

CBO Technical Reestimates for Medicaid (In millions of dollars)

	1982	1983	1984	1985
Existing Law	-159	58	-461	-1,011
Proposed Legislation	<u>-34</u>	<u>-38</u>	<u>279</u>	<u>364</u>
Total	-193	20	-182	-647

CBO projects a smaller growth rate for the Medicaid program in 1982 than the Administration. This smaller rate is consistent with the current fiscal year's spending pattern. The Treasury statements for the first quarter of fiscal year 1982 show only \$4,113 million in outlays for the Medicaid program, indicating that increases in Medicaid spending are slowing down. This represents a growth rate of one percentage point less than the previous year's growth rate for the first quarter of the fiscal year. In addition, discussions with state officials indicate that they are making efforts to restrain Medicaid spending because of current fiscal conditions. California is attempting to contain costs through changes in eligibility, benefits, and rates. New York has already made several program changes this year in an effort to hold down costs.

CBO also estimates different levels of projected savings for program changes made in the 1981 reconciliation act. One of the provisions of this act established a reduction in federal Medicaid payments to each state. However, a state is entitled to receive a supplemental adjustment to this reduction if total federal Medicaid funding of the state's program in a year falls below a specified target level. The supplemental adjustment for the 1982 reduction will be awarded in 1983, so that awards will lag one year behind the reduction. CBO's projected lower growth rate in 1982 results in more states falling below the specified target level. Thus, CBO's estimate of the supplemental adjustment payments to be awarded in 1983 is higher than the Administration's estimate.

Once a state exceeds the target level, however, it would be very difficult not to continue to exceed the target in subsequent years, because target rates are cumulative from year to year. A state would have to decrease spending in subsequent years to compensate for previous years' growth. This would be quite difficult and therefore the supplemental adjustment payments should decrease over time as fewer states will be able to qualify for these payments. The Administration shows an increase in these payments over time.

In addition, the Administration shows no savings as a result of the flexibilities given to the states in the 1981 reconciliation act. The flexibilities were established to provide states with greater latitude in operating their programs. For example, the flexibilities allow states to determine hospital reimbursement rates and to purchase laboratory services competitively for their Medicaid recipients. The states must submit waiver requests for many of the flexibilities. At present, 42 states have submitted waiver requests relating to specific provisions of the 1981 reconciliation act. Furthermore, discussions with state officials indicate that efforts are being made to achieve savings in this area, and in 1983 and beyond such savings should be realized.

CBO estimates lower savings for the proposed legislation in the budget than the Administration. A small portion of this reestimate in the Medicaid program is the result of CBO's reestimate of the savings in the Aid to Families with Dependent Children (AFDC) program. CBO shows no estimated savings from the Administration's legislative proposals in the AFDC program in 1982 and slightly reduced savings in 1983. Therefore, the estimated impact of these AFDC proposals on the Medicaid program is eliminated in 1982 and adjusted in 1983.

CBO also reestimated the impact of proposed legislation on the level of supplemental adjustment payments. The proposed legislation will substantially slow program growth to a point at which more states are estimated to qualify for these payments. This would increase projected program costs in 1983 and 1984 by \$279 million and \$364 million.

Finally, CBO has made no further reestimates of the Administration's legislation proposals or regulatory changes in the Medicaid program, because there is no legislative or regulatory language available at this time. As such language becomes available, CBO will examine the proposals more closely.

UNEVALUATED ADMINISTRATION SAVINGS

The President's budget includes substantial savings in Medicare from both administrative and legislative proposals that are undeveloped at this time. Because the details of the proposals are not available, CBO has been unable to evaluate the savings from them assumed in the budget.

