and one the committee will need to address, I would think.

Let me ask this regarding the people who are currently receiving the minimum benefit. Are they going to be notified ahead of time that they will stop receiving benefits, or are they just going to find out by virtue of the fact that the check stops arriving in the mail? What are your plans?

Mr. SWOAP. I think that can be done in any one of several ways. With any of the preceding checks that are mailed out, certainly a notice could be included if it were not administratively cumbersome or complex.

Senator HEINZ. Let me suggest it would not be a bad idea to give people a little warning. It would be only fair to give them appropriate notice so that they could transfer to the SSI program without a minimum of difficulty.

Mr. SWOAP. Let me point out, Senator, in many cases that will occur automatically. In other words, they will not have their checks stopped completely; but the checks will be simply recalculated to take into account the elimination of the minimum benefit.

In cases where they are currently jointly receiving social security and SSI, it will occur automatically. The SSI check will go up and the social security check will go down, and the income will remain the same.

Senator HEINZ. I have a few additional questions on the minimum benefit proposal that I will submit in writing later.

[Subsequent to the hearing, the following correspondence was submitted for the record:]

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C., April 3, 1981.

Hon. RICHARD S. SCHWEIKER,
Secretary, Department of Health and Human Services,
Washington, D.C.

DEAR DICK: The Senate Special Committee on Aging held a hearing on March 20 to examine the impact of the administration's budget proposals on the elderly. Several members of the committee raised questions regarding the administration's proposal for elimination of the social security minimum benefit.

In order for the committee to make an assessment of the impact of this proposal on the elderly, it would be most helpful to have an analysis by the Social Security Administration. The committee is specifically interested in the category of minimum beneficiaries who are poor yet would not be eligible for SSI because of the age requirements of 65; i.e., early retirees between ages 62 and 65, widows and widowers between ages 60 and 65. I would appreciate an estimate of the number of people in this category and the added costs to the supplemental security income program if they were given special eligibility under the program.

It would be very helpful to have the SSA analysis as soon as possible.

Thank you.

Warm regards,

JOHN HEINZ, *Chairman.*

DEPARTMENT OF HEALTH AND HUMAN SERVICES,
OFFICE OF THE SECRETARY,
Washington, D.C., April 27, 1981.

HON. JOHN HEINZ,
Chairman, Special Committee on Aging,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: I am responding to your letter of April 3, regarding the effect of the administration's proposal to eliminate the social security minimum-benefit provision on elderly needy recipients under age 65.

Beneficiaries who are now receiving benefits based on the minimum-benefit provisions and who are blind or disabled could qualify for SSI benefits regardless of age if they are needy. Elderly beneficiaries who are needy and are neither blind nor disabled and who would be ineligible for SSI benefits because they are not yet aged 65 include: retired workers aged 62 to 64; spouses, aged 62 to 64 of retired or disabled workers; dependent parents, aged 62 to 64 of deceased workers; and widows and widowers aged 60 to 64 and surviving children.

We have developed cost estimates for two possible options you suggest for extending the SSI program to such individuals who are now receiving benefits based on the minimum-benefit provision. In developing these estimates, we assumed that 25 percent of the total number of persons described in the preceding paragraph would be eligible and would obtain SSI benefits if the age-65 requirements were waived for them. This assumption is based on current program experience, which indicates that 25 percent of current minimum-benefit recipients receive SSI benefits. We excluded from the total recipients in the above-listed categories those who are receiving both a minimum benefit based upon their own earnings and an additional amount based on a higher benefit to which they are entitled on their spouses' earnings; these persons would not be affected by the proposed change (because the benefit from their spouses' earnings would be increased by the same amount as the benefit based on their own earnings would be reduced).

Option 1: Provided SSI payments at age 62 for workers, spouses, and dependent parents and at age 60 for widows and widowers who had been eligible for the minimum benefit. Provide benefits at the standard SSI rates (currently $238 monthly for an individual and $357 monthly for a couple, minus income countable in the SSI program).

Number of new recipients: 40,000.

Cost: $74 million for the first full year that the program extension is in effect.

Option 2: Provide SSI payments to the persons specified above, but limit the SSI benefit rate to the amount of the reduction in the social security benefit.

Number of new recipients: 40,000.

Cost: $20 million for the first full year that the program extension is in effect.

It should be noted that option 1 would result in a higher benefit income for these individuals than they receive under present law.

If this proposal were enacted only for current minimum benefit recipients, the additional SSI costs would gradually phase down and eventually be eliminated.

We sincerely trust that the above information is responsive to your request and look forward to the favorable result of your committee's deliberations.

Sincerely,

RICHARD S. SCHWEIKER,
Secretary.

Senator HEINZ. Senator Dodd.

Senator DODD. Just a few further questions, although in light of this testimony we could take up a good part of the week.

Senator HEINZ. We have been doing quite well in that regard. We may literally finish the week still in this hearing at the rate we are going.

Senator DODD. You know, I am disturbed, too, about the word "windfall." I think that is a terrible choice of words when you are talking about people who fall in the category we are talking about. I don't think it is your intention or the intention of the administration to associate what one normally links with the word "windfall" with people who fall under this category. And I just might make the suggestion that in your own political self-interest, you find a different terminology than "windfall." I can already see the mail coming in, and the criticisms being raised, over that choice of words, when you talk about the elderly.

Mr. SWOAP. That is a legitimate concern. I think, though, that it is important to differentiate that we do not apply the use of that term across the board to this minimum benefit issue but only to certain subgroups within it who have benefited from the minimum benefit when it was created perhaps for another purpose.

Senator DODD. Let me ask you something that I have heard asked a number of times. I have heard people ask Dave Stockman and the President this question. And I have yet to hear a really satisfactory answer. And since you are directly involved with people who fall under this category, I would like to ask you to define for me, in as specific a way as you know how, Mr. Swoap, the words "truly needy."

Mr. SWOAP. Yes. Those who are forced through no fault of their own, to turn to Government assistance to meet their needs for basic subsistence, including food, shelter and clothing.

Senator DODD. Why don't we put some income levels on it?

Mr. SWOAP. Of course, we are doing that. The States are doing that in the AFDC program. They are doing that in the medicaid program. We are doing it across the board. We are doing it at various levels because we think there are certain categories of people; that is, the aged, blind, disabled, and children deprived of parental support because of the absence or incapacity or death of the parents—those people have income and needs requirements that place them within the definition of the legitimately needy.

Senator DODD. Do you have a poverty level line that you are discussing, as to a family of four?

Mr. SWOAP. Well, the Federal Government, as you know, Senator, does maintain a poverty index. That is a separate basic index from the individual determinations that are made by the States or the Federal Government, depending upon the program as it relates to the needs standard.

Senator DODD. Well, we have exhausted the discussion about the reduction of the minimum monthly payment. There are obviously going to be some people who are going to face a reduction in their benefits that they have received. And I gather from your response to the chairman's question, that some of them may find out when they get their check in the mail that they don't quite have the same level coming in this month as they had last month. That is how they are going to find out.

Mr. SWOAP. No. As I said, I think it possible that we could, in a previous mailing, put a notice in, depending upon the administrative costs.

Senator DODD. We would generally consider those people to not be truly needy. They are going to fall out of the net. That is one group.

I notice in your statement here you are talking about eliminating the tuition assistance to people 18 or older.

Now, I would agree that there are probably any number who are financially capable of supporting their education. However, I would suggest that with the increase in tuition costs at the postsecondary level, sometimes approaching $10,000 a year, that some standard might be applied there before just lumping all these people together.

But based on your statement, I gather they don't fall into the "truly needy" category.

Mr. SWOAP. Some do and some don't, Senator.

Senator DODD. You don't seem to differentiate there. It is a blanket approach, if you read your statement.

Mr. SWOAP. No; I think we do. The Department of Education's student aid programs, in contrast to the social security benefit currently payable to postsecondary students, are targeted to the people at the lowest end of the income spectrum, and they will give roughly over $11 billion, I believe, in Federal aid to students. To the extent that they are making program modifications this year, they are going to affect people at the high end.

Senator DODD. In the opening part of the statement, you talked about the President's program, the anti-inflation program, which is basically rooted in spending reductions and tax reductions. Those are the two things you mention specifically.

Do you agree that food costs, housing costs, energy costs, contribute significantly to the rate of inflation?

Mr. SWOAP. Of course.

Senator DODD. Well, as I look over what you are proposing here in your program, we are talking about a number of people who, unfortunately, depend on Federal assistance. And here we are talking about the elderly. We are talking about a 25-percent reduction in social services. We are talking about a $500 million reduction in energy assistance and I won't bother going into that. We are freezing nutritional benefits at their 1981 level.

Given the fact that the numbers are increasing, given the fact that inflation is going up, it seems to me when we are talking about trying to meet the needs of the truly needy, and given the major thrust of the President's program, it seems we are not being very mindful of some of the real contributing factors to the rate of inflation, and the costs that this creates for those people who are really in a situation where they cannot defend themselves.

I am particularly concerned about the energy and nutritional areas. We talked in the past of people having to make a choice between food and fuel. It seems now that they are going to be in a position where they are not going to make that choice, because neither food nor fuel are going to be available for people who are suffering tremendously as a result of economic problems in this country.

I will give you a chance to comment on these observations.

Mr. SWOAP. Just generally, Senator. I would observe that I think our concern is precisely identical to yours, and that is the central motivating purpose behind the President's economic recovery program: Namely, that he wants to bring the rate of inflation down. It is going down rather than going up. We anticipate that by 1983, it will be down to 6.2 percent in contrast to the 13.5 percent where it is today.

If we can do that, if we can reduce inflation through the combination of spending reductions and tax reductions envisioned in this proposal, we will do more to benefit the people that you and I jointly are concerned about than anything else that we can do. We will do more to enhance their purchasing power I believe in order to enable them to meet their food needs and energy needs as you described.

It is because of those concerns that the President has said that the cost-of-living adjustment must be maintained so that the energy component and food component are preserved for the people receiving benefits under the largest benefit program, social security.

Senator HEINZ. Mr. Secretary, unless there are any other questions, we want to thank you for coming down here. You have been more than generous with your time. We appreciate your being here. We look forward to other opportunities to have you back.

[The prepared statement of Mr. Swoap follows:]

PREPARED STATEMENT OF DAVID B. SWOAP

Mr. Chairman and members of the committee, it is a pleasure for me to be here today to discuss those aspects of the President's program for economic recovery that concern the Department of Health and Human Services and that are of particular interest to this committee. I also want to commend you, Mr. Chairman, for offering us this opportunity to present the President's program.

I will be discussing today the specific issues and proposals relating to the social security program of old-age, survivors, and disability insurance (OASDI), the supplemental security income program (SSI), the medicare and medicaid programs, the social services programs, and other related programs that we administer. We believe that these proposals are meritorious in and of themselves.

Yet they are also a part of the larger program the President has outlined. As we discuss the specific proposals, we must keep in mind the importance of the President's economic recovery plan—the total package of initiatives designed to restore the health and vigor of the national economy. We must not lose sight of the benefits that will accrue to all citizens, including the aged on fixed incomes, with enactment of the President's program for economic recovery.

At the same time, I want to assure you that—as President Reagan stated so forcefully in his address to the Nation—none of these proposals represents in any sense a turning away from our commitment to the aged and others who are most in need and who must depend for support upon existing public programs. The safety net of social programs upon which these Americans must rely will remain intact.

Mr. Chairman, I would like to begin by reviewing briefly the financing of the OASDI program.

SOCIAL SECURITY—OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

In the past few years, this huge and vital program has suffered continual financing difficulties which have sapped public confidence in the security of its commitments. Those who rely on social security benefits fear that the funds will run out and that their checks will stop; the workers who pay the taxes that finance these benefits see an ever larger bite being taken from their paychecks at a time when they have serious doubts that they will ever collect benefits themselves. You and I know that these fears will not be realized. We also know that to place the program on a sound financial basis will require hard work and tough choices on the part of the administration and the Congress in the months to come.

In order for us to restore confidence in the social security program we must place social security on a sound financial basis.

First, we must restore the health of our national economy. We must reduce inflation and unemployment and restore productivity growth to this country.

Second, we must insure that the package of basic protection offered by social security is soundly financed both in the next few years and in the decades to come. Moreover, we must assure that the financing arrangements do not overburden the workers of the Nation and do not injure the economy. Social security financing arrangements must not only serve well the interests of the social security program, but also the interests of the Nation as a whole.

The administration has already moved forcefully to address the first of these tasks through President Reagan's economic program of budget and tax reductions. We at HHS are addressing the second of these tasks through a working group created by Secretary Schweiker which I chair to deal explicitly with social security financing issues.

We believe that with the adoption of the initiatives taken in the President's budget, we will be able to restore the health of our economy in the next few years. This is reflected in this administration's revised economic projections which feature lower inflation, lower unemployment, and greater improvements in real wage growth than do the projections released in January by the previous administration.

Let me review our most recent projections of the status of the social security trust funds based on these new economic assumptions. First, we continue to project that the OASI trust fund will experience cash-flow problems in mid-1982.

Its assets at the beginning of 1982 will amount to only about 13 percent of the projected 1982 expenditures, and they would continue to decline over the course of the year. However, the combined balances in the old-age, survivors, disability, and hospital insurance trust funds over the next 5 years appear to be substantially healthier than previous estimates showed. Both the DI and HI trust funds would grow in absolute dollars and as a percentage of annual expenditures after 1981. The assets of all three programs combined would decline as a percent of annual expenditures from 23 percent at the beginning of this year to 14 percent by 1985 and 16 percent by 1986.

These projections assume the continuation of present-law expenditures. If we assume adoption of the proposals recommended in the President's fiscal year 1982 budget the financial status of the trust funds is improved. The projections taking these proposals into account show a decline in the ratio for the three funds combined, from 23 percent this year to 21 percent in 1983 and 1984 and an increase to 30 percent by 1986. Although this would present a very substantial improvement for the three funds combined, action will still be needed to strengthen the OASI trust fund by the early part of 1982. Even with the proposed legislation, the OASI fund is expected to experience cash-flow difficulties by the end of 1982.

There are also serious longer range financing problems in social security. The 1980 report of the Boards of Trustees of the social security trust funds shows that over the next 25 years (1980–2004) the old-age, survivors, and disability programs will run a surplus averaging 1.19 percent of payroll. For the second 25 years (2005–29), we have a roughly equal deficit (1.17 percent of payroll). This is followed by a very significant deficit of 4.58 percent for 2029 to 2054. The average of these three figures is a 1.52-percent deficit for the full 75-year period.

Another way of looking at the longer range picture is to trace the projected trust fund balances. The 1980 Trustees report showed the combined assets of the OASDI trust funds rising from 23 percent of annual outlays in 1990 to 35 percent of outlays in 2010 and declining thereafter until the funds would be unable to pay benefits in 2030 or so. The trust funds surplus builds over the years when tax receipts exceed benefit expenditures, after which the funds are drawn down by the growing ratio of beneficiaries to workers when the "baby boom" generation retires. As you know, the deficits projected in the 21st century are largely the result of projected demographic changes. The combination of projected lower mortality rates, especially among the aged, and of continued lower fertility rates, causes the ratio of workers to beneficiaries to shift from about 3 to 1 today to about 2 to 1 in the year 2035.

The working group I mentioned earlier is addressing both short-term and long-term financing issues. I am not in a position to comment about where this review may ultimately lead us. It would be premature for me to speculate on that today. What I can say is that we are open to suggestions. We are conducting as thorough and as painstaking review as time allows—recognizing that the sooner we are able to put our recommendations before the Congress, the sooner we can begin working out a comprehensive future strategy together.

I would now like to turn to a brief review of each of the President's OASDI budget proposals.

First, the minimum benefit: Under social security, the regular benefit formula does not apply to people with very low average earnings; instead, they get a "minimum" benefit—$122 for people who would start getting benefits in the future. Our proposal for eliminating the minimum benefit will not take the entire social security benefit away from anyone now receiving it, or from anyone who, under today's law, will become entitled to receive it in the future. However, it will mean that these people will get only the amount which they are entitled, based on the actual covered earnings they had under social security.

Relatively few people who qualify for the minimum benefit were, in fact, self-sufficient on the basis of their own covered earnings during their working years. A majority of the people who qualify for the minimum benefit, and would be affected by its elimination, have additional resources in the form of pensions from noncovered work, social security benefits as dependents or survivors of covered workers, or SSI payments. To the extent that the minimum benefit is paid as a "windfall" to people who have other sources of income, that windfall will be eliminated. To the extent the minimum now goes to aged and disabled people who are in real financial need, the supplemental security income (SSI) program is available to meet that need, with payments financed by general revenues.

I should note that we are not proposing any changes in the separate "special minimum" benefit for people who have worked under social security at low wages for many years.

Second, the lump-sum death benefit: When an insured worker dies, a lump-sum death benefit of $225 generally is paid to the deceased worker's surviving spouse. If there is no qualified spouse, the lump-sum death benefit is paid to any person who paid the burial expenses. The lump-sum death benefit was originally intended to help the worker's family with the costs associated with his illness and death. However, today almost half of the lump-sum payments are in cases where there is neither a surviving spouse nor surviving minor children.

Our proposal would not eliminate this benefit, but would limit payments to cases where there is either a surviving spouse or surviving child beneficiaries. With this change, the payment would again fulfill the original purpose. Also, a significant administrative simplification would result, since complex and time-consuming determinations of who paid the funeral expenses, now required in cases where there is no surviving spouse, would be eliminated.

Third, social security student benefits: Under our proposal, beginning with August of this year, benefits for a student who is over age 18 and is attending a postsecondary school would begin to be phased out; no new students beyond the secondary school level could become entitled to benefits.

We believe it is appropriate to phase out the benefits paid to young adults pursuing a higher education. The needs of this latter group can be met more appropriately through students' own initiatives, through private means, or through other public programs.

Fourth, currently insured status for disability: Under present law, a worker can qualify for disability insurance benefits if he has credit for 5 years of work in the 10 years preceding his disability (or, for a younger worker, one-half of the time since he reached age 21). Thus, a person can qualify for social security disability benefits even though he has not worked under social security for up to 5 years preceding the onset of his disability. We believe that, in a contributory work-related disability insurance program like social security, it is appropriate for benefits to be paid only where the worker was recently employed under the program and where the disability itself can be presumed to be the reason covered earnings ceased.

Therefore, we are proposing a requirement of recent work so that a worker will have to have credit for 1½ years of work under social security at sometime during the 3-year period preceding disability.

Fifth, a disability megacap: We are also recommending that social security disability benefits to workers (and their families) be reduced if the sum of all benefits payable to them under other Federal, State, and local disability programs exceeds the worker's predisability net earnings. Limiting the amount of social security benefits for people who receive multiple benefits payable on the basis of disability will reduce or eliminate the instances of over-insurance and duplication of benefits. It will also address a significant disincentive for people to return to productive activity.

Mr. Chairman, while they are not sufficient to assure adequate social security reserves in and of themselves, the President's proposals—if promptly enacted by the Congress—constitute an important $22½ billion step over the next 5 years toward placing social security on a sound financial basis.

This concludes my remarks on the social security program.

I would now like to turn to other areas in which we are making recommendations that will affect older Americans.

SUPPLEMENTAL SECURITY INCOME

In the SSI program, we are proposing to change the accounting period and the method of figuring payments from a quarterly prospective period, which is highly error prone, to a monthly retrospective system, which will be much more accurate.

We also propose to improve and simplify coordination between the Social Security Administration and the Internal Revenue Service in order to obtain more complete, accurate, and timely information on interest and dividends.

Finally, in the SSI area we are asking the Congress to eliminate the hold-harmless provision under which a few States continue to get Federal payments for their SSI State supplement program.

OLDER AMERICANS ACT

Since the inception of the Older Americans Act in 1965, the programs supported under its title III (Grants for State and Community Programs on Aging) have been the chief operational vehicle for striving to realize the law's objectives. Authority for the establishment of State agencies on aging was included in the original law. That act called for the establishment, in each State, of a single agency to be primarily responsible for coordinating all programs and activities related to the purposes of the Older Americans Act. Authority for the establishment of area agencies on aging was included in the 1973 amendments.

The administration is committed to providing adequate services for older Americans and will shortly submit to Congress a full legislative proposal in the form of a draft bill extending the Older Americans Act programs administered by HHS for 3 years. This bill will restore significant discretion to the States in administering the title III program and will improve the act in other ways as well.

Our major proposals will:

(1) Merge the three separate social and nutrition services authorities under title III into one. As part of their overall consolidation, the current provisions for special reimbursement from the U.S. Department of Agriculture for meals served under title III will be eliminated. These funds will be included in the allocation of the States as part of the consolidated title III. This provision should have no impact on the level of services offered under title III. Further, a "hold-harmless" provision for fiscal year 1982 will hold nutrition expenditures at the fiscal year 1981 level. This will insure stability for the existing program while the transition to a single title III allotment is implemented.

(2) Change State and area planning requirements so that each State can decide whether the State agency and area agencies will submit plans for 2-, 3-, or 4-year cycles. This will allow each State to adapt its planning efforts to its particular circumstances, e.g., biennial sessions of the legislature, which might impact on the planning process.

(3) Granting of greater flexibility to the Department in the use of research and discretionary project (title IV) funds by:

Removing the specific budget subcategories for discretionary funding in order to provide the Secretary with the flexibility to target funds to areas of special need.

Eliminating provisions for interest subsidies and mortgage insurance for senior centers. These two provisions have never been implemented.

Eliminating restrictions on the Secretary's discretion to consolidate title IV funds with other Departmental funds in support of projects benefiting the elderly. The current prohibition against using title IV funds for purposes "not specifically authorized" by title IV will be retained.

SOCIAL SERVICE BLOCK GRANTS

The consolidation of many of the social services grant-in-aid authority administered by the Department into a block grant is an important element in the President's program. The social services block grant consolidates 12 social service authorities into a single block grant authority covering the purposes of the consolidated programs. We believe that this approach to social services will resolve several problems caused by the multiplicity and categorical nature of the present Federal-State social services programs. First, it allows States and localities the flexibility they need to distribute social services funds, and to give priority to services which best meet the needs of the residents of the State. Second, by eliminating many burdensome Federal administrative requirements, standards, and the like, the block grant will permit more efficient State and local administration, thus freeing resources for the provision of services.

The social services block grant to States consolidates 10 major authorities from the Department of Health and Human Services:

Social services.
Day care.
State and local training.
Child welfare services.
Child welfare training.
Foster care.
Child abuse prevention and treatment.
Adoption assistance.
Developmental disabilities.
Runaway and homeless youth.

Two authorities currently administered by other Federal agencies also are included:

Community Services Administration, except for community economic development.
Vocational rehabilitation services.

Our budget request for this consolidated block grant authority represents 75 percent of current funding levels, or $3.8 billion for fiscal year 1982. Under the block grant, States and localities will be in a much better position to take action where previously mandated conflicting program requirements and overlapping services have resulted in the waste of service dollars. State and local officials will also have the flexibility to respond to new and changing conditions, or to adjust to local conditions where, in the past, nationwide requirements have limited their options, particularly in rural areas. Associated with the block grant, but not part of it, we plan to consolidate the funds for maintaining the necessary Federal support activities where they can be of most assistance to States and localities. Many of the statutory categorical authorities proposed for the block grant include authorities for research, training, and demonstration projects to improve the administration and effectiveness of these programs. Consolidating the funds related to these authorities will give the Federal Government the ability to respond flexibly to State needs for information and assistance, particularly where interchange of information among States is concerned, such as the national adoption information exchange and the national runaway youth switchboard.

Overall, both of these proposals embody our philosophy that assistance funds can be most effectively used when States have the flexibility to respond to State and local conditions, and that the most effective Federal role is to serve the States and localities in this effort through research and other support activities.

HEALTH SERVICES BLOCK GRANT

I would now like to focus briefly on our block grant proposal for health services. The administration proposes to replace 15 categorical health service programs with a health services block grant. The States would receive a percentage of the funds now available under the existing categorical programs and would make decisions based on their own assessments of health services needs within their own boundaries.

As with the social services block grant, we believe that the States can better administer these funds, given added flexibility, and can make better judgments about the allocation of funds and services.

The authorities included in this health services block grant are:

Community health centers—primary health care centers; black lung clinics; and primary health care research and demonstration.

Migrant health.

Home-health services.

Maternal and child health—grants to States; and SSI payments to disabled children.

Hemophilia.

Sudden infant death syndrome.

Emergency medical services.

Mental health and substance abuse services—mental health services; drug abuse project grants and contracts; drug abuse formula grants to States; alcoholism project grants and contracts; and alcoholism formula grants to States.

ENERGY AND EMERGENCY ASSISTANCE BLOCK GRANT

We are proposing to establish a block grant authority to the States for providing energy and emergency assistance for needy households. Under our proposal, the funds could be used to assist households in meeting home energy needs, to provide cash or in-kind assistance for emergency situations, for emergency medical care or social services, and other similar uses as the State deems appropriate. The States will have broad discretion in all aspects of the program including the use of funds, the population eligible for coverage, the types and forms of assistance provided, and levels of payment. Thus, each State will be able to design a program which can best respond to its own particular needs. The block grant consolidates two major programs. One of these—the low-income energy assistance program—provides grants to States to help low-income households meet their home heating and medically necessary cooling needs. This program, which is totally federally financed, has evolved in 5 years from a $200-million crisis intervention program administered by the Community Services Administration to a $1.85-billion grant program which subsidizes energy costs in all States.

Although States do have flexibility in many program areas, there is still a myriad of Federal restrictions and requirements to which the State must adhere. For example, States must use the bulk of their funds for general energy assistance to the low-income population and are not allowed to use more than a small portion for energy crisis situations. Due to the unpredictability of the weather in certain States, this may not be efficient and could be downright wasteful.

States also must submit highly detailed and extensive reports as to how they determined payment levels and on expenditures and uses of the funds which add significantly to the expense of administering the program while resulting in nonproductive uses of scarce program funds.

The other program being consolidated, emergency assistance authorized by title IV–A of the Social Security Act, also has some serious shortcomings:

First, it has both burdensome Federal requirements and limitations which constrain its utility. For example, it can only be used to assist needy families with children and States are not allowed to specify what type of emergencies will be covered.

Second, it provides Federal funds for energy needs which are also covered under the energy assistance program.

Third, coverage is uneven throughout the country. Twenty-five States do not participate, many because they do not agree with the Federal requirements imposed on the use of the funds. As a result, in States which have not elected to participate, some families have been forced to join welfare rolls when denied temporary relief during crisis situations or when faced with an unpredictable need.

Provision of emergency assistance, which all States can provide under the proposed block grant, can make the difference between a one-time payment to cope with an emergency and a long-term stay on welfare. The only restriction is that the funds are used to meet the purpose of the program. Reporting requirements will be simple.

Our proposal will insure that funds are available to all States to aid low-income people for whatever emergencies the States see fit to cover. It will consolidate the functions now provided under the separate programs and at the same time give States the opportunity to efficiently direct the funds to where they are most needed. By eliminating the cost to the States of Federal redtape and complications that now accompany the programs, and the layers of Federal personnel now needed to direct, approve, and oversee the State programs, a significant amount of money can be saved.

MEDICARE AND MEDICAID PROPOSALS

I would like to turn now to the President's proposals to increase the cost-effectiveness of the medicaid program. In 1970, the cost of the medicaid program to the States and the Federal Government was $5.2 billion. This year the program will cost approximately $29 billion. Medicaid expenditures have increased more than 15 percent per year for the last 5 years.

Under the hospital reimbursement approaches generally used today, the higher a provider's costs or charges the higher the reimbursement. Close observers of the health care scene point to the cost-increasing biases in the program's requirements and in the health care system overall as the source of difficulty. Consequently, there is no incentive for price competition. At the same time, health care consumers are not always cognizant of the costs of the services they use. They are generally insulated from the financial consequences of using services inappropriately or excessively.

This situation can be remedied only by reestablishing market incentives for the delivery of health care. The administration, therefore, will be proposing comprehensive health financing and medicaid reforms which promote competition.

It will, of course, take time to develop and fully implement these comprehensive changes.

In the interim, we are proposing that a ceiling be placed on medicaid funding to limit the program's growth. Additionally we are proposing that title XIX of the Social Security Act be modified to provide greater flexibility to States so that they may reorganize their medicaid programs to deliver care more effectively and at lower cost.

For 1981, the limit would be established by reducing the current base estimate by $100 million. This ceiling would be increased 5 percent for fiscal year 1982. After 1982, Federal spending would be increased based on the rate of inflation as measured by the GNP deflator. We believe that this degree of restraint can be achieved by States without reducing necessary services for the needy.

The limit on Federal funding, however, will give the States an additional incentive to reduce the fraud, abuse, and waste which have plagued the program. Eligibility errors alone, for example, are expected to account for approximately $1.2 billion of the program's costs this year.

With increased flexibility in program requirements, States also will be able to implement more cost-effective approaches to delivering care to the needy. Currently States are unable to take many steps which could make their medicaid programs more cost-effective. For example:

They cannot take advantage of economies of scale by buying in bulk and distributing to disabled recipients items such as canes or wheelchairs.

They cannot use competitive bid arrangements to purchase laboratory services.

They must reimburse hospitals on a reasonable cost basis and therefore cannot fully utilize reimbursement approaches which encourage more efficient and effective delivery of services.

They generally cannot target optional services to the population most in need of them.

They are limited in their ability to contract with cost-efficient HMO's to provide services to beneficiaries.

They often find it difficult to establish appropriate cost-effective community-based systems of care under medicaid for the chronically medically ill and the retarded.

The combination of an interim ceiling on the Federal contribution to each State's medicaid program and enactment of our proposals to provide greater latitude to improve program effectiveness will stimulate States to improve their programs while adjusting program spending to a more acceptable level.

We are also proposing the repeal of several amendments to medicare and medicaid adopted by the Congress in late 1980. These involve low-priority benefit expansions that cannot be justified in light of the need for budget austerity. The items include expanded medicare coverage for hospital care related to performance of dental procedures, the recognition of freestanding alcohol detoxification facilities and outpatient rehabilitation facilities as separate providers under medicare, and minor home-health benefits. None of these expansions would take effect before June 30, so no current benefits would be reduced.

Finally, we are proposing a number of other changes to improve medicare program efficiency and effectiveness. These include elimination of the current automatic reimbursement bonus paid to hospitals for routine nursing services to medicare beneficiaries, elimination of the one-time deferral of P.I.P. reimbursements, movement to a competitive bid system for medicare contractors and institution of an administrative hearing procedure to more effectively combat fraud and abuse in the medicare program.

CONCLUSION

In conclusion, Mr. Chairman, I want to reemphasize the importance of these programs. They address a wide area of concerns but have common goals:

Guaranteeing that the basic social security program upon which millions of Americans currently depend and to which many millions more will look in the future, is fiscally sound and will remain the primary means to insure income to those who can no longer work.

Tightening administration of the SSI program.

Providing flexibility and funding to States to enable them to more directly design and control their programs to better serve the needs of their residents.

Increasing the cost effectiveness of medicare and medicaid.

Restoring significant discretion to the States in administering provisions of the Older Americans Act.

To meet these goals, the President's program for economic recovery—of which these proposals are an important part—should be given prompt consideration and action.

That concludes my testimony, Mr. Chairman. I'll now be happy to answer any questions you may have.

Senator HEINZ. Our next witness is Gene P. Dickey, Acting Administrator, Food and Nutrition Services, Department of Agriculture.

Mr. Dickey, welcome. Please proceed.

STATEMENT OF GENE P. DICKEY, WASHINGTON, D.C., ACTING ADMINISTRATOR, FOOD AND NUTRITION SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. DICKEY. Thank you, Mr. Chairman and members of the committee. I am pleased to appear before you today to discuss the impacts that the administration's proposal, concerning the food stamp program, will have on the elderly population of this Nation.

I would like to emphasize the background and the growth of the food stamp program over the past decade. We have seen the program grow since 1970 from approximately 5 million people to over 22 million, which we have in the program today.

Consequently, the outlays have grown from, during this same period of time, approximately $580 million to an outlay this fiscal year of approximately $10.9 billion.

If the food stamp legislation had not changed, we could anticipate next year a cost of approximately $12.6 billion.

Early in and prior to 1978, we saw that in the food stamp eligible households, we had a participation rate of about 50 percent of all eligible households. At that point in time, we observed that only 40 percent of the eligible elderly households were participating.

The 1977 act removed the purchase requirement which was used at that point to determine the value of the bonus coupons. That was removed and we observed that it had a drastic effect on elderly households.

Subsequent to that time, the general participation of households in the food stamp program increased about 26 percent while, among elderly households it increased 42 percent. We have seen several other provisions which helped the elderly during this same period of time.

At this point, we allow, in order to determine the benefits, medical costs in excess of $35 per month of elderly members to be deducted; additionally, we allow that shelter deduction for the elderly for all the shelter costs over 50 percent of the household adjusted income to be deducted. Other households which are limited to $115 per month.

This is to say the elderly receive and are allowed all their deductions above that level.

Third, one of the major provisions is that, in households of two or more members in which one of those members is 60 years old or older, that household is allowed to have up to $3,000 in assets, as opposed to another household which is limited to $1,500 in order to determine eligibility.

We estimate today that of all the food stamp participants, 22.4 million, about 10.6 percent of those are elderly. Also, that approximately 24 percent of all households that participate in the program are elderly.

I would like to summarize now the basic provisions of the administration's food stamp proposal which will be coming forward in the next few days and its impact on the elderly.

The first major provision that we will be recommending to the Congress is to establish a gross income eligibility criterion of 130 percent of the poverty guidelines. Currently, households may qualify with a higher gross income because of the method of considering deductions. This particular provision will establish an eligibility criterion to be met first, in order that the determination may be made as to the eligible households, and this will be established at 130 percent of poverty.

I would like to emphasize what this level would be. In a one-person household, this level would be $5,600 a year. For a two-person family, it would be $7,400 a year. We estimate that, as a result of establishing this gross eligibility level, approximately 5 percent of all the households now in the program will be eliminated.

I would like to compare that to the impact that this would have on the elderly. We estimate that approximately 4 percent of the elderly households would be eliminated as a result of this gross income eligibility situation. That would involve approximately 67,000 elderly households. Currently, approximately 1.5 million households containing an elderly person participate in the program.

On the average, these 67,000 elderly households receive slightly more than $42 a month. This can be compared to the loss of $63 for all households that would be eliminated.

The second major provision that we will be recommending would be to reduce food stamp allotments for households with children who receive free school lunches.

The purpose of this provision is to eliminate that duplicate Federal assistance for nutrition benefits to those particular families. This provision should not affect the basic eligibility of most elderly households.

However, in some cases elderly households contain school-age children. We estimate that approximately 6 percent of the elderly households could receive some reduction as a result of this provision. This reduction is estimated to be approximately $12 per school month in these situations; the average loss of those benefits in the general population as a result of this provision will be about $22 per school month per household, or $17.82 per elderly household.

A third provision which we will incorporate in our bill would concern the law which authorizes the annual adjustment of the thrifty food plan which is to be done each January 1. The law which will take effect January 1, 1982, authorizes that that adjustment be based on projected data through December.

We are requesting that that provision be repealed and that we use data through September rather than a projection for making this adjustment.

The one-person elderly household with no income currently receives $70 a month in food stamp benefits. If this provision is passed, under our proposal, that would be changed on January 1 to $78 a month.

If it should not be changed, and the projection would be used, it would be increased to approximately $80. So this projection would result in about a $2 per month reduction in the cost of that particular income to the elderly household.

Another provision we are recommending be eliminated is the annual adjustment for the standard deduction, and the combined shelter/child care deduction. We are asking that these annual adjustments be eliminated because this index is heavily influenced by the changes in homeownership costs, which we believe are unrepresentative of the changes in cost incurred by the food stamp households.

I want to emphasize, however, that while the shelter cost limit would be frozen, this will not affect the eligibility of elderly households since the $115 limit is not applicable to those households. Costs above that limit for elderly will continue to be allowed as a deduction.

There are two other provisions which we will ask to rescind. One is the establishment of a child care deduction for $90 a month and the other is medical deductible expenses. As I related earlier, the base for the determination of excess medical costs is a provision which would go in effect, now, January 1, which would reduce that base from $35 to $25. We are requesting in our legislation that that be retained at the $35 limit, but it is important to note that even though the base will change the total amount of medical costs for the month over that amount would be deductible to the elderly.

Finally, we are requesting that retrospective accounting and periodic reporting for determination of eligibility be used.

At this time, the food stamp certification procedures are based on prospective or anticipated income, which one might be expected to receive in the future. The provisions that we are requesting would require that certification be based on actual income for the 30-day retrospective period.

However, since the elderly have less fluctuations in their incomes than most other groups, we will not require this provision to be mandated in the case of the elderly.

Additionally, we are continuing to study the elderly and several kinds of impacts as far as the food stamp program is concerned. One I would like to highlight is that we are studying the effects of providing cash instead of stamps, and its effect on the participation level of the elderly.

I would like to point out that we do believe that these particular provisions, if implemented, would reduce the total Federal cost by $2 billion to the food stamp program. We think this is necessary and consistent with the President's total economic recovery plan, and we believe very strongly that we are consistent by establishing gross eligibility criteria in order to render the assurance to the truly needy. Most importantly, I believe we have been sensitive to insuring that in comparison to the whole population in the food stamp program, the elderly will be minimally affected.

