their income toward future benefits. By contrast, the options limiting cost-of-living allowances (COLAs) would affect current and future retirees. Military retirees will not receive a COLA in 1996 under the provisions of the Omnibus Budget Reconciliation Act of 1993 (OBRA-93). Accordingly, the options to defer, limit, or reduce COLAs for military retirees show no savings in 1996. OBRA-93 also delayed COLA payments for civilian retirees for three months (until April 1996). The other options would affect current employees and future retirees.

It is important to note that the five-year cash estimates for the cuts in benefits described here represent only a small portion of the long-run savings that would result from a reduction in federal retirement costs. One reason is that the options are phased in at different rates, so the first year's cash savings are relatively small. Even more important, the cash flows and costs are accounted for differently in different options. For example, the bulk of the cash savings from modifying the salary used to compute pensions shows up years or decades in the future, when current employees retire. By contrast, the option of raising employee contributions counts as an immediate savings that future taxpayers will not have to pay for benefits. Given these differences, the relative size of savings over five years for each option may not be an accurate guide to the long-run advantage of each for reducing the budget. Moreover, the emphasis on five-year cash estimates makes options such as increasing the federal retirement age less attractive than they would be otherwise. Such an option, which was considered by the Bipartisan Commission on Entitlement and Tax Reform, has a large payoff in the longer run but not over the next five years.

The main argument for cutting federal retirement costs is that benefits are more generous than those typically offered by firms in the private sector. Reducing selected federal retirement benefits and increasing pay would produce a mix of current and deferred compensation that is more in line with standards in the private sector. Even if federal retirement was reduced in the manner described below, federal retirees would still receive benefits that exceed those typically afforded employees retiring from private firms. Depending upon how they are designed, some of the cuts in benefits could also promote efforts to reduce employment without layoffs because some workers would leave before reductions took effect. This would be especially true if employees were offered cash as an added inducement to resign. Cuts in retirement, moreover, probably hurt retention and recruitment less than salary cuts. Employees are likely to be more responsive to a salary cut that lowers their current standard of living than to a cut in the rate at which retirement benefits are earned that lowers their future standard of living.

The main argument against cutting retirement benefits is that such an action hurts both retirees and the government's ability to recruit a quality workforce. Supporters of federal workers and retirees point out that pensions are part of the employment contract between the government and its employees and therefore constitute earned benefits. They also argue that although certain provisions of retirement are generous, total compensation should be the basis of comparison between federal and private-sector employees. Annual surveys indicate that federal workers may be accepting salaries below private sector rates in exchange for better retirement benefits. In essence, these workers pay for their more generous retirement benefits by accepting lower wages during their working years. Moreover, as some observers maintain, cutting benefits that were promised to current annuitants may prompt forward-looking workers to demand higher pay now to offset the increased uncertainty of their deferred benefits.

One way to avoid some of the negative consequences of reductions in retirement benefits is to make such cuts apply only to new employees. Current employees could not argue that this prospective approach violates their labor contracts. The approach produces small savings in the short term but substantial savings in the future.

Defer Cost-of-Living Adjustments. The CSRS and the prereform MRS (covering new recruits before August 1, 1986) provide full cost-of-living protection to all retirees, even those who retire before they are 62 years old. That kind of inflation protection is expensive when compared with what is available under the largest and most generous private pensions. Deferring COLAs until age 62 for all nondisabled employees who retire before that age would yield savings of $6.8 billion over five years. (Nearly 80 percent of the estimated savings would derive from

MRS because more than one-half of its annuitants are nondisabled retirees under 62, most of whom retired in their 40s.) This COLA deferral would result in a loss of $8,900 over five years for a CSRS-covered annuitant under 62 with an average annuity of $18,600 in 1996. The average military retiree under 62 would lose $8,200 over five years based on an average annuity of $19,900 in 1996. (Differences in the scheduled dates for COLAs under OBRA-93 explain why this option would impose greater losses over the five-year period on the average annuitant who is covered by CSRS than on the average military retiree.)

