

Unemployment benefits are paid to qualifying workers--about half of all unemployed persons--for up to 26 weeks under the regular state UI programs. In addition, if the unemployment rate in a state is above a certain level, workers are eligible for extended benefits for up to another 13 weeks. Finally, under the temporary Federal Supplemental Compensation (FSC) program, which under current law expires at the end of fiscal year 1983, additional federally funded benefits are available in all states for a period of 8 to 14 weeks, depending on the state's unemployment rate. Weekly UI benefits averaged \$113 in 1982, and approximately 11 million persons received benefits.

A number of changes have recently been made in the UI system. These changes have been intended both to hold down total federal spending for UI and to help restore solvency to the state systems, several of which have had to borrow from the federal government in the last few years to pay for benefits. (About 30 states currently have outstanding federal loans.) Under the Omnibus Budget Reconciliation Act of 1981, outlays for the federal/state extended benefit program were reduced by raising the insured unemployment rate necessary to trigger eligibility for extended benefits and by making other changes. These outlay reductions were somewhat offset by the passage of provisions in 1982 (under TEFRA) for the federal supplemental compensation program, which is available in all states. TEFRA also contained provisions aimed at increasing revenues to the unemployment

insurance system by increasing the wage base and tax rates for federal UI taxes. The proportion of UI benefits subject to the federal income tax was also raised--under current law, benefits received by single persons with incomes over \$12,000 and married couples with incomes over \$18,000 are subject to tax, while under prior law the limits were \$20,000 and \$25,000 respectively. Finally, under the recently passed Social Security Amendments, the FSC program, which had been scheduled to expire on March 31 of this year, was extended through September 31, 1983.

On net, these changes increased outlays for UI by about \$3 billion in 1983, or almost 11 percent relative to the 1981 baseline. Projected outlays for 1984 and 1985 are significantly lower under current law than under the revised 1981 baseline, however; reductions in extended benefits have lowered projected outlays for those years by about 15 and 18 percent respectively. If the FSC program is again extended, it will offset some of these reductions.

Aid to Families with Dependent Children

The AFDC program provides cash benefits to low-income single-parent families with children. (At state option, benefits may also be provided to two-parent families with an unemployed head of household; about 7 percent of all recipient families are in this category.) The program is jointly financed by the federal government and the states under a matching

formula, and benefit levels are set by the states. Benefits range from a low of \$96 a month for a family of three with no other income in Mississippi to a high (within the continental United States) of \$513 per month for a similar family in Connecticut. Other income received by AFDC recipients, such as earnings, offsets their benefits. About 3.5 million families received an average of \$306 in October 1982. Adult recipients are required to register for work or for job training unless they are caring for a child under the age of six or are otherwise excused. Enrollment in the AFDC program also confers eligibility for Medicaid, the health-care program for the poor.

Major changes in the treatment of AFDC recipients with earnings were enacted in 1981 as part of OBRA. Under prior law, only part of a recipient's earnings offset benefits; recipients could exclude the first \$30 of monthly earnings and one-third of the remainder from their "countable income" in determining benefits. For example, a woman with earnings of \$330 a month in a state with a maximum benefit above that level would have received \$130 more in AFDC benefits under the "thirty and a third" rule than if all of her earnings were counted as income, reducing her benefits dollar for dollar. This rule allowed some recipients whose incomes would otherwise have been too high to maintain their AFDC eligibility.

Under OBRA, however, this "thirty and a third" exclusion ends after four months of a recipient's earnings. As a result, many AFDC recipients

with earnings no longer qualify for benefits, and others have had their benefits reduced. In addition to the change in the "thirty and a third" rule, other OBRA changes affected earners. Deductions of work-related expenses from countable income were reduced and were resequenced so that the "one-third" deduction, when available, came after the work-related expense deductions rather than before. Eligibility was ended for families with incomes above 150 percent of each state's need standard. And the Earned Income Tax Credit (EITC) was counted as income monthly, whether it was received in advance or not.