Mr. Chairman, that concludes my remarks, and the summary of the proposal that we will be sending forward. I would be happy to entertain questions that you or the members might have.

Senator HEINZ. Thank you very much, Mr. Dickey.

First, let me compliment you on some very good, detailed information. HHS had difficulty coming up with numbers on the minimum benefit proposal. You, by contrast, have tried to calculate for each element of the program the effect on a specific population, our elderly. I think you have done a very good job.

I do note your reference to the fact that you are running a test of a cash-out program of food stamp benefits with senior citizens. Is that right?

Mr. DICKEY. Yes, sir, that is correct.

Senator HEINZ. How long has that been in existence?

Mr. DICKEY. I am informed it is in place now, and will run through September.

Senator HEINZ. What kind of results will you consider successful results from that test? What is being tested, and what would be a good result?

Mr. DICKEY. I might ask for some assistance on that, but first of all, Mr. Chairman, I would think that we would be looking very carefully at the participation levels.

Certainly, if these kinds of efforts were found to be barriers or would inhibit for some reason the nutritional benefits of those households, that would concern us very greatly.

Particularly, I would like to emphasize the nutritional impact that this might have. In other words, if the cash were used for other items which would take away from the nutritional benefits that the stamps might limit and target more directly to those populations, that would concern us.

Senator HEINZ. Thank you very much, Mr. Dickey. I appreciate your patience. We thank you for some very good testimony.

Mr. DICKEY. Thank you.

Senator HEINZ. I am going to ask what would be the third panel of witnesses to extend a courtesy to some of the members of our fourth panel. I understand this has been discussed in advance, and there will be no objection from our witnesses, if we ask the fourth panel to be our third panel. This is in particular courtesy to Senator Hugh Farley, because he has a 1 o'clock appointment. We don't want him to be unduly delayed for it. So, could Senator Farley, Dr. Robert Clark, and Doris Dealaman come forward? Would you please identify yourselves?

Ms. DEALAMAN. I am a girl.

Senator HEINZ. Yes, I think I could determine that. [Laughter.]

Senator Farley, would you please proceed?

STATEMENT OF SENATOR HUGH T. FARLEY, ALBANY, N.Y., CHAIRMAN, NEW YORK STATE SENATE COMMITTEE ON AGING, AND VICE CHAIRMAN, HUMAN RESOURCES COMMITTEE, NATIONAL CONFERENCE OF STATE LEGISLATURES

Senator FARLEY. Yes; good afternoon, Chairman Heinz and members of the Senate Special Committee on the Aging. Thank you for this opportunity to be with you today.

I am a New York State senator, and I come before you in a dual role, first as vice chairman of the Human Resources Committee of the National Conference of State Legislatures, and former chairman of the Subcommittee on Aging for that organization, and second, as chairman of the Aging Committee for the New York State Senate.

New York, as you know, contains nearly 10 percent of all the elderly citizens in the Nation, so we have a special interest in the welfare of older persons.

There is a fear spreading in the land that the President's budget reductions will have a drastic negative effect on the elderly. By and large, this is not the case, and I know that many of us look to the committee to help set the record straight. This morning, I would like to review some of the positive aspects, and I will just brief them, of the President's proposals, but raise a warning flag about one very negative suggestion—the medicaid cap.

Older citizens today are very special people. That is why I believe they never wanted a handout. That is why income is so important to the elderly. And that is why the great threat of inflation is so feared by them.

Let's look for a moment at some statistics developed by your own committee a couple of years ago. As of 1978, 15 percent of the people over age 65 were living in poverty, and an additional 25 percent were at the "near poverty" level. In that year, the average person over 65 living in a rural area had an income of $3,000 per year. In fact, the median income of families headed by older persons was 43 percent below the median for all families.

Senator Heinz, success at restraining inflation, and the maintenance of the vital "safety net" programs of social security, medicare, and SSI, will be one of the greatest boons to the elderly. For these initiatives, older Americans will be deeply grateful to our senior citizen President, and our Congress.

I am delighted that the President's budget holds harmless the hot meals program. This program is literally a "lifesaver" for millions of elderly Americans. In New York alone, the program serves over 8 million meals per year, at over 800 meal sites. It provides not only the basic nutritional content for our elderly who otherwise would not be getting a decent meal, but also for socialization, so essential to the mental health of those who otherwise would be held hostage in their own dreary flats, isolated and alone.

Some people fear that block granting the hot meals program with title XX, as proposed, will somehow cut the number of hot meals served. I cannot find support for this. The hot meals program is extremely popular in State after State. And the Meals on Wheels program is rapidly expanding. These programs are not being cut at the Federal level, and I do not believe there will be any net shrinkage this year or in the year to come.

I do want to speak to another area, and that area is energy costs. Energy costs is another vital problem to the elderly. In the Northeast, we face energy costs of over $1,000 a winter season. How can an older person living on a $200 to $300 social security check a month meet such a cost?

In the New York State Senate this week, we passed a bill to require utilities to reduce their billings to SSI recipients by 25 percent, recouping that amount through a tax setoff system. We are working at the State level to cut costs to senior citizens.

I hopé that you will carefully evaluate the probability that the block grant reduction will result in a major cut in the HEAP program. The New York State Office for the Aging tells me that, in our State, at least 85,500 elderly households will be cut off from the program, even if the price of fuel does not rise at all. Under the more realistic assumption of price increases, I am told 124,000 New Yorkers will lose badly needed aid. Again, I urge you to consider the special needs of the elderly in States such as New York.

At the start of my testimony I mentioned great concern with one aspect of the President's proposal—the medicaid cap and cutback. The elderly are among the major beneficiaries of medicaid, and are among those least able to handle the high cost of medical care on their own.

Let me cite some numbers. The growth in population of the most medically vulnerable elderly, the over age 75 frail, has been nothing short of phenomenal. By the year 2000, these people will make up 44 percent of the elderly population, according to the Bureau of the Census. Not only are the elderly physically more vulnerable to illness, their medical problems involve longer hospital stays and cost more money. A recent national study—Inglehart, 1978—showed that the annual per capita medical bill for persons over 65 was $1,745, while the nonelderly had but $661 in medical costs.

And medicaid is a major source of the dollars required to help senior citizens stay healthy. In 1978, the most recent year for which complete statistics are available, 62 percent of New York State's medicaid dollars went for senior citizens, according to figures provided by the State Senate Finance Committee. Nationally, the national health law program testified before the Senate Appropriations Committee last week that 3 million low-income elderly utilize medicaid to pay medicare deductibles, coinsurance, and noncovered items.

The elderly, then, truly depend on medicaid as part of their medical care "safety net." What will the proposed cap mean to New York? My State Senate Finance Committee tells me that our State will lose $47 million in medicaid funds in fiscal 1981. Figures developed by the National Conference of State Legislatures suggest that New York could lose up to $312 million in 1982, and up to $1.7 billion in 1986.

Applying these figures to our senior citizen population, we can extrapolate that older New Yorkers will lose $29 million in medicaid in 1981, and more than $100 million in 1982.

This seems intolerable in a State which has long imposed its own cap on medicaid, and which is noted as having one of the best records in the Nation regarding health care cost containment with only a 2-percent fraud rate for medicaid, which is a great record.

We will be forced to choose between denying needed medical care to senior citizens or raising State and local taxes to intolerable levels to make up lost Federal funds.

With New Yorkers already paying among the highest taxes in the Nation, with our State's medical providers already reeling under cost-containment programs—both hospitals in my hometown foresee bankruptcy in the next couple of years—and with our elderly clearly dependent on medicaid for needed care, I see no solution.

Minimum fairness to taxpayers and elderly medicaid recipients calls for very slow movement in any program to cut or cap the system. Perhaps a gradual movement into a moderate reduction, only after determining the effect of a first-year cut, would prove possible.

The $1 billion cut for fiscal 1982 is too sharp and too fast. May I also draw your attention here to a significant functional problem of many State legislatures. I am speaking for all the State legislatures, now.

In many States, the legislative session ends during the first part of the calendar year. Since, clearly, any changes in the medicaid program will not clear the Federal mechanism for several weeks or, with rules and regulations, several months, many States will be unable to respond until January 1982.

I hope that Congress will bear this in mind when acting on cuts or caps which will affect the 1982 Federal fiscal year, which will, of course, be one-quarter over by the time the State legislatures can convene.

One constructive proposal we can make is that a new title be provided for home care alone. We fear that the medicaid cuts will constrain the development of this less expensive mode of treatment. Both the Federal and State Governments have a joint interest in developing home care so the elderly can remain longer in their homes and avoid institutionalization. We think that a new title with specific allocations for home care will, in the long run, save money and help the elderly.

That, then, Mr. Chairman, is an idea of the views and needs of the Nation's elderly, as I perceive them, and some of the specific items we, in New York State, see in the President's proposed budget.

On the whole, the proposal is positive and beneficial to the elderly. The important "safety net" programs will be maintained and enhanced. Almost nobody's social security check will be reduced. And the main problem of the elderly, the terrible specter of inflation, will be attacked by the President's well-advised and positive program to bring this Nation's economy back under control.

We are very concerned, though, about the proposal to cap the medicaid program. Too many elderly people require medicaid to maintain their physical and fiscal health. States such as New York, are already operating successful programs to control health care costs, and drastic cuts in Federal funds will serve only to penalize State and local taxpayers or to take vital care away from older citizens.

I urge you to go very slowly in cuts in this program, making sure that any changes do not have the drastic effects on older Americans which seem certain under the current plan.

Chairman Heinz, when we started, I told you that most older Americans want a helping hand, not a handout. I am pleased and proud that this has been taken into consideration in the development of this budget proposal. The President has shown his recognition of the importance of cost-effective programs for senior citizens, and most significant programs for the aging have escaped budget cuts. It will be important for all of us, at all levels of government, to maintain that level of commitment to our senior citizens.

Senator HEINZ. Thank you very much, Senator Farley.

[The prepared statement of Mr. Farley follows:]

PREPARED STATEMENT OF HUGH T. FARLEY

Good morning, Chairman Heinz and members of the Senate Special Committee on Aging, thank you for the opportunity to speak with you today. I am New York State Senator Hugh T. Farley, and I come before you today in a dual role—first, as vice chairman of the Human Resources Committee of the National Conference of State Legislatures, and former chairman of the Subcommittee on Aging of that organization, and, second, as chairman of the Committee on Aging of the New York State Senate. New York, as you know, contains nearly 10 percent of all the elderly citizens in the Nation, so we have a special interest in the welfare of older persons.

There is a fear spreading in the land that the President's budget reductions will have a drastic negative effect on the elderly. By and large, this is not the case, and I know that many of us look to the committee to help set the record straight. This morning, I'd like to review some of the positive aspects of the President's proposals, but raise a warning flag about one very negative suggestion—the medicaid cap.

Mr. Chairman, older citizens today are very special people. These are the people who grew up during the Depression. Many of them defended America during the Second World War. Older Americans want and need a helping hand, but today's senior citizens have never wanted a handout.

That is why income is so important to the elderly. And that is why the great threat of inflation is so feared by them. Let's look for a moment at some statistics developed by your own committee a couple of years ago. As of 1978, 15 percent of the people over age 65 were living in poverty, and an additional 25 percent were at the "near poverty" level. In that year, the average person over 65 living in a rural area had an income of $3,000 per year. In fact the median income of families headed by older persons was 43 percent below the median for all families.

I am pleased, as are so many older people, that the President is so carefully and positively retaining major programs which assist the elderly to maintain their incomes. This budget does not cut anyone's social security check (other than the minimum benefit); does provide for a cost-of-living increase in social security payments; and does not cut title V which provides $227 million for part-time employment for older workers.

What's more, President Reagan's initiatives do attack the central priority of older person's—inflation. In New York, nearly 20 percent of the people over 65 are still at work in the labor force. Others, who have taken a well-deserved retirement, rely for income on social security and private pensions, to which they contributed hard-earned dollars during their working years. These people don't want a Government dole. What they do want is for their Government to assure them of a stable economy without double-digit inflation eating away at their pocketbooks.

Success at restraining inflation, and the maintenance of the vital "safety net" programs of social security, medicare, and SSI, will be one of the greatest boons to the elderly. For these initiatives, older Americans will be deeply grateful to our senior citizen President, and our Congress.

There are other sides to the lives of senior citizens which may be touched by the proposed budget. In spite of the fears of some, it seems clear that existing programs designed to keep older persons healthy, vibrant members of the community will be maintained in a cost-effective manner, while some other cuts should be reconsidered. Permit me to touch briefly on three of these—the significant hot meals program, employment of the aged, and energy assistance.

I am delighted that the President's budget holds harmless the hot meals program. This program is literally a "lifesaver" for millions of elderly Americans. In New

York alone, the program serves over 8 million meals per year at over 800 meal sites. It provides not only the basic nutritional content for our elderly who otherwise would not be getting a decent meal, but also for socialization, so essential to the mental health of those who otherwise would be held hostage in their own dreary flats, isolated and alone.

Some people fear that block granting the hot meals program with title XX, as proposed, will somehow cut the number of hot meals served. I can find no support for this. The hot meals program is extremely popular in State after State. And the meals-on-wheels program is rapidly expanding. These programs are not being cut at the Federal level, and I do not believe there will be any net shrinkage this year or in the year to come.

Just a few years ago, congressional concern with employment of the elderly would have been considered unnecessary. Until recently, the goal of many was early retirement, not continued employment. But double-digit inflation has changed all that. Now older people need to work, and want to work. Fortunately, the budget recognizes this, and spares from cuts the $227 million program for part-time employment of low-income aged.

The foster grandparent program, which has grown fourfold during the 1970's, is one of those extraordinary programs which helps senior citizens with income maintenance, provides valuable services to young people most in need of mature guidance, and helps to destroy the image of the elderly as homebound and uninvolved in their community.

In a related area, I draw the committee's attention to the success of new Federal laws barring forced retirment at age 65. More and more mature workers are making positive contributions until the new age 70 cutoff. I'm sponsoring legislation in New York which will eliminate mandatory retirement entirely for public employees, and I hope that you gentlemen will look favorably on congressional efforts to repeal mandatory retirement for all workers, public and private.

Energy costs are another vital problem to the elderly. In the Northeast, we face energy costs of over $1,000 a winter season. How can an older person living on a $200 to $300 social security check a month meet such a cost?

The New York State Senate this week passed a bill to require utilities to reduce their billings to SSI recipients by 25 percent, recouping that amount through a tax setoff system. We're working at the State level to cut costs to senior citizens.

I hope that you will carefully evaluate the probability that the block grant reduction will result in a major cut in the HEAP program. The New York State Office for the Aging tells me that, in our State, at least 85,500 elderly households will be cut off from the program, even it the price of fuel does not rise at all. Under the more realistic assumption of price increases, I'm told 124,000 New Yorkers will lose badly needed aid. Again, I urge you to consider the special needs of the elderly in States such as New York.

At the start of my testimony I mentioned great concern with one aspect of the President's proposal—the medicaid cap and cutback. The elderly are among the major beneficiaries of medicaid, and are among those least able to handle the high cost of medical care on their own.

Let me cite some numbers. The growth in population of the most medically vulnerable elderly, the over age 75 frail, has been nothing short of phenomenal. By the year 2000, these people will make up 44 percent of the elderly population, according to the Bureau of the Census. Not only are the elderly physically more vulnerable to illness, their medical problems involve longer hospital stays and cost more money. A recent national study—Inglehart, 1978—showed that the annual per capita medical bill for persons over 65 was $1,745, while the nonelderly had but $661 in medical costs.

And medicaid is a major source of the dollars required to help senior citizens stay healthy. In 1978, the most recent year for which complete statistics are available, 62 percent of New York State's medicaid dollars went for senior citizens, according to figures provided by the State Senate Finance Committee. Nationally, the national health law program testified before the Senate Appropriations Committee last week that 3 million low-income elderly utilize medicaid to pay medicare deductibles, coinsurance, and noncovered items.

The elderly, then, truly depend on medicaid as part of their medical care "safety net." What will the proposed cap mean to New York? My State Senate Finance Committee tells me that our State will lose $47 million in medicaid funds in fiscal 1981. Figures developed by the National Conference of State Legislatures suggest that New York will lose up to $372 million in 1982, and up to $2 billion by 1986. Applying these figures to our senior citizen population, we can extrapolate that older New Yorkers will lose $29 million in medicaid in 1981, and more than $100 million in 1982.

This seems intolerable in a State which has long imposed its own cap on medicaid, and which is noted for one of the best records in the Nation regarding health care cost containment with only a 2-percent fraud rate for medicaid. We will be forced to choose between denying needed medical care to senior citizens or raising State and local taxes to intolerable levels to make up lost Federal funds. With New Yorkers already paying among the highest taxes in the Nation, with our State's medical providers already reeling under cost-containment programs—both hospitals in my hometown foresee bankruptcy in the next couple of years—and with our elderly clearly dependent on medicaid for needed care, I see no solution.

Minimum fairness to taxpayers and elderly medicaid recipients calls for very slow movement in any program to cut or cap the system. Perhaps a gradual movement into a moderate reduction, only after determining the effect of a first-year cut, would prove possible. The $1 billion cut for fiscal 1982 is too sharp and too fast. May I also draw your attention here to a significant functional problem of many State legislatures. In many States, the legislative session ends during the first part of the calendar year. Since clearly any changes in the medicaid program will not clear the Federal mechanism for several weeks, or, with rules and regulations, several months, many States will be unable to respond until January 1982. I hope that Congress will bear this in mind when acting on cuts or caps which will affect the 1982 Federal fiscal year, which will, of course, be one-quarter over by the time the State legislatures can convene.

One constructive proposal we make is that a new title be provided for home care alone. We fear that the medicaid cuts will constrain the development of this less expensive mode of treatment. Both the Federal and State governments have a joint interest in developing home care so the elderly can remain longer in their homes and avoid institutionalization. We think that a new title with specific allocations for home care will, in the long run, save money and help the elderly.

That, then, Mr. Chairman, is an idea of the views and needs of the Nation's elderly, as I perceive them, and some of the specific items we, in New York State, see in the President's proposed budget.

On the whole, the proposal is positive and beneficial to the elderly. The important "safety net" programs will be maintained and enhanced. Almost nobody's social security check will be reduced. And the main problem of the elderly, the terrible specter of inflation, will be attacked by the President's well-advised and positive program to bring this Nation's economy back under control.

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Chairman Heinz, when we started, I told you that most older Americans want a helping hand, not a handout. I am pleased and proud that this has been taken into consideration in the development of this budget proposal. The President has shown his recognition of the importance of cost-effective programs for senior citizens, and most significant programs for the aging have escaped budget cuts. It will be important for all of us, at all levels of government, to maintain that level of commitment to our senior citizens.

Senator HEINZ. Mrs. Dealaman, we will have all three of you proceed, and then we can ask questions.

STATEMENT OF DORIS DEALAMAN, FREEHOLDER, SOMERSET COUNTY, N.J., AND CHAIRMAN, SUBCOMMITTEE ON AGING, HUMAN SERVICES STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES

Ms. DEALAMAN. Thank you very much, Mr. Chairman.

I am Doris Dealaman, a freeholder from Somerset County, N.J. As a word of explanation, that is comparable to a county supervisor. They just call us freeholders.

I am also chairman of the Subcommittee on Aging within the Human Services Steering Committee of the National Association of Counties. I am here today to discuss the impacts on the elderly of the administration's proposals to reduce Federal expenditures and to allow States more administrative flexibility through block grants.

I would like to outline a few principles which NAC believes are important to keep in mind in considering cutbacks. I also want to highlight the area—medicaid—where NAC believes the largest possible threats to the well-being of the elderly may lie.

Recently, NAC's board of directors met to establish a county policy toward the administration's proposals. Four principles are germane to my testimony today.

First, NAC supports balancing the Federal budget.

Second, counties will take a fair share of the cuts, but because we traditionally serve the poor and needy, counties refuse to accept a disproportionate share of sacrifices. We rely heavily on the President's pledge that the deserving poor will be supported.

Third, counties recognize a special obligation not to increase taxes to simply replace Federal taxes. We do not believe anyone voted for such tax switching last November.

Fourth, NAC has long supported block grants, but also notes a need to provide safeguards—to echo the State senator—reasonable transition times, reduction, please, in Federal mandates and regulations, passthrough of funds to service providers, elimination of maintenance of effort requirements.

In regard to the block grants, NAC has long supported local flexibility in the belief that this approach, as an approach, can reduce costs. However, we do question the 25-percent savings figure that has been used in some of the proposals. We are seriously concerned that cuts of this size must mean cuts in service to the needy.

Before turning to medicaid, let me address a few specific cutbacks in food stamps and the low-income energy assistance program.

The cutbacks of eligibility for food stamps to 130 percent of the poverty level is obviously going to affect some elderly persons. The average recipient of social security, for example, may no longer qualify for food stamps. However, the commissioner of social services in Rensselaer County, N.Y., points out that the loss will probably not be severe—$10 to $15 a month, as the previous speaker indicated.

On the other hand, as Mr. Beaudoine adds, "All the proposed cuts are interrelated, particularly for the elderly." A loss of food stamps, plus ineligibility for low-income energy assistance, plus the loss of a homemaker due to cutbacks in title XX services cumulatively may have a life-threatening effect. Overall, the picture is much grimmer. County funds would obviously have to be used in place of the missing Federal dollars.

As an alternative approach, NAC would like to suggest that cashing out food stamps, which is now being tried in California, would produce more savings than the proposals now being envisioned for food stamps.

Furthermore, we would like to point out that in many northern counties, low-income energy assistance often provides more assistance to the elderly than does the food stamp program. For example, in Allegheny County, Pa., 49 percent of all approved applicants for low-income energy assistance were elderly. We believe that this program must realistically address the severity of winter temperatures, the price of fuel, and the need of the elderly to avoid low temperatures. It was snowing this morning when I left, I might add. Cutting this budget by $400 million seems to NAC to overlook the recent severity of winters and the rising prices of fuel.

Let me now turn to medicaid which, as I indicated, is our major concern.

NAC wholeheartedly supports reforming our present medicaid system. However, we believe that inflexible caps set on the system will:

First, reduce the accessibility of services to the low-income elderly.

Second, impair the quality of care that the elderly are provided—especially in public institutions which serve the poorest and the sickest older people.

Third, cause counterproductive cutbacks in services which seek to maintain the elderly's independence and prevent costly institutionalization.

Counties are also aware that only funding—not the need for services—would likely be capped. Counties, as providers of last resort, would be called on to use the already overburdened property tax for increased support to services which simply must be provided to our Nation's elderly poor.

NAC would like to propose some alternative approaches that would not result in reduced accessibility or reduced quality of care to the very needy elderly, but rather reduce costs through addressing and correcting administrative inefficiencies.

First, enable States to act as "prudent purchasers" of services in instances which would not jeopardize clients.

Second, provide greater local flexibility in administration of eligibility and benefit standards, which currently must be uniform statewide.

Third, allow political subdivisions to provide matching funds to obtain Federal participation for optional services for groups—which would not be covered statewide.

Fourth, test and demonstrate more aggressively, proposals, such as a voucher system or the Packwood-Bradley bill, to coordinate and simplify long-term care funding.

Fifth, allow States more flexibility to set medicaid reimbursement rates—including prospective reimbursement—with savings to be shared between providers and State governments.

Sixth, remove Federal statutory barriers to HMO's and prepaid health systems in the public sector.

Finally, NAC urges Congress to include medicare in any of the above-mentioned reforms to the greatest extent possible. To simply ignore medicare's relation to medicaid while placing a cap on medicaid would only give the illusion of maintaining a safety net around the elderly. Both medicare and medicaid together form the safety net that supports our Nation's elderly population.

In particular, NAC would like to urge the repeal of the provision of the 1980 Budget Reconciliation Act which eliminates the State licensure requirement for proprietary home-health agencies under medicare. Counties are concerned about this provision because the per capita costs for these agencies is twice as high as voluntary and public agency costs. In an era of constrained resources, we can hardly afford to allow such costs.

Thank you very much.

Senator HEINZ. Thank you. Dr. Clark, please.

STATEMENT OF DR. ROBERT CLARK, RALEIGH, N.C., DEPARTMENT OF ECONOMICS AND BUSINESS, NORTH CAROLINA STATE UNIVERSITY

Dr. CLARK. Thank you, Mr. Chairman. I have been asked to discuss several of the issues identified today in relation to the economic welfare of the elderly.

First, I think we should recall that economic well-being of the elderly has improved substantially over the past two decades. One indicator might be the number, or proportion, of people 65 and over who are below the Government-indicated poverty line. This number has declined from 35.3 percent in 1959 to 14 percent in 1978.

Thus, in 1978, the poverty rate of the elderly is not substantially different than the poverty rate of all Americans.

Another measure might be to look at median income of families over age 65 compared to the rest of the population. In 1965, this number stood at 49.3 percent, but it rose to 59.3 percent in 1976. The elderly, then, have gained in relative income compared to the total population.

This gain in both absolute and relative income for the elderly can be attributed to both economic growth, that is, rising levels of real income of older individuals, and also to the growth and development of substantial Government programs for the elderly.

A Congressional Budget Office study in 1976 indicated that the pretax, pretransfer poverty rate for people 65 and over would have been approximately 60 percent in 1976. By the addition of social insurance income money, income transfers, and in-kind transfers, that poverty rate declined to about 6 percent.

So, it is with care that one should begin to examine the dismantling of, or reduction in, Government programs for the elderly.

At the same time, however, the support of these programs has required substantial new Government resources, and Secretary Califano of HEW, estimated a few years ago that the proportion of the Federal budget going to these programs had increased by a factor of two, and the proportion of GNP going to Federal Government programs for support of the elderly, had increased by a factor of two, as well.

Thus, I would like to look first at the minimum benefit proposals put forward today and try to indicate those people who might have benefits reduced and those areas where there might be cost savings, and try to indicate the effect on the older population.

I can identify several groups who would have different effects of the elimination of the minimum benefit. First, for those individuals already receiving SSI, the benefits reduction from social security would be matched by dollar-for-dollar increases in their SSI payments. Presumably, if the individual has already signed up for the program, the stigma of going to the SSI office should not be so great for those individuals, and they should have no change in their total benefit, that is, total SSI benefits plus social security retirement benefits.

One could also state that for beneficiaries of the income-tested program for veterans' benefits, there exists this same dollar-for-dollar increase in these benefits when social security benefits are lowered. Thus, there would be no savings to the Federal Treasury and no reduction in benefits for that individual.

The second group are those people currently eligible but not participating in SSI. This might be because of a stigma attached to receipt of SSI. It might also be because the benefit they could receive from SSI is quite small, and it is not worthwhile for the individual to go through the hassle of signing up for SSI. However, with a reduction in minimum benefits, these individuals might become more likely to sign up for SSI. And, therefore, in a rather perverse result, this might result in added costs to the social security system, plus the SSI.

Clearly, you are transferring funds away from the trust fund—social security trust fund—but you would be adding it to the SSI program, and there would be a net increase in Government spending.

By the way, it is my impression that the participation rate of those people eligible for SSI is somewhere in the neighborhood of 30 to 50 percent of those who newly become eligible. So this might not be a small group.

A third group of people newly eligible for SSI may also become eligible for medicaid. I think the eligibility requirements in many States are that if you are eligible for SSI, you are automatically eligible for medicaid. Thus, the situation of putting people from the old-age survivors insurance program onto the SSI rolls might automatically make them eligible for medicaid payments where they were not eligible before. Again, there might be an added cost effect to this program.

A fourth group would be the relatively high-income people identified earlier in this hearing, the Federal annuitants that perhaps have high Federal retirement programs and/or State retirement programs. These people would lose social security retirement benefits with no gain elsewhere, so this is the savings that was identified earlier.

A fifth group are the ones that were identified by the chairman, those that are less than 65 who have a minimum benefit now, but who would not receive SSI benefits under the new regime. These people would lose benefits and, of course, the result would be some cost savings to the Federal Treasury.

There also may be people that lose benefits, a sixth group that would lose benefits from social security but choose not to participate in SSI. These would be newly eligible people who choose not to participate, as indicated by some of the members of the hearing earlier.

So there are several groups that are differentially affected. I have not had the opportunity to try to compare total cost estimates—including the added cost effects—with the cost savings effects to see if I could identify or recreate the $1 billion figure suggested by the administration. As I listened to the earlier testimony, one could come fairly close to the $1 billion figure by taking the 1.5 million beneficiaries minimum—who are not duly entitled and not current SSI beneficiaries—multiply that by the $122-a-month benefit multiplied by 12 months a year, and you find that those potentially eligible for reduction have a total benefit of $2.2 billion under the figures given earlier today.

Thus, this would imply that these people would lose on average, 50 percent of their benefits to accrue to the $1 billion cost savings identified earlier.

If the objective is to reduce Federal outlays, along with a concern over people receiving an unintended subsidy through the social security system—those people primarily being the high income Federal-paid workers—the more appropriate solution would be for a universal coverage of the social security system rather than reduction of the minimum benefit. This is in part, because the people that are receiving these unintended subsidies, Federal retirees, receive the subsidy largely through the tilted benefit formula and not so much through the minimum benefit.

I think if you look at the universal coverage report, there are numbers there that indicate the magnitude of these unintended subsidies going to Federal employees, because of the tilted benefit formula of social security, the regular benefit, as well as for the minimum benefit.

The programs identified today in terms of the lump sum death benefit, the elimination of the minimum benefit, and also the elimination of student aid will not alter the fundamental financing problems facing the social security system. They may provide short-term savings for current budgetary issues, but they will not alter the financial system to any significant degree of the social security system itself. Thus, Congress will still be faced with the problem in the future of trying to fund promised benefits from social security.

Because of the changing demographic situation, Congress will be faced with either of two choices directly related to the overall social security system: There will be higher taxes, even higher than those legislated, or there will be lowered benefits. There are a number of ways, of course, that benefits could be reduced, either by reducing the indexing formula, lowering replacement rates, or raising retirement ages.

Those are the choices that Congress will be faced with concerning the overall social security system. It seems a little bit odd that the administration has chosen not to address any of these alternatives, which would fundamentally change the balance of the social security financing problem in the short term. I would urge that you begin a comprehensive examination of the social security system. We should avoid the myopia of the day of current budget situations to consider the longrun solution to social security problems and the fundamental changes that may have to occur.

Thank you, Mr. Chairman.

Senator HEINZ. Thank you very much, Dr. Clark. Senator Farley, your testimony is very comprehensive. You have singled out the cap on medicaid as a particular problem. In doing so, you cited a statistic that caught me by surprise. You said that 62 percent of your State medicaid dollars go for senior citizens. That took me by surprise because the national average is more in the neighborhood of 42 percent. I am wondering what it is that New York is or isn't doing that results in the higher average medicaid expenditures for the elderly.

Mr. FARLEY. We are getting older apparently. New York State, in raw numbers, has one of the highest percentages of senior citizens in the Nation. And our elderly population is growing very rapidly, and our resources are diminishing, and our tax resources along with it.

New York State has got some big problems and we have tried to be as innovative in the area, particularly in aging, and there was something that I skipped over, Senator, that parenthetically I would like to draw attention to your committee. We are very anxious and we would hope to try to fight this ravage of inflation and to maybe keep them off medicaid. That is something that might be done in the area of mandatory retirement to work uniformly. For a State the size of Pennsylvania, or New York, that has interstate corporations, for them to act unilaterally in mandatory retirement, is devastating to these corporations as far as transfers back and forth are concerned.

So the need, if you believe in that concept that people should not be mandatorily retired, particularly if they have to continue working for economic reasons, that the Federal Government should act here and I think it is terribly important.

I feel deeply on that point. A great deal of our medicaid funds— and it was startling to me to see that 62 percent of the medicaid funds go to the elderly.

Senator HEINZ. Thank you. Ms. Dealaman, you, too, have raised the issue of the medicaid cap. I think between the counties and the State legislatures and legislators, we have covered that issue pretty well.

One of the things you cited in your testimony, quoting John Beaudoine, the commissioner of social services in Rensselaer County, N.Y., is his assertion that if you add up all the budget cuts, you end up with a whole that is larger than the sum of its parts, in terms of effect. Are there any good case histories that could be developed or that he has developed that could support this assertion? I think certainly it is theoretically true. The question is, is it practically true?

Ms. DEALAMAN. I am quite sure that this could be fleshed out by our NAC staff. We have been doing, as you probably know, a series of indepth studies at the county level of the kinds of impacts that may be felt. I am quite sure we could submit additional testimony to you on that point.

Senator HEINZ. OK. You also believe that cashing out food stamps might save money. Why do you think it would save money?

Ms. DEALAMAN. It would save administrative costs, Senator, if nothing else. At this particular moment I am sure, and your committee is familiar with the details of how this food stamp program works, but it requires the coordination of the banking institutions, the ATP's, the sellers, applications to apply; the paperwork is beyond belief. If indeed it could be folded into eligibility categories as we currently have them, the categorical assistance programs, my own county could divest itself of about 50 employees.

Senator HEINZ. Fifty employees?

Ms. DEALAMAN. Yes. It's a large staff that is needed to administer that program.

Senator HEINZ. Do you have a figure for these and other indirect handling costs? What they would total as a percentage of food stamp outlays? Are we talking about 5 percent, 10 percent, 3 percent?

Ms. DEALAMAN. Closer to 15 in my State.

Senator HEINZ. Fifteen?

Ms. DEALAMAN. And it has another benefit, it helps the self-image of the individual receiving this assistance. Again, the eligibility and the worthiness is not a question. But it is one thing to have a dollar in your hand, it's another thing to have a little blue stamp.

Senator HEINZ. At a recent town meeting I had in Allegheny County which you were kind enough to mention——

Ms. DEALAMAN [interrupting]. Yes, I was happy to.

Senator HEINZ [continuing]. About two-thirds of the people there, tended to favor cashing out food stamps. The other third, however, felt it might be detrimental to senior citizens who might not know how to handle that freedom of choice and that they expressed some concern, as did Mr. Dickey, about the maintenance of adequate nutrition levels.

Ms. DEALAMAN. Part of the responsibility of all of our area offices on aging—and we happen to know your Allegheny County people very well—is an informal but very much indepth educational process to help seniors who are their major responsibility to understand what nutritional needs are.

They vary from the time they were teenagers and young adults and they now have various needs. I am sure it is true in New York and Pennsylvania as well, it is true in my State, there are deliberate educational programs to help the seniors know how to, one, budget their money; and, two, acquire the best possible nutritional meals for their limited incomes.

Senator HEINZ. Getting into the issue indepth is probably beyond the scope of this hearing, but I just wanted to identify the two contending schools of thought. They will probably be contending well into the future if I know those two schools of thought.

Ms. DEALAMAN. I am afraid you're right.

Senator HEINZ. The last item I would like to ask you about is on page 4 of your statement, you state that we should remove statutory barriers to HMO's and prepaid health sector systems in the public sector. Senator Durenberger would, as I do, applaud you for that. I assume what you mean is that people under either medicare or medicaid should be able to choose to participate in some prepaid health care plan?

Ms. DEALAMAN. Yes.

Senator HEINZ. Thereby deriving a variety of benefits. Both Senator Durenberger and I have legislation in the works on this subject. We both have the same objective. So we thank you for being one of our first witnesses in a hearing not yet called.

Ms. DEALAMAN. We feel very strongly about this. Those of us who work with our respective offices on aging at the local level, statewide, and nationally, that we have a tendency in medicaid and medicare to react after the fact. What we need is good preventive care.

Senator HEINZ. Yes, I think you would find a very large majority of my colleagues agreeing with you on that point.

Dr. Clark, you made good suggestions about what we ought to do with the social security system. You made suggestions to the Reagan administration. I suspect they were listening, even if they didn't react. Also, this committee held a number of hearings last year on solutions both in the short- and long-term cases, of the financing of the social security system.

Right now, we are concentrating largely on the budget proposals and we are interested in interviews of people who think that now is the time to try and do something, at least about the short-term problem.

Mr. Swoap talked at some length about that in his presentation. We appreciate your thoughts on that issue, too, because obviously if for some reason the balances in the social security trust funds drop much below 13 or 12 percent, you actually run into the phenomenon that the safety net ceases to exist. It won't be able to meet payments once it gets below a certain percentage level. So the comments are extremely pertinent because the social security system, the OASDI, is our biggest and best and most significant safety net. So we thank you very much. We thank all three witnesses very much for being here. We thank you for your time and your patience.

Mr. FARLEY. Thank you, and I appreciate the courtesy of moving us up in the order of witnesses.

Senator HEINZ. Let me call the last panel, Larry Crecy, Dr. Paul A. Kerschner, and Jacob Clayman.

Let me ask Mr. Crecy to proceed.

STATEMENT OF LAWRENCE CRECY, WASHINGTON, D.C., VICE PRESIDENT FOR ADMINISTRATION AND OPERATIONS, NATIONAL CAUCUS AND CENTER ON THE BLACK AGED

Mr. CRECY. Mr. Chairman and members of the Committee on Aging, the National Caucus and Center on Black Aged, Inc., is pleased to submit testimony on the impact of the administration's budget on older Americans.