If COLAs were deferred, the government's retirement costs would be moderated and more in line with the treatment of COLAs under FERS and the post-reform MRS. (Consistent with the MRS reforms, this option allows a catch-up adjustment at age 62 that reflects inflation after the date of retirement. Most retirees under FERS receive neither protection before age 62 nor a catch-up at 62.) Although the option would lower the compensation of affected workers after retirement, many retirees should be able to supplement their pensions by working--as most military retirees already do. Opponents note that this policy is especially tough on military retirees who are generally forced to retire after 20 to 30 years of service. As an alternative to eliminating COLAs, retirees who have not reached the age of 62 could be granted COLAs equal to one-half of the inflation rate with no catch-up provision. That option would offer retirees under 62 some insurance against excessive inflation. The plan parallels changes that were mandated in 1982 but subsequently repealed and would result in savings of about $3.9 billion over five years.

Limit Some COLAs. On average, private pension plans offset only about 30 percent of the erosion of purchasing power caused by inflation. By contrast, CSRS and the prereform MRS provide 100 percent automatic protection from inflation; however, some of this protection was temporarily taken away by delayed effective dates under OBRA-93.

This option would limit COLAs to 1 percentage point below the rate of inflation for the old MRS and to one-half point below inflation for CSRS. (The smaller half-point limitation for CSRS would apply to a more comprehensive benefit that, unlike the defined benefits under FERS and MRS, substitutes for both Social Security and employer-sponsored benefits. Therefore, the smaller cut would produce a reduction comparable to the one-point limit for MRS enrollees.) These changes would conform to the postretirement COLAs for employees covered by FERS and the revised MRS. This option, however, would hurt low-income retirees most. It would also renege on an understanding that workers in CSRS who passed up the chance to switch systems would retain their full protection against inflation. Savings would amount to $6.1 billion through 2000. (Savings from this option would decrease to $4.1 billion if it was coupled with the preceding one that would defer COLAs until age 62.) The average CSRS-covered retiree would lose $1,400 over five years, and the average military retiree would lose $6,400 over five years.

Reduce COLAs to Middle- and High-Income Retirees. Another alternative would tie the COLA reductions to beneficiaries' payment levels. The example discussed here would award the full COLA only on the first $630 of a retiree's monthly payment and a half COLA on the remainder. The $630 per month threshold is about equal to the projected 1996 poverty threshold for an elderly person and would be indexed to maintain its value over time. Similar proposals have been considered for Social Security.

This approach would save about $170 million in 1996 and $8.3 billion over the 1996-2000 period. The average CSRS-covered retiree would lose $2,400 over five years, and the average military retiree would lose $3,400. Because the full COLA would be paid only to beneficiaries with low annuities, this option would better target COLAs toward retirees with the greatest need for protection from inflation. Because retirees receiving FERS benefits already receive a reduced COLA, they would be less affected than those receiving CSRS benefits. Nonetheless, pension benefit levels are not always good indicators of total income. Furthermore, many people object to any changes in earned retirement benefits that might be construed as introducing a means test for benefits, even if the test is limited only to the COLA. They also point out that federal pensions are fully taxable under the federal individual income tax in the same proportion that they exceed the contributions that employees made during their working years.

Modify the Salary Used to Set Pensions. Under current law, CSRS and FERS provide initial benefits based on an average of the employee's three highest-salaried years. MRS uses a different salary base for personnel hired before September 1980; benefits are calculated using a person's salary at the date of retirement. If, instead, a four-year average was adopted for CSRS and FERS and a 12-month average was adopted for MRS, initial pensions for most new retirees would be about 2 percent to 3 percent smaller, producing total savings through 2000 of $730 million. This option would align federal practice more closely with practice in the private sector, where five-year averages are common. In the long run, this option could encourage some employees to stay on another year in order to take full advantage, when calculating retirement benefits, of the higher salaries that may occur over time. That could help the government keep experienced people, but hinder efforts to reduce federal employment.