President's Budget Savings in Medicare from Undeveloped Proposals (In millions of dollars)

	1982	1983	1984	1985
Reform Health Care Financing (Future Legislation)	---	---	-1,950	-4,100
Improve Contractor Utilization Review Activities (Administrative Savings)	---	<u>-362</u>	<u>-405</u>	<u>-460</u>
Total	---	-362	-2,355	-4,560

The health care financing reforms to be proposed are intended to strengthen market forces in health care. The Administration's March 1981 budget included savings from similar future legislation known as the competition proposal. Savings included from that proposal were \$0.5 billion in 1983, \$1.6 billion in 1984, and \$3.7 billion in 1985. Thus, in the current budget, savings have grown by \$0.4 billion in both 1984 and 1985, although implementation of the proposal has been delayed. Moreover, the savings in the current budget are in addition to savings of \$850 million in 1984 and \$950 million in 1985 from a proposed 2 percent reduction in reimbursements to hospitals, itself billed as an interim measure until the financing reforms are enacted. Together these assumed savings represent reductions of 4.3 percent and 6.7 percent from projected Medicare spending under existing law in 1984 and 1985, respectively. To achieve savings of such magnitude as early as assumed in the budget, the strengthening of market forces would have to include some combination of large benefit reductions and shifts of costs to beneficiaries or providers.

The Administration attributes the savings from the utilization reduction initiative to two activities: intensified efforts by Medicare's contractors to reduce waste in the provision and use of health services (that is, stepped-up medical and reasonable charge review), and what the Administration describes as "a similar effort in the private sector recently announced by a coalition of health providers, health insurers, business, and labor." CBO has not been able to obtain from the Administration details about either activity nor any substantiation of the estimated savings included in the President's budget. Based on discussions to date, however, it would appear that the estimated savings from this proposed initiative are optimistic.

FUNCTION 600: INCOME SECURITY

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	250,870	261,736	274,808	290,122
Preliminary CBO Reestimates				
Different economic assumptions				
Social Security and SSI	---	---	1,237	5,920
Unemployment compensation	---	736	1,498	3,445
Food stamps and AFDC	---	105	293	1,054
Technical reestimates				
Social Security (OASDI)	954	920	1,178	-210
Civil Service Retirement	225	332	448	612
Unemployment compensation	-239	-27	311	463
Food stamps	245	298	-255	-395
Child nutrition	245	130	115	---
Supplemental Security Income	-122	-180	-134	-165
Assistance payments (AFDC)	---	243	179	328
Energy assistance	123	---	---	---
Total Reestimates	<u>1,430</u>	<u>2,557</u>	<u>4,870</u>	<u>11,052</u>
President's Budget Reestimated	252,300	264,293	279,678	301,174

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

Outlays in income security programs are sensitive to changes in economic conditions, most notably increases in prices and changes in unemployment levels. Both CBO and the Administration show improving economic conditions over the forecast period. However, the economic recovery reflected in CBO's economic assumptions is not as rapid as that in the Administration's assumptions. CBO assumes higher cost-of-living adjustments (COLAs) in indexed programs beginning in 1984 and higher rates of unemployment beginning in 1983.

Social Security and SSI. Social Security and Supplemental Security Income (SSI) benefits are automatically adjusted each year for increases in the cost of living as measured by the Consumer Price Index. The 1982 and

1983 COLAs assumed by CBO for these programs are the same as those of the Administration. CBO's assumed COLAs exceed the Administration's by 2.4 percentage points in 1984 and by 1.7 percentage points in 1985, resulting in the upward reestimate of outlays.

The Old Age and Survivors Insurance (OASI) program accounts for most of the reestimate, as shown in the table below. The Disability Insurance (DI) and Supplemental Security Income programs also contribute to the reestimate.

Effects on OASDI and SSI of Different COLAs (Outlays in millions of dollars)

	1982	1983	1984	1985
Old Age and Survivors Insurance	---	---	1,050	5,056
Disability Insurance	---	---	146	641
Supplemental Security Income	---	---	41	223

Although the program is currently indexed to the CPI, no economic reestimate is shown for Civil Service Retirement because the President's budget proposes to limit future COLAs to the lesser of the change in the CPI or the general schedule pay increase for federal employees. Under CBO's baseline economic assumptions, the projected COLAs will exceed the federal pay raise in each year.