Furthermore, we wish to commend you for holding hearings on this vitally important subject for elderly blacks.

It now takes on added importance because 55,000 older blacks were added to the poverty rolls in 1979, raising the total from 662,000 to 717,000. This represents the highest number of impoverished older black Americans since 1966, when 722,000 were poor.

In addition, almost 300,000 aged blacks had incomes between 100 and 125 percent of the poverty line.

This means that 1 million blacks 65 or older are either poor or marginally poor. The net impact is that one out of every two aged blacks (49 percent) either lives in poverty or so close to it that he or she cannot appreciate the difference.

Older blacks are almost three times as likely to be poor as elderly whites. Nearly 36 percent of all aged blacks live in poverty, in contrast to 13 percent for their elderly white counterparts.

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Blacks who live alone or with nonrelatives are particularly disadvantaged. Quite often, they suffer from greater extremes of deprivation. Poverty is especially widespread among elderly unrelated black women. About five out of eight live in poverty. More than four out of five are either poor or marginally poor.

A strong and healthy social security system and an effective supplemental security income program are vital for older black Americans because these programs constitute the bulk of their income.

Most older Americans have income from assets—such as interest from savings accounts and dividends from stocks—but not older blacks.

Elderly whites are three to four times more likely to have income from assets than aged blacks. Approximately 63 percent of white males 65 or older and 40 percent of elderly white females receive income from assets—in contrast to 16 percent for black aged men and 12 percent for black older women.

Aged blacks also have an important stake in assistance programs—such as low-income energy assistance and food stamps—because poverty is still widespread among blacks 65 or older. Today many older blacks suffer from a form of multiple jeopardy because of their age, race, and low-income status.

They were raised at a time when widespread discrimination existed. They typically attended inferior schools, notwithstanding the so-called separate but equal doctrine. Large numbers were forced to drop out of school to help at home or for other reasons.

To a very large degree, they were shortchanged in being given necessary tools to compete in a society that has become more urbanized and industrialized. Today they pay a heavy price because of their cultural, educational, and economic deprivation during their formative years.

The net effect is that proportionately more older blacks enter "old age" with little or virtually no financial resources than aged whites.

Consequently, they are frequently forced to depend upon their families and the public sector for supportive services, care, and survival.

As you have requested, NCBA will direct its testimony to the administration's budgetary recommendations affecting three major programs for older blacks—social security, food stamps, and low-income energy assistance.

In the case of social security, at the outset, NCBA must conclude that the present proposals would adversely affect elderly blacks, notwithstanding assertions that the "truly needy" would be spared.

In most cases, we cannot quantify the precise impacts because: Complete statistical information is not available, and many of the budget proposals are described in general terms without precise information.

However, there is no doubt that many of these proposals would reduce benefits for older persons, especially low-income older blacks. One example is the recommendation to end the $122 minimum monthly benefit for social security beneficiaries. An estimated 2 million persons would have their benefits reduced by about $1 billion.

NCBA fully recognizes that many minimum monthly beneficiaries are government pensioners who receive low social security payments because they worked most of their lives in nonsocial security covered employment. But there are also many low-income older blacks who receive the minimum monthly benefit because they worked for low wages throughout their lives in such occupations as domestics, farmworkers, or other low paying jobs.

Many of these individuals frequently receive the minimum monthly benefit because their employers underreported their wages or did not report them at all.

The administration's social security proposals, for the most part, do not affect retirees. But some of these proposals would clearly reduce protection for older persons. A good example would be the new proposed "recency of work" test, requiring disabled persons to have worked in 6 out of 13 previous quarters.

Now, disabled persons must have quarters of coverage for one-half of the time between age 21 and the onset of disability (with a minimum of 6 quarters), but not more than 20 quarters during the past 40 quarters for persons 31 years or older.

The administration's more stringent "recency of work" test would make it much more difficult for older workers with degenerative conditions to qualify for disability benefits. This may not appear to be an "older person" issue. But, it is, because about one-half of all disabled social security beneficiaries are 55 to 64 years old. And, it will cut back benefit protection sharply—by an estimated $300 million in fiscal year 1982.

Even the proposed phaseout of social security benefits for students would affect older Americans also. Students are eligible for social security benefits only if their parents are retired, disabled, or deceased. Thus, the family would lose an important source of income under the administration's proposal at a time when a worker's earnings have been reduced or eliminated because of retirement, death, or disability.

This loss of support will not be compensated by other programs because the administration has also called for sharp reductions in student assistance. The net effect is that the family income for students of older, disabled, or deceased workers is likely to be reduced sharply when college costs are soaring.

Now in the area of food stamps, older Americans will also be negatively affected by the proposed reductions in benefits, especially low-income older blacks. One recommendation would limit food stamp eligibility to 130 percent of the poverty level. About 1 million persons would lose food stamp eligibility under this provision. And, food stamp benefits would be cut by about $275 million.

We heard testimony earlier this morning by the Food Research and Action Center that said this proposal "will largely affect working people, and elderly folks on just social security."

NCBA opposes this measure because the proposed gross income standard would make the food stamp program less flexible in responding to the nutrition needs of older Americans.

We believe that the existing "net income" standard is a more appropriate measure of entitlement than a gross income test.

For example, a low-income single person with no medical expenses may have more to spend on food than another person with slightly more income but with major medical expenses.

I think the Senator from New York indicated the large difference in meal expenses as paid by those 65 or older in comparison of those of younger years.

We believe that net income is a more accurate barometer of need and provides greater flexibility than the proposed gross income test.

The budget recommendations would also eliminate another food stamp provision benefiting older Americans. Under the present law, elderly persons may deduct monthly medical expenses above $35 in determining their eligibility for food stamps.

Beginning in October, older Americans can itemize medical expenses above $25. The administration proposes to repeal the $25 threshold and retain the present $35 level. This, however, would cost low-income aged and disabled persons about $25 million in benefits.

In addition, other food stamp cutbacks would affect low-income persons either directly or indirectly, including:

Freezing the present standard deduction for food stamp recipients within the continental United States at $85; and counting the value of school lunches against the food stamp allotment. This would adversely affect many older black grandmothers who care for their grandchildren in their homes.

Also, providing a less current method to update the thrifty food plan for food stamps, which is another concern of ours.

Most people greatly underestimate the importance of food stamps for older persons; but, nearly one out of five food stamp households is headed by an individual 60 years or older.

The proposed cuts would affect them very drastically, and in ways that may not be readily apparent at this date.

Finally, in the area of low-income energy assistance, the administration proposes to consolidate two energy programs—emergency assistance under the Social Security Act and low-income energy assistance—into a $1.4 billion energy and emergency assistance block grant to the States.

This amount, though, is approximately $500 million below the combined funding for these two programs in fiscal year 1981.

Once again, low-income older blacks are likely to be hard hit by this cutback. They have already felt the impact of the latest round of energy price hikes. When we take into consideration deregulation of oil and gas, I think we will see a much higher level of cost escalation in the cost of energy. A 27-percent cut in energy assistance will only intensify their serious problems.

In response to comments of Senators Percy and Durenberger, particularly as regards retrofitting, I would also like to bring to the attention of this committee and the chairman that through title V of the senior communities service employment under the Older Americans Act, the rural and urban sectors are experiencing what could be a dramatic linkage of opportunity and need.

Many of the homes of older persons are not energy efficient and the owners are facing rapidly increasing fuel bills that even threaten their abilities to remain in their homes.

In an effort to alleviate some of these problems, several of the title V senior community service employment subgrants have established home repair services to deal with these unmet needs.

Many older workers, through the title V programs, have skills that are being used productively to help these organizations that are trying to repair the substandard housing and to maintain homeownership for low-income families.

In conclusion, Mr. Chairman, a careful analysis of the fiscal year 1982 budget makes it abundantly clear that the poorest elderly are likely to be hit hard by the proposed reductions in income security programs.

In 1979, poverty increased by 400,000 for persons 65 or older. This represented the sharpest jump since poverty statistics were first tabulated.

Figures are not yet available for 1980; but, most experts predict another increase—perhaps of the same recordbreaking magnitude that occurred in 1979.

The bottom line is that 500,000 to 800,000 more older Americans may be added to the poverty rolls from 1978 to 1980. These estimates may even understate the dimensions of the problem.

NCBA urges the committee to take the lead in modifying the budget to protect the low-income aged from cutbacks in their income security benefits. They have already suffered enough and should not be required to endure any more.

NCBA stands ready, willing, and able to work with the committee in making constructive modifications in the budget to protect the poorest of the elderly.

Thank you, Mr. Chairman.

Senator HEINZ. Mr. Crecy, thank you very much.

Dr. Kerschner.

Dr. KERSCHNER. Thank you, Senator.

Senator HEINZ. Let me say to my good friend Jake Clayman, who has been very patient, we are probably saving the best for last, Jake.

Mr. CLAYMAN. You, incidentally, are very patient, too, you know.

STATEMENT OF DR. PAUL A. KERSCHNER, WASHINGTON, D.C., ASSOCIATE DIRECTOR, NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. KERSCHNER. Senator, thank you.

I want to join the list in congratulating you not only on holding this hearing but on the questions and inquiries that you have raised this morning.

Rather than read a prepared statement, I will submit it for the record.[1] I know you just received our lengthy formal statement, and I certainly won't read that, either.

Senator HEINZ. No, and by unanimous consent you are prohibited from reading it. [Laughter.]

Dr. KERSCHNER. Thank you, Senator.

Senator HEINZ. I note it runs to 47 pages. Equally by unanimous consent, it will be entered in the record.[2]

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[1] See page 84.
[2] See appendix 2, item 1, page 152.

Dr. KERSCHNER. Thank you. What I would like to do is discuss issues we raised in our testimony, and make them brief and to the point.

Allow me to walk you through a checklist of the issues that have been raised today. The first one is the area of medicaid.

I wish to point out, as you well know, Senator, and others, that the issue of medicaid caps affect not only the poor but certainly the elderly, not only acute-care costs but certainly long-term care costs.

One of the concerns of our associations and others is what will happen to the long-term care needs of older people on medicaid. Medicare, as we all know, pays only 3 to 4 percent of the costs of people in nursing homes. The rest are either medicaid or private pay.

We wish to avoid a situation where States who are under these restrictions do not begin to engage in reverse dumping of patients out of nursing homes because they cannot meet the medicaid payments.

Second, we are concerned over the "minor" changes that were referred to earlier in home health care. It seems to me somewhat ironic at a time when some Senators, especially from the party in power, are introducing home health legislation, that we begin to reverse ourselves on that issue. To denigrate home health programs seems to be very shortsighted when the push seems to be for alternatives to institutionalized care and a move toward keeping people within their own homes and within their own families. I especially refer to Senator Packwood's bill on title XXI.

On the cashing-out provision of food stamps, I assume we are all aware that there are myths going around about what people do when they are given money instead of chits. We can rest assured that older people will not go out and trade food stamps on the black market, nor will they, if we cash them out, go out and buy liquor and candy rather than feed themselves.

I would agree with the former panel that an educational process on nutrition along with the cashout will certainly benefit the aged.

I also would like to comment on the HMO issue. I personally, as well as my associations, back the development of HMO's. I would like nothing better than to see older people move to a preventive mode in health care and make greater use of HMO's. I think it is the wave of the future, frankly.

Let me move to issues of social security. First, the issue of the Consumer Price Index, I think, is an important one, as is the COLA matter.

While we are pleased that the President at this point has kept his hands off, we also are worried that this situation could change at any moment given a drastic downturn in the economy.

Allow me to address the Consumer Price Index. While we would agree with the Labor Department and others who say that perhaps housing costs and the interest rates on housing are disproportionate for the elderly, we would also point out on issues of health, food, and energy, the elderly costs may well be undervalued, and that a new CPI is needed.

We have an economist, Dr. Borzilleri, presently looking at a new CPI for the elderly. He is disaggregating some of the components of the CPI and we suspect that it will turn out to be low for the elderly, so we would support a move toward a separate CPI.

I am sure, Senator, you well know that one of the problems with the COLA's is that the lagtime between the time the prices rise and the benefits increase can be as long as 18 months, therefore creating a significant problem for the older consumer.

Also, we should not forget that the public benefit programs while indexed, do not represent fully the income of older people. Private pensions and other incomes that older people have are not indexed. On an average, we would say that 40 percent of their incomes are not indexed and thus they are falling increasingly behind.

I would agree with my colleague to my left that during the late 1960's and early 1970's, the elderly saw some significant gains in their income level.

Where we have a quarrel is if you look at 1979, the increase in poverty among the elderly leaped to 15.1 percent. A recent study by Data Resources, Inc., shows the elderly over the next several years will increasingly be subjected to sharp declines in their income.

In terms of social security short-term financing, we, too, acknowledge the problem of a very large shortfall over the next 5 years. We would point out that the shortfall is caused by higher than expected inflation, high unemployment, and lower than expected real wage and real GNP growth.

We would urge you to take a serious look at the short-term financing issues, but do it alongside of a long-range thoughtful alteration, or changes, or improvement in the social security system.

We do not want Band-Aids. We all know what happened a few years ago when we thought the system would be solvent for several decades and it turns out without 18 months or 2 years we are back again before the Congress.

We would recommend, for example, that general revenues be channeled into the system to augment the payroll tax to compensate for high inflation and to replace revenue lost from high unemployment.

We would be against using general revenues for medicare. We believe the figures that the Congress would take a look at—of $30 billion currently for medicare—could lead to possible means testing in the future.

In terms of the minimum benefit, student benefit, disability issues, we think there are some long-term changes that need to be made. But what we are against is any precipitous short-term change done for budgetary reasons.

People have every right to expect benefits for which they contributed, and we would not want them to lose these benefits because the society decides ipso facto that some budget deficits have to be met.

So, in terms of the minimum benefit and student benefit if they are prospective and thoughtful and well planned, our association stands ready to work with the Congress and anyone else to meet those needs.

Why don't I stop there, Senator, and go to my colleague to my right and answer questions later.

Senator HEINZ. Very well, thank you, Dr. Kerschner.
[The prepared statement of Dr. Kerschner follows:]

PREPARED STATEMENT OF DR. PAUL A. KERSCHNER

Persistent inflation, in conjunction with low economic growth, has been rapidly driving up the cost of entitlement programs while restricting the growth of resources necessary to fund those costs. In economic quarters, indexing is being labeled a villainous mechanism which causes the Federal budget to grow uncontrollably, adding to the Federal deficit and thereby contributing to the inflation spiral.

We are here before this committee to point out that the present indexing mechanisms used in the major entitlement programs are sustaining millions of vulnerable, low-income persons—particularly the elderly who are heavily dependent on entitlements—above the poverty threshold.

As reductions in the cost-of-living protection of any of the major income support programs, particularly the social security program, are debated, Congress must consider the consequences of their action. Those consequences for the elderly are a resurgence of poverty and an acceleration in the rapid erosion that is already occurring in their real income situation.

We also want to point out that the "social safety net" would have large holes torn in it by the proposed cuts on food stamp benefits, in the low-income energy assistance program, and in "black lung" benefits, as well as by the abrupt elimination of the minimum benefit in the social security program. This destruction of the minimum benefit, for current as well as future beneficiaries, would be an unprecedented rupture of an implied social contract, as would the imposition of what is effectively a means test on social security disability insurance (DI) beneficiaries by the "megacap" on total income of the disabled.

Rapid growth and expansion of Government income support programs during the late 1960's and early 1970's enabled the elderly's average income to rise over the past decade. The incidence of poverty among the aged also steadily declined from the late 1960's, when one-quarter of them lived in poverty, through to 1978 when the rate had declined to 13.9 percent.

Despite these substantial income gains and progress in reducing proverty, there is mounting evidence that inflation has begun (and will continue) to wipe away that progress. Reversing this decline in aged proverty rates, the poverty rate increased substantially from 13.9 percent in 1978, to 15.1 percent in 1979, representing the largest increase since the Census Bureau began calculating these statistics. We believe the fixed nature of many of the elderly's income components contributed substantially to this poverty increase.

As for the future, the income situation for the elderly appears bleak. A recent DRI study forecast that even if current Government programs remain in place with no legislated cutbacks (including indexing provisions), the elderly's share of income relative to that of the nonelderly will begin to decline sharply beginning this year.

As the elderly's participation in the labor force continues at low levels, and as the real income derived from their private sources of income falls, the responsibility for an increasing portion of their income support is being shifted to the public programs like social security and supplemental security income which provide some measure of inflation protection. But these public programs do not fully compensate recipients for the inflation losses. Although social security benefits, and those of other public programs, are indexed to the Consumer Price Index, they are not fully protected against inflation for two reasons: First, benefit adjustments occur long after the inflation has had its effect on the purchasing power of the benefits; and second, the standard used in making the adjustments, the CPI itself, we believe may understate the true impact that inflation is having on the budgets of the elderly.

A January 1981 OMB study indicates that, since 1973, beneficiaries of social security have experienced a 3.4-percent decline in real benefit levels due solely to the lengthy lagtime in adjusting benefits.

Although many have argued that the current CPI tends to overstate the inflation rate for the general public because of its faulty housing component and sensitivity to high interest rates, most detailed studies of this issue show that this is not the case for the elderly. The DRI study previously referred to indicates the general CPI tends to understate inflation's impact on elderly budgets. This occurs because the elderly, as compared to younger consumers, spend more of their income in three categories of expenditures—food at home, fuel and utilities, and out-of-pocket medical expenses—items whose prices have recently risen at a faster pace than the general CPI. A recent study done by the Social Security Administration also found that a specifically constructed CPI for the elderly would register higher, not lower, cost-of-living increases.

Our associations urge Congress to reject proposals that would alter the construction of the CPI solely for the purpose of moderating the measured rate of increase on the price level. The public would quickly perceive this as either an underhanded attempt to curtail the growth of indexed entitlement programs or an attempt to lower fictitiously the inflation rate. If Congress believes the CPI is unsuitable to be used to index entitlement programs benefiting the elderly, then it ought to develop an accurate one.

Several witnesses have endorsed the use of the CPIX-1, recently developed by BLS, because it would remove the current CPI's mismeasurement of housing costs. We agree that the current CPI tends to overstate increases in housing costs. From the point of view of the elderly, however, for every overstatement in the general CPI, there is probably at least one understatement in another expenditure category.

Another prominent proposal to alter indexing would limit cost-of-living increases to either the average rise in wages or the average rise in prices, whichever is lower. This "wage cap" would result in a severe downward ratcheting of real benefit levels, particularly if it were imposed over a number of years. If this plan were adopted, beneficiaries would feel—and rightfully so—that Congress would always be giving them the "short end of the stick." The association also oppose the elimination of semiannual COLA's for Federal retirees, believing instead that this practice should be extended to the social security system.

Workers can have reasonable expectations of making, over their future working lives, any real income loss they are currently suffering as a result of high inflation. Retirees, because they are not wage earners and have many fixed components to their income, have no realistic prospect of recouping the inflation losses they have already incurred, and will continue to incur, as long as inflation is with us.

The social security system remains the cornerstone of the elderly's income, and our associations are concerned that a solution to its financing problems, both long- and short-term, be found as soon as possible. Cuts in benefits, mandatory coverage for all government employees, and the taxation of benefits should not be part of the solution. Rather, additional revenue needs to be made available by mechanisms that would protect the system against the kind of unforseen adverse developments in the economy that have weakened the system in the last few years. The shift of all or part of the HI (medicare part A) to the OASDI program would be an inadequate and inappropriate solution, because it would not focus on the causes of the problem and might lead to means-testing of HI benefits.

The associations recommend that the long-term financing problems of social security be addressed by a restructuring which would clearly separate what are now the commingled functions of earnings replacement and maintenance of adequacy in elderly incomes. This restructuring should provide a solution to the demographic trends which will sharply increase the proportion of elderly in the population in the next century, as well as to the concern about "money's worth." We reject such solutions as mandating an increase in age of eligibility for full benefits from 65 to 68, and "price indexing" of the brackets on the benefit formula.

These objectives should instead be attained by increasing incentives to the elderly to remain on the labor force longer. The first of these is the removal of the retirement test, but should include increasing the delayed retirement credit, so it is at least proportional to the early retirement penalty.

Along with the restructuring of the social security system the supplemental security income (SSI) program needs to be improved to provide more effective income support for those whose social security benefits will not provide an adequate income level, by raising the Federal payment to 125 percent of the poverty level, and liberalizing the income disregards and resource standards. Also, food stamps should be cashed out for SSI beneficiaries.

Federal deficit spending is blamed by a large proportion of the public as the entire and sole cause of inflation. Without dispute, it is an important factor in inflation, but cannot remotely account for the large price rises in the economy, which are now over $250 billion a year.

In our view, the wage/price spiral represents the backbone of our current inflation problem. A study made in 1980 by DRI mathematically isolated the wage/price spiral as the largest component of modern inflation. If inflation is running between 12 and 13 percent a year, the wage/price spiral is probably contributing about 8 to 10 percent to the rate, representing what is commonly labeled the "hard-core" rate.

Although no one can accurately predict to what extent balancing the budget will dampen the public's inflationary expectations and help to unwind the wage/price spiral, some economists estimate that, at most, balancing the Federal budget will shave a few percentage points off the aggregate inflation rate. The administration's supply-side economics, which is based on a revival of savings and investment in new capital facilities, is inherently a longer term anti-inflation strategy.

In our view, an effective anti-inflation strategy must include the following combination of policies:

First, a strong incomes policy must be pursued; the President should be given standby authority to impose wage/price controls on a selective basis.

Second, the Federal budget should be brought into balance over the next 2 or 3 years and maintained in balance over the business cycle.

Third, money supply growth must be gradually reduced and ultimately kept in line with real growth in the gross national product.

Fourth, competition in the economy should be furthered by deregulation where appropriate, removal of import quotas, and refraining from further Government and private actions which increase prices.

In summary, until Government indicates it will pursue an effective, multipronged, anti-inflation program that includes not just fiscal and monetary restraint but also a tough "incomes" policy that will bring down inflation rapidly and spread the "pain" of curing inflation in an equitable manner, do not expect organizations that know what the real situation of the elderly is, and that represent their interest, to be willing to accept proposals that would chip away at the only inflation protection they have, but otherwise leave double-digit inflation largely unchecked.

Senator HEINZ. Jacob Clayman.

STATEMENT OF JACOB CLAYMAN, WASHINGTON, D.C., PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS, INC.

Mr. CLAYMAN. Mr. Chairman, this is something like trial by endurance, I guess.

Our organization essentially represents low-income and moderate-income people. That may explain in good part our anxiety, our deep anxiety, about what we think is transpiring these days, and the method and the manner in which the budget is moving.

I woke up this morning, hastening to get to my office on time so I would be over here, so I did get up early.

And so I didn't have much time to read the paper, but I had time to scan quickly through one of the articles in the Post.

There I was told, we were told, that the Senate Budget Committee had even gone beyond the series of recommendations and proposals made by the administration and it has been that way now for weeks.

Every day, or every other day, there is a new revelation, a new cut, and my suspicion is that the country is genuinely confused by what is transpiring, and what now appears to be a kind of lackadaisical attitude on the part of the public. Indeed, it may develop into be something else in the not too distant future.

I know I am not sticking entirely to the issue, but you have heard so much testimony perhaps I can get off the track for just a minute or two.

I was intrigued yesterday with Hobart Rowen's article in the Post. He talked about tax loopholes—where we might find all the money we need if we just knew how to go about it. He also makes the point that there are about $300 billion of untapped resources, just extraordinary loopholes, and he makes the point that the administration feels that it is imperative to reduce food stamp expenditures by $1.6 billion.

Then he goes on to make the point that there exists $1.7 billion in oil and gas depletion allowances, even though the need for such an allowance is unwarranted. And so he argues why not take care of that food stamp $1.6 billion, don't cut it, and get it from the oil companies by eliminating their special extraordinary tax preferences.

That isn't altogether ungermane, Mr. Chairman, to the whole subject that we are talking about because the assumption is that the only way, the only rational way we can get at the solution of this problem of spending too much is by loading, in my judgment, in my words, an excruciating burden on the shoulders of the poor. I don't think that has to happen.

There are other more rational, more decent, more humane ways to do it

It has been popular in the last year or so from many sources, academic and otherwise, to suggest that the concern for the aged is altogether too exaggerated. After all, they are doing rather well, they say, and the concern of the Members of the Senate, or this committee, or the Congress generally, or the White House, or the senior citizens like myself are hardly necessary.

Let's take a quick look. If you take the minimum budget, the poverty budget, I don't have the figures at this moment, I have them for 1979, and obviously it is little higher now.

There were 3.6 million aged under the poverty line. And if you take the near-poor, which inevitably you must, because the poverty index is a stingy and, forgive me, almost a meanspirited formula.

So if you take the near-poor, you get 6 million senior citizens who are in real want or who are hovering on the verge of desperation.

That makes one-fourth of all people above 65 years of age and so, it is of small comfort to the one-fourth of the elderly who are going through this travail, it is of small comfort to be told, "Well, there are three-quarters who are doing reasonably well."

Quickly let me now get to what I think you wanted me here and expected me to talk about. I won't have much time——

Senator HEINZ. Jake, without objection, we will put your entire statement in the record. You can summarize if you wish.

Mr. CLAYMAN. What I will do is this, then, even though my time isn't up, I want to indicate my magnanimity to you, sir, because I owe you much.

In the past you have been very friendly to the cause of the aged. I have looked, for example, at our records, our senior citizens records, voting records, and you come out rather high, as I recall.

I won't dare to give you the exact figures because they are not that clear in my memory but they are damn good.

Now, my saying this may bring you condemnation from some of your colleagues. I don't know, I hope not.

So I am going to quit before the light goes on even though I have much to say. Thank you.

[The prepared statement of Mr. Clayman follows:]

PREPARED STATEMENT OF JACOB CLAYMAN

Mr. Chairman, members of the committee, I am Jacob Clayman, president of the National Council of Senior Citizens. The National Council represents over 3.5 million older Americans through 4,000 senior citizens clubs and councils located in every State of this Nation. As the largest organization of clubs representing low- and moderate-income elderly, NCSC is concerned about the detrimental impacts that the President's proposed budget will have on elderly people.

We feel that something ominous is happening in America. For the first time in over 50 years—since the administration of Herbert Hoover—a President of the United States has announced a complete faith in the ability of private industry to restore the economic health of the country, coupled with a significant rejection of the Government's responsibility for the well-being of its citizens.

As an indication of this dual principle, the administration has submitted to Congress a budget that would markedly reduce or drastically cut back on many of the programs created over the years to assist the poor. At the same time, it would provide tax breaks for wealthy individuals and corporations. Cuts would be made in programs providing health care, nutrition, legal services, day care, transportation, job training and employment, and senior services. The elimination of these services would create a severe hardship for tens of thousands of Americans, many of whom are elderly.

The philosophy behind the current proposals for the budget is that if we cut Federal spending for the poor, and allow tax breaks for the rich, we will reduce inflation and create full employment. There are economists on every side of this suggested strategy, including those who believe it will work, and others who believe it won't. But one thing is clear to everyone: The new strategy will be carried out at the expense of the poor and the disabled in our society.

These observations on the budget should be immediately apparent:

First, there is no serious evidence that the prescription of reduced Government spending to achieve a balanced budget will actually end inflation in America.

Second, most of the budget cuts are aimed at those in society who are generally voiceless, defenseless, and unrepresented.

Third, the administration's call for a 10-percent cut in taxes for each of the next 3 years, for a total cut of 30 percent, is designed to benefit wealthy individuals. There is no evidence that these generous tax breaks for the rich will create more jobs or end inflation.

It should be noted that one of the stated aims of the administration's economic plan is to end unemployment in America. It has been estimated, however, that if the Reagan plan is enacted, 1,100,000 new jobless will be added to the rolls. There will be other impacts as well.

The National Council of Senior Citizens has carefully examined the President's budget proposals. We have concluded that many of the proposals threaten the income security of the elderly, and that they are being asked to shoulder a bitter burden. Whether the proposed actions are to decrease cash income or to reduce services and supports, the end result will be a loss of income. The elderly will have less money to purchase the basic necessities most people take for granted, and they will have to use their reduced incomes to purchase even more necessities than before because of the potential losses in food stamps, in energy assistance, and in a host of services.

Millions of senior citizens already have inadequate incomes. Fourteen percent of the people over age 65 have incomes below the poverty level, and 25 percent of the elderly live a tenuous existence just above poverty. The slightest loss of income will plummet many people into the pain and humiliation of poverty in spite of their having worked hard throughout their lives. If not for the development of social welfare programs, many more older persons would live in poverty. Yet, these very programs are about to be placed on the budgetary chopping block.

I am here today to discuss how the proposed budget will impact the income security of the elderly. It has not been difficult for us to understand how the cuts will reduce or eliminate the programs which help the elderly. However, it is exceedingly difficult to understand why our President would sacrifice the well-being of so many people for budgetary shortcuts which may ultimately have more costs than benefits.

The budget proposals do not just represent the ways our government will try to save money. They represent the insensitivity of our new administration to the basic rights and needs of individuals who, through no fault of their own, depend on others. These proposals also represent an insensitivity to the consequences of policy decisions made solely on the basis of dollars.

Our public policymakers must be reminded that on the other side of every budget cut there are people, many of whom are dependent upon the Government, not because they want to be, but because they have no alternatives. Many of these dependent persons are low-income elderly whose meager incomes are devastated by the cost of the basic necessities of life—housing, food, medical care, and home energy. The Federal Government has interceded on behalf of these people in an attempt to assure that they do receive these necessities, and can lead reasonably comfortable lives.

If the elderly lose access to these basic elements, many of them will be forced to make tradeoffs. For example, some may have to decide between keeping warm or eating adequately, between buying prescription drugs or paying rent. This is not belt-tightening; it is not simply doing without. This, gentlemen, is forcing people to accept conditions which threaten their very survival. In good conscience, can you accept this as a consequence of budget cuts?

Many of the budget proposals will impact the income of elderly people, particularly since they will have to stretch their incomes to pay more for the basic goods and services. I will now discuss some of the particularly significant proposals.

SOCIAL SECURITY

Proposals to eliminate the minimum benefit, and to reduce disability and survivor benefits, all have implications for the elderly both today and in the future. Social security is a system. It is composed of many parts, all of which are essential, legitimate functions of the Nation's social insurance program.

This concept is paramount in considering the impact of any of the social security proposals on the elderly's income security. We must ask ourselves: Do we want to nibble away at the vital components of the system, pretending we are seeking budgetary savings, when we are in fact eroding the whole system and the public's confidence in it? Is that not really the greatest threat to income security?

There may be no system left if we start attacking the income of poor elderly widows for the sake of what is thought of as a "windfall" for a small few; if we deprive the disabled, deceased, or retired beneficiaries' children of a better chance at productive lives through education by regarding them only as "students"; or if we forget that 75 percent of disability beneficiaries are over age 50, and most have chronic disabling diseases that eliminate work as an alternative.

What comfort can the elderly take from being told that "basic" benefits will not be cut when they know in their heart that it only means that they are second in line for the guillotine instead of first?

FOOD STAMPS

Almost 2.5 million or 10 percent of all food stamp recipients are elderly people. This is close to 10 percent of the total elderly population, and many more are eligible. Thirty-four percent of the food stamp recipient households derive their income from social security and supplemental security income for the blind, aged, and disabled.

The proposal to reduce eligibility for recipients by setting gross income eligibility at 130 percent of the poverty line would remove 5 percent of total recipient households from the food stamp program, and it would reduce benefits for many others. Among these households and individuals would be many elderly people. Current eligibility is based on net income, acknowledging, correctly in our view, that a family's ability to buy adequate food depends on its discretionary income, not on income that it is forced to spend, in order to have a roof over its head, or the carfare to get to the doctor.

The other proposals would have the effect of reducing disposable income since the shelter and standard deductions would be frozen. Food stamp benefits would not be adjusted to reflect income loss as inflation causes the price of other necessities to rise. The elderly also would not be allowed a larger medical deduction to reflect their inordinately high medical expenses. This would erode disposable income as well. The loss of food stamp benefits has more than income effects. It also has serious health implications, and potential public and private medical expenditure increases which should be considered.

LOW-INCOME ENERGY ASSISTANCE

The low-income energy assistance program has been set up to help people meet the rising cost of home energy. Forty-two percent of the people who benefited from this program in 1980 were elderly. This year the program will provide $1.85 billion to eligible consumers for the payment of heating bills during the winter and cooling bills for the summer.

This program operates through State welfare offices or economic opportunity offices. Although eligibility levels vary, generally speaking, an individual with a monthly income under $395 or a couple with an income under $522 will qualify for aid. How much help each person can receive depends upon a number of factors, but the most important one is the amount of energy a home or an apartment uses compared with household income. Most States are providing a maximum of $750 per eligible household, although the actual benefit is usually between $100 and $200.

The budget proposal for the program could end this assistance for 25 to 100 percent of the elderly now on the program. They will be placed in "double jeopardy" along with the other recipients. The proposal is to slash the program by 25 percent and to place it into one large block grant to each State for emergency assistance. Not only will about 25 percent of current eligibles be declared ineligible, but it is possible that the entire program will be eliminated by many States.

For the elderly, the loss of assistance in paying energy bills will have serious health as well as income impacts since the elderly are at high risk of complications such as hypothermia and pneumonia.

The threats to income security of the elderly does not stop with these three proposals.

HOUSING

Nearly one-half of all publicly subsidized housing is used by the elderly. The budget proposals for housing programs would require that the elderly pay more for this housing, if it is available should the proposals be approved.

The administration's proposed budget cuts will have a profound effect on at least three major programs which provide affordable housing for lower income elderly persons.

The section 8 rental subsidies and public housing program are the major housing programs now available to lower income persons living in rental housing. They do not have to pay more than 25 percent of their income for rent; the remainder of the fair market value for the rental unit is the section 8 subsidy amount.

Forty-one percent of the 1,744,805 households currently receiving rent subsidies are elderly households. People receiving these subsidies reside in either existing rental units covered by the program or in newly constructed and rehabilitated rental housing built as a result of this program.

There are two ways in which the administration's proposal will drastically affect this program. The first way is to raise the rents of all present and future participants in the program from the present 25 percent of their income to 30 percent of their income. The second way is a drastic reduction in funding which will lower the number of households participating in the program.

The proposed cut would eliminate as many as 34,850 of the 722,415 elderly households from the program in the future, as well as raise the rents of all. Considering that the program has never received sufficient funding to meet housing needs, the cuts proposed by the administration will virtually eliminate this program's ability to provide affordable housing for the elderly.

Section 202/8 direct loan program for housing for the elderly and handicapped makes available to nonprofit sponsors 40-year mortgages at U.S. Treasury interest rates for new construction or substantial rehabilitation of housing for use by lower income elderly and handicapped people. Section 8 rent subsidies are provided for all residents of the buildings constructed under this program.

To date the section 202/8 program has provided new affordable housing for some 105,722 lower income elderly households, but there are strong indications that attempts will be made to eliminate or radically restrict the program in the future.

Another threat to the section 202 program is the potential ineligibility of the section 8 rent subsidies. The rents necessary to support the section 202 projects—even at Treasury interest rates—would be above the allowable maximum rentals to which the section 8 can be applied. In any case, the appropriation requested includes no increase in funding, so the number of households served by this program (now approximately 17,500 new households per year) will be cut by 10 to 15 percent as construction and maintenance costs rise.

Farmers Home Administration 515 rural rental housing program: This is for all intents and purposes the only program providing for the construction of affordable rental housing in rural areas. Since twice as many rural elderly as nonrural elderly live in deficient housing, and the rural elderly pay more for their housing, continuation of this program is especially critical. This program provides for 40-year mortgages and rent subsidies similar to section 202.

Since the program's inception in 1961, it has provided new affordable housing for approximately 191,578 households, of which at least 65,416 (one-third) are elderly households. Currently, of the 30,000 units built each year under this program, 10,000 are specifically designated for the elderly.

The administration is calling for an 11.5 percent cut in the program for fiscal year 1982. Since the rent subsidies used in the program are usually section 8 subsidies, reductions in that program will also severly affect the section 515 program.

HEALTH CARE

The President has proposed major reductions in funding for medicaid and programs which meet distinct health and social service needs. These cuts will seriously threaten the health of the elderly, the poor, and the disabled. They will have to pay more money from their already strained pocketbooks, and may find that the only medical facilities to which they have access will be closed.

Low-income elderly, with or without medicare, need medicaid. It buys basic health care and service, such as nursing home care, not covered or insufficiently covered by medicare. Since the elderly's health care expenses are 3½ times greater than those of any other group, and since medicaid pays 57 percent of all nursing home stays, losing medicaid coverage could be disastrous to senior citizens. They will pay more for health care or will be deprived of this basic human right.

The proposal is to "cap" the Federal medicaid contribution. In fiscal year 1981, $100 million would be cut from the funds the States need to continue their present programs through September. In fiscal year 1982, this contribution would increase only 5 percent over 1981. (In 1980 alone, medical inflation was 10 percent.) During 1983-86, the Federal contribution would increase no more than the annual inflation rate. Funding would not change even if the States' costs increase. The cap would be in effect for as long as it takes the administration to formulate, legislate, and implement health care reforms.