Restrict Matching Contributions. On behalf of any worker covered by FERS, federal agencies automatically contribute 1 percent of individual earnings to the Thrift Savings Plan (TSP). In addition, the employing agency matches any voluntary employee deposits dollar for dollar for the first 3 percent of pay and 50 cents for each dollar thereafter up to 5 percent of salary. The entire federal contribution for employees putting aside 5 percent amounts to a sum equal to 5 percent of pay. If the government limited its matching contributions to a uniform 50 percent rate against the first 5 percent of pay, the government's maximum contribution would fall to 3.5 percent of pay. Compared with current law, the discretionary savings from this proposal would total $2.3 billion over five years. (The estimates exclude savings realized by the Postal Service because it is now off-budget and reductions in its operating costs eventually benefit only mail users.) Assuming continuation of the automatic 1 percent match, this arrangement would remain superior to the coverage typically offered in the private sector.

Restricting the matching contributions would have several drawbacks. Middle- and upper-income employees rely on the government's matching contributions to maintain their standard of living during retirement, because Social Security replaces a smaller fraction of their income than it does for lower-income employees. Part of TSP's appeal derives from the fact that it provides individual accounts for each participant, the value of which cannot be eroded by subsequent changes in law. The security and portability of TSP was a major reason for the decision of many employees to switch to FERS, in which the defined benefit plan was inferior to that of CSRS. Changing the TSP provisions would be especially unfair to this group, whose decision to switch plans reasonably assumed that changes would not be made. Opponents of restricting the match rate also argue that this will diminish employees' savings for retirement, and this problem would be intensified if the cut reduced participation.

Increase Employee Contributions for Federal Civilian Pensions. As an alternative to cutting benefits, the government could reduce its retirement costs by increasing employee contributions. The strength of the federal retirement system lies in the indexed benefits that provide inflation protection that cannot be purchased in the private sector. Requiring employees to contribute to their retirement funds--an uncommon private-sector practice--is one way of offsetting this extra cost while maintaining a high level of salary replacement. On the downside, for most federal civilian employees, the option would be equivalent to a 2 percent pay cut without a drop in taxes. (See DOM-60 for further discussion of pay cuts.)

Currently, workers covered by CSRS contribute 7 percent of their salaries to their retirement fund, but they pay no Social Security taxes. The 0.8 percent contribution rate for FERS-covered employees, together with their 6.2 percent share of the Social Security tax, was set to equal the employees' contribution to CSRS. This option would increase both CSRS- and FERS-covered employees' contribution rates by 1 percentage point in January 1996 and by another point a year later. It would generate revenue of about $9 billion through 2000.

An alternative to this option would be to restrict the increased employee contributions to CSRS-covered employees. That alternative would raise

$4.5 billion in revenue over five years. Currently, the employees' 7 percent contribution and the employing agency's matching 7 percent contribution cover just 56 percent of the cost of CSRS pension benefits as earned. The Office of Personnel Management estimates that full funding of CSRS pension benefits would require contributions totaling 25.14 percent of payroll. Over time, the government makes additional payments that cover most of the remaining unfunded benefits. Raising the CSRS contribution rate to 9 percent over two years would lessen this "shortfall." Alternatively, the CSRS shortfall could be funded through higher agency contributions, even though that would not reduce the long-term cost to taxpayers. Higher agency contributions would confront managers with the true cost of labor and could improve program management and resource allocation.

There is no funding shortfall for FERS participants. Restricting the higher contributions to CSRS-covered employees, however, would lower their take-home pay in relation to similarly situated FERS-covered employees, which would penalize workers who chose to stay in CSRS in 1987 rather than join the new FERS. More CSRS-covered employees would have switched to FERS when they had the opportunity if they had known that their contribution rate would be increased.

The downside of increasing withholdings is that it threatens the government's ability to retain the experienced workforce covered by CSRS. According to recent survey data, only about 13 percent of private pension plans require additional employee contributions. But private-sector employees contribute 6.2 percent of their pay (up to $61,200 in 1995) for Social Security.

Raise the Retirement Age. The federal system generally permits retirement earlier than the private sector. Civilian employees can retire with immediate unreduced benefits at age 55 with 30 years of service, at 62 with 20 years of service, and at 65 with five years of service. As life expectancies have increased, Social Security and other retirement plans have raised retirement ages. Raising the retirement age would reduce federal retirement costs substantially. A number of options would reduce the generosity of federal retirement in the long run. Most savings, however, would occur far beyond the five-year period identified in this option, because it would be necessary to phase in such a reform over several years.