Unemployment Compensation. CBO's projection of the rate of unemployment exceeds the Administration's by 0.2 percentage points in fiscal years 1983 and 1984 and by 0.6 percentage points in fiscal year 1985. Unemployment compensation is very sensitive to differences in assumed unemployment rates. By 1985, CBO's estimate of unemployment compensation is above the Administration's by \$3,445 million. A small part of this difference is explained by CBO's higher assumed rates of inflation.

Food Stamps and Aid to Families with Dependent Children (AFDC). The food stamp and AFDC programs are sensitive to changes in both unemployment rates and rates of inflation. When unemployment rates rise, participation increases in both programs, especially in food stamps. When rates of inflation rise, average payments per recipient rise: in food stamps

because allotments are automatically indexed to the Department of Agriculture Thrifty Food Plan and in AFDC because some states are mandated or choose to increase payments as prices rise.

Because of the differences in economic assumptions, CBO's estimates of food stamp outlays are \$50 million higher than the Administration's in fiscal year 1983 and \$719 million higher in 1985, as shown in the table below. CBO's higher assumed unemployment rate explains all of the reestimate in 1983 and 40 percent of the reestimate in 1985. Higher prices explain the remaining 60 percent in 1985. In AFDC, CBO's estimated outlays are \$55 million higher than the Administration's in 1983 and \$335 million higher in 1985. Higher prices explain about 60 percent of the difference in 1983 and 70 percent in 1985.

Effects on Food Stamps and AFDC of Different Economic Assumptions
(Outlays in millions of dollars)

	1982	1983	1984	1985
Food Stamps	---	50	134	719
AFDC	---	<u>55</u>	<u>159</u>	<u>335</u>
Total Economic Reestimate	---	105	293	1,054

Technical Reestimates

Social Security. The Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs are very large, with combined outlays in 1981 totaling \$139.6 billion. Consequently, even a minor difference in technical reestimates can cause a large difference in outlays in absolute terms. Many of the technical reestimates in Social Security discussed below are minor.

The CBO technical reestimate of OASI shows slightly higher outlays throughout the 1982-1985 period, as presented in the table below. This reestimate is only 0.6 percent of total OASI outlays. The DI technical reestimate is proportionately somewhat larger, but it is still less than 2 percent of program outlays. Sources of the technical reestimates of OASI and DI are discussed, in turn, below.

CBO Technical Reestimate of OASI and DI (Outlays in millions of dollars)

	1982	1983	1984	1985
Old Age and Survivors Insurance	858	440	799	275
Disability Insurance	<u>96</u>	<u>482</u>	<u>379</u>	<u>-485</u>
Total Technical Reestimate	954	922	1,178	-210

In OASI, CBO's technical reestimate of the President's budget reflects primarily a slightly higher estimate of the number of beneficiaries. CBO is projecting approximately 100,000 to 125,000 more retired workers on average over the course of fiscal year 1982 than is the Administration. This difference represents less than 0.5 percent of all retired workers. In 1983 and 1984, CBO's estimated number of recipients averages about 150,000 more than the Administration's estimate. By 1985, these differences have narrowed with the sustained improvement in the economy.

CBO's method of forecasting recipients differs from the Administration's in several technical respects. Most importantly, it takes into account the effect of the economy on retirement decisions. Some individuals may find retirement an acceptable alternative to worsening labor market conditions, resulting in a greater number of retirements than if labor market conditions were better.

A rise in outlays above what the Administration is estimating for 1982 is substantiated by recent data on benefit payments. Benefit payments typically rise from month to month over the course of the fiscal year. For example, the monthly increase averaged \$40 million in 1981, based on Treasury data. Recent Social Security Administration (SSA) data show monthly increases of \$40-60 million for the first five months of 1982. Yet the Administration's 1982 estimates indicate little, if any, monthly rise in benefit payments during the remainder of 1982. In contrast, CBO's estimates assume a \$20 million average monthly increase over the remainder of the year. (The \$20 million monthly increase is low by historical standards because of the effects of the 1981 reconciliation act.)