The President has proposed to give the States more flexibility to administer their medicaid programs. However, since the States would be less accountable to the Federal Government, they could use the Federal money for medicaid services that are currently paid for from local moneys. Fewer services will be provided and fewer people who need medical care will receive it.

The proposals will have income effects on the elderly. Those who can pay for medical care will spend more of their income on medical care. In addition, the "savings" will become costs in some areas and will raise prices in others. Some of these consequences can be expected:

Benefits and eligibility levels under medicaid will be restricted. Recipients will be removed from current rolls. The States will have less medicaid money. Since few States can put more money into their programs, they will provide fewer benefits to fewer people instead.

State and local taxes are likely to increase to allow for even modest growth or to avoid denying benefits.

The poor will become ill from lack of early treatment and require more expensive care. People will receive inadequate medical attention, and they may postpone seeing the doctor until they are seriously ill, needing hospitalization. Not only will this endanger health, it will result in higher medicaid costs rather than savings.

Health care costs will rise. Without medicaid, people will be unable to pay their medical bills. The community or people with medicare and other health insurance will pay higher fees to absorb these costs.

Health facilities will close. Inner-city or low-income community hospitals and clinics in low-income areas primarily serve medicaid recipients. These institutions will be forced to shut down if they lose medicaid revenue.

Finally, the problems of high cost in medical care will not be solved. The price of health services for all people is high, and yet this proposal does not offer any remedies. To cap the Federal funding of medicaid without solving these problems is unjust and counterproductive. It is not a vicious attack on the budget but on those whom the President described as "those who through no fault of their own depend on the rest of us."

The health and social services grant consolidation proposal threatens many programs which serve the elderly—senior centers, visiting nurse and homemaker services, meals-on-wheels, low-income energy assistance, community health centers, and mental health services.

These programs, plus 33 others, are now separately funded because there was a time when the States were unwilling or unable to finance them in spite of a nationally recognized need. The proposal will return us to that time.

All 40 programs would be consolidated into four categories. Funding would be cut by 25 percent and given to the States in "block grants." The States, in effect, would have four large pots of money to use as they please, with virtually no Federal constraints to assure that the money benefits people in need. If a State places low priority on caring for sick older persons or on helping low-income persons pay their high utility bills, the block grant money will be spent elsewhere. Some programs will cease to exist.

LEGAL SERVICES

During 1980, about 400,000 elderly people were assisted by Legal Services Corporation (LSC) lawyers. Now the administration has asked Congress to cut off all future Federal legal aid for the poor, thereby totally eliminating the LSC, which has been in existence since 1974. It receives funds from Congress and in turn distributes the money to local, community-based programs that provide direct legal services to the poor.

LSC lawyers generally handle routine civil cases—utility cutoffs, housing, medicaid, and social security complaints.

LSC is currently funded at $321.3 million for fiscal year 1981. There are about 320 legal services projects presently operating in more than 1,200 neighborhood offices and serviced by 5,000 lawyers.

There are about 30 million low-income persons nationwide who are financially eligible to receive corporation-funded legal assistance. During fiscal year 1980, LSC grantees handled approximately 1 million legal matters for the poor. While legal services to the poor have greatly expanded in recent years, it is estimated that still only a small percentage of the legal needs of the poor are presently being met.

During 1980, about 400,000 elderly were assisted by LSC lawyers. In addition, the elderly benefit from LSC through the efforts of the two branch offices of the National Senior Citizens Law Center, in California and in Washington, D.C., which provide backup support for lawyers in the field and represent the elderly's legal concerns to relevant parties in Washington. Termination of LSC would not only mean that the elderly poor would have to pay for legal services (though few could afford to), it would also mean they would lose access to legal means of assuring their income when they experience problems receiving their entitlement and support services. It would leave a huge gap in legal representation for the elderly.

TRANSPORTATION

The Reagan administration has asked for substantial reductions in funds for public transportation which, if approved, would mean drastic cutbacks in service on local transit systems as well as on communter trains and Amtrak.

Federal mass transit operating subsidies would be phased out gradually, with a $0.3-billion-budget cut in 1981, leading to complete elimination of such subsidies by 1985.

Under current law a mass transit system receiving Federal subsidies may not charge more than half-fare for senior citizens or the handicapped during offpeak hours. An end to Federal subsidies could very likely mean an end to guaranteed senior discount fares.

In submitting its proposal on mass transit, the administration said that it would be up to State and local governments to decide "whether to (1) raise State and local subsidies, (2) increase transit fares, or (3) reduce services."

Budget cuts proposed for Amtrak would be $431 million in 1982, increasing to $1.1 billion in 1986. Amtrak fares would be raised to cover the loss of current Federal subsidies, raising the current fare to approximately double on short distance trains, and by approximately 50 percent on long-haul trains. The financial burden will be shifted to either Amtrak passengers or State governments or certain trains will be eliminated.

What should now be clear is that the threats against the income security of the elderly are not confined to just a small portion of the President's budget proposals. In addition, it should also be clear that if the proposals are approved, the elderly living in or near poverty will be confronted with spending a greater proportion of their incomes on basic needs or struggling to survive with these needs unmet.

In the view of the National Council of Senior Citizens, therefore, budgetary savings which reduce programs that benefit the poor should not be approved. These programs were created to fulfill a national priority and I see no evidence that this priority has or should change. In this time of economic instability, these programs need to be reinforced—not cut—to help those without sufficient resources or alternatives to protect themselves from the ravages of inflation. To cut the programs may, in fact, lead to greater social costs or increased Federal expenditures in other areas such as health care.

This Government help need not be passive. There are current programs which encourage employment of low-income elderly people. One of these programs—the senior community service employment program—exists under title V of the Older Americans Act. This program, which is an important source of income to approximately 70,000 low-income elderly citizens with poor employment prospects, has many secondary benefits. It brings the elderly back into the mainstream of life, restoring dignity, and returning mature minds and skills to the service of the community. It fills jobs that need doing, satisfying unmet needs in the local community. It also provides wages instead of public assistance programs which otherwise would be needed by these people. Finally, the high employability of many older persons and the useful part-time work they can perform benefits the elderly and the community.

Although the success of this program has been widely recognized, it too is being exposed to the vicious cycle of budget cuts. The Department of Labor, under an OMB directive, is requesting only a 1-year extension of title V at current levels. If the current services level is not maintained, some enrollees will lose jobs and be forced to rely on the income maintenance programs which are threatened by budget cuts. There will be no social welfare program to pick up the slack created by the loss of title V jobs. Former enrollees will not even be eligible for SSI since administration proposals are calling for retrospective accounting as a means to determine eligibility.

There are also other ways that money can be saved in fiscal year 1982 and beyond without reducing benefits to poor people. Here are a few suggestions:

Reduce the administrative costs of social welfare programs: Review eligibility and reporting requirements and eliminate those which do not serve useful purposes. For example, instead of having itemized deductions from income to determine eligibility, use a standardized deduction as is done in the food stamp program. This streamlining would eliminate administrative expense without sacrificing the benefits to the poor. Eliminate the asset test in supplemental security income (SSI) where the cost of administration probably exceeds the savings to the program. SSI recipients are generally those who have no work history and who have had bad luck throughout their lives and no opportunity to save at all. If this were not true, they would be getting most of their income from social security and other sources, not from SSI—a program of last resort.

Reevaluate the size of the proposed tax cut: We may not be able to afford to reduce taxes to the extent discussed in current proposals.

In closing, I would like to say that the National Council of Senior Citizens is sincerely committed to the goal that one day no American, regardless of age or income, will have to live with his or her basic needs unmet or basic rights denied.

We have carefully examined the budget proposals with this goal in mind. We have concluded that the proposed budget's treatment of dependent Americans will push this goal even further out of reach than it is today.

Senator HEINZ. I have not had a chance, Jake, to read your entire testimony. I suspect that it is very good. As I thumb through it, I see that you have addressed not only all the issues we asked you to for this hearing, but that you also have commented on housing, health care, legal services, transportation, and budget proposals. We are grateful to you and the National Council for your comprehensive contribution.

Let me ask all of you a question about block grants. The issue has become conspicuous by the absence of your comments about them. One of the administration's proposals would consolidate social service programs. Do any of you have any views, not so much on the level of funding, but on what the structural implications of such a consolidation are for the elderly. How do you feel about this proposal, Mr. Crecy?

Mr. CRECY. I will yield.

Dr. KERSCHNER. I have great concern, Senator. I think, frankly, the reading of the lay of the land is that block grants are coming.

I think that a whole scale move back to the States and giving the States more control is in the works. My concern is the unevenness of States and local communities around this Nation in terms of, one, their ability to deliver the services to administer the block grants, and, two, their inclination to put band-aids on other crises they might have.

A VOICE FROM AUDIENCE. Amen.

Dr. KERSCHNER. A constituent from Arizona who is very much concerned about that.

I think the ability of the aged to compete when placed in a juxtaposition to other groups in need is minimal. Often they end up last, as was the case in general revenue sharing as we well know.

I think it is going to take a lot of work on the part of State units on aging, and of friendly assemblymen and State senators to assure

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that the elderly are heard in the councils of State government so that the moneys that do come down are channeled appropriately into aging programs.

That is why many of us have had a lot of problems, for example, in the Older Americans Act, on the question of mandated services. Even though we agree that mandated services cause problems because obviously, there are greater different needs around different localities, they do assure that certain programs are delivered.

All of us are going to be watching very closely the various States. I am sure the State of Pennsylvania will not be a problem, but with other States, I am sure, we are going to have to keep a close eye on them.

Senator HEINZ. Did you have a comment on that, Jake?

Mr. CLAYMAN. Very quick. All of us are prisoners of our backgrounds and I spent a goodly number of my years in Ohio, which is a routine State.

Senator HEINZ. It is not Pennsylvania but it is not bad. [Laughter.]

Mr. CLAYMAN. It was 25 years ago, and I will tell you, based on what I saw over the years that I was there, I have little respect for the argument that States are going to do it better. I have little respect for the argument that the closer you are to the people, the more responsive you are.

Senator HEINZ. You sound just like Senator Percy.

Mr. CLAYMAN. Well, that is right, I heard Percy and I wouldn't—I am not thinking of any given——

Senator HEINZ [interrupting]. County?

Mr. CLAYMAN [continuing]. County. I have not been close enough to Chicago lately to comprehend.

Senator HEINZ. Probably a good idea.

Mr. CLAYMAN. Right. But the point is there is no evidence, evidence real or theoretical, which tells us that the States are going to do a better job.

Forgive me if I suggest that it may be that there are some in political life who feel that it is more effective to send it out there, let them carry the burden, let them bear the responsibility.

Some are getting tired, apparently, in Washington, of that responsibility, although I am afraid that the recommended alternative is wrong, it is a wrong turn of events.

So I would argue against sending it back home on the assumption that maybe it will be done better.

Senator HEINZ. Let's assume for the moment, as Dr. Kerschner does, that we are going to do that. Are there any specific kinds of thoughts you are prepared to share with us now on better as opposed to worse ways to do it?

Mr. CLAYMAN. It would have to be off the top of my head.

Senator HEINZ. Let me ask you not to do it off the top of your head. If you have the time and have some more considered thoughts, I would like to hold the record open.

Mr. CLAYMAN. Thank you, I appreciate that.

Senator HEINZ. Mr. Crecy, on page 3 of your statement, you said that there are many low-income, older blacks who receive the minimum monthly benefit because they worked for low wages throughout their lives in such occupations as domestics, farmworkers, or in other low-paying jobs. I am sure that is indeed the case. If the administration's plan were adopted, what proportion of that group do you believe would be eligible for SSI?

Mr. CRECY. Here again, Senator, I think one of the greatest problems are individuals with very low earnings and higher unemployment during their working years. Still beyond the controls of wage-related programs, for example, the average monthly retired workers benefit amounted to $210 per month for women in December 1979, for black women in December 1979, in comparison to $260.90 for white female retired workers.

A similar pattern also existed for men. The average monthly benefit for retired black men was $271 a month in comparison with $332 for their elderly white counterparts.

Coming from the standpoint of my particular focal point, with NCBA, it has been in the rural South. There is a reluctance on the part of the black elderly in the rural sectors of the country to participate in the welfare or welfare-oriented programs. They have traditionally worked in agricultural industries and have worked——

Senator HEINZ [interrupting]. Anything that the Yankees thought up they are probably a little suspicious of.

Mr. CRECY. Not in all cases, but [laughter] incidentally, I am from California, so I have that to lean on. But our efforts have been to overcome the negative stigma that public assistance has. But it is very difficult to break that attitudinal outlook that they have.

Also, just to add some comments to our perceptions of block grants, and I wholeheartedly go along with the legislator from the State of New York that there should be some transition period before all these things come about. When States went from categorical manpower programs to local planning authorities under CETA, there was a tremendous amount of insensitivity to the older workers.

We have certain preoccupations because of political experiences at the local levels. There is the old saying that the squeaking wheel gets the grease. You can have all kinds of advisory and planning councils included in legislation, but it is always the squeaking wheel that gets the grease.

Traditionally, the elderly do not squeak as loud as the youth market does in this country.

I hope that Congress takes this into consideration when allocating funds. You can look at your own experiences with CETA, and take into consideration those types of things.

Even in 1978, if I can remind the Senator, with the reauthorization of CETA there was a specific emphasis added by Congress that the older worker was to be included as a significant segment. The track record has not been impressive. In fact, the percentage of older workers participating in those manpower programs did not increase at all.

In some categories of some of the titles of CETA there was a decrease in the service levels even with the emphasis added by Congress.

So I hope the Congress moves very slowly and very thoughtfully in setting up certain safeguards for block grants to insure the elderly are served in proportion to their numbers in their communities.

Senator HEINZ. I have one last question and I am not sure who to address it to so I will address it to whoever wants to speak to it.

When Mr. Dickey, the Acting Administrator of the Food Nutrition Service was here, he gave us certain statistics regarding the participation of the elderly in the food stamp program.

Then he proceeded to give us a number of percentages covering each element of the administration's food stamp proposal. For example, he said that of the total elderly benefiting from food stamps their analysis indicated that only 4 percent would experience a reduction in benefits as a result of establishing a lower gross income eligibility test. Do any of you have any reason to believe that those numbers are accurate or inaccurate? Let the record show people are shaking their heads.

Mr. KERSCHNER. We are not in the process of——

Senator HEINZ. I don't know what that means, but——

Mr. KERSCHNER [continuing]. The issue is that we are not, my gut reaction is that I disbelieve the figures. But, frankly, we are still gathering data.

Before I end, let me make one other comment about the minimum benefit. One of the things we are concerned about is that the people who are losing the minimum benefit and sent to SSI may meet the SSI income requirements but they well may not meet the SSI relatively restrictive assets requirement.

That concerns us. It is one thing to say yes, we will shift them to SSI because their income is there, but we have to look at their assets.

Senator HEINZ. Thank you. I am glad you made that point.

Mr. CLAYMAN. Just a quick word, I don't know whether 4 percent is the right statistic. We will want to look at it, obviously. But even if it were only 4 percent, what does that mean to the 4 percent?

Can you chuck them over your shoulder, forget about them?

I am relying upon newspapers in an uncharacteristic way for me, and let me tell you what maybe you have read, because it is something that you said, indicated perhaps you had read it in the morning paper, the New York Times, a study published by the University of Chicago Center for the Study of Welfare Policy.

There is an observation there worth the chairman taking careful look at it:

> Taken alone, the study concluded each cut seems to be small enough to allow a recipient to absorb it with other income. Taken together, the effects of the cuts are great enough that many families will be unable to meet their monthly living expenses.

It is the bombardment, the concentration of the bombardment, hit from all sides, and I thought you made that very point.

Senator HEINZ. Actually, you are too generous, Mrs. Dealaman made that point quoting somebody in New York who made that point.

Mr. CLAYMAN. The interesting thing, I could not hear her, but I was able to hear your robust voice.

Mrs. DEALAMAN. Sorry about that.

Senator HEINZ. That is a well taken point, Jake.

Let me thank everybody for enduring the hearing today. When I promised this was going to be a quick and thorough review of what the administration's budget cuts were, I should have said thorough. Thank you all very much.

Dr. KERSCHNER. Let me also thank your staff, Senator.

Senator HEINZ. We are adjourned.

[Whereupon, at 1:29 p.m., the committee was adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

Appendix 1

BRIEFING MATERIAL FOR HEARING

MEMORANDUM

TO: Members of the Special Committee on Aging
FROM: Committee Staff
RE: Elimination of the Minimum Social Security Benefit
DATE: March 18, 1981

Current Law

Eliminate the minimum benefit - Social security beneficiaries whose average lifetime earnings under the system are low receive a "minimum benefit" which is higher than the benefit they would otherwise receive under the benefit computation formula. Because some of the persons who receive the minimum benefit actually have substantial income from sources other than social security -- such as pensions from government work not covered by the system -- the provision has been the source of controversy in recent years. In 1977, Congress froze the minimum benefit at $122 per month for new beneficiaries coming on to the rolls in the future.

Congressional intent in the 1977 amendments was to gradually phase out the minimum benefit over a long period of time. As earnings levels tend to rise over time, fewer and fewer people would have "average earnings" at such low levels that they would qualify only for the minimum, since the minimum was no longer increasing.

The minimum benefit is not simply $122 for everybody. It varies depending on when Social Security eligibility occurs and the type of entitlement. It is decreased for early retirement, increased for delayed retirement. Dependent's and survivors receive only a fraction of the full (or workers level) minimum benefit.

Individuals who became eligible before 1978 receive a minimum computed on the old method with an increase each time there was a general benefit increase. Example: an age 65 worker retiring Jan. 1981 received $153 minimum benefit.

Between 1979-1983, those eligible for disability or survivor benefits receive the $122 minimum. Benefit increases occur due to indexing only after they are on the benefit roles.

Between 1979-1983, retired workers receive the $122 minimum benefit but it is increased by any benefit increases which occurred beginning with the year in which the worker reached age 62 (whether or not he started receiving benefits).

Beginning in 1984 retiring workers will receive $122. It will be increased only after the person comes onto the rolls or reaches age 65.

Reagan Budget Proposal

The Reagan Administration proposes an immediate elimination of the minimum benefit for all new beneficiaries as well as a recomputation of benefits for minimum beneficiaries already on the rolls. The Reagan Administration argues that the truly needy elderly and disabled who would have received the minimum benefit can be assisted more appropriately by the Supplemental Security Income (SSI) program.

The major difference between the Reagan proposal and previous proposal by the Carter Administration is that the current proposal includes beneficiaries now on the rolls. Carter proposed elimination only for new beneficiaries, for savings of $100 million in 1982 and $500 million between 1982 and 1985.

The Reagan proposal projects net savings to Social Security, after offsetting for increases in SSI as follows:

	(in millions of dollars)				
	1981	1982	1983	1984	1985
Net savings from proposal	-50	-1,000	-1,100	-1,100	-1,100
Social security savings from proposal	(-60)	(-1,300)	(-1,400)	(-1,500)	(-1,500)
SSI increase from proposal	(10)	(300)	(300)	(400)	(400)

Pros and Cons of Elimination of Minimum Benefit

PROS

1. By eliminating the minimum benefit, net short term savings after offsetting SSI increases are estimated at $1 billion in FY '82 and $4.3 billion between 1982 and 1985.

2. Only a relatively few needy people are helped by the minimum benefit provision.

3. The minimum benefit is an undesirable welfare element of Social Security. The SSI program is the appropriate mechanism for addressing the needs of low income persons. Most needy are eligible for SSI.

4. The minimum benefit was intended to help the poor. However, it is a windfall to persons for whom Social Security

covered employment was not the principal source of pre-retirement earnings. A 1979 GAO study found:

o Many recipients of the minimum benefit were never a permanent part of the labor force. It was found in 48% of the cases, recipients had no covered employment for the last five years and 33% had no covered earnings for the last ten years.

o Most minimum beneficiaries get a benefit about 4 to 6 times greater than their average covered monthly earnings before retirement. In some cases, as much as 30 times greater.

o One-half of the 3.1 million receiving the minimum benefit also have substantial income from other sources. More than 30% (sampled by the GAO) were also receiving government pensions or were largely dependent on their spouse's income.

CONS

1. It would be cruel and create substantial hardship to reduce benefits for any persons now accustomed to receiving a certain dollar level from social security.

2. An unknown number of needy people would not be eligible for SSI (for example, those under age 65, and not blind or disabled) and may suffer hardships.

3. While it makes sense to eliminate the "windfall" for those with other incomes, other beneficiaries such as widows whose husbands died many years earlier leaving outdated earning records) will suffer.

4. Elimination will result in increases in SSI, food stamps and other welfare programs, thereby offsetting some of the savings to Social Security system.

5. It is very difficult to predict the impact of recomputation or the number of individuals who might be adversely affected.

6. The administrative complexity of identifying and recomputing benefits for some 3 million persons could be costly and difficult for the Social Security Administration.

7. Recent proposals for elimination of the benefit rely on the findings of the GAO report. The validity of GAO estimates of the "non needy" currently taking advantage of the benefit has been challenged.

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Minimum Social Security Benefit: A Windfall That Should Be Eliminated

The Congress can save the Government about $455 million in fiscal years 1981 through 1985 by approving the President's proposal to eliminate the minimum benefit provision of the Social Security Act.

The minimum benefit has increased more rapidly than other benefits in the past because most beneficiaries were poor and needed assistance. In 1974, however, the Supplemental Security Income program reduced the need for the minimum benefit. Most people who receive additional income from the minimum have incomes from Federal, State, or local pensions, or receive support from spouses.

To minimize the hardship of the relatively few needy beneficiaries who would not be eligible for Supplemental Security Income, the Congress could authorize a limited Supplemental Security Income payment which would replace the portion of the social security benefit lost when the minimum provision is eliminated.

UNITED STATES GENERAL ACCOUNTING OFFICE

HRD-80-29

DECEMBER 10, 1979

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MINIMUM SOCIAL SECURITY
BENEFIT: A WINDFALL THAT
SHOULD BE ELIMINATED

D I G E S T

The minimum benefit provision of the Social Security Act, intended to help the poor, has in recent years mainly benefited retired government workers with pensions and homemakers supported by their spouses' incomes.

The provision grants a much higher benefit than individuals have earned and would otherwise receive. For example, if a worker's earned benefit is only $40 a month, he or she can receive a minimum benefit of $122 a month. The President has proposed eliminating this $82 difference to reduce the welfare aspect of payments to new minimum social security beneficiaries, and his proposal should be adopted.

The need for the minimum benefit was greatly reduced in 1974 with the implementation of the Supplemental Security Income program. This program established a Federal minimum income level for needy people who are at least age 65, blind, or disabled. Before the program, the minimum social security benefit may have been the only source of income for many people, but now most needy elderly are eligible for Supplemental Security Income. (See pp. 3, 4, 22, and 23.)

In July 1978 about 3.1 million beneficiaries were receiving minimum social security benefits costing $3.8 billion annually. During 1977, the Social Security Administration awarded minimum benefits to about 190,000 people.

The Social Security Act has always had a minimum benefit provision. Initially its purpose was to aid administration and avoid paying benefits that would be of little value to the beneficiary. The minimum monthly benefit started at $10 in 1935 and has increased to $122. This benefit has increased much more rapidly than other social security benefits because it has been assumed that most beneficiaries were poor and needed assistance.

In the Social Security Amendments of 1977, the Congress froze the minimum benefit as of January 1979, because of a growing concern that the benefit is a windfall to people who have not worked regularly under social security. The minimum was not eliminated for fear a sharp drop in the benefit level might cause hardships for needy people. According to the Social Security Administration, it will take more than 30 years for the freezing action to eliminate minimum benefits under the current law.

MINIMUM BENEFIT BENEFICIARIES: WHAT GAO FOUND

GAO's study of beneficiaries who were awarded minimum benefits during 1977 showed that homemakers and government pensioners received additional income from the minimum benefit provision more often than the needy. About 44 percent of sampled beneficiaries received no additional income from the minimum provision because of offsets required in other Federal benefits.

More than half the remaining 56 percent had income or support from other sources. For example, Federal records showed that

--15 percent received Federal pensions averaging $900 a month (see p. 15),

--10 percent depended on working spouses earning an average of at least $13,700 during the first year after the beneficiary began receiving social security (see p. 17), and

--2 percent relied on retired spouses with Federal pensions averaging $12,500 a year (see p. 18).

GAO was unable to determine from selected Federal records the extent to which 11 percent of the sample depended on minimum social security benefits for their support. However, a more detailed analysis of a sample in the Los Angeles area indicated that many people had a primary means of support other than social security. Several received substantial State or local pensions. (See pp. 15 and 16.)

Further, GAO's study showed that, before receiving social security, most sampled minimum beneficiaries were part-time or intermittent workers--never a permanent part of the labor force covered by social security. On the average, the minimum beneficiaries had some work in covered employment in only about 1 of every 4 years. Nearly half had gaps in employment of 20 or more years. (See pp. 9 and 10.)

Sampled minimum beneficiaries generally could not have depended primarily on their earnings from covered employment because they were too low. Their average covered earnings were only about $22 a month for the period 1953-76 Only 3 percent had earned as much as $4,000 during any single year in that time period, and only one-third had earned as much as $2,000 in any one of those years. (See p. 10.)

Contrary to social security's concept of partially replacing a person's covered earnings upon retirement, sampled beneficiaries received benefits that were about four times larger than their average monthly covered earnings before receiving social security. (See pp. 8 and 9.)

Many persons had not worked in covered employment for several years before receiving social security. Nearly half had not worked in covered employment for 5 years, and about one-third for 10 years. For these people, social security was a new source of income upon becoming eligible for the minimum benefit, rather than a replacement of lost covered earnings. (See p. 8.)

Because of marginal work in employment covered by social security, sampled minimum beneficiaries had paid little in social security taxes. GAO's analysis showed that, because of the minimum benefit provision, these people will recover their total contribution of social security tax, on the average, 6 times faster than people who have contributed the most to the trust fund, and in some cases, as much as 30 times faster. (See pp. 10 to 12.)

THE PRESIDENT'S PROPOSAL

In his fiscal year 1980 budget, the President proposed eliminating the minimum benefit for new beneficiaries to prevent the windfall effect and to reduce the welfare aspect of social security. The Social Security Administration estimates that implementing the President's proposal in October of 1980 would save the Government $455 million for fiscal years 1981-85. This figure is the net of a $695 million savings in social security and a $240 million increase in Supplemental Security Income to needy beneficiaries. (See pp. 19 and 20.)

A few minimum beneficiaries are not eligible for the Supplemental Security Income program even though they may be needy. This group includes individuals who selected early retirement and widows/widowers aged 60 through 64. They are not eligible for the Supplemental Security Income program because they are not aged, blind, or disabled. (See p. 20.) The President's proposal might be amended to extend a special Supplemental Security Income program eligibility to these people if they are needy and otherwise meet the program's eligibility requirements except for age.

RECOMMENDATION TO THE CONGRESS

The Congress should approve the President's proposal to eliminate the minimum benefit provision for new beneficiaries. To minimize the hardship of the few needy beneficiaries who would not be eligible for Supplemental Security Income, the Congress might consider authorizing a limited Supplemental Security Income payment which would replace the portion of the social security benefit lost when the minimum provision is eliminated.

GAO discussed the results of this review with Department of Health, Education, and Welfare officials. They concurred in GAO's recommendation.

MEMORANDUM

TO: Members of the Special Committee on Aging

FROM: Committee Staff

RE: Elimination of the Social Security Lump Sum Death Benefit

DATE: March 18, 1981

Current Law

A lump sum death payment (LSDP) of $255 is payable when a worker who is fully or currently insured dies. The LSDP was originally designed to return the investment of a worker who died before receiving benefits commensurate with the taxes paid. It was subsequently restructured to become purely a death benefit. Although it has been computed since 1950 as three times the worker's primary insurance amount, a statutory maximum now limits all payments to $255. If there is a widow(er) who was living in the same household with the worker at the time of death, the LSDP is automatically paid to that person. The $255 lump sum death payment is payable regardless of other benefits that may be payable based on that insured worker's record.

If there is no widow or widower eligible to receive the LSDP, the money can be paid to the funeral home to be applied toward outstanding burial expenses, upon request of the person who assumed responsibility for those expenses. If no one assumes responsibility within 90 days of the death, the funeral home may apply for the benefit. Alternatively, where burial expenses were paid from funds belonging to the deceased, the worker's estate may receive the LSDP. Generally, eligible payees must apply for the benefit within 2 years of the death of the worker.

According to a GAO report prepared in 1978, about 1.3 million lump sum death benefits were made, totaling $332 million.

Seventy-six percent of payments were made to deceased workers who were already receiving benefits at the time of death. The average age of these workers was 74. The remaining 24% were not already receiving benefits; their average age was 50.

In 14% of the cases the lump sum payment was the only benefit the person received from Social Security.

Reagan Administration Proposal

Legislation will be proposed to eliminate the LSDP in cases where there is no eligible spouse or entitled child. In other words, where the "estate" or funeral home is the only recipient of the benefit, it would no longer be paid. Also, the LSDP could no longer be paid to a sister, brother, uncle, aunt, grandparent, or any other relative not a spouse or child. Under the proposal, a surviving spouse who is eligible to receive monthly cash survivor benefits upon the worker's death (or who will become eligible at some later time) would automatically receive the LSDP. if there were no surviving spouse, the LSDP would be payable to any young child of the deceased worker who was eligible to receive monthly cash benefits as a surviving child. If the worker's children were all over 18 (or over 21 in the case of full time students), then no one would be eligible to receive the LSDP and it would not be paid.

The Reagan budget estimates the following savings resulting from the proposal:

Fiscal Years (dollars in millions)

1982	1983	1984	1985	1986
150	200	200	200	200

Pros and Cons of Elimination of the Lump Sum Death Payment

PROS

1. It is not earnings related and does not seem particularly appropriate under the earnings related Social Security program.

2. It is a marginal benefit not large enough to meet burial expenses, and no longer serves a meaningful purpose.

3. Nearly half of the LSDPs are made directly to "funeral home operators" because there is no surviving spouse or child eligible for benefits.

4. The primary purpose or the program of replacing lost income is not met by the LSDP, but by the monthly benefits paid to survivors.

CONS

1. It is an integral part of the program and has been since its creation in 1935.

2. For some workers, it is the only benefit ever paid based on their lifetime contributions to the system. For others, it helps meet burial expenses.

3. The <u>amount of savings does not make enough of an impact</u> on the financing problem to justify strong public reaction to their benefit cut.

4. Funeral home operators argue that direct assignment of the LSDP to them helps the Social Security Administration identify death cases, both for purposes of establishing new eligibility for survivors and terminating entitlement of the deceased worker. (However, this is only a voluntary notification program.)

MEMORANDUM

TO: Members of the Special Committee on Aging

FROM: Committee Staff

RE: Proposed Revisions to the Food Stamp Program

DATE: March 18, 1981

Proposals	Outlays FY 82 ($ millions)
-- Changing the inflation indexing rules. Nearly half of the estimated $550 million in savings is estimated to result from freezing the "standard deduction" and the dollar ceiling on deductions for shelter and dependent care expenses at $85 and $115 per month, respectively. The remaining savings would be achieved by repealing the liberalized inflation indexing system for allotments scheduled to become effective in January 1982. (This also was proposed by the Carter Administration.)	-550
-- Eliminating overlapping food stamp and school meal benefits for children through downward adjustments to food stamp allotments.	-95
-- Establishing a lower gross income eligibility test (an absolute 130% "poverty" limit).	-273
-- Implementing a "retrospective accounting" system in which benefits would be based on the previous month's earnings rather than anticipated earnings. Start-up costs would delay net savings until FY 1983 or 1984.	+ 23
-- Repealing the liberalized medical expense deduction to the elderly. At present, only medical expenses above $35 per month may be disregarded. The liberalization lowers this threshold to $25 per month. (This also was proposed by the Carter Administration.)	- 25
-- Repealing the liberalized dependent-care expense deduction. (This also was proposed by the Carter Administration.)	- 39
-- Pro-rating first month's benefits to reflect the portion of the month for which assistance is needed.	-210

Proposals	Outlays 1982 (in millions)
-- Regulating improvements in management and monitoring.	-140
-- Replacing the Federal Food Stamp and child nutrition programs in Puerto Rico with a food assistance block grant set at 75 percent of the estimated FY 1981 food stamp and child nutrition expenditure level for Puerto Rico.	-200

HOLDING DOWN THE FOOD STAMP BUDGET: 1980 LEGISLATION

ISSUE BRIEF NUMBER IB80079

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ISSUE DEFINITION

Late in 1979, it became obvious that the FY80 and FY81 costs of the Food Stamp program would run far ($3-5 billion) ahead of the $6.2 billion appropriations ceilings (or "caps") set for those years by the Food Stamp Act of 1977. Under the terms of the 1977 Act, this would necessitate massive benefit reductions or closing down the program (to stay within available appropriations), unless legislative action were taken, as was done in 1979. Re-estimates of needed funding for FY80 were over $9 billion; FY81 re-estimates topped $10 billion.

At the same time, the Carter Administration and the 96th Congress expressed their intent (in the spring of 1980) to hold down overall FY80 spending and balance the FY81 Federal budget, moving to do so through the Budget Resolution process.

For food stamps, the upshot was legislation (P.L. 96-249, the Food Stamp Act Amendments of 1980) that raised the FY80 "cap" to $9.5 billion and the FY81 "cap" to $9.7 billion, but coupled this with legislative changes aimed at holding down food stamp spending increases by forcing some benefit and eligibility cutbacks. These legislated budget reductions are expected to keep food stamp costs $150 million below previously anticiapted FY80 spending and $600 million below earlier projected FY81 expenditures. The primary method of budget reduction chosen for food stamps was slowing down the various inflation updates in benefits and eligibility standards.

As a result, the threatened June 1, 1980 shutdown of the program was averted (some $9.2 billion is now available for FY80, $3 billion more than the original "capped" appropriation), the program will end FY80 with minimal benefit losses, and the Budget Resolution for FY81 contains no "reconciliation instruction" to the Agriculture Committees to further reduce food stamp spending. Under terms of the Continuing Resolution for FY81 (providing funding through Dec. 15, 1980), the Food Stamp Program will be allowed to continue unreduced benefits, even though the $9.7 billion authority contained in the Resolution is less than full funding needs ($10.7 billion).

However, the food stamp debate appears to have shifted to a debate over budget-cutting reforms and is not over. The program expires at the end of FY81 and must be reauthorized to continue. Because of worsening economic conditions, the new $9.7 billion ceiling set in the 1980 amendments is already acknowledged to be some $1 billion less than is needed to fully fund the FY81 program, even after $600 million in legislated budget reductions are taken into account. New estimates of the FY81 Federal deficit are likely to lead to calls for additional reductions in order to move back toward a balanced budget. And, a number of budget reduction proposals that were not accepted in 1980 are likely to re-emerge in the 1981 debate over reauthorizing the program and the expected FY81 shortfall.

Program expansions proposed in 1980 were, for the most part, not accepted or postponed until FY82.

BACKGROUND AND POLICY ANALYSIS

EXCEEDING THE APPROPRIATIONS CEILINGS

The Food Stamp Act of 1977 set ceilings on new appropriations for the Food Stamp program. The program had operated with appropriations ceilings from its inception (1964) through 1971, but, since 1971, open-ended appropriations have increased substantially as the program was made operational throughout the country, new recipients were added, and benefit levels increased with inflation. Sponsors of the ceilings enacted in 1977 intended them to be "controls" on the growth in program costs, spurring efforts to tighten up on administration of the program. Opponents felt them to be artificial ceilings that would not let the program respond to need.

For fiscal years 1980 and 1981, the authorized appropriations ceilings (or "caps") were set at $6,188,600,000 and $6,235,900,000, respectively. In addition, the 1977 Act required that benefits be reduced to stay within available funding if funding needs for the program, at full benefit entitlement, were to exceed the appropriation or the "cap."

These "caps" on funding were set using estimates made during 1977 as to the cost of a revised Food Stamp program through 1981, when the program would have to be reauthorized. Built into the estimates were certain assumptions as to growth in the economy and income, inflation (especially, food price inflation), and unemployment. These factors directly affect food stamp participation and benefits (and, thereby, costs) because eligibility is primarily tied to income and benefits are determined by recipients' incomes and indexed for inflation.

However, in 1979 and again in 1980, Congress and the Carter Administration found that food price inflation, unemployment, and participation in the program were (and were anticipated to be) substantially higher than had been expected in 1977, and that growth in the economy and income were less than earlier expected. Along with these economic factors, the elimination of the food stamp purchase requirement (enacted in 1977 and implemented early in 1979) resulted in large increases in participation now that recipients did not have to put up a portion of their income to "buy" their food stamp allotments; although this was expected, it exacerbated the effects of inflation, unemployment, and the other economic factors.

Food price inflation has run roughly triple the rate predicted in 1977; unemployment rates have been consistently more than a percentage point above the 1977 projections; and participation is over 2 million persons a month above numbers estimated in 1977. Just as important, these factors proved to be highly volatile, forcing re-estimates (upward) throughout the year in response to worsening economic conditions.