In addition to the changes affecting workers, several other changes in AFDC were also enacted under OBRA. Benefits were reduced or eliminated for children with a stepparent in the home, and they were eliminated for students beyond high school and, until their last trimesters, for pregnant women with no other children. Other changes were: including lump-sum payments in income for the purposes of determining a family's need; tightening resource limits; mandating retrospective accounting and monthly reporting of recipients' incomes; requiring recoupment by states of overpayments and reimbursement of recipients for underpayments; and explicitly authorizing optional state "workfare" projects requiring recipients to "work off" their payments.

Of the 450,000 to 500,000 families with earnings estimated to be receiving AFDC at the time of the OBRA changes, about one-half are estimated to have lost eligibility because of OBRA. Another 40 percent are estimated to have had their AFDC benefits reduced, and the remaining 10 percent to have received unchanged or higher benefits. The other OBRA changes, which affect primarily non-earners, are estimated to have made at least another 100,000 families ineligible and reduced benefits significantly for another 100,000.

Additional small changes in AFDC benefits were enacted in 1982 under TEFRA. These changes included rounding down of benefits and prorating of the first month's benefit based on the date of application. These changes, together with the OBRA changes, have reduced projected outlays for AFDC by about 13 percent over the 1982-1985 period relative to what they would have been under the revised 1981 baseline.

Food Stamps

The Food Stamp program provides coupons redeemable for food to low-income persons and families. Benefits are federally funded and do not vary by state as do those in the AFDC and UI programs. Benefit levels are based on an index known as the "Thrifty Food Plan," which measures the price of a nutritionally adequate low-cost diet, and are adjusted periodically as food prices change. Benefits received by persons with no countable

income equal 99 percent of the Thrifty Food Plan amount for the appropriate household size. For a three-person family with no other income, for example, benefits would be \$199 per month. For families that do have some income, benefits are reduced by 30 cents for each dollar of other income received, on the assumption that such households are able to spend about 30 percent of their incomes on food. 11/ In general, eligibility for benefits depends only on recipients' income levels and assets, although program rules limit the eligibility of workers on strike, post-secondary students, resident aliens, and certain other, relatively small groups. About 22 million people received benefits each month in 1982, and the average monthly benefit was about \$39.

Several changes in the Food Stamp program were enacted in 1981 to reduce program costs. The largest savings resulted from the provisions eliminating the inflation adjustment for benefit levels in 1982 and postponing certain later inflation adjustments. Other changes included replacing the Food Stamp program in Puerto Rico with a block grant, prorating the first month's benefits based on the date of application, and eliminating eligibility for households with gross monthly incomes over 130 percent of the federal poverty level, unless they have elderly or disabled members.

11. Benefit reductions are based on "countable income," which allows a standard deduction of \$85 and, under some circumstances, deductions for shelter costs and certain work-related and medical expenses.

Additional changes in the Food Stamp program enacted in 1982 included a reduction in the basic benefit amount from 100 percent to 99 percent of the Thrifty Food Plan amount for fiscal years 1983-1985, rounding down of benefits to the next lowest dollar, and changes designed to penalize states for high administrative error rates.

In all, the 1981 and 1982 changes combined reduced Food Stamp program outlays by about 13 percent relative to the projected outlays for the 1982-1985 period under the revised 1981 baseline. For the most part, these savings result from the delays in benefit increases, which affect most program recipients. In addition, however, the changes eliminated the eligibility of about 4 percent of program recipients, or about 1 million people.

Child Nutrition Programs

The child nutrition programs, which include the National School Lunch Program, the National School Breakfast Program, the Summer Feeding Program, the Child Care Feeding Program, and several other small programs, provide assistance in both cash and commodities. Most of these programs subsidize meals for children in schools, child-care facilities, and other institutional settings. In general, subsidies are higher for children from low-income families, but children from middle-income households may receive some subsidy. Federally determined formulas are used to set subsidy levels,

which are uniform nationwide for participating institutions. Typically, the federal government provides about half of the funding for such child nutrition programs, with the remainder coming from state and local governments and from students' families. In 1982, about 23 million children participated in the National School Lunch Program, the largest of the child nutrition programs.

Outlays for the child nutrition programs were reduced by about 28 percent relative to the revised 1981 baseline projections for 1982-1985 as a result of the Omnibus Budget Reconciliation Act of 1981. Most of the savings came from reductions in federal subsidy rates for student meals and from changes in the family income levels that determine the type of subsidy for which a child is eligible. Participation in the school lunch program fell by about 3 million in the first year after the changes were made, with about one-third of the decline resulting from reductions in the participation of children qualifying for free and reduced-price meals. The remainder of the decline in participation came from a decrease in the number of children receiving "paid" lunches, for which the federal government also provides a small subsidy, although the bulk of the costs are paid for by students' families.