ENT-51 END OR SCALE BACK TRADE ADJUSTMENT ASSISTANCE

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
	End Trade Adjustment Assistance					
Budget Authority	330	310	310	250	240	1,440
Outlays	250	290	310	260	250	1,360
	Eliminate Trade Adjustment Assistance Cash Benefits					
Budget Authority	220	210	200	170	160	960
Outlays	220	210	200	170	160	960

The Trade Adjustment Assistance (TAA) program offers income-replacement benefits, training, and related services to workers unemployed as a result of import competition. To obtain assistance, such workers must petition the Secretary of Labor for certification and then meet other eligibility requirements. Cash benefits are available to certified workers receiving training, but only after their unemployment insurance benefits are exhausted.

Ending the TAA program would reduce federal outlays by $250 million in 1996 and by $1.4 billion during the 1996-2000 period. Affected workers could apply for benefits under title III of the Job Training Partnership Act (JTPA), which authorizes a broad range of employment and training services for displaced workers regardless of the cause of their job loss. Because funding for title III is limited, however, TAA cash benefits alone could be eliminated and the remaining TAA funds for training and related services could be shifted to title III. Savings under that option would total $960 million during the 1996-2000 period.

The rationale for these options is to secure under federal programs more equivalent treatment of workers who are permanently displaced as a result of changing economic conditions. Since title III of JTPA provides cash benefits only under limited circumstances, workers who lose jobs because of foreign competition are now treated more generously than workers who are displaced for other reasons.

Eliminating TAA cash benefits would, however, cause economic hardship for some of the long-term unemployed who would have received them. In addition, TAA now compensates some of the workers adversely affected by changes in trade policy. Some people argue, therefore, that eliminating TAA benefits could lessen political support for free trade, which economists generally view as beneficial to the overall economy.

ENT-52 INCREASE TARGETING OF CHILD NUTRITION SUBSIDIES

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
	Change Subsidies in the School Lunch Program					
Budget Authority	50	370	430	450	470	1,770
Outlays	45	330	420	440	460	1,695
	Reduce Subsidies to Family Day Care Homes					
Budget Authority	40	165	185	205	225	820
Outlays	35	145	180	200	220	780

Federal child nutrition programs were developed to improve the health and well-being of children by providing them with nutritious meals. The programs provide cash and commodity assistance to schools, child care centers, and family day care homes that serve meals to children.

Although most of the funds are earmarked for low-income children, some of the aid benefits middle- and upper-income children as well. In the National School Lunch Program (the largest of the child nutrition programs), most schools receive $1.76 in cash reimbursement for each meal served to children from families with income at or below 130 percent of the poverty line; a smaller subsidy of $1.36 for each meal served to children from families with income between 131 percent and 185 percent of poverty; and a subsidy of 17 cents a meal for children with family income above 185 percent of poverty. Schools are also given 15 cents' worth of commodities for each lunch served, regardless of the family income of the child. Reimbursements to family day care homes, which do not vary with the family income of the child, are $1.51 for each lunch and lesser amounts for other meals.

Change Subsidies in the School Lunch Program. Under this option, cash and commodity subsidies for school lunches served to children whose family income is above 350 percent of the poverty level would be eliminated. At the same time, school lunch subsidies for children from families whose income ranges from 131 percent to 185 percent of the poverty level would be increased by 20 cents.

Together, these changes would reduce federal expenditures by $1.7 billion during the 1996-2000 period. Eliminating the cash and commodity subsidies for all lunches served to children from families with income above 350 percent of the poverty line ($51,800 per year for a family of four in 1994) would reduce federal expenditures by $50 million in 1996, by $430 million in 1997, and by $2.2 billion during the 1996-2000 period. (These estimates assume that the changes would be effective on July 1, 1996.) The higher subsidies called for in the second part of the option would increase federal expenditures by $500 million during the five-year period.

In these estimates, the Congressional Budget Office assumes that the reduction in federal subsidies would lead a small number of schools--those serving relatively few lunches to children from families with low income--to discontinue the program for all students. The savings resulting from schools' dropping out of the program are an estimated $250 million over five years.