The result is that participation is (May 1980) running nearly 22 million persons per month vs. the less than 20 million persons projected in 1977 and average benefits are some 20% higher than had been projected. The monthly benefit cost of the Food Stamp program is now about $750 million vs. less than $500 million a month estimated in 1977.

In February 1980, Congress was officially informed that, given a $6.2 billion FY80 ("capped") appropriation, the Food Stamp program would have to close down on June 1, 1980, for lack of funds. May 15 was given as the latest date by which congressional action could forestall such a shutdown. The program need not have been shut down completely. However, in order to avoid that, the Carter Administration would have had to start reducing benefits very substantially as early as January 1980, and, rather than pursue this course, it was decided to request additional funds and bank on Congress acting in time to raise the "cap" for FY80 and provide sufficient appropriations.

As the mammoth gap between the authorized appropriations levels for FY80 and FY81 ($6.2 billion a year) and the full funding needs of the program (over $9 billion and above $10 million for FY80 and FY81, respectively) became apparent, both Congress and the Carter Administration were prompted to propose raising or removing the "caps" (and increasing appropriations) coupled with action to hold down the amount of spending increases being authorized by legislating various cost-saving measures.

Initially, it was believed that only about $2 billion extra (above the $6.2 billion "cap") would be needed to finance the program through FY80; FY81 was seen to be about $3 billion short. However, as unemployment and inflation projections worsened, re-estimates indicated the need for some $3 billion additional in FY80 (totaling between $9 and $9.5 billion) and $4 billion more in FY81 (totaling between $10 and $10.5 billion). It was this second set of re-estimates that Congress used (in May 1980) to set new "caps" on food stamp appropriations in the 1980 amendments, P.L. 96-249. The amendments established ceilings of $9.5 billion for FY80 and $9.7 billion for FY81, but only after legislating budget reductions of $150 million in FY80 and $600 million in FY81.

The latest round of re-estimates (July 1980) indicate a spending level of about $9.2 billion in FY80 (the amount of the total FY80 appropriation, as increased by two supplemental appropriations) and $10.7 billion in FY81 ($1 billion more than the FY81 "cap"). These estimates assume the $150 million and $600 million savings. Without the budget reductions that were a part of the 1980 amendments, the Food Stamp program would be spending nearly $9.4 billion in FY80 and over $11 billion in FY81, assuming the "caps" had been increased sufficiently.

The 1980 amendments to the Food Stamp Act did not begin as a combination of increased appropriations authorizations and budget reduction measures. In their early versions, the amendments raised the appropriations ceilings (in the House version) or eliminated them entirely (in the Senate version), and combined this action with relatively minor program changes that would have left spending levels essentially unchanged. However, in the spring of 1980, the character of the food stamp debate rapidly changed.

With calls for holding down FY80 Federal spending and balancing the FY81 Federal budget, the primary concern in food stamp legislation became enactment (or opposition to enactment) of legislative changes designed to hold down costs with benefit and eligibility cutbacks or program reforms aimed at tightening administration. The program reforms and minor cost-saving provisions proposed in the early versions of the 1980 amendments were supplemented with more sweeping changes and almost all benefit expansions were projected or postponed. The focal point of debate became the design and extent of budget controlling proposals, and, in the end, budget reduction measures and administrative tightening provisions formed the overwhelming majority of provisions in the 1980 amendments.

Proponents of benefit expansions or maintaining benefits and existing eligibility standards in the face of rising inflation and unemploymen' concentrated their efforts and proposals on limiting the extent of budget reduction initiatives, arguing that food stamp recipients should not be penalized for the state of the economy.

P.L. 96-249 BUDGET REDUCTIONS

In its early House and Senate versions, P.L. 96-249 (S. 1309) included only a few relatively minor budget reduction measures. However, when Federal budget-reduction initiatives had become widespread, the 1980 food stamp legislation was substantially amended to include several more budget-reducing changes. In addition, the Carter Administration is implementing two administrative changes designed to save some $100 million in FY81 — new rules regarding rounding in benefit calculations and faster adjustment of food stamp benefits (downward) when Social Security and Supplemental Security Income (SSI) payments increase each July.

Retrospective Income Accounting and Periodic Reporting. The 1980 mendments permit States the option of (1) determining program eligibility nd benefits by using, for some or all recipients, income received in the revious month (retrospective income accounting), rather than estimating ncome to be received in the upcoming month(s) (prospective income ccounting), combined with (2) requiring periodic (normally monthly) reports f income and other significant household circumstances. This is intended to help reduce the degree of error made in benefit and eligibility calculations and could save up to $75 million in FY81 if widely implemented.

Slowing Inflation Indexing. The 1980 amendments slow down the various inflation adjustments made in food stamp benefits and eligibility standards; it is expected that this change will reduce FY80 costs by some $150 million and FY81 spending by about $350 million. The slow-down of inflation adjustments is to be accomplished in several ways: (1) inflation adjustments to benefits will be made annually (each January) rather than semiannually (each July and January); (2) the special inflation updating procedure that has been used to make food stamp income eligibility standards (annually updated each July) reflect recent inflation will be eliminated; (3) inflation adjustments in the "standard deduction" (i.e., the basic amount of income disregarded in all benefit and eligibility calculations) will be made annually (each January) rather than semiannually (each July and January); and (4) inflation adjustments to the limit on shelter and dependent-care expenses deductions (limiting the degree to which these expenses can reduce income countable for food stamp purposes) will be made each January rather than in July, thereby postponing the July 1980 adjustment. The net effect of slowing down inflation adjustments is that the scheduled (under prior law) July 1980 adjustments will either not take place (benefit and deduction adjustments) or will be substantially less than previously projected (income eligibility adjustments). For example, benefits would have gone up in July 1980 by about $5 per household per month, on average, but will now be frozen until January 1981, unless a household's circumstances change. The income eligibility standard for a four-person household, for instance, was to have gone to roughly $680 a month in July 1980, but will now increase to only $620. As a result, it is estimated that well over 600,000 persons will either lose eligibility (as their income goes up) or will not be able to enter the program in 1980-1981.

Lowering the Assets Test. The 1980 amendments are estimated to save some $20 million in FY81 by lowering the assets eligibility limit from $1,750 per household to $1,500. The food stamp assets test primarily counts liquid assets and a portion of the value of a car; it does not count the value of a household's home and personal belongings. The special higher assets limit ($3,000) for households of two or more persons with an elderly member is left untouched.

Restrictions on College Students. The 1980 amendments aim to save about $60 million in FY81 by further restricting participation by college students. New rules will bar participation by college students unless they are: (1) working at least half-time; (2) participating in a work-study program; (3) enrolled in college as part of the Work Incentive (WIN) program; or (4) head of a family.

Improved Administration. The 1980 amendments are designed to save up to $90 million in FY81 (more in later years) by a combination of fiscal sanctions against States with high rates of error in their administration of the program and fiscal incentives for States that show significant improvement in their rates of error.

Aliens. The 1980 amendments require that the income and resources of household members who are ineligible because of their alien status be attributed to the remaining members, less a pro rata share for the alien.

Increased Verification. The 1980 amendments are designed to facilitate increased verification of factors affecting eligibility and benefits. Computerization costs will be eligible for increased (75%) Federal cost-sharing. States will be allowed to verify eligibility factors above and beyond those required by Federal regulations. Information available through the Social Security Administration and the unemployment insurance system will be accessible to food stamp agencies.

Postponed Benefit Expansions. Although not included in the savings estimates associated with the 1980 amendments, a number of benefit expansions for the elderly, disabled, and those with child-care expenses are postponed until 1982 and must be reaffirmed in the 1981 reauthorization of the program. If reaffirmed, they would add costs of over $150 million in FY82.

OTHER MAJOR REDUCTIONS PROPOSED

In the 1980 food stamp debate, a number of budget reduction proposals were either not accepted by the 96th Congress or did not come to a vote.

Reduced Benefits Related to School Lunch Aid. Food stamp benefits to households with children in schools offering free lunches were proposed to be reduced by roughly $10 per child per month during the school year (assuming the child takes advantage of those meals). This proposal would have lowered food stamp spending by an estimated $600 million in FY81.

Counting Energy Assistance as Income. Aid received by food stamp households under any low-income energy assistance program was proposed to be counted as income, thereby reducing food stamp benefits to those receiving the aid by about 30 cents for each dollar of energy assistance (or, possibly, making the household ineligible). This proposal would have reduced food stamp spending by up to $200 million in FY81.

<u>Restoring the Purchase Requirement.</u> The food stamp purchase requirement, eliminated in the 1977 Food Stamp Act revisions, was proposed to be restored, t reby requiring that food stamp househoulds pay a portion of their income in order to participate in the program and holding down participation. This proposal would have reduced food stamp spending by an estimated $800 million in FY81.

<u>Limiting Deductions.</u> The amount of income that a food stamp household can have disregarded (or "deducted") was proposed to be further limited, thereby increasing counted income and reducing benefits or making households ineligible. Potential savings from this type of proposal vary depending on the degree of limitation proposed; for example, a $5-a-month reduction in the $75-a-month food stamp "standard deduction" (the basic amount of income disregarded for every household) could produce a cost saving of between $100 and $150 million annually.

<u>Increasing the "Benefit Reduction Rate".</u> The degree by which a household's income reduces its food stamp benefits (the so-called "benefit reduction rate") was proposed to be increased above the present 30% (i.e., a 30-cent decrease in food stamp benefits for every dollar increase in countable income). For example, an increase of 1 percentage point (to 31%) in the "benefit reduction rate" could produce a cost saving of between $100 and $200 million annually.

<u>Recoupment.</u> Some food stamp benefits were proposed to be "recouped" rough the income tax system) from short-term recipients whose annual ome rises well above the food stamp income eligibility standards -- in t, making the program a food-purchasing-power "loan" program for these term recipients. This proposal was estimated to be capable of ing some $100 million; however, substantial administrative costs ticularly in the first year) were estimated to reduce the extent of the t savings to well below $100 million.

<u>Counting "In-Kind" Income and "Vendor Payments.</u> Some of the various types non-cash ("in-kind") income received by food stamp households were osed to be counted as income, thereby reducing benefits or making olds ineligible. In addition, assistance provided indirectly to food households by paying a third party ("vendor payments") was proposed to ounted as "income", thereby reducing benefits or rendering households ligible. Most often mentioned in this regard were child nutrition nefits, housing subsidies, and energy aid.

<u>Use of the CPI.</u> The possibility of using an inflation-indexing base other than the Consumer Price Index (CPI) was suggested and the 1980 food stamp amendments require a Congressional Budget Office study of its use in the Food Stamp program and an exploration of alternatives.

<u>Work Requirement.</u> Increasing the number of food stamp recipients required to register for work and giving States an option to require work in exchange for food stamp benefits were proposed to strengthen the work registration provisions of the program. At present, adults caring for children under age 12 are exempt from work registration and it was proposed that this age be lowered to 6. Work in exchange for food stamps (so-called "workfare") is now b g tested in a number of pilot projects across the country and was proposed as a nationwide option.

<u>Limiting Income Eligibility.</u> Lowering income eligibility standards by

removing all provisions for disregarding income (deductions), except a 15% disregard of any earned income, was proposed to remove eligibility for any "higher-income" recipients.

Strikers and Students. Barring eligibility for strikers and students was proposed, in contrast to the limited eligibility they now have.

Conversion to a Block Grant Program. Converting the Food Stamp program to a program of block grants to States for food assistance was proposed as a method of reducing Federal administrative costs and removing the "entitlement" nature of the program, thereby making the Federal costs easier to control.

Outreach. Federal requirements on States to conduct outreach aimed at informing persons of their potential eligibility were proposed to be removed, along with the 50% Federal share of the cost of outreach activities.

Assets. Further restrictions on allowable assets were proposed — primarily, lower limits on the value of any car owned by an eligible household and limits on property used in a trade or business.

Photo-Identification and Other Fraud Control Methods. Nationwide use of photo-identification cards and a more extensive system of cross-checking earnings and other income were proposed, in contrast to selective use of photo-identification and making Social Security and unemployment insurance information accessible to food stamp agencies, as provided for in the 1980 amendments.

THE 1981 DEBATE

The Food Stamp Act of 1977 expires at the end of FY81, necessitating reauthorization if the program is to continue. In addition, the new $9.7 billion ceiling on FY81 food stamp appropriations set in the 1980 amendments is generally achnowledged to be at least $1 billion lower than the amount needed to fully fund program benefits even after the $600 million reduction in estimated FY81 costs legislated in the 1980 amendments is taken into account.

As a result, the food stamp budget reduction debate is expected to continue in 1981, both in terms of holding down or reducing future food stamp spending and resolving the more immediate problem of how much money to make available in FY81. As in 1980, it is likely that any increase in food stamp funding for FY81 and beyond will be linked with proposals to hold down expenditures by legislating benefit and/or eligibility cutbacks such as those proposed in 1980 (and earlier years).

An early look at the 1981 debate would indicate that at least the following areas of concern are likely to emerge:

-- How much of a budget reduction in projected food stamp spending will be sufficient as a "trade-off" for allowing appropriations to increase?

-- Should appropriations ceilings be kept for future years or should the program return to open-ended appropriations authorizations?

-- Should cutbacks be aimed at particular groups of recipients (i.e., reducing benefits to households with schoolchildren) or should they cut across the entire recipient population (e.g., increasing the "benefit reduction rate")?

— Should benefit expansions, such as those included in the 1980 amendments (but postponed until 1982), be enacted?

Certain considerations should be kept in mind in looking at potential food stamp budget reductions in 1981 and beyond. Some of the budget reduction proposals are relatively straightforward (e.g., reducing benefits to those households with school children or lowering the amount of disregard income, by specific dollar amounts); these proposals have dollar-saving effects that can be estimated with some precision. Others may be difficult to achieve and their dollar savings may be difficult to identify when looking back, although estimates of savings will, of course, be made (e.g., lowering eligibility standards or stronger work requirement).

In addition, the budget reduction proposals that remain to be chosen from typically have much larger impacts on food stamp spending levels and the recipient population than those accepted in 1980. In many cases, they would mean absolute benefit reductions or loss of eligibility, as opposed to making benefit increases smaller and denying potential eligibility. This is likely to make any 1981 budget reduction issues more difficult to resolve than has been the case in the past, where collections of relatively small cutbacks were used to meet calls for reducing the food stamp budget.

LEGISLATION

96th CONGRESS LEGISLATION

P.L. 96-249, S. 1309

Food Stamp Act Amendments of 1980. Raises the FY80 and FY81 ceilings (or "caps") on food stamp appropriations to $9.5 billion and $9.7 billion, respectively, thereby permitting the appropriation of additional funding in FY80 (P.L. 96-243) and preventing a shutdown of the program on June 1, 1980. In addition: (1) expands program eligibility to include women and children in shelters for battered women and allows them to use food stamps to pay for meals served them in these shelters; (2) excludes all energy assistance payments from consideration as countable income; (3) allows States, at their option, to use past (rather than expected) income eligibility and benefit determinations, coupled with periodic reporting of eligibility factors such as income; (4) exempts vehicles used to transport physically handicapped persons from being counted against the assets test; (5) allows States to choose whether to have a system of administrative hearings to deal with fraud cases; (6) requires that the income and other resources of an ineligible alien be attributed to the remainder of the household (less a pro rata share); (7) allows States to verify eligibility factors beyond those federally prescribed; (8) allows the use of photo identification cards where necessary to protect program integrity; (9) requires food stamp agencies to report illegal aliens to the Immigration and Naturalization Service; (10) increases the Federal share of computerization costs; (11) increases Federal authority to force State compliance with Federal rules; (12) requires special audits of States with very high participation levels; (13) increases financial incentive for States to lower their rates of erroneous benefit payments; (14) increases financial sanctions on States with high rates of erroneous payments; (15) requires disclosure of information available to the Social Security Administration and State employment agencies, when requested by food stamp administering agencies for use in verifying food stamp igibility; (16) extends the life of various pilot projects and adds a ederal share of administrative costs to the Federal share of costs for "workfare" pilot projects; (17) bars the use of Federal funds to interfere with implementation of any provision of the Food Stamp Act; (18) further restricts college student participation in the program; (19) makes all inflation adjustments in benefits and eligibility standards annual rather than semiannual and conforms the food stamp "poverty levels" (used in eligibility decisions) to those used by other Federal agencies; and (20) lowers the limit on allowable assets from $1,750 per household to $1,500. Several benefit and eligibility expansions, primarily increased deductions for medical and dependent-care expenses, are postponed until FY82. Introduced June 11, 1979; referred to Committee on Agriculture, Nutrition, and Forestry. Reported July 5, 1979. Passed Senate July 23, 1979, with amendments. Several provisions considered in conference with the House in 1979 and enacted into law in 1979 (See P.L. 96-58, H.R. 4057). Reported by House Committee on Agriculture on Feb. 27, 1980 (H.Rept. 96-788). Passed House May 8, 1980, with amendments. Conference agreement approved by Senate May 14, 1980. Conference agreement approved by House May 15, 1980. Signed by President May 26, 1980, as P.L. 96-249.

CHRONOLOGY OF EVENTS

07/08/80 -- P.L. 96-304, Omnibus Supplemental Appropriation Act for FY80, was signed by the President. Provides $400 million additional FY80 dunding for food stamps, bringing the total FY80 food stamp appropriation to $9.2 billion.

07/02/80 -- Conference report on H.R. 7542, Omnibus Supplemental Appropriation Act for FY80, agreed to by the House and Senate. Provides additional food stamp funding for FY80.

07/01/80 -- Scheduled (under prior law) food stamp benefit and income eligibility standard increases did not occur, as mandated by P.L. 96-249.

06/28/80 -- Senate passed H.R. 7542, Omnibus Supplemental Appropriation Act for FY80. Provides additional food stamp funding for FY80.

06/19/80 -- House passed H.R. 7542, Omnibus Supplemental Appropriation Act for FY80. Provides additional food stamp funding for FY80.

06/17/80 -- House Appropriations Committee reported H.R. 7591, the FY81 Agricultrue Appropriations Act (H.Rept. 96-1095). Includes an FY81 food stamp appropriation of $9.7 billion; however, $300 million of that amount is reserved until the Administration takes action to correct abuses.

06/13/80 -- Administration issued regulations implementing provisions in P.L. 96-249 that slow down inflation adjustments to food stamp benefits and income eligibility standards.

06/12/80 — Conference completed on the combined FY80–81 Budget Resolution. Assumed food stamp budget reductions total $500/$600 million in FY81, as provided for in P.L. 96-249.

05/27/80 -- P.L. 96-249, the Food Stamp Act Amendments of 1980, signed by the President (S. 1309).

05/16/80 -- P.L. 96-243, the Urgent Supplemental Appropriations Act for the FY80 Food Stamp program, signed by the President (H.J.Res. 545). Provides $2.6 billion additional FY80 funding for food stamps, bringing the total available for FY80 to $8.8 billion.

05/15/80 -- Conference report on H.J.Res. 545, the Urgent Supplemental Appropriations Act for the FY80 Food Stamp program, agreed to by the House and Senate. Provides additional food stamp funding for FY80.

-- Conference report on S. 1309, the Food Stamp Act Amendments of 1980, agreed to by the House.

05/14/80 — H.J.Res. 545, the Urgent Supplemental Appropriations Act for the FY80 Food Stamp program, passed by the Senate. Provides additional food stamp funding for FY80.

-- Conference report on S. 1309, the Food Stamp Act Amendments of 1980, agreed to by the Senate.

05/13/80 -- H.J.Res. 545, the Urgent Supplemental Appropriations Act for the FY80 Food Stamp program, passed by the House. Provides additional food stamp funding for FY80.

05/12/80 -- Senate agreed to its version of the FY80-81 Budget Resolution, assuming some $1.4 billion in food stamp budget reductions in FY81.

05/08/80 -- House passed its version of S. 1309, the Food Stamp Act Amendments of 1980 (reported as H.R. 5907), with substantial floor amendments.

02/27/80 — House Agriculture Committee reported H.R. 5907, (H.Rept. 96-788). The Senate version of S. 1309 was passed by the Senate on July 23, 1979.

02/15/80 — Secretary of Agriculture informed Congress that the Food Stamp program would close down in June 1980 without congressional action on funding.

02/12/80 — House Agriculture Committee continued marking up H.R. 5907, the Food Stamp Act Amendments of 1980.

02/07/80 — House Agriculture Committee met to hear reports on recent investigations of trafficking in food stamps.

12/15/79 -- Secretary of Agriculture first officially indicated potential problems in food stamp funding for FY80.

12/06/79, 12/11-13, 12/18-20/79 -- House Agriculture Committee began marking up H.R. 5907, the Food Stamp Act Amendments of 1980.

11/15/79 — H.R. 5907, the Food Stamp Act Amendments of 1980, was introduced as reported to the full House Agriculture Committee. H.R. 5907 replaced H.R. 4318 as amended in subcommittee.

11/14/79 — House Agriculture subcommittee completed consideration of H.R. 4318 and reported it to the full committee with amendments, as H.R. 5907.

11/07/79 — House Agriculture subcommittee considered and amended H.R. 4318, food stamp reform amendments.

11/01, 10/30-31, 17-18/79 -- House Agriculture subcommittee held hearings on proposed food stamp reforms.

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THE FOOD STAMP BUDGET: REDUCTIONS PROPOSED

MINI BRIEF NUMBER MB81215

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ISSUE DEFINITION

On Feb. 18, 1981, the Reagan Administration made public its initial proposals for changing the Food Stamp Act to achieve reductions in the program's budget in FY82 and beyond. According to the Administration's estimates, the initial package of proposed revisions to the Act would, it is now estimated, reduce the program's funding needs by $1.3 billion in FY82, and by larger amounts in later years. In addition, some $400 million in savings achievable through administrative actions, not legislation, were announced.

On Feb. 19, the Administration announced its support for a supplemental appropriation to fully fund the program through FY81. The supplemental amount would be $1.2 billion and, together with the $9.74 billion already appropriated, would appear to allow full funding of the program with no benefit reductions in FY81. However, the supplemental appropriation being supported by the Reagan Administration is approximately $150 million less than that requested earlier this year by the Carter Administration, and it is not yet clear whether this is the result of new, lower estimates as to 1981 funding needs or potential program changes to be implemented later this year.

On Mar. 10, 1981, the Administration issued its second round of food stamp budget revisions, including a legislative revision and a downward adjustment of the estimated pre-reduction cost of the program. Other proposals were also clarified and refined somewhat. The additional legislative proposal, converting food stamp (and child nutrition) aid to Puerto Rico into a food assistance block grant, would save the Food Stamp program the $1.1 billion expected to be spent in Puerto Rico in FY82 (along with a much smaller child nutrition program savings). This would bring the gross legislative savings in FY82 food stamp program costs to $2.8 billion. However, the cost of the new block grant (75% of FY81 food aid expenditures in Puerto Rico) will of course substantially offset the $1.1 billion food stamp savings, reducing it to some $300 million in "net" food stamp savings. Further, the estimated cost of the FY82 program, without any legislative or administrative reductions, has been reduced by some $300 million from the Carter Administration's estimate of $12.9 billion. Using different economic and other assumptions, the pre-reduction cost of the program is now estimated at $12.6 billion by the Administration.

The proposed changes in the food stamp budget will, it is anticipated, have the effect of reducing it to approximately $9.8 billion in FY82; a 22% reduction off the Carter Administration's $12.9 billion FY82 estimate; a 24% reduction off the Reagan Administration's FY82 estimate. But, when the new costs associated with the food assistance block grant to Puerto Rico are factored in, a more realistic characterization of the budgetary effect would be a 16% reduction, or about a $2 billion "net" savings.

The Congressional Budget Office (CBO), on the other hand, has estimated significantly smaller FY82 savings from the Reagan Administration's proposed budget reduction initiatives. CBO estimates that the initial package of legislative and administrative budget budget reduction initiatives will save approximately $1.2 billion, as opposed to the Administration's estimate of $1.7 billion. In addition, a $1.1 billion gross savings from the Puerto Rico block grant proposal is estimated, as with the Administration. This brings the CBO estimate of gross savings in food stamp spending to $2.3 billion,

$500 million less than the Administration's estimate. "Net" savings in FY82 (taking into account the offsetting effect of the new Puerto Rico block grant) would be $1.5 billion, versus the $2.0 billion estimated by the Administration. CBO has calculated two different pre-reduction estimates for FY82, using different economic assumptions -- $12.8 billion and $12.3 billion. Thus, after the reductions have been applied, the food stamp FY82 budget could be either $10 billion or $10.5 billion, compared to the Administration's estimate of $9.8 billion.

BACKGROUND

The Reagan Administration's recommendations are still tentative, dollar and other estimates of their effect may change, and additional proposals are likely. However, it is possible to present at least a rough picture of the food stamp package as it now stands. In general, the Administration has, so far, chosen few changes that will affect all or most recipients. Rather, it has "targeted" its budget reduction proposals on specific (though large) participant groups within the program. The only proposals that might be characterized as "across-the-board" are the changes in the indexing system, discussed first below.

Changing the Inflation Indexing Rules

The Reagan Administration proposes two changes in the inflation indexing rules that, together, are expected to reduce food stamp expenditures by an estimated $550 million.

(1) Nearly half of this reduction is attributed to the recommendation that the "standard deduction" and the dollar ceiling on deductions for shelter and dependent-care expenses be frozen at $85 and $115 per month, respectively.

Deduction levels are important determinants of Food Stamp program benefits; a deduction results in the disregard of income and causes increased benefits, at the rate of 30 cents more in benefits for each $1 of disregarded income. All households are granted the "standard deduction:" i.e., their first $85 of income is disregarded. Households with dependent-care expenses related to employment, training for employment, or education are allowed to deduct those expenses; fewer than 5% of the caseload do so. And, households with very high shelter expenses are allowed to have subtracted out of their income shelter expenses that exceed 50% of the income that remains after all other deductions have been applied; the majority of food stamp households claim some shelter deduction, but only about 25% claim the maximum allowed. The total of the shelter and dependent-care deductions may not exceed a ceiling that now stands at $115 per month. This ceiling is not applied to elderly and disabled households.

Both the $85 "standard deduction" and the $115 ceiling are indexed to inflation measures and would rise to $90 and $125, respectively, in January 1982, barring a change in rules. They would rise to $95 and $130 if a liberalized indexing system (discussed in "2" below) were to be implemented. The "standard deduction" is now indexed annually, each January, to the change in the CPI for all items except food. The ceiling on shelter and dependent-care deductions is also indexed annually, each January, to changes in the CPI components for shelter, fuel, and utilities.

Freezing deduction levels at $85 and $115 per month will result in denying households modest benefit increases that would have occurred in January 1982 as more of their income would have been disregarded. In later years, the effect of frozen deduction levels will, of course, be larger. This recommendation will also have different effects on different parts of the food stamp population. Those with high shelter costs or dependent-care expenses will feel the loss of an indexed ceiling more than others; the loss of an indexed "standard deduction" will have a proportionally greater effect on lower-income food stamp households than higher-income recipients.

(2) The remaining portion of savings due to changes in the indexing rules is attributed to the recommendation that a liberalization of the inflation indexing system, scheduled to take effect in January 1982, not be implemented. This was also proposed by the Carter Administration.

The 1980 amendments to the Food Stamp Act provided that, beginning in January 1982, the measurement period used to calculate each January's inflation adjustments would be changed so as to be more up to date, reflecting inflation through the immediately preceding December. Since the first part of the proposed change in indexing rules would freeze indexing of deduction levels, this scheduled change in indexing rules would only affect the indexing of food stamp allotment levels, if it were allowed to occur. In any event, since the Food Stamp Act expires at the end of FY81, the change in the measurement period would have to be reaffirmed in reauthorization in order to actually occur.

Under current rules, each January's inflation adjustments lag behind actual inflation because they reflect changes in the CPI through the preceding September, rather than December. The scheduled change in rules would be achieved by having the Department of Agriculture use actual CPI data through September and then estimate inflation for October through December. Actual CPI changes in those last 3 months are not available in time to be reflected in a January adjustment. As a result, if the new liberalized indexing system (using December as the end measurement month) were used to calculate the January 1982 adjustment to food stamp allotments, it is estimated that they would be 2% higher than under the old system (using September as the end measurement month). For a four-person household, this would be a difference of $6 per month in benefits.

Retaining the old inflation indexing system by not reaffirming the 1980 liberalization would have the result of denying all recipients that extra 2% benefit increase in 1982 and additional increases in later years if inflation continues.

Reducing Benefits to Households with Children in School

The major change proposed by the Reagan Administration would reduce monthly food stamp benefits to households with children in schools offering free lunches, on the assumption that they can take advantage of these federally subsidized lunches to meet a portion of the nutritional needs intended to be covered by food stamp benefits. The full-year, FY82 savings expected to be achieved by this revision are estimated at $595 million; this $595 million is included in the Administration's reduction estimate for 1982. However, if this change cannot be implemented in September/October 1981, as late as January 1982 for example, the first-year savings would be substantially less, on the order of $300 million. Of course, in later years, savings under this proposal will increase as the per-child reduction increases and full-year effects are achieved.

It is in estimating the savings to be achieved through this legislative change that CBO has its greatest difference with the Administration's estimates. While estimating higher full-year savings from this amendment ($650 million vs. the Administration's $595 million), CBO has assumed that the provision will not be fully operative until the Spring of 1982 and, therefore, has estimated FY82 savings at only $365 million, or $230 million less than the Administration.

In FY82, the benefit reduction per schoolchild would amount to about $11 or $12 per month. This would be calculated by using the average per person, per meal value of the "Thrifty Food Plan" (the basis for food stamp allotments) and multiplying it by an average number of schooldays per month, with a standard reduction for absenteeism. This benefit reduction would only be made during the school year. It would not be made in the few cases where: (1) the child attends a school without a School Lunch program; (2) the child is ineligible for free lunches; or (3) the child cannot participate in the free lunch program for religious or dietary reasons.

Approximately 35% of food stamps households have children in schools offering free lunches. This amounts to nearly 3 million households with about 6 million children, at current participation levels. Almost all of them would be affected by this $11 or $12 per child per month reduction in benefits during the school year.

Establishing a Lower Gross Income Eligibility Test

Another significant recommendation of the Reagan Administration is to establish a single new, generally lower, test for income eligibility in the Food Stamp program. The new test would eliminate eligibility for food stamps at 130% of the annually indexed Federal "poverty levels." FY82 budget savings of $273 million are estimated if this proposal is enacted, with a net decrease in participation of approximately 1 million persons, or 300,000-400,000 households. CBO estimates a smaller savings from this proposal.

Under current law, income eligibility standards for food stamps vary according to the type of household and each household's particular sources of income and pattern of expenses. For households with no earned income, and no special expenses (see discussion below), the basic gross income eligibility limit is equal to the Federal "poverty level" for a particular household size, plus the amount of income disregarded due to the "standard deduction." For example, the current (January-June 1981) basic income limit for a one-person household is $401 per month (the one-person "poverty level" of $316 plus the $85 "standard deduction"), for a four-person household, it is $706 per month (the four-person "poverty level" of $621 plus the $85 "standard deduction").

However, for households that have special expenses and earned income, the eligibility limits on gross income can be substantially higher because those expenses and a portion of earned income are disregarded in the eligibility calculation. For example, a portion of any shelter expenses that are excessively high in relation to income, along with all dependent-care expenses related to employment, are disregarded, up to a ceiling that now stands at $115 per month (see earlier discussion of freezing deduction levels). Thus, if a household claims the maximum shelter expense/dependent care deduction, its gross income limit is $115 per month higher than the basic income limits discussed above. Households with earnings have 20% of earned income disregarded, raising the gross income limit applied to them significantly. Elderly and disabled households may have medical expenses above $35 per month disregarded and may claim shelter expense deductions without limit; in effect, this makes it virtually impossible to calculate gross income limits for these types of households.

Leaving aside elderly and disabled households, the eligibility result of the various food stamp income and expense disregards is that the effective gross income limits in the program can range as high as 180-200% of the "poverty levels" for small households and 140-165% of the "poverty levels" for larger households. But, it should be remembered that very few food stamp households actually have the particular set of characteristics that allow them to enter the program with income at these levels. Further, when they do participate, they tend to receive minimal benefits. As a result, the Reagan proposal for placing an absolute 130% of "poverty" gross income limit on the program affects fewer households than might be expected and results in a marginal, 2%, cost reduction.

The Reagan Administration's recommendation for a 130% of "poverty" gross income test would lower the maximum gross income limits in the program as shown in the following table, beginning in January 1982. There would be no exceptions for the elderly and disabled and, as a result, elderly and disabled households that can have incomes as high or higher than the current maximums shown in the table will be subjected to the new single income limit test. Those removed from eligibility by the new test will generally be those with substantial earned income or large special expense disregards for shelter, dependent-care, or medical expenses. A very few households with incomes in the 120-130% of "poverty" range will actually be made newly eligible by the new rule if they are not now able to claim earnings or special expense disregards.

Table 1
Food stamp gross income limits: January 1982

Household size:	Current law: Basic Limit: a/	Current law: Maximum: b/	Reagan proposal: c/
1 person			
Monthly........	$ 455	$ 731	$ 468
Annualized.....	5,460	8,772	5,616
2 persons			
Monthly........	570	875	618
Annualized.....	6,840	10,500	7,416
3 persons			
Monthly........	685	1,019	767
Annualized.....	8,220	12,228	9,204
4 persons			
Monthly........	800	1,163	917
Annualized.....	9,600	13,956	11,004
5 persons			
Monthly........	915	1,306	1,066
Annualized.....	10,980	15,672	12,792

a / "Poverty Level" plus the "standard deduction." No special expense or earned income disregards.

b / Assumes maximum special expense disregards for shelter and dependent-care. Also assumes income is totally earned, and, thus, a 20% earnings disregard.

c / Equal to 130% of the Federal "poverty levels."

Prior Month Accounting and Monthly Reporting

A fourth recommendation by the Reagan Administration would institute a new method of reviewing household income when determining elegibility and benefits. Although significant features of this revision have not yet been worked out, it appears that the Administration proposes to make what is now a State option into a national requirement. If this is the case, the new system would require that, except on application and where there are sudden income changes, the welfare office would judge the continued eligibility of a household and the amount of its benefits by looking at actual income received in the prior month, rather than estimating income in the upcoming month(s). Coupled with this would be a requirement that most households report their income and other important characteristics monthly, even where there has been no change. This new system of reviewing household income is not expected to produce a noticeable net (after start-up and administrative costs) savings in the first year of operation; small savings are expected in later years.

Under current law, States have the option of choosing this "retrospective income accounting" system (coupled with monthly reporting) for selected categories of recipients, choosing only monthly reporting for selected recipient categories, or remaining with the pre-existing system of "prospective income accounting" and requiring reports only when there have been changes in significant household circumstances. The Food Stamp Act was amended to allow these options in 1980; few States have yet chosen to move significantly away from the pre-existing prospective system with reports only when changes occur.

Under neither the Reagan proposal nor the current law options would all recipients be reviewed through the retrospective accounting/monthly reporting system. Exceptions are allowed, and, it is expected, would be allowed, for households with stable incomes, and others where serious hardship might be involved. If initial accounts of this proposal prove correct, the actual effect of this change would be more of an administrative improvement (more frequent reviews of household circumstances) than a denial of benefits or eligibility. It should be noted that the Reagan Administration is proposing a similar initiative for the Aid to Families with Dependent Children (AFDC) program.

Not Implementing Liberalized Deduction Levels

The 1980 amendments to the Food Stamp Act provided that, beginning in January 1982, two of the expense disregards ("deductions") allowed in calculating income for benefit and eligibility purposes would be liberalized. Under the Reagan and Carter Administration recommendations for budget reductions, these liberalizations would not occur, with FY82 savings of between $50 and $65 million. This would be achieved by having the 1981 reauthorization of the Food Stamp Act not reaffirm the liberalizations.

(1) The medical expense deduction to elderly and disabled recipients would be liberalized under the 1980 amendments by lowering the so-called "threshold." At present, only medical expenses above $35 per month may be disregarded; the liberalization would lower this threshold to $25 per month.

(2) The dependent-care expense deduction would be liberalized by placing a dollar ceiling ($90 per month) on it that is <u>separate</u> from the single $115

ceiling now imposed on both shelter expense deductions and dependent-care expense deductions. As a result, the few food stamp households with both dependent-care expenses and excessively high shelter expenses could deduct up to $205 per month ($115 plus $90), rather than the current $115.

Pro-Rating Benefits for the Month of Application

Under current rules, an applicant household receives full benefits for the month of application, no matter when it applies during the month. The Reagan Administration proposes to change this rule and reduce first-month benefits to households that apply late in the month, for an estimated FY82 savings of $210 million. This can probably be accomplished without legislative action, although it will be proposed as a legislative change also.

Tightening Administration

The Reagan Administration is also proposing savings of some $140 million from various administrative initiatives intended to tighten program operations. At this point, few details are known as to what these initiatives will be, other than a package of three measures announced by the Carter Administration that totaled to $83 million for FY82. The three Carter measures were: (1) strengthening procedures for issuing replacement Authorization-to-Participate documents; (2) tightening procedures for verifying household income and other important characteristics; and (3) restricting student participation during summer months. CBO has not assumed these savings in its estimates.