In DI, a technical reestimate has brought the Administration's numbers in line with CBO's published baseline budget projections. It is difficult to identify all of the technical factors contributing to the difference in outlays between CBO and the Administration. Several important factors can be identified: differences in savings from management initiatives and differences in numbers of beneficiaries.

In its 1982 budget, the Administration proposed to tighten the management of the DI program by searching for and terminating all disability beneficiaries who do not meet the program's current disability criteria. These continuing disability investigations are being maintained as a management initiative in the 1983 budget. They are to be in addition to those mandated in the 1980 Disability Amendments, as well as those planned under current law. Sorting out these effects is difficult, but CBO estimates that this proposal can save \$110 million in fiscal year 1982 and \$833 million in 1985 in benefit payments from the DI trust fund, as compared with the Administration's estimated savings of \$370 million in 1982 and \$1,210 million in 1985. Thus, CBO's estimates of savings are lower by about \$250 million to \$375 million, respectively.

CBO is assuming a much lower number of terminations than the Administration as the result of the continuing disability investigations. Based on an error rate of 15 percent (determined by the General Accounting Office) and recent reversal rates in denied cases, CBO estimates that ultimately 115,000 additional beneficiaries will be terminated and kept off the rolls to obtain these savings. The Administration assumes that the number terminated will be approximately twice this level.

As to the number of beneficiaries, CBO's projections show somewhat higher numbers in fiscal years 1982-1984 and a lower number in 1985. Projections of beneficiaries are subject to considerable uncertainty. In the last year, the number of DI beneficiaries has declined sharply for reasons that are not clear. However, 1982 data from the Monthly Treasury Statements for the fiscal year to date show a flow of cash benefit payments that appears to be consistent with the CBO reestimate.

CBO's methodology assumes that, as labor market conditions deteriorate, many disabled workers will find DI benefits an attractive alternative to diminishing labor market prospects. Although the impact of labor market conditions acts to increase the estimated number of beneficiaries relative to the Administration's estimates, this increase is partially offset by effects of the 1977 and 1980 Social Security legislation, the 1981 reconciliation act, and other administrative actions. These effects are not available on a disaggregated basis from SSA.

By 1985, however, CBO's projected number of beneficiaries is below the Administration's. This reflects, in part, shifts in demographics: the number of people in the age groups most likely to become disabled is projected to decline over the next few years. The number of people aged 50 to 64 is projected to decline after 1982, while the rate of increase of those aged 60 to 64 is projected to slow dramatically beginning in 1984.

Civil Service Retirement. CBO projects Civil Service Retirement outlays above the President's budget throughout the 1982-1985 period. The higher outlays reflect higher refunds paid to separated government employees and higher annuity payments, as shown in the table below.

Components of CBO's Technical Reestimate for Civil Service Retirement (Outlays in millions of dollars)

	1982	1983	1984	1985
Refunds	130	104	158	217
Annuities	<u>95</u>	<u>228</u>	<u>290</u>	<u>395</u>
Total Technical Reestimate	225	332	448	612

Refunds paid to separated government employees have averaged \$74 million per month so far in fiscal year 1982. The Administration's annual estimate averages \$41 million each month. CBO's incorporation of later data on refund payments results in \$130 million of the higher 1982 outlays in Civil Service Retirement.

In 1983 to 1985, about one-third of CBO's higher outlays reflects higher projected refund payments. CBO's projection of refunds reflects the historical growth in these payments. As illustrated in the table below, the President's budget shows no growth in projected refund payments in these years. In fact, the Administration's estimate of \$428 million a year in refunds for 1983 to 1985 represents a slight decrease from actual 1981 payments. With the Administration's proposal to reduce federal employment, refunds to separated government employees are not likely to decline from 1981 to 1983.