Although most of the federal funds are earmarked for low-income children, about one-fifth of the children who participate in the school lunch program have family income above 350 percent of the poverty line. These children are less in need of federal subsidies, and the targeting of this assistance would be improved by limiting it to those from families with the lower income. Increases in the subsidies for meals served to children in families with income from 131 percent to 185 percent of the poverty level would, in effect, redistribute some of the child nutrition subsidies from higher-income students to this group.

Such changes would probably result in lower participation among children who are not poor because participation falls when prices rise. Participating schools would probably increase the price charged to children who are not poor to make up the loss in reimbursements unless state and local governments provided additional support. Children who dropped out of the program could receive meals of lower quality, since the meals qualifying for reimbursement are nutritionally adequate, whereas those from alternative sources might not be. Moreover, if the decline in participation was substantial, low-income children could become the main recipients of the meals and thus could be identified as poor by their peers. Finally, a few schools in which children who are not poor provide a large share of the total revenue for the meal program would probably drop out when participation fell, thereby eliminating federally subsidized meals for the low-income children attending them.

Reduce Subsidies to Family Day Care Homes. This option would lower subsidies for meals served in family day care homes, effective July 1, 1996. For homes located in low-income areas or homes run by providers with income below 185 percent of poverty, subsidies would remain unchanged from their levels under current law. At the option of the provider, subsidies at the current level could also be retained for any children from families with income below 185 percent of poverty. In other homes or for other children, the subsidies would be reduced by 21 cents for snacks, 25 cents for lunches, and 31 cents for breakfasts. Organizations sponsoring family day care homes would receive an additional $10 a month in administrative costs for each home in a low-income area. This option would lower federal expenditures by $780 million during the 1996-2000 period.

This option would also improve the targeting of federal aid. About three-quarters of the children cared for in family day care homes have family income above 185 percent of the poverty line and are less in need of government subsidies than are lower-income children. In the face of reduced subsidies, however, some providers would lower the quality of meals served to children in their care, raise costs of care to parents, or even cease to do business. In the last case, the supply of child care would fall. Moreover, because the increased payment for administrative costs would apply only to homes in low-income areas, other providers--or their sponsoring organizations--would incur additional administrative costs if they wanted to keep the higher subsidies.

ENT-53 ELIMINATE SMALL FOOD STAMP BENEFITS

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
Budget Authority	60	60	65	65	70	320
Outlays	60	60	65	65	70	320

The Food Stamp program provides coupons that enable low-income householders to buy a low-cost but nutritionally adequate diet. Among all programs providing assistance to low-income people, its reach is the greatest, encompassing all types of households, from the elderly living alone to two-parent families with children.

Because the benefits to which a household is entitled decline as its income rises, some households can receive only small amounts of food coupons each month. For one- and two-person households, a special rule increases the food coupons they receive to $10 a month currently and to $15 a month beginning in 1998 under Congressional Budget Office estimates, even if their net income indicates a smaller coupon amount. (The jump in 1998 reflects indexing of the minimum benefit coupled with rounding to the nearest $5.)

This option would eliminate the special rule that ensures a $10 or $15 minimum benefit for eligible households with one or two people, and would also eliminate any food stamp benefits of less than $10 a month for all households, thereby reducing federal expenditures by $60 million in 1996 and by $320 million during the 1996-2000 period. These savings include an estimated $9 million a year from lower administrative costs. Approximately 440,000 households, three-fifths of which are composed of elderly people, would lose their food stamp benefits entirely. Another 150,000 would receive reduced benefits in 1998 and beyond.

Carrying out this option would make administering the Food Stamp program more cost-effective because a large number of households that receive small monthly benefits would no longer have to be served. It would also eliminate the special treatment of one- and two-person households. Finally, such a change would foster consistency between the Food Stamp program and the Aid to Families with Dependent Children program, which does not pay benefits of less than $10 a month.

At the same time, this option would reduce by as much as $120 a year the effective incomes of households in which incomes are already low. Even though the households that would be affected are those with the highest incomes among food stamp recipients, their incomes are usually close to the poverty threshold.