Puerto Rico Block Grant

Included in the Administration's Mar. 10 announcement is a major proposal that would end the Federal Food Stamp program (and child nutrition programs) in Puerto Rico and, in their place, give Puerto Rico a food assistance block grant set at 75% of the estimated FY81 food stamp and child nutrition expenditures in Puerto Rico. This changeover to a block grant mechanism would remove an estimated $1.1 billion from the Food Stamp program budget in FY82; it would, of course, also remove roughly $130 million from the child nutrition programs' budget. The $1.23 billion gross savings to the food stamp and child nutrition budgets would be offset with what, it appears, will be a $920 million cost for the new block grant. Because of this offset the "net" budget savings are expected to be on the order of $300 million, $275 million of which can be "attributed" to food stamps.

The details of the block grant proposal are not available -- especially specifics as to how much flexibility will be allowed the Puerto Rico government in using the money and whether the amount will be increased over time or remain frozen. Suggestions as to the degree of flexibility that might be allowed have ranged from tying use of the money directly to efforts that aid in obtaining food to allowing the block grant money to be used in assisting the Puerto Rican agricultural sector.

An average of 1.8 million persons are now participating in the Food Stamp program in Puerto Rico, at a benefit cost of over $70 million per month. This represents some 58% of the island's population and approximately 7% to 8% of the total personal income (including food stamps and other Federal transfers) of Puerto Ricans.

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HOW THE FOOD STAMP PROGRAM WORKS

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March 12, 1981

HOW THE FOOD STAMP PROGRAM WORKS

The Food Stamp program is designed to increase the food purchasing power of low-income households to a point where they can buy a nutritionally adequate low-cost diet. The theory behind the program is that a participating household is expected to be able to devote 30 percent of its countable cash income 1/ to food, with food stamp benefits making up the difference between that amount and the sum determined to be sufficient to buy an adequate low-cost diet. The cost of that diet is set by the U.S. Department of Agriculture's "Thrifty Food Plan." Thus, an eligible household with no countable cash income would receive the maximum monthly food stamp allotment for its size, while one with some income would receive a reduced allotment--reduced from the maximum at the rate of 30 cents for each dollar of countable cash income.

The program operates in all 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam. 2/ The Federal Government, under the authority of the Food Stamp Act of 1977, establishes the rules that govern the program and, with certain minimal variations for Alaska, Hawaii, and the territories, they are nationally uniform. States may opt to offer the program or not; but, if a State chooses to offer it, it must offer the program throughout the State. At the Federal level, the program is administered by the U.S.

1/ Not all of a household's income is actually counted when determining eligibility and benefits, in an attempt to count only the amount of household income reasonably available for food purchases.

2/ The Commonwealth of the Northern Mariana Islands is authorized to operate a specially designed program that has not yet been implemented.

Department of Agriculture's Food and Nutrition Service. At the State and local levels, it is administered by welfare departments.

The Federal Government pays the full cost of benefits (about $8.7 billion in fiscal 1980), its own administrative costs (some $128 million in fiscal 1980), and approximately 50 percent of State and local administrative expenses ($381 million in fiscal 1980). States, and localities in some cases, finance roughly 50 percent of their administrative expenses (including issuance costs). 3/

Unlike other welfare programs, the Food Stamp program has few categorical restrictions on eligibility, discussed later under "Other Eligibility Rules." Benefits are available to nearly all households meeting the income and assets eligibility tests, as long as certain household members fulfill the work registration requirements.

Income Eligibility

In applying the income eligibility test, a household's anticipated countable monthly income is measured against the Federal "poverty level;" households with prospective countable incomes below the "poverty level" applicable to their size are judged eligible.

The first step in calculating income eligibility is to determine how much of a household's gross income is to be excluded from consideration. Generally speaking, all non-cash income and income not paid directly to the household is excluded for food stamp purposes: for example, Medicaid benefits and many housing subsidies. In addition, certain types of cash income are not considered, such as reimbursements for out-of-pocket expenses, loans, and benefits that another Federal law requires to be excluded.

3/ In most cases, the State and local share of their administrative expenses is 50 percent. However, in certain instances, their share may be lower, as low as 25 percent with the Federal Government picking up 75 percent (e.g., costs of setting up computerized systems).

The second step is to determine how much of a household's gross cash income is to be disregarded ("deducted" in food stamp jargon). Several types of deductions are allowed. Every household has a "standard deduction" subtracted out. This amount is annually indexed, each January, for inflation and is set at $85 per month for calendar year 1981. Households with earned income have 20 percent of any earnings subtracted out, as a work incentive and an allowance for taxes and work expenses. Households with dependent-care expenses related to employment, training for employment, or education have those expenses deducted. Households with elderly or disabled members may have the out-of-pocket medical expenses of those members subtracted out, to the extent they exceed $35 per month. And, households with very high shelter costs have subtracted out an amount equal to any shelter expenses that exceed 50 percent of the cash income that remains after all other deductions have been applied. For non-elderly, non-disabled households, the sum of the dependent-care and shelter expense deductions may not exceed an annually indexed (each January) ceiling that is set at $115 per month for calendar year 1981. For elderly and disabled households, the $115 ceiling applies only to the dependent care expense deduction; they may claim shelter expense deductions (and medical expense deductions) without limit. Table 1 presents the various deduction levels for the continental United States, Alaska, Hawaii and the territories; of course the 20 percent earned income deduction is the same in all cases and the unlimited nature of medical and shelter expense deductions for the elderly and disabled is not reflected in the table.

TABLE 1: Food Stamp Deduction Levels: January-December 1981

	Continental U.S.	Alaska	Hawaii	Puerto Rico	Virgin Islands	Guam
Monthly Standard Deduction	$ 85	$145	$120	$50	$75	$170
Monthly ceiling on dependent-care/ shelter deductions	115	200	165	40	85	140

In the third step, the household's income, after all deductions have been subtracted out, is compared to the annually indexed (each July) "poverty level" for that household size. If its income, after deductions, falls below the applicable "poverty level," the household is judged income eligible.

The result of this process of using deductions and the "poverty levels" to determine income eligibility is that all households with gross monthly incomes below the "poverty levels" plus the "standard deduction" amount (now $85) are income eligible. However, households with larger incomes are eligible if some of their income is in the form of earnings and/or they have one of the three special deductions.

An example of the calculation of income eligibility for a four-person household is presented below:

Characteristics: Monthly gross income of $900: $500 earned, $400 unearned.
Presence of elderly/disabled members: elderly household member with medical expenses of $65 per month.
Shelter expenses: $450 per month.
Dependent-care expenses: $80 per month a/

a/ Must be related to employment, training for employment, or education.

Calculation:	GROSS INCOME:	$900
	Less "standard deduction:"	-85
	Less 20 percent of earnings:	-100
	Less medical expenses over $35:	-30
	Less dependent-care expenses:	-80
	Less shelter expenses over 50 percent of income remaining after above deductions applied:	-147 b/
	COUNTABLE INCOME:	$458
		HOUSEHOLD ELIGIBLE
	"POVERTY LEVEL:"	$621

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b/ This amount would, when combined with the $80 dependent-care deduction, be limited to $115 per month if there were not an elderly person present in the household. The household would still be eligible, but would have a larger countable income.

Table 2 presents the various gross income eligibility standards that are in effect during 1981. The difference between the limits in effect for January/June versus July/December is the annual July inflation adjustment to the "poverty levels."

TABLE 2. Food Stamp Gross Income Eligibility Standards: 1981

NOTE: These standards are not applied to elderly or disabled households with medical expenses above $35 per month or excessively high shelter expenses. Standards differ for Alaska, Hawaii, Puerto Rico, the Virgin Islands, and Guam.

Household Size:	Poverty Level:		GROSS INCOME a/: Basic Income Standard: Poverty Level plus the Standard Deduction b/		Maximum Income Standard for Those with Special Expenses, but No Earned Income c/		Maximum Income Standard for Those with Totally Earned Income but No Special Expenses d/		Maximum Income Standard for Those with Totally Earned Income plus Special Expenses e/	
	Jan./June	Jul./Dec.	Jan./June	Jul./Dec.	Jan./June	Jul./Dec.	Jan./June	Jul./Dec.	Jan./June	Jul./Dec.
1 person										
Monthly	$ 316	$ 360	$ 401	$ 445	$ 516	$ 560	$ 501	$ 556	$ 645	$ 700
Annualized	3,790	4,310	4,812	5,340	6,192	6,720	6,012	6,672	7,740	8,400
2 persons										
Monthly	418	475	503	560	618	675	628	700	773	844
Annualized	5,010	5,690	6,036	6,720	7,416	8,100	7,536	8,400	9,276	10,128
3 persons										
Monthly	520	590	605	675	720	790	756	844	900	988
Annualized	6,240	7,070	7,260	8,100	8,640	9,480	9,072	10,128	10,800	11,856
4 persons										
Monthly	621	705	706	790	821	905	883	988	1,026	1,131
Annualized	7,450	8,450	8,472	9,480	9,852	10,860	10,596	11,856	12,312	13,572
5 persons										
Monthly	723	820	808	905	923	1,020	1,010	1,131	1,154	1,275
Annualized	8,670	9,830	9,696	10,860	11,076	12,240	12,120	13,572	13,848	15,300
6 persons										
Monthly	825	935	910	1,020	1,025	1,135	1,138	1,275	1,281	1,419
Annualized	9,900	11,210	10,920	12,240	12,300	13,620	13,656	15,300	15,372	17,028
Each Additional Person Add:										
Monthly	102	115	102	115	102	115	128	144	128	144
Annualized	1,224	1,380	1,224	1,380	1,224	1,380	1,536	1,728	1,536	1,728

Footnotes for Table 2:

a/ In reality, the gross income eligibility standards used to judge food stamp eligibility fall in the range represented by these four columns since most households have a mixture of the factors that vary the gross income standards--the presence or absence of earnings and special expenses that can be disregarded. These standards do not apply to elderly or disabled households because they may have certain expenses disregarded without limit.

b/ This basic income eligibility standard is applied to households with no earned income and no special expenses (i.e., dependent-care expenses, medical expenses, or excessively high shelter expenses). Households with earned income and special expenses have higher standards applied to them because a portion of earned income or the special expense is disregarded ("deducted" in food stamp jargon). The basic income standard is calculated by adding the current $85 per month standard deduction to the poverty level for the household size.

c/ This income eligibility standard is applied to households with no earned income. However, if they have excessively high shelter costs or dependent-care costs, their gross incomes may go as high as this maximum. It is calculated by adding the maximum shelter-cost/dependent-care deduction (presently $115 per month) to the basic income eligibility standard.

d/ This income eligibility standard is applied to households where all income is earned, but where the household has no special expenses. It is calculated by using the basic income eligibility standard and disregarding 20 percent of income (i.e., the "earned income deduction").

e/ This income eligibility standard is applied to households where all income is earned and where the household has special expenses (i.e., dependent-care expenses or excessively high shelter expenses). It is calculated by using the maximum deduction for those with special expenses and disregarding 20 percent of income (i.e., the "earned income deduction").

Other Eligibility Rules

In addition to the monthly income eligibility test, the Food Stamp program requires that all households pass an assets test and that certain work registration requirements be fulfilled. In some cases, "categorical" disqualifications prohibit eligibility even if all the normal eligibility tests are passed.

The assets eligibility rules limit an eligible household's countable liquid assets to $1,500, or $3,000 if the household has two or more members and at least one is elderly. All liquid assets are counted (cash, bank accounts, etc.), but the value of a household's home, household belongings and furnishings, income-producing property, and certain non-liquid or employment-related assets are excluded from consideration. The value of household vehicles is counted toward the dollar limit under a special rule that counts as an asset the higher of (1) the amount by which the vehicle's fair market value exceeds $4,500, or (2) the equity value of the vehicle (except for the household's primary vehicle and employment-related vehicles).

The work registration rules require that certain household members must register for employment through the local State employment office, seek employment, and accept any suitable job offer in order for the household to retain eligibility. 4/ All able-bodied adult household members (between ages 18 and 60) must fulfill the work registration requirements—except for (1) members already working 30 hours per week or making the minimum-wage equivalent, (2) members subject to and complying with the work requirements of the AFDC Work Incentive (WIN) program, (3) members responsible for the care of children under age 12 or incapacitated persons, (4) caretakers of children of any age

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4/ In certain pilot project areas, work registrants must also work to retain food stamp eligibility for the household. The number of hours to be worked is the minimum wage equivalent of their food stamp allotment.

where another household member is subject to the work requirements, (5) students in post-high school education if they are working more than 20 hours per week, 5/ and (5) regular participants in drug addiction or alcoholic treatment programs.

Certain types of households are categorically denied food stamp benefits. Students in post-high school education are ineligible unless they (1) have one or more dependents, (2) are enrolled in a work-study program, or (3) are working at least 20 hours per week. Households containing strikers are, in effect, made ineligible if they are participating in a strike that has been enjoined under the Taft-Hartley Act or similar railway labor legislation. Normally, a work registrant is not required to take a job offer at a struck site or plant; but, in the case of an enjoined strike, the job offer must be accepted to retain food stamp eligibility. Aliens are ineligible unless they have been admitted or are present under certain specified provisions of the Immigration and Nationality Act. 6/ Households where the head of household has voluntarily quit a job without good cause are ineligible to apply for 60 days after the voluntary quit; this restriction does not apply to households already on the program. SSI recipients in California, Massachusetts, and Wisconsin are ineligible for food stamps because their cash SSI assistance has been increased in lieu of food stamp benefits. 7/ With certain exceptions, persons living in institutional settings are ineligible. The exceptions include: persons in special housing for the elderly and disabled; persons in small group homes for

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5/ Students not working at least 20 hours per week are ineligible unless they have dependents, under a separate rule.

6/ A household containing an ineligible alien may be eligible; however, a share of the ineligible alien's income and resources is attributed to the remainder of the household.

7/ In certain pilot project areas, SSI recipients and elderly persons receive the cash equivalent of their normal food stamp allotment.

the disabled; persons living in drug addiction or alcoholic treatment programs; and temporary residents of shelters for battered women and children. Indians on reservations are eligible for food stamp aid under normal rules, if the reservation chooses to operate a program and so long as they do not also receive surplus commodity assistance.

Benefits

Food stamp benefits are issued monthly. The local welfare agency must either deny eligibility or make food stamps available within 30 days of application and must provide food stamps without interruption if the household reapplies in a timely manner. 8/ Benefits are issued in three ways. The welfare office may issue the eligible household an Authorization to Participate (ATP) card which it then takes to a bank, post office, or other issuing point to pick up its food stamp allotment. The household may be asked to come into the welfare office to pick up its food stamp allotment. Or, the welfare agency may mail the household its monthly allotment.

The amount of a household's monthly food stamp allotment equals the difference between 30 percent of its countable monthly income (gross cash income less "deductions") and the maximum food stamp allotment for that household size. In effect, the participating household is expected to spend 30 percent of its countable income for food, and the food stamp program makes up the difference between that and the amount needed for a low-cost adequate diet. The amount needed to purchase a low-cost adequate diet is set by the U.S. Department of Agriculture's "Thrifty Food Plan," as translated into maximum monthly food stamp allotments for various household sizes. 9/ Households with no countable

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8/ Destitute households with no countable income are required to be treated on an expedited bsis.

9/ Maximum monthly food stamp allotments are adjusted for changes in food prices annually, each January.

income receive maximum monthly allotments; minimum allotments range from a legislatively established $10 per month for small households, to over $80 for large households.

The use of this 30 percent "benefit reduction rate" in the Food Stamp program means that, as an eligible household gains or loses countable income, its food stamp benefits change at the rate of 30 cents for each dollar of countable income. For example, if the household gains $10 a month in unearned income such as Social Security or welfare benefits and if its expenditures do not change so as qualify some of that increase for deduction from countable income, its food stamp benefits will drop by $3 a month. Alternatively, if the gain is $10 in earnings, its food stamp benefit will go down by only $2 because 20 percent of the $10 increase in gross cash income is disregarded.

An example of the calculation of benefits is presented below. It deals with the same four-person household whose income eligibility was discussed earlier.

Characteristics:	A four-person household living in one of the 48 a contiguous States or the District of Columbia. a/ Gross monthly income of $900 "Deductions" totalling $442 per month.	
Calculation:	GROSS INCOME:	$900
	Less "deductions:"	-442 (see page 5)
	COUNTABLE INCOME:	$458 (see page 5)
	30 percent of COUNTABLE INCOME (expected household contribution to its food needs):	$137
	Maximum monthly allotment for a 4-person household, as established by the "Thrifty Food Plan:"	$233 b/

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a/ Benefit levels vary for Alaska, Hawaii, and the territories.

b/ January-December 1981.

FOOD STAMP ALLOTMENT (benefit), equals the difference between the maximum allotment and 30 percent of countable income ($233 less $137): $96

Table 3 sets out the maximum monthly allotments by household size and area of residence.

TABLE 3: Maximum Food Stamp Allotments: January-December 1981.

Household Size:	48 States & D.C.	Alaska	Hawaii	Puerto Rico	Virgin Islands	Guam
1 person	$ 70	$108	$ 95	$ 66	$ 88	$101
2 persons	128	197	175	122	161	185
3 persons	183	283	250	174	230	256
4 persons	233	359	318	221	292	337
5 persons	277	426	378	262	347	400
6 persons	332	512	453	315	416	480
7 persons	367	565	501	348	460	531
8 persons	419	646	572	398	526	607
Each additional person	53	81	72	50	66	76

Using Food Stamps

Typically, participating households use their allotment in grocery stores that have been approved to accept food stamps. To be approved, a store must demonstrate that 50 percent of its food sales are staple foods. In addition, wholesalers may be be approved to accept food stamps from retailers in certain instances, and meal service programs of various types may be approved to accept food stamps. Once they have accepted food stamps, retailers, wholesalers, and approved meal service programs deposit them in banks, where they convert immediately to cash and are eventually redeemed, through the Federal Reserve System, by the U.S. Treasury.

Food stamps may be used to purchase the following items:

a) food for home preparation and human consumption, not including alcohol, tobacco, or hot foods intended for immediate consumption;

b) seeds and plants for use in gardens to produce food for personal consumption by the eligible household;

c) meals prepared and served through communal dining programs for for the elderly and disabled, including meals in senior citizens' centers, meals served in restaurants at concessional prices under an agreement with the appropriate State agency, and meals served through similar programs directed at the elderly and disabled;

d) meals prepared and served in drug addition and alcoholic treatment programs, small group homes for the disabled, and shelters for battered women and children; and

e) equipment for procuring food by hunting and fishing (excepting firearms, ammunition, explosives, and equipment for transportation, clothing, or shelter) where the household lives in certain remote areas of Alaska.

Food stamps are issued in booklets containing several denominations, the lowest of which is $1. When change is necessary, all change of $1 or more must be in food stamps; change of 99 cents or less is in cash.

United States Department of Agriculture

Food and Nutrition Service

Washington, D.C. 20250

APR 9 1981

Honorable John Heinz
Chairman, Special Committee on Aging
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter is in response to your letter of March 9, 1981, in which you requested information about food stamp participation among the elderly. As you are aware, the term "elderly" in regard to the Food Stamp Program, refers to individuals who are aged 60 years and above.

The following percentage information is derived from a draft of The Characteristics of Food Stamp Households, November 1979, which is currently being compiled. These percentages have then been applied to February 1981 reported program data to provide our best estimates of current participation of the elderly.

The unit of analysis for food stamp eligibility and determination and for these statistics is the household rather than the individual. It should be noted that the categories presented below are not mutually exclusive.

	Number	Percent of Food Stamp Participants	Average Monthly Bonus	Percent of Food Stamp Benefits
Elderly individuals	2,411,466 individuals	10.6 percent of all food stamp participants	NA[1/]	NA[1/]
Households containing an elderly individual	1,999,532 households	24.2 percent of food stamp households	$50.01	10.9%
Households headed by an elderly individual	1,925,169 households	23.3 percent of food stamp households	$47.57	9.8%

[1/]Because many elderly are members of households containing non-elderly individuals, and because benefits are provided on a household basis, the average bonus for individuals would not be meaningful.

If I can be of further assistance, please contact me.

Sincerely,

Christine Schmidt

Christine Schmidt, Chief
Recipient Impacts and Administrative Policy
Office of Policy, Planning and Evaluation

MEMORANDUM

TO: Members of the Special Committee on Aging

FROM: Committee Staff

RE: Energy and Emergency Assistance Block Grant

DATE: March 18, 1981

The present energy assistance program for low income households was authorized by the Home Energy Assistance Act of 1980. Under the provisions of the legislation, the Secretary of Health and Human Services provides grants to the States for the purpose of making financial assistance available to low-income households with home energy costs that are excessive in relation to household income. Eligibility for benefits is limited to households where one or more individuals qualify for Aid to Families with Dependent Children, Supplemental Security Income, food stamps, income-related veterans' programs, or households with income levels at or below the BLS lower living standard set by the Department of Labor qualify for assistance. Single person households may have the higher of the BLS lower living standard or 125% of the Community Services Administration's Poverty Guidelines. The law specifically requires that priority be given to households with a member who is aged or handicapped.

Beginning in fiscal year 1982 the Reagan Administration proposes consolidation of the expiring home energy assistance authority with the emergency assistance program under Title IV of the Social Security Act (AFDC). Under the Energy and Emergency Assistance Block Grant program, the States would have complete flexibility to develop and administer programs of fuel assistance and other crisis or emergency needs activities for their low-income households. The total budget request of $1.4 billion is $500 million below the combined fiscal year 1981 current services level of $1.85 billion for low income energy assistance and the estimated $55 million for Title IV emergency assistance.

The Carter budget included a legislative proposal reauthorizing the low-income energy assistance program for fiscal year 1982 and subsequent years at the fiscal year 1981 level of $1.85 billion. Of the total fiscal year 1981 funding $87.5 million was to be transferred to the Community Services Administration to operate the energy crisis assistance program to aid low-income families with energy-related emergencies. The estimated $55 million in the Title IV emergency assistance program also was included in the budget.

The Windfall Profits Tax Act authorizes $3.1 billion for the program in FY-81. The Administration requested $2.2 billion in its FY-81 budget. The First Concurrent Budget Resolution contained $1.6 billion, an amount equal to the FY-80 appropriation.

The House Appropriations Act passed by the House on August 27, 1980 contained an appropriation of $1.8 billion of which $1,766,000,000 is to be administered by HHS for grants to states or territories, $20,000,000 to be administered by CSA for energy assistants to migrants and native Americans and $4,000,000 for HHS/SSA administrative costs. The House bill also placed a $500 per household limit on the amount of assistance.

The Senate, when it considered the Continuing Resolution for certain appropriations through December 15, 1981, included $2.03 billion for the program including $100 million for the Emergency Crisis Assistance Program to be administered by CSA for low income persons not limited to migrant workers and Indians. It also included language to allow the eligibility level for single person households to be either 100% of the BLS lower living standard or 125% of the CSA poverty guideline.

When the House and Senate reached a compromise on the Resolution the program was funded at $1.85 billion with $87 million for the crisis assistance program.

It must be noted, that the $1.6 billion appropriation for FY-80 was the largest ever for fuel payment assistance. This expanded effort was precipitated by the rapidly escalating price of energy, especially heating oil, (attributed to decontrol and inflation) and was passed as an interim program to meet that crisis. Prior to 1979/80 the only Federally funded energy assistance was the program administered by the Community Services Administration, named ECAP, SCIP and CIP in various years. This program began in FY-77 and had $200 million per year through FY-79.

Despite this increase in funding for the fuel assistance program service providers are expressing concern that this amount will be inadequate due to the expanded number of eligible households and the possibility of a much harsher winter in 1980-81.

CSA reported that 45% of the households served by ECAP in 1979-80 had an elderly member; this was about 1 million households.

Out of the 4 million SSI recipients who received direct payments from HHS, approximately one half or 2 million were elderly. HHS does not yet have a report on the number or percentage of elderly recipients of the state administered portion of the energy assistance program

MEMORANDUM

TO: Members of the Special Committee on Aging

FROM: Committee Staff

RE: Other Income Maintenance Budget Requests Affecting the Elderly

DATE: March 18, 1981

-- The budget assumes actual cost-of-living increases for military retirement, social security, supplemental security income, railroad retirement, and Federal employee retirement program beneficiaries.

-- The Reagan Administration proposes legislation (similar to that proposed by the Carter Administration) to replace biannual cost-of-living adjustments with a single annual adjustment for civil service and other Federal retirees. This proposal is estimated to reduce fiscal year 1982 outlays by $0.5 billion. The savings in retired pay for military pay is estimated to be $0.4 billion in fiscal year 1982. The Carter budget assumed slightly higher savings for these items.

-- The Railroad Retirement Board administers benefits that are generally equivalent to social security benefits, as well as industry pensions, for retired and disabled railroad employees, their dependents and survivors. The industry pensions include an array of retirement, survivor and disability benefits in addition to those provided as generally equivalent to social security. The Board's actuarial projections indicate that the industry pension fund is seriously underfunded. The Congress directed the rail sector to negotiate and report, by March 1, 1981, a solution to fund soundly the rail industry pension system. On assurance from labor and management that they would recommend sound financing for their industry pension, the Congress enacted an ad hoc increase to take effect in June 1981. Since the parties neither agreed to nor recommended a solution to the pension system's imminent insolvency, the Administration proposes to defer the ad hoc increase until after current benefit payments are soundly funded. The Administration will support the Rail Pension Assurance Amendments, originally proposed in the 96th Congress, as a way of solving the rail industry pension system's long-term actuarial deficit on an evenhanded basis without added Federal subsidies.

-- The Administration supports the tightening of criteria for granting Federal employees disability and early retirement.

Appendix 2

MATERIAL RELATED TO HEARING

ITEM 1. STATEMENT OF THE NATIONAL RETIRED TEACHERS ASSOCIATION/AMERICAN ASSOCIATION OF RETIRED PERSONS

INTRODUCTION

The elderly's income security would be seriously threatened by the continuation of the economic developments of the late 1970's, particularly high inflation and low (or no) productivity growth, which have already eroded past income gains. As alarming confirmation of this possibility was the jump in the poverty rate for the elderly in 1979, for only the second year in the last decade. DRI has forecast a decline in the elderly's income share in the 1980's even without legislated cuts in benefits, largely as a result of inflation. Cuts in social security benefits, food stamps, and low-income energy assistance would worsen the position. Inflation is increasing the elderly's dependence on public income support programs as inflation erodes the value of pension and property income, a decline which has been exacerbated by the regulation Q limits on interest rates. Furthermore, the public income support programs do not fully compensate for inflation losses, and the price index used—the CPI—tends to understate inflation's impact on the elderly's incomes. Proposals to adjust benefits by earnings changes look like attempts to further shortchange the elderly.

The financial basis of the social security system, the cornerstone of the elderly's income security, needs to be assured. That can best be done by instituting mechanisms which will draw on general revenue to protect the system agaist unforeseen economic developments, and in the long run, by separating the earnings replacement from the adequacy functions of social security. Cuts in benefits, particularly for existing beneficiaries, are an inadmissible solution, as also are mandatory universal coverage and increasing the age for full benefits. Carrots should be used instead of sticks to encourage increased elderly labor force participation.

The current frenzy to cut budget expenditures will not solve the problem of inflation. A many-sided approach, including some form of incomes policy, is needed.

THE ELDERLY'S INCOME SECURITY: SERIOUSLY THREATENED IF PRESENT ECONOMIC TRENDS CONTINUE

Throughout the 1970's, the Nation has experienced historically high inflation rates, periodic recessions with their accompanying high rates of unemployment, and low (and recently negative) rates of growth in productivity, real wages, and real gross national product (GNP). These economic trends are jeopardizing the degree of income security—inadequate though that may be—achieved by the elderly over the last 15 years.

Inflation has been rapidly dissipating the purchasing power of all significant components of the elderly's income, especially those, like private pensions, for which little or no automatic compensation for inflation losses is available. Moreover, inflation, in conjunction with the other economic trends, is undermining the financial soundness of the public income support programs that serve the elderly. These economic adversities are rapidly driving up the costs of these programs while restricting the growth of resources necessary to fund them. Not only has it become virtually impossible to legislate expansions of Government programs to provide needed benefits and services, but the Nation's ability to deliver what has already been promised is being impaired.

INCOME GAINS MADE IN THE PAST ARE BEING ERODED

Rapid growth and expansion of Government income-support programs during the late 1960's and early 1970's caused the elderly's average income to rise over the past decade in real terms and in relative terms (relative to the income of the younger population). This trend was confirmed by the 1980 study entitled "Inflation and the

Elderly," which was prepared for NRTA-AARP by Data Resources, Inc. (DRI). A copy of this study is made available for the committee's hearing record.

According to the DRI study, average elderly income (in aggregate terms) managed to keep pace with, and slightly exceed, the inflation rate from the late 1960's into the late 1970's. Taking into account the incomes of elderly persons newly retiring during this period, as well as elderly persons already retired, aggregate elderly incomes rose at an average annual rate of 7.7 percent versus an annual CPI rate of 6.1 percent of the period 1967 through 1976. As a result, the average incomes of those over age 65 increased from about 48 percent of the average incomes of the nonelderly in 1965, to about 55 percent by the end of the 1970's—just about where the elderly's average incomes had been in the mid-1950's.

A recent study, authored by Bridges & Packard of the Social Security Administration (published in the January 1981 "Social Security Bulletin") refines this analysis by examining what has happened to the average incomes of one cohort or class of families headed by elderly persons over the 1970-77 period. It was found that despite the large social security benefit increases that were provided in the early 1970's, average real incomes of this cohort of families fell by 4 percent. This occurred for two reasons: First, the earnings component of their income dropped significantly as their advancing age decreased their labor force participation; and second, their private sources of income (namely, private pensions, savings, and assets) declined in value since these private sources have little or no inflation protection.

The incidence of poverty among the aged steadily declined from the late 1960's, when one-quarter of them lived in poverty, through to 1978 when the rate had declined to 13.9 percent. Despite this substantial progress in reducing poverty, there is mounting evidence that inflation has begun (and will continue) to wipe away that progress. After this decline in aged poverty rates, the rate increased substantially from 13.9 percent in 1978 to 15.1 percent in 1979, representing the largest increase since the Census Bureau began collecting statistics. Again we believe the fixed nature of many of the elderly's income components contributed to this poverty increase.

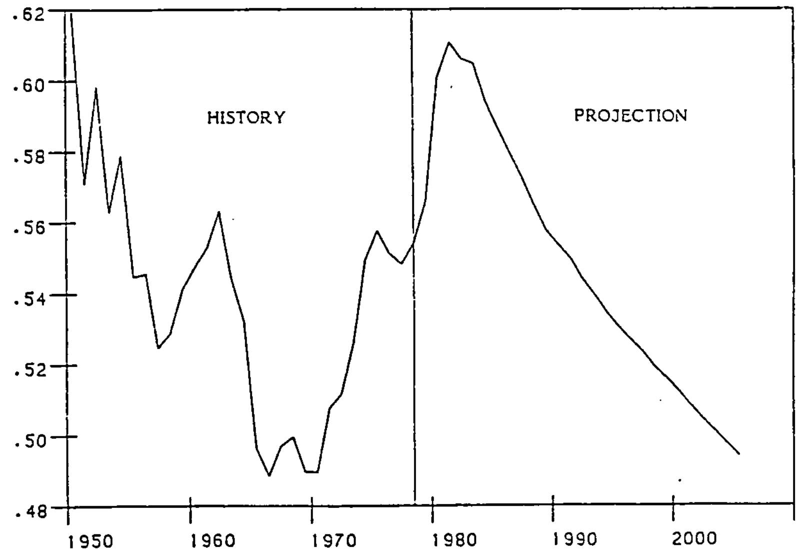
The 1979 poverty data also revealed the degree to which the elderly, relative to other population groups, are vulnerable to the effects of inflation. While the aged's poverty rate escalated, the rate for persons under age 65 remained static at 11.1 percent. Additionally, elderly near-poverty rates (defined as the percentage of households having incomes within 125 percent of the poverty threshold) rose and are disproportionately high; in 1979, 24.7 percent of the elderly were concentrated in this income category, compared with 15.2 percent of the under-65 population.

Despite the limited progress that the elderly achieved in terms of income during the last half of the 1960's and during the 1970's, other statistics demonstrate how economically disadvantaged the elderly continue to be relative to the rest of the population. In 1979, while only 9 percent of nonelderly headed households had annual incomes below $5,000, and only 21 percent of them had incomes under $10,000, 31 percent of elderly headed households found themselves in the former category, while 62 percent were included in the latter. Even adding the cash value of the in-kind benefits the elderly receive to their income levels cannot change the fact that the elderly, as a group, generally subsist on low and, in many cases, extremely inadequate incomes.

FUTURE PROSPECTS POOR

As for the future, the income situation for the elderly appears bleak. In the study previously cited, Data Resources, Inc. (DRI) forecast that even if current Government programs remain in place with no legislated cutbacks, the elderly's share of income relative to that of the nonelderly will decline sharply beginning in 1981. This decline is illustrated by the following graph. While the reasons for this decline are complex, the major factor remains the continuing high rate of inflation.

AVERAGE INCOME OF THOSE OVER AGE 65
RELATIVE TO THOSE UNDER 65



Source: "The Aged & the Future Economy: An Interactive Analysis", Data Resources, Inc., November 1980, page 19.

Although, in the past, much progress was made in reducing poverty and improving the income status of the aged, these recent statistics and forecasts indicate that the elderly are most vulnerable to inflation, that they are sustaining disproportionately larger losses as a result of it, and that a rapid erosion of progress made in the past has already begun. In short, continued high-rate inflation could reduce the elderly to an economic situation worse than that which prevailed a decade ago when nearly one-fourth of them were poor.

INFLATION AND THE ELDERLY'S INCOME COMPONENTS

Inflation is significantly altering the balance and relative importance of the various components of the elderly's income. Public programs are bearing an increasing portion of the income support responsibility as inflation constricts the "real" income received from private sources (such as private pension payments, income from savings, etc.) since those sources provide little or no compensation for inflation losses.

Private pensions, for example, are generally not indexed. A Bankers Trust study of private pension plans cited an average benefit increase of 16 percent in the period 1969–79, compared to a CPI increase of 47 percent. A 1970 retiree with a nonindexed private pension is now receiving a real income from that source of less than one-half the 1970 value.

With respect to savings, not only has the rate of interest income not kept pace with the rate of inflation (largely because interest rates on passbook savings accounts have been limited to 5 to 6 percent by regulation Q), but the real value of savings accounts has also been eroding rapidly. According to DRI's calculations, $1,000 invested in a savings account in 1967 would have been reduced to $667 in 1978 if the saver decided to divide the interest between current income and reinvestment. These losses are common to most of the aged and are disproportionately borne by the low-to-middle income elderly (as this is often their only form of financial savings). It is estimated by Professor Kane of Ohio State University that regulation Q has cost older consumers almost $20 billion over the past 10 years.

Those elderly who invested in stocks and bonds to produce retirement income have sustained not only real capital losses over the past decade but also low rates of return on investment. Because stock prices (as measured by Standard & Poors) have not risen over the past 10 years, inflation has cut the real value of the equity in most stocks in half. Dividends, which are taxable, have averaged 4 percent over the 10-year period, compared to an average 6 to 7 percent rise in the CPI.

A typical pattern for many elderly households is to save for retirement, and at retirement, convert their savings to "secure" forms (such as money in the bank, or corporate bonds), sell their homes to clear themselves of any mortgage debt and to gain additional liquid resources, and then rent. A retiree of 10 years ago, following this pattern, would have been impacted quite severely by the recent inflation, since the real value of their retirement savings would have likely been cut in half.

INCOME SUPPORT BURDEN IS BEING SHIFTED TO PUBLIC PROGRAMS

As the elderly's participation in the labor force declines and as the real income derived from their private sources of income falls, the responsibility for an increasing portion of their income support is being shifted to the public programs like social security and supplemental security income which provide some measure of inflation protection. Table I demonstrates this trend.

TABLE I.—INCOME SHARES BY SOURCE

[Figures in percent]

	1967	1977
Age 55 to 61:		
Wages and salaries	76.6	70.9
Social security	1.6	3.1
Asset income	5.2	7.6
All other	16.6	18.4
Age 62 to 64:		
Wages and salaries	67.3	50.0
Social security	7.6	15.3
Asset income	7.9	11.3
All other	17.2	23.4
Age 65 to 71:		
Wages and salaries	34.3	20.9
Social security	27.6	38.0
Asset income	14.2	17.0
All other	23.9	24.9
Age 72 and over:		
Wages and salaries	10.9	5.7
Social security	43.0	48.3
Asset income	19.5	22.9
All other	26.6	23.1

Source: "Inflation and the Elderly, part II," report prepared by Data Resources, Inc., for NRTA-AARP, January 1980.

In 1976, it was estimated by the Social Security Administration that two-thirds of the elderly depended on social security for at least one-half of their income and for 28 percent of the aged, social security amounted to 90 percent or more of their total income. In 1976, 11 percent of persons age 65 and over reported public assistance as an income source; 32 percent said such assistance represented one-half of their total income and 22 percent said it represented 90 percent or more of their income.