In addition to higher refund payments, CBO also projects higher outlays for annuities in all years. CBO's projections are based on outlays through the first quarter of fiscal year 1982, cash disbursements for annuity payments, and the Administration's most recent actuarial estimates for the growth in the program. Relying upon the Administration's most recent growth assumptions for annuities and actual benefits to date, CBO's annuitant outlays exceed the President's budget by \$95 million in 1982 and by \$395 million in 1985.

Refunds to Separated Government Employees from the Civil Service Retirement Fund (In millions of dollars)

	Average Annual Percentage Growth, 1977-1981	1982	1983	1984	1985
Administration	12.7	493	428	428	428
CBO	12.7	623 <u>a/</u>	532	586	645

a/ CBO's 1982 estimate incorporates actual refunds to date.

Unemployment Compensation. The technical reestimate of unemployment trust fund outlays can be analyzed in terms of differences in the projected number of weeks of unemployment compensation being paid and in the expected increase in the average weekly benefit amount. The table below compares the Administration's and CBO's estimates of weeks of unemployment compensated and of average weekly benefits. Both sets of estimates are based upon the Administration's economic assumptions.

Unemployment Compensation: Weeks Compensated and Average Benefits

	1982	1983	1984	1985
Weeks Compensated (in millions)				
Administration	211.62	181.74	151.32	132.47
CBO	202.87	175.99	148.34	129.14
Average Weekly Benefits (in dollars)				
Administration	107.36	113.48	118.79	122.92
CBO	110.64	116.86	123.32	129.69

NOTE: Based on the Administration's economic assumptions.

Because of the flow of unemployment insurance claimants into and out of employment, it is more useful to speak of weeks of compensated unemployment rather than numbers of beneficiaries. For reasons that are not completely understood, the insured unemployment rate has been diverging from the total unemployment rate for the past year. The insured unemployment rate is the number of persons currently claiming state unemployment compensation benefits divided by the level of covered employment in a recent historical period. This phenomenon has resulted in fewer persons actually drawing weeks of compensation than would be expected from past experience during periods of high unemployment. Because of this, CBO projects fewer weeks of compensation being paid than does the Administration even at the same unemployment rate.

On the other hand, the Administration's estimates assume a rate of increase in average weekly benefits below recent experience, even after taking into account the lower wage and price increases it expects. The fiscal year 1982 average benefit amount projected by the Administration is at approximately the same level as the actual average for the first quarter. In recent years, the first quarter's average benefit has been lower than that for the following three quarters by about \$5.00.

The first of these two conflicting differences is stronger in 1982 and 1983 and results in technical reestimates that lower the level of outlays. The second is more influential in 1984 and 1985; as a consequence, it reinforces the economic differences and increases outlays.

The Administration is proposing legislation that would further dramatically diminish the size of two auxiliary unemployment compensation programs: trade adjustment assistance (TAA) and unemployment compensation for ex-service members (UCX). All TAA beneficiaries who are not enrolled in approved training as of July 1, 1982, would be eliminated from cash benefit assistance. As a result, the income transfer component of this program would be eliminated by 1984. CBO estimates \$16 million more will be spent in 1982, primarily based upon the pattern of expenditures thus far in the fiscal year. The UCX legislation would eliminate from program eligibility those future potential beneficiaries who are barred from reenlistment rights. Based upon Defense Department enlisted personnel separation data, CBO believes that the number of claimants the Administration is projecting is too low in 1982 and 1983. Thus, CBO estimates the Administration's UCX outlays upward by \$20 million and \$17 million in these years.

Food Stamps. Technical reestimates of food stamp outlays result from differences between CBO and the Administration in estimates of the current policy baseline and in estimated effects of proposed legislation on program cost. The following table shows these components of the technical reestimate.