WIC

The Special Supplemental Food Program for Women, Infants, and Children (WIC) provides specified supplemental foods to low-income pregnant and post-partum women and to infants and young children. Although funding for the program is federal, benefits are provided through state health agencies (or comparable agencies), and they take the form of actual food items such as milk, cheese, fruit juice, and eggs, or of vouchers for specific foods. Eligibility depends on both income level and evidence of nutrition-related health risk. The specific income eligibility standard that applies is set by local health agencies, but it must be between 100 percent and 185 percent of the poverty level. At the end of 1982, the program was serving approximately 2.4 million persons, who received food supplements valued at about \$30 per month on average.

Unlike most of the programs discussed so far, WIC is an appropriated program rather than an entitlement--that is, expenditure levels are set each year by the Congress, rather than being determined by the numbers and types of persons who apply for benefits. The projected outlays shown in the baseline estimates for such programs represent the appropriation that would be necessary to maintain current levels of services under the program. The \$930 million in outlays for WIC in 1982--although it was the same amount that had been spent in 1981--therefore represented a slight decline in

outlays relative to the baseline estimate. ^{12/} Since 1982, however, appropriations for WIC have been increased twice, most recently in the Emergency Jobs Appropriation Act, and the 1983 baseline projection for the program is about 4 percent higher for the 1982-1985 period as a whole than was the revised 1981 baseline projection.

Housing Assistance

The bulk of housing assistance is provided through the Section 8 and public housing programs, which subsidize rents for low-income families and elderly individuals. To qualify for housing assistance, families must have incomes below 80 percent of the median for their area, and more than 90 percent of the aid is reserved for those with incomes below 50 percent of the local median. Families participating in Section 8 and public housing pay 27 percent to 30 percent of their adjusted income in rent, and the remainder of the rent they owe is paid by the Department of Housing and Urban Development (HUD). In 1982, subsidies were provided for approximately 2.8 million rental units.

Projected outlays for housing assistance, including public housing operating subsidies, are about \$1.8 billion lower for the years 1982-1985

12. Spending authority for 1982 also included a small amount of funding that was appropriated but not spent in 1981, and a slightly larger number of recipients were served in 1982. Average benefits levels also increased slightly in nominal terms.

under the current baseline than under the revised 1981 baseline. Most of the difference is accounted for by a reduction over the last two years in the number of new long-term housing assistance commitments made each year, and an increase in tenants' rent payments from 25 percent to 30 percent of their adjusted incomes. This increase is still being phased in.

Low Income Energy Assistance

The Low Income Energy Assistance (LIEA) program provides assistance with heating and cooling costs, low-cost weatherization, and energy-related emergencies to low-income persons and families. In 1982, about 60 percent of the funds were used for heating assistance, and the average annual benefit provided for this purpose was \$182. In all, between 8 million and 9 million assistance grants were made. The program is entirely federally funded, but is operated by the states, which have considerable discretion in the allocation of funds.

Several changes in the Low Income Energy Assistance program were made under OBRA. Appropriations were held constant at 1980 levels, the types of energy assistance allowed were expanded, and states were given the option of transferring up to 10 percent of their allotted funds under the program into other health or social services block grants. (Transfers from those programs into LIEA were also authorized.) Federal requirements for state reporting on planned use of the funds were also eased. In all,

projected outlays for the 1982-1985 period were reduced by about \$700 million relative to the revised 1981 baseline.

HEALTH CARE PROGRAMS

Outlay reductions in health-care programs will total \$18.4 billion for the 1982-1985 period. Reductions from the 1981 baseline of 5 percent in both Medicare and Medicaid constitute the bulk of the changes, because these two entitlement programs account for more than 95 percent of all federal spending for health-care benefits considered here. Larger proportional reductions were enacted in programs now directed by the Health Resources and Services Administration, however--primarily in the categorical programs consolidated into the health block grants. Table 7 summarizes total outlays and the impacts of legislative changes on outlays since 1981.