Despite the elderly's high and increasing degree of dependence on Government support programs which are indexed, these public programs do not fully compensate recipients for the inflation losses incurred with respect to program benefits. Although social security benefits, and those of other public programs such as SSI, are indexed to the Consumer Price Index (CPI), they are not fully protected against inflation for two reasons: First, benefit adjustments occur long after the inflation has had its effect on the purchasing power of the benefits; and second, the standard used in making the adjustments, the CPI itself, we believe may understate the true impact that inflation is having on the budgets of the elderly.

With respect to the first point regarding the long lagtime in making benefit adjustments, a January 1981 OMB study (entitled "Report on Indexing Federal Programs") indicates that since 1975 (when automatic indexing of social security and SSI payments began), beneficiaries of these programs have experienced a 3.4-percent decline in real benefit levels due solely to the lengthy lagtime in adjusting benefits and the rapidly accelerating inflation rate. In social security and SSI, the cost-of-living adjustment received each July reflects the increase in the CPI from its average level in the first quarter of the previous year to the average level in the first quarter of the current year. Increases lag 3 months behind the measuring period and anywhere from 3 to 18 months behind the time when rising prices actually diminish benefit purchasing power. As inflation rises, particularly at high levels, the erosion in real benefits is compounded.

Although many witnesses who have appeared before the Budget Committees have argued that the current CPI tends to overstate the inflation rate for the general public because of its faulty housing component and sensitivity to high interest rates, most detailed studies of this issue show that this is not the case of the elderly. A study prepared for us by Data Resources, Inc. (DRI) on the elderly's expenditure patterns indicates that the general CPI tends to understate inflation's impact on elderly budgets. This occurs because the elderly, as compared to younger consumers, spend more of their income in three categories of expenditures—food at home, fuel and utilities, and out-of-pocket medical expenses—items whose prices have recently risen at a faster pace than the general CPI.

Statistics from the DRI study indicate that, since 1970, the cost of living for the elderly has risen faster than the cost of living for younger consumers. Between 1970 and 1979, the Bureau of Labor Statistics all-urban CPI rose an average 7.2 percent rate compared to 8.3 percent for food at home, 9.4 percent for fuel and utilities, and 7.9 percent for medical care. These costs have risen at a composite rate of 8.4 percent per year versus a CPI increase since 1970 of 7.2 percent per year. The DRI study further indicates that the adverse effects of this high inflation rate among the core necessities are greater for the poorest and the oldest of the elderly who, because of their lower incomes, have less flexibility in altering their spending patterns in response to higher prices.

Since higher inflation in the core necessities is expected to continue in the 1980's, the CPI's understatement of inflation's impact on elderly budgets will continue as well. For 1979 through 1985, DRI has forecast an 8.7-percent rise in food at home, 9.9 percent for fuel, and 10.1 percent for health care, compared to an 8.7 percent rise in the overall CPI.

The Bridges & Packard study (previously cited) found that, over the 1967-79 period, an index, specially constructed for older consumers (CPI-O) to reflect more accurately their expenditure patterns, grew slightly faster than the economywide or general CPI-W. Their findings are consistent with the findings of other recent studies on this subject. The following table reflects their research.

TABLE II.—CONSTRUCTED CONSUMER PRICE INDEXES: ANNUAL INDEXES AND PERCENTAGE CHANGES, 1967-79

[1967=100.0]

Year	CPI-O		$CPI-W_c$	
	Index	Percentage change	Index	Percentage change
1967	100.0		100.0	
1968	104.2	4.2	104.2	4.2
1969	109.9	5.5	109.9	5.5
1970	116.5	6.0	116.2	5.7
1971	121.7	4.5	121.2	4.3
1972	125.7	3.3	125.1	3.2
1973	133.1	5.9	132.3	5.8
1974	147.9	11.1	147.0	11.1
1975	162.0	9.5	160.7	9.3
1976	172.0	6.2	170.6	6.2
1977	183.5	6.7	181.7	6.5
1978	197.6	7.7	195.2	7.4
1979	219.9	11.3	217.7	11.5

Source: Bridges, Benjamin, and Packard, Michael D., "Price and Income Changes for the Elderly," Social Security Bulletin, January 1981, page 4.

Bridges & Packard, however, acknowledged the inherent weakness of their specially constructed CPI–O. In constructing this index, the authors merely reweighted the seven major expenditure categories of the general CPI to reflect the elderly's different expenditure patterns in these seven aggregate categories. In order to produce a more accurate and valid older persons index, these seven expenditure categories must be pulled apart—or disaggregated—into more expenditure classes and then reweighted to resemble the elderly's spending patterns. At the present time, an economist, Dr. Thomas C. Borzilleri, is conducting this type of research for our associations. We would be pleased to share with the task force the results of his research when they are available in the near future.

COMMENTS ON PROPOSALS THAT WOULD ALTER CURRENT INDEXING

Our associations urge Congress to reject proposals that would alter the construction of the CPI solely for the purpose of moderating the rate of increase it registers. The public would quickly perceive this as either an underhanded attempt to curtail the growth of indexed entitlement programs or an attempt to lower fictitiously the inflation rate.

Use of the CPI X-1; recently developed by BLS, has been endorsed by some economists because it would remove the current CPI's flaw related to the treatment of homeownership. We agree that the current CPI tends to overstate increases in housing costs. From the point of view of the elderly, however, for every overstatement in the general CPI, there is probably at least one understatement in another expenditure category.

The current CPI must be more closely examined than it has been to date. If Congress wishes to change the CPI used to index the entitlement programs benefiting the elderly, then it ought to develop an index which will accurately reflect their expenditure patterns.

Another prominent proposal to alter indexing would limit cost-of-living increases (especially those provided by the social security program) to either the average rise in wages or the average rise in prices, whichever is lower. This "wage cap" would result in a severe downward ratcheting of real benefit levels, particularly if imposed over a number of years. For instance, the CBO has estimated that this proposal would reduce social security benefits alone by $26 billion over the 1981–86 period.

Some proponents of the wage cap proposal seem to be advocating it on the grounds of equity—in other words, it is inequitable to allow the incomes of retirees to rise more rapidly than the incomes or wages of workers who must support Government programs through taxes.

Unless Congress is willing to adjust benefits according to the rise in wages on a permanent basis even when wages begin to outpace prices in the future, then the wage indexing cannot be sold on the grounds of equity. Beneficiaries will feel—and rightfully so—that they will always be getting the "short end of the stick." The overall rationale for cost-of-living adjustment mechanisms must be consistent. These mechanisms are not for the purpose of passing along to current retirees increases or decreases in the standards of living of current workers, but rather for the purpose of maintaining benefit purchasing power.

In several years over the past decade, prices have increased at a faster pace than wages. This trend, however, is projected by most economists to reverse itself within the next 2 years. Workers can have reasonable expectations over their future working lives of making up any real income loss they are currently suffering as a result of low growth, the recession, and high inflation. Retirees, because they are not wage earners and have many fixed components to their income, have no expectations for recouping the inflation losses they have already incurred, and will continue to incur, as long as inflation is with us.

The elderly's real income situation and their standards of living are declining. Poverty rates among them are rapidly escalating. All this deterioration is occurring despite the provision of relatively "full" cost-of-living increases by the major income support programs. If these increases are curtailed in any manner (especially in a relatively permanent manner through use of a wage cap or CPI X-1, which would curb benefit growth into the future), then the Nation's elderly could easily be reduced to the economic level that prevailed a decade ago, when one out of every four of them were below the poverty level.

The elimination of the semiannual COLA for Federal Government retirees is also a step in the wrong direction that will further worsen the income position of many elderly. The associations believe that, far from reducing inflation protection for any group of the elderly, it should be increased for all the elderly, by moving to semiannual COLA's in social security.

SOCIAL SECURITY: CORNERSTONE OF THE ELDERLY'S INCOME

A 1977 Congressional Budget Office (CBO) study isolated the impact of various Government programs on the incidence of elderly poverty. The study showed that, were it not for income from social insurance programs, 59.9 percent of all families headed by an elderly person would have fallen below the subsistence-based poverty line in fiscal 1976. Social insurance programs, primarily social security and including Federal pensions, substantially reduced that elderly poverty rate from 59.9 to 21 percent. Cash assistance programs, such as supplemental security income (SSI) and veterans' pensions, reduced the rate even further to 14.1 percent. Of significance is the finding that social insurance programs, dominated by social security, were responsible for lifting an overwhelming 70 percent of the elderly out of poverty.

The social security system obviously represents the cornerstone of the elderly's income. Given its significance, improvements in social security's benefit and financing structures must be considered in order to insure its short- and long-term financial viability as well as insure that it will be able to continue to serve the present generation of older Americans and accommodate what will be the different needs of the future elderly population.

SHORT-TERM SOCIAL SECURITY ISSUES

SHORT-TERM SOCIAL SECURITY FINANCING DIFFICULTIES

Social security is faced with a serious short-term deficit. Congress has little choice but to develop a remedy for this deficit in 1981, since exhaustion of the old-age and survivors' insurance (OASI) fund's contingency reserve is otherwise expected to occur in 1982. In the aggregate, the social security cash benefit programs could be facing as high as a $70- to $100-billion shortfall over the next 5-year period.

This short-term deficit situation has been caused by adverse economic conditions. Higher than expected inflation rates have increased social security expenditures (by driving up benefit costs) while, at the same time, the combination of higher than expected unemployment rates and lower than expected real wage and real GNP growth rates have curbed revenue to the system.

Since these adverse economic conditions are not likely to subside significantly over the next few years and similar future events cannot be accurately forecast, the associations recommend that general revenues be channeled into the system in a manner that specifically isolates and addresses the economic causes of the problem. Specifically, to augment the payroll tax mechanism, two general devices should be established—one to compensate the system for a portion of the increased costs it must bear to finance automatic cost-of-living adjustments, and the other to replace some of the revenue lost by the system as a result of high unemployment rates and lower than expected productivity growth.

Proposals to reduce or tax social security benefits to deal with the short-term financing problem should be rejected. Given the elderly's increasing poverty rates, their disadvantaged income situation and the magnitude of the inflation losses they are already sustaining, they represent one segment of society that should not be subject to legislated benefit curtailments.

PROPOSED CUTBACKS IN THE MINIMUM, STUDENT, AND DISABILITY BENEFIT AREAS

Beyond proposals to reduce social security cost-of-living protection, other areas of possible benefit deliberalizations have been suggested for the purpose of freeing up or generating revenue in the short term. The administration has suggested eliminating minimum and student benefits even for individuals currently on the benefit roll. Our associations would flatly oppose any consideration of benefit deliberalizations in the short term even if these deliberalizations are imposed only upon new retirees. To produce near-term savings any benefit cut would have to be imposed immediately with no transitional period—a method of deliberalization we vehemently object to because it would defeat persons' reasonable benefit expectations and allow them no time to adjust their retirement plans accordingly.

We would add that some of these benefit reforms have some merit. However, these are major changes that should be phased in over a long period of time and considered only in the context of long-term, comprehensive restructuring of the entire income support structure, not with a view toward improving the shortrun financial status of the system.

With respect to the proposal to eliminate the minimum benefit, the argument is often made that the primary recipients of this benefit are retired Federal, State, or local retirees who are considered to be reaping a windfall from this benefit. This argument is made based on a 1979 survey of minimum beneficiaries done by the GAO. This survey is far from comprehensive, since no information (regarding degree of income dependence on the minimum benefit) was obtained from 26 percent of those surveyed.

Although many minimum benefit recipients are receiving an unintended advantage from the minimum provision, there would still be many, low-income individuals who would be left with no assistance—not even SSI assistance—if the minimum were abruptly eliminated. This group would include early retirees between ages 62 and 65, widows and widowers between ages 60 and 65, and many other low-income, elderly persons who meet the SSI income test, but not the very restrictive assets test. Even the GAO report recognized the potential hardship to this group of recipients and recommended the following:

"To minimize the hardship of the few needy beneficiaries who would not be eligible for SSI, the Congress could authorize a limited SSI payment which would replace a portion of the social security benefit lost when the minimum provision is eliminated."

Reform is needed in the minimum benefit as well as the student benefit area; however, reform should not be achieved by a precipitous cutback of benefits for current and/or newly eligible recipients who have reasonably worked for and planned on this source of income. Time needs to be provided for a gradual, thoughtful and fair phaseout of these benefits.

The administration has also proposed to tighten up the disability insurance program by improving its administration, providing a stricter recency-of-work test, and imposing a "megacap" which would limit total disability benefits so that they would not exceed a worker's prior after-tax earned income.

While we support more uniform administration of the DI program to reduce the error rate (with the increase in personnel necessary to carry this objective out), we oppose the reduction in the recency-of-work test and the megacap. Tightening the recency-of-work test may deny benefits to persons who gradually become disabled and unable to work. The "megacap" drastically changes the entitlement concept of the DI program because it would introduce a "means test" into the program. Also, it should be noted that Congress already moved last year to tighten up the DI program. Further cuts are unjustified and would be overly severe in their impact on this group of persons.

OTHER SHORT-TERM FINANCING ISSUES

Mandating social security coverage for public employee groups has been proposed as a source of short-term social security revenue. The associations oppose such measures on the grounds that employee groups which are presently not covered by social security should not be forced into the system, especially in the obviously unfair manner contemplated by these proposals. Instead, all such groups should have the option and be encouraged to elect social security coverage.

Also surfacing in the context of the short-term financing problem are proposals to finance all or part of the hospital insurance (HI), medicare part A program out of general revenue and, at the same time, shift part or all of the HI portion of the payroll tax to the cash benefit programs. The associations view this proposal as an inappropriate and inadequate response to the financing dilemma. First, the amount of payroll taxes freed up by this proposal is likely to be insufficient to cure the short-term deficit. Second, it would not infuse general revenue into the cash benefit programs in a mannner that would provide the kind of automatic protection from economic adversity that these programs need. Furthermore, over the longer term, funding medicare out of general revenue will not only make expansions of program benefits difficult, but it could also weaken the entitlement concept of the program and lead to means-testing for HI benefits.

LONG-TERM SOCIAL SECURITY ISSUES

SOCIAL SECURITY LONG-TERM FINANCING DILEMMA: COMPREHENSIVE CHANGES ARE NEEDED

Over the long term, social security's financial situation will reflect the effects of several major trends. First, there are the previously discussed economic trends which will continue to restrict the amount of resources available for social programs. Second, there is the demographic trend which portends a relatively smaller working population being called upon to support a larger, older population. Third, there is the declining elderly labor force participation rate which could exacerbate the consequences of the demographic trend and cause a dangerously high degree of dependence among the elderly on Government programs for income. Finally, there are the changing family and social patterns which are causing the system's benefit and financing structures to be increasingly perceived as unfair, particularly by working wives and single workers.

The combined impact of all these factors will make it clearly undesirable and probably impossible to continue social security as presently structured into the next century. If that were attempted, either a massive payroll tax increase or benefit cuts of equal magnitude (through such steps as raising the age for full benefits and/or price indexing the earnings record or benefit formula used in calculating benefits) would be prompted.

To avoid having to choose between large payroll tax increases and a piecemeal dismantling of the system's benefit protections, the associations recommend comprehensive changes in the system's benefit and financing structures. The primary goals of changes in social security, as well as changes in the other components of the income support structure serving the elderly, must be the elimination of poverty and reasonable guarantees that older persons will be able to achieve and maintain an "adequate" income. To be adequate, an older person's income should be sufficient to maintain in the later years of life the highest standard of living achieved in earlier years. Social security must continue to be relied upon to provide the major component of the elderly's income. But to achieve the adequacy goal, social security must be reinforced by income from private sources, particularly employment, private pensions, savings, and other assets. To the extent that income from all sources is insufficient, then the underlying welfare programs should be relied upon to guarantee at least a minimum income above the poverty threshold.

Any plan for changing social security to accommodate the trends and achieve these goals must be gradually phased in. Lengthy transition periods must be provided to protect the reasonable benefit expectations of people.

To be comprehensive, the changes must attempt to accommodate and, in some cases, help reverse the trends which are adversely affecting the system. These changes should encourage employment (especially among the elderly), assure that scarce resources are utilized in an effective and efficient manner, improve public support for the programs, and alter the financing structure so that it contributes to, rather than detracts from, the Nation's economic health.

To achieve these objectives, social security, after having undergone comprehensive change, should include the following:

A benefit structure that strongly encourages older persons to maximize their work effort and delay their retirement dates.

A more diverse and less inflationary financing structure that would use separate tax mechanisms to finance social security's divergent functions of earnings replacement and social adequacy; and

A benefit structure which clearly separates the system's earnings replacement and social adequacy objectives and, in the process, treats individual workers (particularly working wives and single individuals) in a more equitable manner and targets benefits in a more cost-effective way.

CHANGING SOCIAL SECURITY SO THAT IT PROMOTES RATHER THAN DISCOURAGES ELDERLY WORK EFFORT

A number of changes need to be made in social security in order to promote elderly labor force participation. These include the phasing out of work disincentives, including the earnings limitation and the phasing in of work incentives such as larger benefit credits for those who elect to delay their retirement past age 65.

Because the earnings limitation is a major and visible work disincentive, it should be phased out over a fixed number of years for persons 65 or over. Having a factor in social security that causes people to limit their work effort imposes a significant net "cost" on society. It is estimated that the economic "cost" in terms of the value of the lost output of goods and services and the total of lost tax receipts that results from having the earnings limitation is far greater than the "cost" of the additional social security benefit outlays that repeal would entail. A Social Security Administration (SSA) study released in late 1979 concluded that the abolition of the social security earnings test for persons age 65 and over would generate enough revenue ($1.65 billion) from payroll and Federal income taxes alone to offset nearly 80 percent of the $2.1 billion which SSA has estimated it would cost to repeal the test.

In order for social security to provide strong work incentives, the associations recommend, as a first step, that the delayed retirement credit be substantially increased. Under present law, individuals who elect to delay applying for social security benefits are entitled to a 3-percent bonus (beginning in 1982) for each full year they continue to work after age 65. By increasing the delayed retirement credit to a level of 8 to 10 percent the credit would provide a strong incentive to delay retirement.

When considering changes in social security that would encourage elderly employment, it is important to rule out proposals that appear as though they should be—but actually ought not to be—considered in this context. Under one such group of proposals, the age at which full social security benefits are available would be raised from age 65 to 68. Some of these proposals envision that, at the same time, the early retirement age would be raised from age 62 to 65. Presumably the age for entitlement to medicare would also be raised to age 68.

This proposal appears to provide a simple, straightforward response to the adverse demographic and employment trends. However, in our opinion, the age 68 proposal—simplistically appealing though it may be—will not yield the additional work effort its proponents expect and at this time would be the wrong policy option to exercise. Not only would these "age 68" proposals substantially decrease and, in some cases, eliminate benefits for future older persons between the ages of 62 and 65 who are involuntarily unemployed or physically unable to continue working, but they would also represent a highly visible benefit cut (and reduction in the expected return on contributions) that could undermine younger workers' support for the programs.

Although life expectancy rates have been increasing, nevertheless, the majority of the elderly, particularly minority groups, are continuing to elect early retirement benefits despite the 20 percent actuarial reduction in benefits they incur when they elect benefits at age 62. One recent survey indicated that about half of the persons surveyed who had recently retired cited impaired health as the reason for their retirement decision.

These trends indicate that, instead of getting additional work effort and therefore additional tax revenue from the future elderly population, the age 68 proposal would merely cut social security expenditures, leaving a large segment of the future elderly population to subsist on substantially reduced benefits with an enhanced likelihood of poverty.

To be successful in getting the elderly to maximize their work effort, the social security benefit structure must be changed so that first, it ceases to penalize older persons for continuing to work, and second, it clearly compensates them for working longer. Changes in the benefit structure that have, in the aggregate, good prospects for increasing elderly work effort will, in turn, help raise the tax revenues needed to finance social security (as well as other income support programs) at benefit levels that will be adequate for the future, larger, elderly population.

SEPARATING SOCIAL SECURITY'S EARNINGS REPLACEMENT AND WELFARE/SOCIAL ADEQUACY FUNCTIONS TO ACHIEVE A MORE EFFICIENT, LESS WASTEFUL UTILIZATION OF SCARCE RESOURCES

The current social security structure contains a mix of earnings replacement and welfare/social adequacy functions. To carry out the earnings replacement function, benefits are loosely tied to prior earnings histories. To carry out the welfare/social adequacy functions, benefits are computed utilizing a heavily weighted formula which provides relatively higher benefits (in relation to prior earnings) to lower wage earners and relatively lower benefits to higher wage earners. Minimum benefits are also provided with the intention of assisting long-term, low-wage earners. In addition, benefits are also provided to workers' dependents whether or not they have ever contributed to the system.

Certainly, the carrying out of both earnings replacement and welfare/social adequacy functions is appropriate within the context of programs that constitute social security. However, social security, as currently structured, attempts to perform these often divergent and conflicting functions utilizing one benefit structure and one tax mechanism—the payroll tax. This intermingling of functions has led to many benefit and payroll tax inequities and generated much waste and duplication. Indeed, it has financially impaired the system's ability to achieve fully either of the goals of sufficient earnings replacement and the elimination of poverty.

As a result of the intermingling of functions in the current structure, many higher income persons, for example, receive unintended benefit subsidies from the system's welfare/social adequacy elements and, ironically, these benefits are largely financed by the tax payments of lower and middle-income workers and their working spouses. At the same time, many lower income persons who are truly needy and who have borne a disproportionate share of the payroll tax burden throughout their working lives are unable to attain even a bare subsistence level of living on their social security benefits. These situations have led to the perception by an increasing number of workers, especially wives who work outside of the home and single workers, that the system's benefit and financing structures are unfair, wasteful, and do not yield a fair rate of return on their contributions.

In the past, social security mixed the earnings replacement and welfare/social adequacy functions without suffering any significant decline in public support. A favorable ratio of beneficiaries to workers and healthy economic growth rates made it financially possible for the system to provide large benefits in relation to what beneficiaries had contributed to the system throughout their working lives. In the future, however, beneficiaries may receive diminishing, and perhaps in some cases, negative rates of return on their social security contributions. This is likely to occur due to several factors—the dramatic age shift in the population, the large payroll tax increases that are already scheduled (and the additional ones that are expected), the possibility of large benefit cuts (such as raising the age for full benefits), unfavorable economic conditions, and the relative scarcity of financial resources.

Under these conditions, the system is bound to be scrutinized as to how it functions, who pays the taxes and who receives the benefits. Therefore, to reduce the increasing benefit and tax inequities inherent in the present structure and assure that the system as a whole operates in a cost-effective manner, the associations recommend that social security's earnings replacement function be clearly separated from its welfare/social adequacy functions. These functions should be retained within the social security system's total structure but sorted out between at least two separate benefit and financing mechanisms.

The earnings replacement function should be carried out through a benefit structure which utilizes a proportional (or uniform) benefit formula and stresses individual equity in awarding benefits. This benefit structure should be financed from payroll taxes. The welfare/social adequacy functions should be carried out through a benefit structure specifically designed to meet those objectives. This latter structure should be financed out of general revenues generated from diverse and progressive tax mechanisms. Since the escalating payroll tax burden, which is inherently inflationary and leads to higher unemployment, only aggravates current economic problems, it makes sense to shift the financing of social security's welfare/social adequacy functions to alternative, and less economically damaging, revenue sources.

Should healthy economic growth rates such as those the Nation enjoyed in the 1960's fail to resume in the future or should the cost pressures that will accompany the aging of the post-war baby boom population prove more difficult to deal with than is anticipated, then at least a restructured system would allow future policymakers to make coherent and rational choices regarding the allocation of scarce resources. Government would be better able to target benefits on the more economically disadvantaged segment of the elderly population. This is something that is nearly impossible to do under social security's current structure.

OTHER POSSIBLE CHOICES FOR DEALING WITH SOCIAL SECURITY'S LONG-TERM DEFICIT

Given the magnitude of the projected long-term social security deficit, proposals have been advanced that would alter the way in which future benefit awards would be computed. Generally, these proposals would substitute price indexing for the wage indexing in the current method used to calculate initial benefit awards. Since increases in wages generally outpace increases in prices, these proposals would greatly reduce future social security benefits and do damage to the economic well-being of the future elderly.

According to recent Social Security Administration estimates, using price indexing in computing initial benefits would cause replacement rates (the ratio of initial benefit awards to final years' earnings) for average earners (retiring at age 65) to fall from 51.1 percent in 1980, to 33.2 percent in 2010, and to 22.3 percent by 2055. Under price indexing, social security income for most earners would be reduced by over one-third by 2010 and cut in half by 2055 when compared to the income that the present system yields to current retirees.

Clearly, these price indexing proposals would substantially shrink the role of social security, causing it to contribute far less than the current system would to the future income of the elderly. Proponents of these proposals argue that the purchasing power of future benefit awards would be maintained at current levels under a price-index system. This argument, however, attempts to mask the fact that price indexing would cause the living standards of the future elderly to decline greatly, because a far smaller share of preretirement earnings would be replaced by the system. Since social security is, and is likely to continue to be, the primary source of income for the elderly, it is inevitable that price indexing of the benefit formula will not only cause a significant deterioration in living standards, but also a resurgence of extremely high poverty among the future elderly.

In attempting to deal with social security's long-term difficulties, Congress can choose between two reform strategies. Either it can risk an erosion of public support by attempting to perpetuate the system's present benefit and financing structures and thereby be forced either to raise payroll taxes or reduce benefits. Or it can attempt to restructure the system so that the system, first, encourages (rather than tries to force) older persons to work longer and elect to delay their retirement, and, second, allocates scarce resources as cost efficiently and effectively as possible by using separate benefit and financing structures to carry out the divergent earnings replacement and welfare/social adequacy functions. The associations support this latter reform strategy. Not only would it relieve cost pressures on the system, make it a more equitable and therefore popular program, and improve its financial viability, but it would also increase the future elderly's prospects for achieving income adequacy and avoiding poverty.

SUPPLEMENTAL SECURITY INCOME PROGRAM RECOMMENDATIONS

The supplemental security income (SSI) program was created in 1972 to provide policymakers with a more effective instrument for reducing the extremely high incidence of poverty prevailing among the elderly. Even though social security benefits have been increased substantially, especially during the late 1960's and early 1970's, SSI benefits have been needed by many elderly persons who either lack social security coverage or receive very low social security benefits.

However, even receipt of both social security and SSI benefits still fails to guarantee a minimum income above the poverty threshold. For aged families with SSI and social security income alone, 50 percent were living below the official poverty line in 1977; for single persons in these circumstances, 60 percent were in poverty. To address this situation, the associations recommend several improvements in the SSI program.

With respect to payment levels, the Federal portion of the SSI payment should be increased to at least 125 percent of the poverty level as defined by the Census Bureau. State supplements to the Federal payment must also be encouraged so that recipients can be compensated for regional cost-of-living variations.

Because the participation of the elderly poor in the food stamp program has been extremely low, food stamps should be cashed-out for SSI recipients. Until this is done, however, the Congress should refrain from further reducing food stamp benefits for older recipients and should restore the semiannual adjustment in benefits that was eliminated by the 1980 Food Stamp Amendments.

SSI's partial disregard of unearned income (usually social security benefits) should be made on a progressive rate basis (as least 20 percent disregard) rather than on a flat dollar ($20 per month) basis. Due to automatic cost-of-living increases in social security benefits, many SSI recipients have either lost their SSI eligibility or experienced a net reduction in total income from SSI and social security combined.

In order to encourage employment, SSI's $65 per month earned income disregard should be raised substantially and thereafter, automatically indexed to wages. Also, public service job opportunities and job training and referral mechanisms should be created specifically for SSI recipients.

The associations also recommend elimination of the one-third SSI payment reduction imposed upon individuals who live in the household of another. This arbitrary reduction discourages the elderly poor from living with relatives and often results in their premature institutionalization.

Finally, SSI's current assets limitations of $1,500 for individuals and $2,250 for couples should be substantially increased and eventually eliminated. An estimated 12 percent of elderly families with incomes below SSI payment standards were denied benefits because of the assets test.

TEARING HOLES IN THE "SOCIAL SAFETY NET"

1. FOOD STAMPS

While the associations recognize the intent of the administration's proposals in further tightening eligibility and eliminating fraud and abuse in the food stamp program, we have concerns about the immediate and future impact of some of the proposals on the poor and near poor elderly. Most of these cuts, if put into place, would immediately eliminate or reduce benefits (October 1981) for elderly persons already living on low and fixed incomes. Because these persons can ill afford precipitous cutbacks in benefits and are unlikely to work if they aren't already, we would urge that these "reform" proposals be examined closely in terms of their impact on elderly persons.

Specifically, we urge you to thoroughly consider the repercussions that setting gross limits for eligibility at 130 percent of poverty will have on elderly recipients. First of all, it places a totally inflexible ceiling on eligibility; a person with an income just a few dollars over 130 percent of poverty would be ineligible to receive benefits. Second, the proposal ignores the fact that elderly persons spend a disproportionate amount of their income on such necessities as medical care and shelter costs, particularly energy. Those elderly persons who qualify for food stamps now because the program takes these expenses into account will be ineligible as soon as this provision takes effect.

Over time, freezing the standard deduction will deny food stamp eligibility to increasing numbers of elderly persons who have income from social security, SSI, and veterans pensions because these programs provide annual cost-of-living increases. As benefits from such programs rise to keep pace with inflation, food stamp recipients will register "higher" (inflation adjusted) incomes and will thus qualify for fewer food stamps—or none at all. This proposal amounts to an overall reduction in real income for individuals already subsisting at the margin.

2. THE LOW-INCOME ENERGY ASSISTANCE PROGRAM (LIEAP)

The associations have serious concerns about folding the LIEAP objectives into an omnibus social service block grant to the States and funding it at substantially reduced levels. Because States would establish their own priorities and exercise total program control over resources, we are concerned that the purpose of this program will be "lost in the shuffle."

Currently the program is funded through the windfall profits tax which in essence redistributes the taxes levied on the high profits oil companies are experiencing due to oil price decontrols to low-income households which can ill afford the skyrocketing costs of home energy. The States do not receive revenue from this tax and may therefore be reluctant to pick up their share of the costs for this assistance. It is important to note that under the current program, 95 percent of the moneys are already in the form of block grants to States which draw up their own plans, subject to HHS approval, for dispersing available funds. Currently, Federal guidelines do allow States some flexibility in determining local needs.

Oil price decontrols (and expected gas price decontrols) are Federal initiatives. It is incumbent upon the Federal Government, therefore, to continue to provide energy assistance to those in need. We would suggest that it would make more sense for the various energy assistance programs to be consolidated at the Federal level rather than continuing the current fragmented approach of placing some at the State level (through the massive block grant) and keeping other initiatives in various agencies in Washington. Such a coordination of programs would make current benefits more accessible, eliminate duplication or overlap, and fill in the gaps to meet needs where current programs do not. Furthermore, streamlining programs would reduce administrative costs, and within budgetary constraints, make it possible to reach more needy persons.

In our view, this consolidated national energy assistance program would have three major components—direct assistance, weatherization, and outreach. Each State would have the flexibility to determine how best to meet these three goals, which would give them more flexibility and allow them in turn to consolidate fragmented energy assistance programs within their jurisdiction.

ANTI-INFLATION STRATEGY MUST BE COMPREHENSIVE AND MULTIFACETED

Our associations have been observing inflation closely for over a decade. In the process, we have come to recognize the commonly accepted myths concerning the origins and nature of modern inflation. These myths are still prevalent in the press, in the minds of the public, and in the minds of many policymakers. We will not gain much ground in the battle against inflation unless these myths are abandoned.

Federal deficit spending is blamed by a large proportion of the public as the entire and sole cause of inflation. Without dispute, it is an important factor in inflation, but mathematically it cannot remotely account for the large price rises in the economy, which are now over $250 billion a year. The printing press, the public's shorthand expression for expansive monetary policy, is probably the No. 2 whipping boy for inflation. Labor unions' "excessive" wage demands are blamed. Administered prices are blamed. The OPEC cartel has also been held solely responsible for recent inflation.

In our view the wage/price spiral represents the backbone of our current inflation problem. A study made in 1980 by DRI mathematically established the wage/price spiral as the largest component of modern inflation. If inflation is running between 12 and 13 percent a year, the wage/price spiral is probably contributing about 8 to 10 percent to the rate, representing what is commonly labeled the "hard-core" rate.

Some policymakers have argued that the elderly should share, along with other groups of society, in Government spending restraint necessary to help bring inflation under control. Curbing of the indexing mechanisms has been high on the list of proposed policies to restrain spending. Since it is impossible to make the elderly inflation-proof, we agree that controlling inflation must be our priority concern and recognize that spending restraint is one part of the strategy necessary to curb inflation. However, before enlisting the elderly in any inflation battle and accelerating the rate of decline in their real incomes and living standards, we would want reasonable assurances that Government will pursue an effective anti-inflation strategy that would bring down the rate in a short period of time and also provide for an equitable sharing of the "pain" such a strategy must inevitably entail.

Although no one can accurately predict to what extent balancing the budget will dampen the public's inflationary expectations and help to unwind the wage/price spiral, some economists estimate that, at most, balancing the Federal budget will shave a few percentage points off the aggregate inflation rate. Without specifically dealing with cost-push factors, we do not expect inflation to be radically slowed in the coming months. Supply-side economics, based on a revival of savings and investment in new capital facilities, is inherently a longer term, anti-inflation strategy.

To deal with inflation in the short-term, our associations recommend the following combination of policies:

First, a strong incomes policy must be pursued; the President should be given standby authority to impose wage/price controls on a selective basis.

Second, the Federal budget should be brought into balance over the next 2 or 3 years and maintained in balance over the business cycle.

Third, money supply growth must be gradually reduced and ultimately kept in line with real growth in the gross national product.

Fourth, competition in the economy should be furthered by deregulation where appropriate, removal of import quotas and refraining from further Government and private actions which increase prices.

We would like to emphasize the importance of using a strong incomes policy to attack the wage/price spiral. Incomes policies can range all the way from exhortations (or "jawboning") by the President or other leading public figures to a full-blown program of monetary wage/price controls modeled after the programs in effect during World War II and the Korean war.

In our opinion, in order to deal effectively and resolutely with the wage/price spiral and inflationary expectations, the President should be given standby authority to impose price and/or wage controls in those sectors of the economy that are leading the inflation parade. The health care industry is an outstanding example of just such a sector; the rate of escalation in health care costs has been clearly out of control for some time.

Standby authority for the implementation of controls and an expressed willingness to use them, if and when necessary, will immediately alert the public to the fact that the Government is serious about reducing inflation to tolerable levels within 2 to 3 years. The more forcefully it is indicated to the various groups that they must cooperate in the common effort, the less likely it is that the standby authority will have to be exercised in more than just a few cases.

We would like to stress that although we support a gradual reduction in the rate of growth in the money supply and fiscal restraints, we cannot depend on these policies to dampen inflation in a reasonably short period of time. While these policies take time to be effective, inflation will be doing great harm to the economic and social fabric of the Nation. Dependence on restraining monetary and fiscal policies alone to reduce inflation has led Great Britain into exceptionally high unemployment and costly industrial stagnation. In the United States, we must deal directly with structural "imperfections" in the economy, which are not going to disappear by waving "macroeconomic" wands or by repeating incantations of the virtues of supply-side economics.

SUMMARY

In summary, until Government indicates it will pursue an effective, multipronged anti-inflation program that includes not just fiscal and monetary restraint but also a tough "incomes" policy that will bring down inflation rapidly and spread the "pain" of curing inflation in an equitable manner, do not expect the elderly to be willing to accept proposals that would reduce the degree of income security they have now—particulary the only inflation protection they have—but otherwise leave double-digit inflation unchecked.

ITEM 2. STATEMENT OF THE MONTGOMERY COUNTY, MD., CHAPTER OF THE NATIONAL COMMITTEE OF THE GRAY PANTHERS

We wish to express our alarm and opposition toward the President's proposed budget cuts of the food assistance programs. They are being slashed drastically just when we are beginning to benefit by them. The serious consequences to the most vulnerable segments of our society—the poor, the sick, the young, and the elderly—will have profound and far-reaching repercussions.

The proposed food stamp budget cuts mean that the food stamp allotment for the "truly needy" will be reduced, and many of the working poor will also be dropped from the program, due to raising the eligibility criteria.

The present allotment is nutritionally inadequate. It is based on the thrifty food plan, which does not meet the recommended dietary allowances. Food stamp recipients are currently receiving about half ($1.40) the cost of an adequate diet ($2.51) a day.

In the meantime food prices are expected to rise about 20 percent. No allowances are made for regional price differences. Of the 25 major cities sampled, 16 had higher food costs for the same market basket than the national average.

Food costs are higher in inner-city neighborhoods. Few supermarket chains locate in the inner city. Food is generally purchased at small independent stores where food prices are actually higher. Patrons in low-income-area stores tend to purchase certain items in smaller sizes at higher unit costs than those in higher income areas. Poor housing, with little usable storage and refrigeration, make money-saving bulk purchasing impractical. In the U.S. Department of Agriculture 1977 food consumption survey 9 percent of persons at the lowest income level claimed that they did not have enough to eat.