ENT-54 REDUCE THE $20 EXCLUSION FROM INCOME IN SUPPLEMENTAL SECURITY INCOME

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
Budget Authority	175	185	195	200	210	965
Outlays	175	185	195	200	210	965

The Supplemental Security Income (SSI) program provides federally funded monthly cash payments, based on uniform, nationwide eligibility rules, to needy aged, blind, or severely disabled people. In addition, all but eight states and jurisdictions provide supplemental payments. As a means-tested program, SSI's benefits are reduced by recipients' outside income, subject to certain exclusions. For unearned income--most of which is Social Security--the first $20 a month is excluded and any additional amounts reduce benefits dollar for dollar. Earned income is excluded more liberally, and any of the $20 exclusion that is not applied to unearned income is applied to earned income.

Reducing the monthly $20 exclusion to $15 would save $175 million in 1996 and almost $1 billion over the 1996-2000 period. A program that ensures a minimum living standard for its recipients need not provide a higher standard for people who happen to have unearned income, as illustrated by the absence of any standard exclusion for unearned income (other than child support) in the Aid to Families with Dependent Children program.

Nevertheless, reducing the monthly $20 exclusion by $5 would decrease by as much as $60 a year the incomes of the roughly 2.7 million low-income people--approximately 46 percent of all federal SSI recipients--who now benefit from the exclusion. Even with the full $20 exclusion, incomes of most SSI recipients fall below the poverty threshold.

ENT-55 RESTRICT LEGAL IMMIGRANTS' ELIGIBILITY FOR WELFARE PROGRAMS

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
			Eliminate Eligibility			
SSI	50	2,200	2,300	2,300	2,500	9,350
Medicaid	50	1,850	1,900	1,900	2,000	7,700
Food Stamps	0[a]	1,200	1,150	1,100	1,050	4,500
AFDC	0[a]	500	450	450	400	1,800
Total	100	5,750	5,800	5,750	5,950	23,350
			Extend Deeming Period Until Citizenship			
SSI	125	500	880	1,170	1,570	4,245
Medicaid	10	30	50	70	85	245
Food Stamps	40	95	120	130	135	520
AFDC	10	25	35	40	45	155
Total	185	650	1,085	1,410	1,835	5,165
			Extend Deeming Period to Five Years			
SSI	0	40	130	180	210	560
Medicaid	0	5	10	10	15	40
Food Stamps	10	30	45	50	50	185
AFDC	5	15	15	15	15	65
Total	15	90	200	255	290	850

a. Under current law, both benefits and certain administrative costs in these programs are mandatory. Small savings in benefits in 1996 are likely to be offset by additional administrative costs.

Legal immigrants who have not become U.S. citizens are eligible for benefits from the Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), Food Stamp, and Medicaid programs if they meet the regular requirements for those programs. Illegal aliens are eligible only for emergency Medicaid assistance.

Legal immigrants, however, are subject to a requirement that does not apply to citizens. Immigrants who have sponsors must include a portion of their sponsor's income when the means test for eligibility is applied. In other words, some of the sponsor's income is "deemed" to the immigrant. The deeming process makes some immigrants ineligible for benefits they could otherwise receive.

The deeming period for AFDC and food stamps is three years. The deeming period for SSI was temporarily raised to five years, but in October 1996 it will revert to three years. Furthermore, deeming for SSI does not apply if an immigrant becomes disabled after entering the country. There is no deeming requirement specific to aliens.

Of the three options considered here, the largest savings over the next five years--$23.3 billion--would come from eliminating all benefits except emergency Medicaid assistance for all legal immigrants who are not refugees. A one-year grace period would allow legal immigrants residing in the United States who are eligible for assistance at the option's enactment to receive benefits for the first year. The majority of savings would come from SSI and Medicaid. When estimating savings, the Congressional Budget Office (CBO) has taken into account potential changes in the rate at which immigrants would naturalize in order to obtain benefits.

Another option would be to continue deeming for immigrants until they became citizens. Immigrants generally are not permitted to become citizens until five years after they enter the United States. The option would save $5.2 billion over the five-year period, again with most of the savings coming from SSI and Medicaid. As under the previous option, CBO assumed that some immigrants would naturalize if the plan was adopted.

The option that would offer the least savings over five years--$850 million--would permanently extend the deeming period to five years for all four programs. Since most legal immigrants cannot naturalize until five years after they enter the country, changes in naturalization rates would not affect this estimate.