Medicare

Medicare, the largest health care program, provides benefits principally in the form of payment for hospital and physicians' services for elderly and disabled patients. In 1982, more than \$50 billion was spent on this program. Eligibility is linked to Social Security eligibility, and more than 90 percent of the 29 million beneficiaries are over the age of 65. Hospital Insurance--Part A of Medicare--is funded through a trust fund financed by taxes paid by workers in jobs covered by the Social Security system. Supplementary Medical Insurance--Part B--is funded jointly through beneficiaries' premium payments and from general federal revenues.

TABLE 7. HEALTH CARE PROGRAMS--CURRENT BASELINE SPENDING PROJECTIONS AND PERCENTAGE CHANGES IN OUTLAYS AS A RESULT OF LEGISLATIVE ACTIONS, FISCAL YEARS 1982-1985

Programs	Outlays (in billions of dollars) ^{a/}				
	1982	1983	1984	1985	Total 1982-1985
Medicare	50.4	57.4	66.0	74.9	248.7
Medicaid	17.4	19.5	21.3	24.2	82.4
Other Health Services ^{b/}	1.3	1.3	1.2	1.2	4.9

	Percentage Change in Outlays as a Result of Legislative Action Since 1981 ^{c/}				
Medicare	-1.1	-4.8	-5.9	-6.9	-5.0
Medicaid	-4.7	-5.0	-5.9	-2.8	-4.5
Other Health Services ^{b/}	-5.7	-15.8	-28.9	-33.6	-22.0

SOURCE: Congressional Budget Office.

- a. Reflects legislative changes made before July 31, 1983. Based on February 1983 economic assumptions.
- b. Includes all programs previously under the Health Services Administration. Among these are three categorical programs, for family planning, migrant health, and black lung clinics, and two block grants, for primary care and maternal and child health. For technical reasons, the block grants for substance abuse and preventive care have been excluded. Funding for the excluded block grants declined by 16.1 percent between 1981 and 1982, compared to a 15.8 percent decline for the two that were included.
- c. The 1981 baseline, revised to reflect current economic assumptions, is used as the base for computing percentage changes.

Rapid growth in Medicare outlays--at an annual rate of nearly 18 percent since 1970--reflects the general trend toward rising costs throughout most of the health-care sector. To reduce costs in Medicare, major changes have been enacted in the way in which hospitals are reimbursed and, to a lesser extent, in the contributions required of beneficiaries. The types of services provided have largely been unaffected by legislative changes enacted since 1981.

Changes enacted in Medicare under OBRA included both lower reimbursement levels for hospitals--which did not have a direct impact on individuals--and greater required contributions from beneficiaries. These additional costs to beneficiaries, which will save more than \$2 billion in the 1982-1985 period, largely represent changes in the deductible amounts for both Part A and Part B services. More than two-thirds of the 29 million Medicare beneficiaries will be affected by these benefit changes each year, with the magnitude of effects depending on their patterns of use of health services.

Several changes made in 1982 under TEFRA will also affect beneficiaries, although the largest savings were achieved by further restricting hospital reimbursements through limits on both total program operating costs per admission and rates of growth in payments. Among the changes affecting beneficiaries are lower reimbursements to radiologists

and pathologists, and making Medicare coverage secondary to private insurance for the working elderly. The first of these changes, lowering reimbursements from 100 percent to 80 percent of "reasonable" charges for these two physician groups, will result in increased billing to Medicare beneficiaries using these services. The second, making Medicare a secondary payer for employed beneficiaries aged 65 through 69 who elected to choose health-care coverage provided by employers, may influence beneficiaries' chances for employment or their wages and fringe benefits over time. Another change affecting beneficiaries was an increase in the Part B premium through 1985. Not shown in the outlay totals summarized here--they do not directly affect outlays--these higher premiums will nevertheless raise costs to beneficiaries by \$820 million over the 1982-1985 period.

Changes in Medicare under the Social Security Amendments of 1983 effectively lowered the increase in premium costs by delaying the changes from July to the following January of each year and introduced a cost-neutral change in hospital reimbursement--a payment system based on diagnostic-related groups. The net effect of these changes was to lower slightly--by about \$200 million--the projected reduction in Medicare outlays over the 1982-1985 period.