Of great concern are the cuts in the child nutrition program. The proposed 30 percent cut in the women, infants, and children (WIC) supplemental feeding program is particularly devastating. Only 30 percent of those estimated as eligible are currently participating. To reduce appropriations for WIC will mean a significant risk of increasing low birth weight infants, a major threat to survival. There will be an increase in the poor health of growing children and a serious rise in the number of infants born with physical and mental handicaps. Poor prenatal nutrition increases the incidence of neurological damage and mental retardation in infants. Adequate nutrition during pregnancy is necessary for the maintenance of maternal health, as well as the growth and development of the infant. At no other time during the entire life cycle does a good diet have such significant and term benefits than during pregnancy. A good diet in infancy and early childhood is essential for adequate growth and well-being of our children. To reduce funding for WIC is to undermine the health of the future generation. To raise eligibility levels is to deny the hard working taxpaying poor access to badly needed services.

The proposed cutbacks in the child nutrition program will have devastating consequences on the working poor. About 45.4 percent of women with children under 6 are in the work force. Of these, 59.5 percent maintain their own household. These mothers are working primarily for economic reasons. They need quality day care for their children. A well balanced diet is an essential part of a quality child care program. To cut out the subsidy for snacks (46 percent of the meals served) for all children, and all the subsidies for paying children, is to take food out of their mouths. Child care costs are already very high. Any additional burden on the working poor and middle-class families will be an overwhelming burden which few will be able to bear. The results will be poor diet during the critical growth period leading to poor health for our most prized possessions, our children.

A hungry child is an educational risk. Hungry children are irritable, unable to concentrate, are easily distracted, require more time and effort from teachers. The net result is that everyone suffers. With the projected budget cuts to the child nutrition program, school failures, as well as poor health, will increase.

Many parents count on school meals to meet a large part of their children's nutritional needs. This is very understandable when one considers that 61.6 percent of school-age children have their mothers participating in the labor force. Of these, 71.6 percent are single parents maintaining their own families. consider the hardship this cut would bring to already stressed families.

The working poor will be delivered a crushing blow under the proposed food stamp changes. A family of four earning up to $11,000 gross income under the current law would receive $119 in food stamp benefits per month, or $1,428 per year in 1982. The same family would pay $534 in income tax. Under the President's proposal this family would have 5 percent tax deduction in 1981, and an additional 10 percent in 1982, making the aggregate income tax deduction 15 percent or $80 for that year. This represents $1,348 in net loss in benefits to this family. Families earning from $11,000 to about $18,000 would be needy, but would not be receiving food stamps or medical assistance and at the upper end they would lose reduced price school lunches and women, infants, and children supplemental feeding programs. These families are already overburdened with a disproportionate share of payroll deductions—the regressive social security tax, income tax, health insurances, in some cases union dues and mandatory pension funds. In addition, the poor pay disproportionately high State and local taxes on goods and services.

The elderly are frequently plagued with special dietary problems which compound the limitations of the thrifty food plan. No allowance is made for special dietary needs. Nutritional needs are substantially increased under stress and illness. In 1974, persons with annual family income under $3,000 had about 32.4 percent limited activity due to chronic illness. There is a disproportionate number of persons in the low-income group. In 1974, 55 percent of persons with incomes under $3,000, 65 years and over, had some limitations of activity due to chronic conditions. These disabilities reduce accessibility and availability of services and many of these chronic conditions need to be treated with special diets (heart disease, hypertension, diabetes, obesity). The costs of the foods needed for special diets far exceed the cost of the thrifty food plan.

Middle-income families will experience the economic inequities of the proposed budget as they discover that the subsidies for paying for children's meals have been eliminated, resulting in a $1.30 price tag on the school lunch. The combination of loss of subsidy, with a 20 percent inflation expected in food costs, will put the school meals out of reach of the majority of children. Thus the demise of the school food services programs. These programs cannot function without middle-class participation. Neither the middle class nor the poor will get meals prepared at school.

Proposed cuts threaten the internal well-being of our country and jeopardize national security. A healthy nation is a strong nation. A good diet is the foundation of good health. To take food from the very young is to weaken the very fiber of our country. To take food from the old is morally reprehensible.

The Reagan administration has no popular mandate for the cuts. It cannot be repeated too often that 73 percent of the eligible voters did not vote for President Reagan. This includes those who did not vote at all and those who voted for other candidates.

The total dollar sum of these sweeping and devastating food cuts comes to $4.2 billion, less than one-fourth of the $20.7-billion increase alone for the 1982 military budget of $226 billion.

What is hoped to be gained by this madness? A balanced budget? Almost all economists are agreed that the combination of more guns and more tax cuts for the rich have already made that impossible. Curbing inflation? That goal has been doomed by the administration's escalation of the many factors that make for runaway inflation. The inflationary spiral is being fed by the Reagan administration through its increase in the Federal budget, the growth of the national debt and consumer credit, the Government's vast new purchases of armaments paid for in super-profit prices, the expansion of credit by commercial banks, and the structure of monopoly prices.

It is worth noting that at the beginning of Roosevelt's second term in 1936 the total budget of the country, including the entire defense outlay, came to $8 billion, compared to the almost $700 billion budget today. The national debt is 1936 was $30 billion; today it approaches $3,000 billion. The interest alone on the national debt is greater than the profits of America's largest corporation, General Motors, which came to $3 billion last year, a sum greater than the budgets of 100 countries.

Thus, budget slashes in the food stamp program, accompanied by tampering with the school food service program, the women, infants, and children supplemental feeding program, nutrition education and training programs, and other food programs, are certain to have disastrous consequences to individuals, families, whole communities, and the Nation. Such action may have repercussions for generations. Such cuts should be resisted by all persons of social and moral responsibility.

The ultimate measure of the quality of life in our society is the way we care for our children, the sick, and the elderly. In the interests of their health and well-being and of the security of our Nation, we urge you not to reduce or take away their lifeline food assistance.

ITEM 3. MEMORANDUM FROM THE COMMITTEE ON AGING, STATE OF MAINE, TO MAINE'S CONGRESSIONAL DELEGATION, REGARDING THE IMPACT ON MAINE'S ELDERLY BY PRESIDENT REAGAN'S BUDGET PROPOSALS

I. Medicaid

The Office of Management and Budget proposes savings in medicaid by reducing the 1981 estimate of Federal expenditures by $100 million, imposing an interim cap of 5 percent on 1982 expenditures and allowing Federal spending to rise thereafter only with inflation. These cuts will directly affect Maine's poor, including the elderly, since only low-income persons are eligible for medicaid. Over 22,000 elderly persons are currently eligible and served by medicaid, over 6,000 in nursing homes throughout Maine.

IMPACT

Because medicaid is an entitlement program, imposing a cap through statutory changes will devastate the intent of the program to provide benefits for all those who cannot afford needed medical care. The cap would render medicaid subject to annual appropriations and budgetary review procedures, which would result in allocations based on existing resources rather than on an individual's need and eligibility determination. Because there are currently no mechanisms to control the size of the eligible population and no means of controlling provider costs, the cap would, in effect, pit the provider against the recipient, leaving the State in the untenable position of allocating the limited resources.

A cap on the medicaid program will lock into place current medical services, which are largely still institutional (nursing homes) in nature, instead of allowing States to continue their efforts to develop more cost-effective alternative community-based programs. Nursing home expenditures account for a larger portion than do hospital care, physician services, or all the other services combined.

The elimination of the medicaid drug program will only lead to higher medicaid budgets in the future, which has been well documented in other States. The State of Louisiana, in an effort to save funds, eliminated its $4.1 million medicaid drug program in 1976. In 1977, the demand for nonprescription services (hospitals, emergency services, etc.) under medicaid resulted in a net increase of more than 7.3 percent in Louisiana's medicaid program expenditures. Although drug expenditures decreased by $4.1 million, total program expenditures rose by 3.5 times that amount, or $15.1 million. The effects on each State budget would obviously be devastating.

The elimination of services considered optional under the medicaid program, which would probably include podiatry services, physical and occupational therapy, etc., will in fact reduce costs. However, if these rehabilitative and habilitative services are eliminated, Maine's nursing homes will truly become warehouses where elderly and disabled are simply housed, without necessary services provided.

The above comments are representative of a situtation that could exist if the cap on medicaid became a reality. The strides which have thus far been made in the area of health care for the Nation's poor, and particularly long-term care for the Nation's elderly and disabled, could be dramatically halted. Our greatest fear is that home-based care could be set back significantly because there will not exist in the medicaid program the ability to fund meaningful alternatives to institutionalization.

The medicaid counterproposal, which the National Governor's Association has developed, suggests that Congress treat long-term care differently from other components of medicaid. The rationale for singling out long-term care stems primarily from its uniqueness in involving a population which is unresponsive to employment/unemployment and other economic trends. Medical care costs have skyrocketed, and States cannot control them.

The National Governor's Association proposal includes an interim cap on hospital costs under medicare, increased flexibility for States, increased ability to purchase services from efficient providers rather than having to adhere to patient choice, and increased latitude regarding reimbursement policies. Other pertinent variables, including the demographic, economic, and general medical care changes, are not under medicaid control.

Long-term care is also unique because private insurance covers so little of its services. Instead, the public sector is the major purchaser with no third party to draw on. Various proposals for national health insurance have also treated long-term care as a separate issue by failing to cover it. The National Governor's Association believes that a cap on the long-term care component of medicaid (properly indexed for inflation, etc.) would be more sensible than a cap on all of medicaid. The Maine Committee on Aging tends to agree.

The point of the National Governor's Association's medicaid counterproposal is to constrain the rate of nursing home growth within the States, a goal which the Committee on Aging certainly agrees with. Additional funds, over time, could then be put instead into the development of alternatives to nursing homes. This approach seems logical, and is truly more responsive to the needs of low-income elderly than the administration's medicaid cap.

II. Elimination of Minimum Social Security Benefit

Specific data is not available from the Social Security Administration on the numbers of people aged 60 to 64 who might be severely affected by the elimination of the minimum benefit under social security. It is this group who would be most severely hurt, as they would be unable, unless disabled, to reapply for supplemental security income benefits. Women comprise the majority of this subgroup.

It is estimated that the potential impact on elderly using national and State figures indicates that potentially 1,000 to 1,500 women may be affected with loss of income as a result of elimination of the minimum social security benefit in Maine.

III. Title XX

Social service funding would be cut by 25 percent and the current title XX program would be replaced by a new social services program providing block grants to States. For Maine, it will mean an approximate reduction of $6.1 million currently being spent for social services programs. While many certainly agree that the block grant approach will give greater flexibility to the States and therefore could create a much better system of services, the reduction in total appropriations will have a severe impact on services.

The effect of block grants is hard to evaluate at this point. The State would obviously determine who priority client groups would be in terms of receiving services, which will indeed create specific problems in terms of different interest groups lobbying for certain segments of the population. The greatest concern is that the preventive types of programs, which are extremely important in terms of long-range reductions in expenditures under social and health care services, would probably be the first to go. Obviously, some of the community alternative programs which have been proven to be effective in terms of cost containment will probably be curtailed dramatically.

In Maine, it is estimated that over 25,000 people aged 60 and over benefit from the various programs that are provided under title XX. These include transportation services, homemaker services, nutrition services, and other related social programs. Any curtailment in any of these services that provide home-based care will push those people closer to institutions. As everyone knows, institutions are extremely expensive places to be cared for and will undoubtedly prove to drive other areas of expenditures higher.

An obvious concern is that, if many of these programs are not provided to the low income through title XX, the local municipality will be forced into a position of providing some of these needed services through their local general assistance programs. Because Maine reimburses municipalities for a portion of the general assistance they provide, the impact on the State budget should be anticipated.

IV. Community Services Administration—Home Energy Assistance and Weatherization

The home energy assistance program has served over 12,000 elderly people in fiscal year 1981. This program provides funds to individuals who do not have sufficient income to purchase their own fuel. This is an extremely necessary and important program, especially for the more rural and colder States.

The effect that the price of heating a home has on the elderly is extremely dangerous. The elderly are often forced to make a choice between heating, purchasing medicine, or buying food and other necessities of life. If the Federal energy assistance moneys are not available in adequate supply, the instances of these kinds of choices being made could most definitely increase, especially in a very rural and cold State like Maine.

The weatherization program also serves an important function—winterizing homes so that funds will not be going up chimneys and out uninsulated walls. Cuts in weatherization programs would adversely affect the current strides that are being made in weatherizing homes so that funds used to heat them will be used most efficiently.

V. Older Americans Act

The President's proposed $55 million cut in the Administration on Aging fiscal year 1982 budget will not dramatically affect State agency programs. The 1982 budget proposes consolidation of $692 million for State-operated aging programs which provide nutrition, transportation, in-home, and legal services to persons over 60 years of age. This will likely result in the elimination of priorities under the separate Older Americans Act titles and elimination of the mandate for legal services and for the nursing home ombudsman program. A revised budget includes a transfer to the aging program of the USDA administered food commodities program for the elderly. Removal of USDA reimbursement on a perennial basis will result in fewer meals due to non-title III Older Americans Act meals not being reimbursed. In addition, new aging extension legislation will also propose consolidation of the separate services and nutrition authority into a single State grant program authority.

Aging research, training, and other discretionary authorities (title IV of the Older Americans Act) will also be consolidated in the proposed new aging amendments into a single discretionary authority. Funding under this new consolidated authority will be reduced by $25 million, a 50 percent reduction, in the 1982 budget. This is likely to have a major negative effect on the older Americans advocacy support effort, an effort which funds nursing home ombudsman and legal services for the elderly programs in the State of Maine.

VI. CETA

The administration's proposed elimination of the CETA program and freezing of public service jobs has already and will continue to dramatically affect social service and health programs, primarily those that provide home-based care services for the elderly. These include homemaker services, transportation services, home repair, chore services, telephone reassurance, friendly visiting, advocacy/outreach, personal assistance, nutrition services, preventive health screening and education services, weatherization, fuel assistance, and various other social and health service areas. The impact cannot be known at this time, but suffice it to say that it will be dramatic and devastating to the social and health services programs provided to Maine's elderly.

VII. Food Stamp Program

Maine has over 30,000 households with an elderly person as head of household on the food stamp program. Average benefits per household are estimated at $80 to $100 per month for Maine recipients, but the average elderly benefit is probably much lower. The current Reagan administration proposals would eliminate an estimated 7,500 elderly households from the food stamp program.

If these very low-income elderly households are not provided with food stamps, other necessities of life will necessarily be neglected and the elderly will be very negatively affected.

ITEM 4. LETTER FROM TRISH RILEY, DIRECTOR, BUREAU OF MAINE'S ELDERLY, DEPARTMENT OF HUMAN SERVICES, STATE OF MAINE, TO JEAN STREETER, LEGISLATIVE ASSISTANT TO SENATOR WILLIAM S. COHEN, DATED MARCH 27, 1981

Dear Jean: Thank you for your recent phone call regarding the impact of President Reagan's proposed budget on Maine's elderly. While the administration here has not had an opportunity to accurately review the proposal, I am happy to follow up on our conversation by listing several preliminary concerns and priorities.

With the rapid increase of the elderly population, and the enormous growth of the over-75 population group, the service and health needs of the elderly becomes complicated. Therefore, any cuts in the medicaid program would undoubtedly impact seriously on the elderly. It is important to keep in mind that, while the medicaid program is the single biggest expense for most State governments, and has experienced rapid growth at the Federal level, it serves to support only 30 percent of the total of health care costs of older people. The primary recipient of medicaid dollars tends to be institutions. While we know that the changing elderly population requires dramatic changes in services, we have failed to redirect the medicaid program across the country in a meaningful way to provide community-based alternatives to institutions. While the Reagan budget proposes greater flexibility for States in determining how the program is administered, a most positive development, any cuts will continue to erode our ability to serve people in need. Moreover many of the optional programs under medicaid are those of greatest significance to elderly people such as the drug program and nursing homes. In times of constraint, those optional programs may well become impossible and be the victims of cuts.

Cuts proposed for the title XX program could cause several million dollars to be lost in direct services in Maine. Nationally, older people are underserved by the title XX program and I suspect that trend will be heightened with reductions in title XX which have frequently been viewed as a program primarily for younger low-income people and children. Additional cuts in child welfare will create a ripple effect which will cause increased demands on decreased amounts of title XX. Although the

Older Americans Act was and is intended by Congress to be a gap-filling service designed to stimulate the development of comprehensive, coordinated service programs at a local level, too often that program is viewed as a service maintenance program available to fund all needed services for older people. Given that the Older Americans Act is funded at miniscule levels compared to the needs of the elderly, and was intended to be complemented by title XX, this misunderstanding could cause serious problems for older people's programs throughout the country. I fear that planners for title XX will argue that title XX dollars can be withdrawn from elderly programs since the Older Americans Act has not been substantially cut and will provide core services for the elderly. Such is not the case.

The merger of the Older Americans Act titles III-B and III-C programs into one social service grant to States is a most positive move, although I was sorry to see language that would require States to continue to spend next year the same level of title III for meals as they did in this fiscal year. While I can support efforts to limit or eliminate Older Americans Act dollars for some research and Federal initiatives such as the so called biregional backup centers, I had hoped that those funds would funnel to the States. Also, given that titles XX and XIX resources will be less available, more demands will be placed on the Older Americans Act. I fear that States will be forced to use more title III to support direct social services and will therefore not have sufficient funds available to support important initiatives of the nursing home ombudsman program and legal services.

We are pleased with the proposed conversion of the USDA program but note that it requires a 15 percent match. If that match is required through State funds, we do not at this point have sufficient resources to meet the demand. As we review the USDA program and our available States resources, it would appear that we would lose about 22,000 meals a year unless funds currently used for direct social services could be used for match. That is a State problem that I hope we can resolve.

Finally, I would urge that the Reagan budget continue to provide funds for the Department of Health and Human Services Office of Assistant Secretary Planning and Evaluation for the National Long-Term Care Channeling Demonstrations. These demonstrations will afford States a unique opportunity to "experiment" with innovative means of developing community-based long-term care alternatives through the use of medicaid and medicare waivers and new service dollars. This is an important national research initiative that should aid congressional interests in changing the medicare and medicaid programs to allow more flexibility. Maine is 1 of 12 States selected for these demonstrations and we believe that they will be particularly effective in assisting States to develop means for efficient management of block grants for community-based care. Because block grants are such an innovation, State governments will be compelled to dramatically redirect methods of operation and the channeling demonstrations will help us determine how that could best be done.

I've been extremely brief in my remarks. We are currently developing an extensive review with key programs which affect older people and will forward that to you when it is available. I have chosen to be somewhat rhetorical in my comments knowing that the Maine Committee on Aging will be forwarding specific information to you.

I hope you can forgive the lack of details in these remarks but I hope to get more information after a more thorough review. Please let me know if I can provide any other specific information. I hope this is of some help to you. Thank you.

Sincerely,

TRISH RILEY.

ITEM 5. MEMORANDUM FROM THE AROOSTOOK REGIONAL TASK FORCE OF OLDER CITIZENS, PRESQUE ISLE, MAINE, TO MAINE'S CONGRESSIONAL DELEGATION, REGARDING ANALYSIS OF IMPACT OF REAGAN ADMINISTRATION BUDGET PROPOSALS ON OLDER POPULATION, DATED APRIL 6, 1981

This area agency on aging serving the Aroostook region of northern Maine has prepared an analysis of the impact of currently proposed reductions based on President Reagan's proposals. Please note that of Maine's five "planning/service areas" Aroostook represents the smallest area in terms of older population and funding.

It is hoped that this report will enlighten you as to just what the result of current initiatives may be. We are alarmed in that news reports we see indicate that people in need will not suffer but it is our experience that the opposite is true. If you need clarification on any of this material please do not hesitate to call.

I. In-Home Services

A. AROOSTOOK REGIONAL TASK FORCE OF OLDER CITIZENS

1. Nutrition services—home delivered meals

1981 service level: 280 per day, 70,570 annual.

1982 projection: Removal of USDA reimbursement on a per meal basis to be replaced by "direct funded" approach will result in fewer meals due to non-title III, OAA meals not being reimbursed. Board decision to maintain "in-home" services however will result in a "hold-the line" effort in home deliveries while reducing congregate meal service.

1982 service level: 280 per day, 70,570 annual.

2. Service coordination/Nursing home admission prescreening

1981 service level: One staff person—60 cases.

1982 projection: Seen as a priority service, this program will be expanded. Critical service due to 100 percent occupancy of care beds in nursing homes combined with a State moratorium on new bed construction.

1982 service level: Two staff persons—180 cases.

3. Homemaker services

1981 subcontract amount: $13,007. Service hours: 1,698.

1982 projections: Again, in accordance with board decision to "hold-the-line" on in-home services, homemakers under subcontract will be maintained, though at greater cost.

1982 subcontract estimate: $20,000. Service hours: 2,500.

4. Transportation services

Limited to specialized transportation via private car or handicapped equipped vehicles for medical appointments of homebound, $4,760. Service units-passenger miles: 13,000.

1982 projections: Service will be maintained as a priority at same level of funding.

1982 subcontract estimate: $5,000. Service units-passenger miles: 11,111.

5. Home repair—chore services

1981 direct service amount: $14,100. Service hours: 4,000.

1981 subcontracted services: $1,500. Service hours: 25,000, including 17 CETA positions.

1982 projection: Service will be limited to only conversion of housing facilities to accommodate wheelchairs or walkers, add bathroom accessories to facilitate mobility, convert upstair bedrooms to downstairs, etc.

1982 service estimate amount: $14,000. 1982 service hours: 2,800.

6. Telephone reassurance—friendly visiting

1981 CETA title VI: $8,500. Persons served: 250.

1982 projections: Termination of service.

7. Advocacy-outreach-personal assistance

1981 service amount: $27,000. 1981 service hours: 4,500.

1982 projection: All such services would be maintained and expanded if possible. The need for personal assistance in problem solving and advocacy for service provision will increase as available services and income maintenance programs decrease.

1982 service amount estimate: $35,000. 1982 service hours: 5,800.

B. AROOSTOOK HOME CARE AGENCY

1981 CETA title VI: Five home health aides, $52,900.

1982 projections: Funding for service will be transferred fully to medicare on a cost-reimbursement basis. Service expansion will be halted and costs will increase significantly.

C. AROOSTOOK COUNTY HOMEMAKER SERVICE

1981 CETA title II–D: Ten homemakers, $105,800. Service hours: 14,196.

1981 title XX, SSA: $260,140. Service hours: 22,553.

1982 projections: Loss of all CETA personnel will result in approximately 70 fewer people being served or a reduction in serving hours of approximately 39 percent. Impact of title XX being placed in a block grant status is unknown. No projections as to funding or available service hours can be made other than a definite loss of $105,800 in CETA.

D. AROOSTOOK COUNTY ACTION PROGRAM

1981 fuel assistance to elderly homebound (December-March only): $56,000. Elderly homebound households served: 161.

1982 projection: Impact is unknown as funds are slated for block grant. However, with home heating fuel increasing from $1.01 in November 1980, to $1.47 in April 1981, an increase in 6 months of 46 percent and still climbing, any reduction will be disastrous.

1981 weatherization for homebound elderly: Dollar amount unknown. Elderly homebound households served: 49.

1982 projections: Impact is unknown as funds are channeled into block grants.

1981 section 8 rental assistance: Dollar amount unknown. Elderly homebound renters served: Unknown.

1982 projections: No expansion of service but there should be no reduction. Households may have to pay an additional 5 percent of income for rent.

II. COMMUNITY SERVICES

A. AROOSTOOK REGIONAL TASK FORCE OF OLDER CITIZENS

1. Nutrition services—congregate meals.

1981 service level: 315 daily, 74,540 annual.

1982 projection: Due to a change in placing USDA reimbursement per meal to a "simpler" formula basis under title III, OAA reimbursement for meals funded under alternate sources will be lost. Cuts will be made in sites including possible reduction of 5-day sites to 3 days per week.

1982 service level: 250 daily, 50,000 annual.

2. Transportation service

1981 contract: $52,000. 1981 passenger miles: 157,575.

1982 projection: Unknown due to fact that more than 60 percent of contracted agencies funding comes from other sources slated for block granting. There will probably be a demand for additional contract moneys which will not be available.

1982 contract estimate: $52,000. 1982 service units: 115,515.

3. Preventative health screening and education service

1981 service amount: $35,787. 1981 service units—Education: 600.

1982 projection: Screening unit of program may be eliminated entirely as preventative health program funding has been severely reduced. Unknown as to whether education services could continue.

1982 service units estimated: Unknown.

4. Retired senior volunteer program

1981 total volunteers: 493. 1981 volunteer service hours: 99,600.

1982 projections: Rescission of 1981 funding with reduced 1982 levels will result in a loss of ability to support volunteers.

1982 total volunteers estimate: 375: 1982 volunteer hour estimate: 90,000.

5. Advocacy-outreach-personal assistance

1981 service amount: $88,000. 1981 service hours: 14,660.

1982 projections: Service will be maintained as a priority service area.

1982 service amount estimate: $110,000. 1982 service hours estimate: 17,600.

6. Legal services

1981 service amount: $9,400. 1981 service hours: 450.

7. Planning, coordination, and administration

1981 service amount: $97,500.

1982 projection: Need for planning and service coordination with program development will increase as resources become scarcer. Moneys will not increase as more funds must move into "hard" services due to political pressure.

1982 service amount: $97,500.

B. AROOSTOOK COUNTY ACTION PROGRAM

1. Fuel assistance services

1981 elderly assistance amount: (December-March only) $506,100. 1981 total elderly households: 1,446.

1982 projections: Impact is unknown.

2. Weatherization

1981 amount: Dollar amount unknown. 1981 elderly households served: 439.

1982 projections: Impact is unknown as funds are channeled into block grants. However, if community development block grant model and guidelines are followed there will be a devastating effect. In the past, small towns (of which 70 of 78 communities in the region are) have not been able to compete with large towns for such funds. Rural elderly would suffer.

3. Section 8 rental assistance

1981 elderly served: 289.
1982 projection: No expansion.

4. Rural youth and housing—home repair project

1981 elderly served: 95.
1982 CETA project projection: Zero.

5. Community development home repair—city of Presque Isle

1981 elderly served: 16.
1982 projection: Zero.

C. AROOSTOOK REGIONAL TRANSPORTATION SYSTEM, INC.

1981 service amount: Title XX, 156,294; section 18 DOT, 110,000; section 16-B-2, 19,500; CETA II-D, 13,500.

1981 service units: 350,000 passenger miles.

1982 projections: Unknown with title XX moving to block grant status and section 18 authorizing legislation up for renewal. The CETA funds will be lost entirely. Service costs will increase by 25 to 40 percent while, at best, funding will remain at 1981 level—less CETA. A 20 to 30 percent reduction in service could be expected.

1982 service amount estimate: $285,800. 1982 service units estimate; 262,500.

D. CITY OF CARIBOU SENIOR CITIZENS PROJECT

Home repair service: 1981 hours of service: 11,524. 1981 CETA funds: $66,700.
Senior center program: 1981 CETA funds: $8,500.
1982 projection: Total elimination of program.

E. TOWN OF MADAWASKA SENIOR CENTER

1981 CETA funds: $25,116.

1982 projection: Center will be maintained as a congregate mealsite and most activities will continue with volunteers assuming a greater role in center operation. Strength of senior citizens group should prevent any severe negative impact.

F. ADULT EDUCATION PROGRAMS

In 1981 four regional adult education programs provided special programs for older people. Federal funding and State funding reductions will limit the ability of such programs to provide elderly education services.

G. AROOSTOOK MENTAL HEALTH CENTER, INC.

No specific programs for older people exist. The community support program, exclusively funded by title XX and providing counseling assistance to the deinstitutionalized, serves approximately 63 older people annually. Impact of title XX changes unknown due to block grant process.

III. Medicaid Services

Approximately 7 percent of the region's over-65 population (657 of 9,200) reside in intermediate care facilities with 92 percent receiving medicaid payment. There is a moratorium on new bed construction and all facilities are at 100 percent occupancy with long waiting lists. The elderly population age 75-plus, those most frequently needing institutional care, is increasing at an average one-half percent each year, further increasing the pressure for greater availability of care.

Current home health and personal needs care receive less than 1 percent of available medicaid funds. Such services are looked at as being answers to alternatives to institutional care.

1982 projections: A cap on medicaid expenditures will be disastrous for any innovations in long-term care. With the cuts in title XX, the block granting of social service dollars, the rescission of the 1980 medicare amendments, and further cuts in housing and food stamps the medicaid cap will sorely tax alternate resources. No accurate projections can be made other than a disaster for long-term care.

IV. Legal Service Corporation (Pine Tree Legal Assistance)

Pine Tree Legal Assistance, Inc., provides few direct legal services to the elderly. Nearly all elderly cases are referred by PTL to Legal Services for Maine's Elderly, Inc., a private nonprofit, non-LSC entity funded by title III, OAA. Seven percent of local office cases were elderly clients (49 of 699 cases). No significant impact on elderly would be felt with elimination of Pine Tree Legal Assistance as proposed. Impact of loss of PTL Legislative Advocacy Unit is unknown as past initiatives have sometimes helped older people.

V. Food Stamp Program

Aroostook has 1,859 households with an elderly person as head of household on the food stamp program. Average benefit per household is estimated at $88 per month for all Aroostook recipients but the average elderly benefit is probably much lower.

Current Reagan administration proposals would eliminate an estimated 475 elderly households from the food stamp program in Aroostook.

VI. Residential Care Programs

(1) Intermediate care facilities (657 beds): Note section III on medicaid. It would appear that no significant impact will result. With a "capped" medicaid program and no new bed construction costs will still increase due to the inflationary trend which, in past years, has been in excess of 14 percent. Fewer people on a proportionate basis will receive care.

(2) Skilled nursing facilities (37 beds): Funded primarily with medicare, no impact is foreseen. Unlikely that any expansion of SNF beds will take place.

(3) Boarding care facilities (269 beds): Funded primarily on private pay basis with individual SSI checks being prime Federal fund source and the balance being State funds on an unmatched basis. With minimal SSI increases and a State-imposed ceiling on reimburesment which may not increase, it appears likely that as many as 50 percent of available beds may be lost by early 1982.

(4) Senior citizen housing development: Impact will be severe as construction costs soar and past available funds are curtailed.

Aroostook had been averaging approximately three new developments per year which may be cut to one per year.

VII. Elimination of Minimum Social Security Benefit

(1) Specific data is not available from Social Security Administration on numbers of people age 60 to 64 who might be severely impacted by an elimination of minimum benefit. It is this group who would be most severely hurt as they would be unable, unless disabled, to reapply for supplemental security income benefits. Women comprise the majority of this subgroup.

(2) Estimates of potential impact based on agency client records and using national/State actual figures indicate that potentially 109 women may be affected with loss of income as a result of elimination of minimum social security in Aroostook region.

ITEM 6. STATEMENT OF RUTH E. KOBELL, LEGISLATIVE ASSISTANT, NATIONAL FARMERS UNION

Mr. Chairman, I am Ruth E. Kobell, legislative assistant of the National Farmers Union, the sponsoring organization for Green Thumb and the representative of family farmers throughout rural America.

We appreciate your invitation to submit a statement on our concerns about the rural, low-income elderly, and the Green Thumb program which has, for the past 16 years, sought to address the serious problems of inadequate job opportunities and less than adequate means of support for rural people, age 55 and over.

My statement today will be brief because, we believe, the Green Thumb program and the participants in that program demonstrate and convey a message far greater than any I might deliver.

Mr. Chairman, our message is a simple one: In a time of severe economic pressures on most people, particularly the poor, we cannot afford to weaken or abandon those programs which have proved their success beyond question.

Your opening statement indicated the need to be certain that we do not leave "holes in the safety net" of essential programs. In the opening statement of your colleague, Senator Grassley, he said, "In addressing the major retirement income program needs of the future, I hope the witnesses will not overlook employment opportunities and incentives for older Americans. Every survey that I have seen indicates employment needs of the elderly will grow as a major issue in the years ahead."

Green Thumb, funded through title V, the senior community service employment program of the Older Americans Act, and administered by the Office of National Programs of the Department of Labor, is the outstanding example of the contributions such employment programs make to the workers and their communities.

As you well know from your home State of Pennsylvania, Mr. Chairman, Green Thumb has been instrumental in meeting the issue of employment opportunities for hard to employ older Americans head-on since 1968, and nationally we have gained 16 years of valuable experience in tailoring our employment training programs to the rural elderly.

But, you are also well acquainted with the statistics that with only 52,250 positions available for senior workers through title V, we are providing part-time employment for less than 1 percent of those elderly Americans at or below the poverty line. And further, if we take into account those men and women who are within 12 percent of the poverty guidelines, the number of people eligible for our program increases to 8 million. It is obvious to us, as I'm sure it is to members of this Special Committee on Aging, that the benefits from a program like title V weigh heavily in its favor at a time like this.

I mention this because the Older Americans Act must be reauthorized this year. At your March 20, 1981 hearing, I was pleased to hear the Under Secretary of Health and Human Services, David Swoap, testify that the administration was preparing draft legislation extending the Older Americans Act programs administered by HHS for a period of 3 years.

The National Farmers Union endorses Mr. Swoap's position. We, too, feel it essential to reauthorize the Older Americans Act in its entirety, to provide continuing, crucial services to our country's aging population. We do not believe those people 55 years of age and older would be well served by a fragmented Older Americans Act, with one part of it expiring 1 year and another 2 years after that.

And, Mr. Chairman, title V, the SCSEP program, must be kept within the act. It is unique in the Federal Government. Green Thumb, as the pioneer of this program, has been on the cutting edge of history. We have been able to bring together the skills, dedication, and commitment of senior citizens and the needs of rural America by working with local elected officials and community leaders.

From Green Thumb's beginning with 280 positions in four States, we have seen the program grow to 16,000 authorized positions in 45 States, the District of Columbia, and Puerto Rico, with over 3,000 projects and a nearly equal number of host organizations.

It is appropriate to ask: "Are Green Thumb and the other national contractors operating efficiently and effectively?" National contractors have indeed been prudent. By the end of the 1979-80 program year, more than 96 percent of the appropriated funds had been expended. In the case of Green Thumb, it had spent all but $17.07 by the end of the last program year.

It is also appropriate to ask: "Is title V being administered as it should?" There has been adequate testimony presented to your colleagues that the mix between national contractors and the States is working well. We have established good working relationships that have made our efforts to serve senior citizens more effective, whether the program is in New York City or in Puerto Rico. Each in their own way has made an important contribution toward bringing the older worker back into the mainstream of society.

It we concur that there continue to be unmet needs, then we must address the difficult question: "With limited Federal tax dollars, how can this program be permitted to continue to grow?"

We are answering a part of that question through the placements of our older workers from title V projects to unsubsidized, private industry jobs. Nationally, Green Thumb and the other seven contractors have a placement rate of about 13 percent. While this is good, it is a base which we are working to exceed.

Further success in unsubsidized placements are possible as we destroy those myths and misconceptions about older workers. Myths that they are not productive. Myths that they don't have the stamina or are not as "sharp" as they once were.

Earlier I extended an invitation to this committee to visit a project, to meet the people, to hear their stories, to see their enthusiasm. It is contagious, and it very often eliminates concerns on the part of potential employers almost immediately.

In Green Thumb, we are proving that the older worker can adapt to the jobs that must be done today. I refer specifically to the priorities of Green Thumb to encourage alternative energy development and food production.

This past year, we began training crews of Green Thumbers in the construction of solar collectors for home heating and hot water. We expanded this training to include solar greenhouses, to emphasize the passive heating characteristics as well as food production.

In food production, we have projects underway to "glean"—to gather—unharvested vegetables from farms and distribute them to families who are the most needy. At present, our Green Thumb State directors are exploring ways to work with food processors to collect those products which are wholesome, but can't be sold because of labeling or a short weight. These same directors are encouraging community gardens, and the Green Thumbers are serving as the chief labor force.

As we have Green Thumb workers involved in serving as aides in schools, in hospitals, and community centers. We have men and women who continue to maintain parks and repair the homes of those who have no resources whatsoever.

Last, Mr. Chairman, because of the many activities in which Green Thumb has been instrumental in rural America, they were asked to act as the facilitator for the six rural mini-conferences for the 1981 White House Conference on Aging. These conferences were a success and will contribute immeasurably toward a successful White House Conference this November and December.

There is ample evidence to show the importance of the title V senior community service employment program to the aging community to insure its future.

In closing, I would like to quote a brief part of a filmed interview with Senator Richard Lugar about the title V program. He made these comments;

"Nothing is more exciting to Americans of all ages than constructive work-productive work—ways in which we express ourselves. This is especially true of older workers who had great experience in life, who have so much to give at this point in their lives, and who sometimes by arbitrary regulation or laws of our society are cut off from those opportunities. The Green Thumb program is especially exciting because citizens who are over 55 years of age, at the prime of their productive years and their very experience, have a chance to serve others and they do so magnificently in all sorts of ways * * *

"This is a time in which we're interested—how as Americans we are going to produce more. There will be no end to inflation unless, on the supply side, we have more, we produce more, we bring more people into employment and through them even more persons into the mainstream. The Green Thumb program does this. It is a productive program. It's not a passvie program in which the people receive transfer payments and benefits or checks without effort. It's one in which effort is regarded and which we all are enriched by that process."

Thank you very much for giving the National Farmers Union the opportunity to testify before this committee.

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