Components of CBO's Technical Reestimate of the Food Stamp Program
(Outlays in millions of dollars)

	1982	1983	1984	1985
Current Policy Baseline	0	-162	-130	-267
Proposed Legislation	<u>245</u>	<u>460</u>	<u>-125</u>	<u>-128</u>
Total Technical Reestimate	245	298	-255	-395

The downward technical reestimate of the current policy baseline in 1983 through 1985 results primarily from differences in projection methods. The Administration's forecast includes less of a decrease in program participation in response to economic recovery than does the CBO forecast. By 1985, the Administration's current policy projection of participation exceeds CBO's by 5 percent, or nearly one million people. The Administration includes a factor in its projection method that acts like a time trend and contributes to increases in participation levels through time. This is one of several reasons that the Administration's current policy baseline exceeds CBO's estimate. Sufficient detail on the Administration's forecasting techniques is not available to make a complete analysis of the differences.

A reestimate of savings from proposed legislation explains much of the difference between the CBO and the Administration estimates. The entire 1982 technical reestimate of \$245 million reflects a reestimate of proposed legislative savings. The Administration has assumed that four of the major proposals requiring legislation would be effective on July 1, 1982. It has not made clear how much time will be needed to issue regulations, to allow states to prepare to make the changes, and to implement the changes. For these four proposals, implementation requires the review of over 7 million case files. Previous experience indicates that a period of at least four to five months is required following enactment of legislation to allow for full implementation. Enactment of the Administration's latest legislative proposals is not likely to occur in time to realize savings during fiscal year 1982.

CBO also does not include full savings during the first months of fiscal year 1983 to allow time for full implementation of the proposed changes. This accounts for \$70 million of the \$460 million technical

reestimate of proposed legislation. The remainder is a \$390 million reestimate of savings in the Administration's legislative proposals, for two reasons. The first is that the Administration has not subtracted the costs of the food stamp program in territories other than Puerto Rico in its budget estimates. The proposal to replace the food stamp program and other nutrition programs in these areas with a block grant starting in 1983 would reduce food stamp outlays by about \$45 million. The second involves the Administration's proposal on "erroneous payments." In this proposal, the federal government will no longer have responsibility for erroneous benefits in excess of 3 percent in fiscal year 1983, 2 percent in 1984, and 1 percent in 1985. CBO's estimate of the effects of this proposal differs from the Administration's with respect to when the savings would be realized. The Administration has assumed that error rates will be at the target levels in each year. If this were to occur, savings would be realized during the current year rather than during the year following when actual error rates are known and states are assessed for erroneous benefits in excess of the target levels. CBO feels that dramatic improvements in rates of error due to overpayment or ineligible participation such as assumed by the Administration are not possible and that much of the outlay savings, especially in the first few years following enactment, will result from state assessments rather than actual reductions in errors. This difference in assumed timing of savings accounts for all but a small portion of the remaining 1983 technical reestimate.

The 1984 and 1985 differences due to reestimates of proposed legislation of -\$125 million and -\$128 million result, in part, from including projected current policy outlays from the food stamp program in the territories in the estimate of savings due to proposed legislation. Also, the redistribution of erroneous payments from earlier years adds to 1984 and 1985 savings.

Child Nutrition. The technical reestimate of \$245 million in fiscal year 1982 results from differences in projected numbers and types of meals served in the school breakfast and national school lunch programs and differences in assumed spending patterns from current year budget authority.

In the school breakfast program, CBO has projected 600 million meals during fiscal year 1982, a decline from the 1981 level of 652 million, while the Administration forecasts an increase to 675 million meals. Early participation data from this school year indicate nearly a 10 percent decline in program participation from the same period last year. CBO believes that this drop in breakfasts served will be maintained throughout the year. This difference accounts for a downward reestimate of the President's budget of \$35 million.

In the school lunch program, CBO and the Administration project similar numbers of total lunches but a different mix of meals among reimbursement categories. The Administration assumes that about 39 percent of lunches will be served to needy children in the highest reimbursement rate category. CBO projects that about 42 percent of lunches will be served in this category, a proportion that is consistent with early program data. This difference causes an upward reestimate of \$85 million.

The remainder of the reestimate (\$195 million) is due to differences in the assumed rate of spending of current year budget authority. The Administration assumes that 84 percent of budget authority will be spent during the current year, while CBO assumes a 91 percent rate. Actual spending patterns during the past several years show that more than 90 percent of budget authority has been spent during the current year. Reestimates in 1983 and beyond are based only on these differences in assumed spending patterns. The Administration has included a proposal in the budget that will cause the Child Nutrition account to be no longer considered an entitlement.

Supplemental Security Income. The technical reestimate for SSI results from differences between CBO and the Administration in the current policy baseline and in estimated effects of proposed legislation. The following table shows these components of the technical reestimate.

Components of CBO's Technical Reestimate of SSI (Outlays in millions of dollars)

	1982	1983	1984	1985
Current Policy Baseline	-122	-217	-200	-262
Proposed Legislation	<u>---</u>	<u>38</u>	<u>66</u>	<u>97</u>
Total Technical Reestimate	-122	-179	-134	-165

The current policy baseline of CBO is lower than the Administration's because of lower projected recipient levels. CBO projects about 0.1 million fewer recipients than the Administration in fiscal year 1983 and 0.2 million fewer in fiscal year 1985 (see the table below). Applications for SSI dropped

sharply and unexpectedly during the last half of 1981. Demographic factors explain some of this drop. The cohorts now aged 50-59 and 60-64, those most at risk of disability, have declined recently or are expected to exhibit reduced rates of growth over the next few years. Persons in these cohorts were born in the period spanning World War I and the depression. CBO has incorporated this drop in applications in its projections, while the Administration has not yet done so.

Projections of the Number of SSI Recipients (Average monthly number in millions)

	1981 <u>a/</u>	1982	1983	1984	1985
Administration	3.7	3.7	3.6	3.6	3.6
CBO	3.7	3.6	3.5	3.5	3.4

a/ Actual.

The President's budget includes eight proposals estimated to save \$286 million in 1983 and \$708 million by 1985. CBO has reduced these savings to reflect the lower projected application and recipient levels discussed above. CBO's estimated savings are \$97 million below the Administration's by fiscal year 1985.

Assistance Payments. Assistance payments include AFDC, child support enforcement, and the AFDC portion of the combined welfare administration proposal. In assistance payments, the technical reestimate reflects differences with the Administration in both the current policy baseline and in savings from proposed legislation. These differences are shown in the table below.

Technical differences between CBO and the Administration in the current policy baseline result from differences in numbers of recipients, average payments per recipient, and savings from the 1981 reconciliation act. As shown in the table below, these differences are partially offsetting.

Components of CBO's Technical Reestimate of Assistance Payments
(Outlays in millions of dollars)

	1982	1983	1984	1985
Current Policy Baseline				
Number of recipients <u>a/</u>	-325	-175	-250	-250
Average payment <u>b/</u>	35	33	86	222
1981 reconciliation act	89	342	343	356
Subtotal	<u>-201</u>	<u>200</u>	<u>179</u>	<u>328</u>
Proposed Legislation	<u>201</u>	<u>43</u>	<u>---</u>	<u>---</u>
Total Technical Reestimate	<u>---</u>	<u>243</u>	<u>179</u>	<u>328</u>

a/ Estimated.

b/ The difference in average payment per recipient is estimated; Administration estimates are not available. Other unexplained differences in the current policy baseline are included here.

The models that CBO and the Administration use to project AFDC recipients differ in a number of technical respects. For example, they differ in the lag structure relating recipient levels to changes in unemployment rates and in the inclusion of other factors that might offset unemployment rate effects. Differences in projected recipient levels are shown in the table below. In fiscal year 1982, CBO projections show recipient levels well below the Administration's. Excluding the effects of the 1981 reconciliation act on recipient levels, CBO shows fewer recipients throughout the period. Much of this difference is because the Administration assumes a larger current increase in recipients from a given rise in the unemployment rate. Recipients in the most recent month for which data are available (November 1981) were 10.7 million, below CBO's estimate of 10.8 million for the fiscal year. Unemployment would have to cause an unusually sharp rise in recipients in the remainder of the year to more than offset the large declines in recipients in and after January 1982 that will result from the implementation of the 1981 reconciliation act provisions.

Projections of the Number of AFDC Recipients (Average monthly number in millions)

	1981 <u>a/</u>	1982	1983	1984	1985
Administration	11.1	11.0	10.6	10.4 <u>b/</u>	10.3 <u>b/</u>
CBO	<u>11.1</u>	<u>10.8</u>	<u>10.7</u>	<u>10.4</u>	<u>10.2</u>
Difference	0	-0.3	+0.1	*	-0.1

* Less than 50,000.

a/ Actual.

b/ Estimates provided by the Social Security Administration.

Projections by CBO and the Administration of average payments also differ. Before the last few years, average payments per recipient increased at a rate similar to the rate of increase in the CPI during the preceding year. However, rates of increase in average payments have recently fallen well below rates of increase in the preceding year's CPI. In fiscal year 1981, for example, the increase was about one-half that of the CPI. At the same time, the annual rate of increase in average payments has not fallen below 5 1/2 percent during the last five years. CBO's projection ranges from 5.0 to 6.1 percent a year, following recent experience. The Administration's projection is below CBO's by around two percentage points; this reflects only in part the Administration's lower CPI increases.

CBO shows lower savings from the 1981 reconciliation act throughout the period. In fiscal year 1982, CBO shows savings of about \$650 million as compared with the Administration's \$750 million; the Administration has recently lowered its estimated 1982 savings by more than \$300 million. Beyond 1982, CBO shows savings of about \$850-900 million a year. The Administration's savings are about \$350 million a year higher. The major reason for CBO's lower savings is its assumption that the reconciliation act reductions in earnings disregards will reduce the work effort of recipients.

Lower savings are also shown for the Administration's proposed legislation. Proposed cuts in AFDC (and child support enforcement) are again sizable, totaling \$1.3 billion in 1983. Because these proposals are extensive and not yet fully specified, CBO's only reestimate at this time is

the deletion of \$201 million in 1982 savings and a reduction of \$43 million in 1983 savings as a result of expected implementation delays. A recent survey of states by the American Public Welfare Association found that at least 21 states applied for full or partial waivers of the 1981 reconciliation act's October 1 implementation date because of the need for legislative action to remove state law impediments, lawsuits, and/or administrative complications. An assumed July enactment date for the proposed legislation again makes implementation before October improbable, and is likely to delay implementation in 1983 in some states.

Energy Assistance. The CBO technical reestimates include the recently passed 1982 supplemental appropriation of \$123 million for energy assistance, which was not requested by the Administration nor included in the February budget.

FUNCTION 700: VETERANS' BENEFITS AND SERVICES

(Outlays in millions of dollars)

	1982	1983	1984	1985
President's February Budget	24,155	24,383	25,584	26,948
Preliminary CBO Reestimates				
Different economic assumptions				
Compensation and Pensions	---	---	18	333
Technical reestimates				
Compensation	-35	21	84	164
Pensions	-305	-505	-576	-631
National Service Life Insurance	---	-31	-73	-74
Readjustment benefits	17	-145	-192	-218
Medical care	-73	73	---	---
Total Reestimates	-396	-587	-739	-426
President's Budget Reestimated	23,760	23,796	24,845	26,522

EXPLANATION OF PRELIMINARY CBO REESTIMATES

Different Economic Assumptions

Compensation and Pensions. The veterans' pension program established by Public Law 95-588 is indexed for inflation in the same manner as Social Security. While the compensation program is not indexed by law, it has historically received legislated cost-of-living increases each year, effective October 1 and usually equal to the percentage increase in pension benefits the previous June. The Administration's February budget assumes that annual cost-of-living increases will be provided for compensation benefits based on projected increases in the Consumer Price Index. Under CBO's economic assumptions, cost-of-living adjustments for these two programs in 1984 and 1985 would be somewhat higher than projected by the Administration.

Technical Reestimates

Compensation. Although the CBO estimate of compensation outlays is \$35 million below the Administration's estimate for 1982, CBO estimates exceed those of the Administration by increasing amounts in 1983-1985.