There are several arguments, aside from savings, in favor of these options. First, some supporters of these measures question immigrants' commitment to the United States if they do not naturalize, and thus contend that they are not entitled to assistance. Second, these options would promote more responsibility among immigrants' sponsors. Third, restricting public assistance might speed immigrants' integration into the American economy and culture. Finally, some people worry that allowing immigrants to collect welfare benefits encourages the influx of people with few skills who may compete for jobs with low-skilled citizens.

There are, however, several arguments for not adopting these options. Legal immigrants enter the country with government permission, many pay taxes, and some can be called to serve in the armed forces. Therefore, opponents of these restrictions argue, legal immigrants who are needy deserve welfare benefits. Second, removing benefits would lower the living standards of vulnerable groups of immigrants, including children, the elderly, and the disabled, many of whom eventually become citizens. Finally, since it is unconstitutional for states to use immigrant status in determining eligibility for state-run programs, adopting these measures would probably increase the cost of states' programs providing general assistance.

ENT-56 LIMIT SPENDING IN THE EMERGENCY ASSISTANCE PROGRAM

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
Budget Authority	325	395	485	580	640	2,425
Outlays	325	395	485	580	640	2,425

The Emergency Assistance (EA) program allows states to provide short-term aid to needy families with children in order to "avoid destitution" of the children or to provide living arrangements for them. As authorized under title IV-A of the Social Security Act, funding is shared equally by federal and state governments.

At the beginning of fiscal year 1991, 29 states had EA programs, which focused on assistance after natural disasters or crises threatening family living arrangements. During the late 1980s and early 1990s, federal spending on EA programs ranged from about $125 million to $175 million a year. Now, however, all but three states have emergency assistance programs and many states have expanded assistance into new service areas, such as emergency foster care or family preservation activities that might diminish the need for foster care. As a result, federal spending jumped sharply to an estimated $550 million in 1994 and is expected to reach $1.1 billion in 2000 under current law.

This option would limit federal EA spending to $500 million annually. That amount falls between spending levels before the upsurge and estimated spending for the current fiscal year. Limiting EA spending would save an estimated $325 million in 1996 and $2.4 billion during the 1996-2000 period. The limit could be accomplished either by setting a program cap or by converting the program to a block grant. Funds could be distributed among states in proportion to current spending, or a different mechanism could be used so that states that have not already increased their spending would not be placed at a disadvantage.

Much of the increased EA spending appears to represent a shifting of state spending to the federal government, rather than an increase in services to needy families. In addition, a new Family Preservation and Support Services program, enacted in the Omnibus Budget Reconciliation Act of 1993, entitles states to $930 million in federal funds during the 1994-1998 period to meet some of the same needs of children that the EA expansions cover. Nonetheless, under this option many states would receive less funding than they have in the recent past. Moreover, if states did not offset reduced federal funds, some of the most vulnerable children--for example, victims of abuse--could be hurt. Also, if family preservation services are successful in avoiding placement of children in foster care--and good information on whether there is such a relationship is not available--any reduction in EA funding could increase federal spending on foster care.

ENT-57 ELIMINATE THE $50 CHILD SUPPORT PAYMENT TO AFDC FAMILIES

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
Budget Authority	110	120	120	130	140	620
Outlays	110	120	120	130	140	620

The Child Support Enforcement program collects child support payments from noncustodial parents on behalf of families receiving Aid to Families with Dependent Children (AFDC). These payments are largely used to offset federal and state costs for AFDC. Amounts up to the first $50 in monthly child support collected, however, are paid to the AFDC family, without affecting the level of AFDC benefits. In essence, this policy means that AFDC families for whom noncustodial parents contribute child support get as much as $50 more a month than do otherwise identical families for whom such contributions are not made.

Eliminating the $50 child support payment to AFDC families would save the federal government $110 million in 1996 and $620 million through 2000. Stopping such payments would end the differential treatment of AFDC families that depends on whether the noncustodial parent pays child support. Administrative complexity would also be reduced.

Nevertheless, the child support payment provides an incentive for custodial parents to make an effort to obtain support. If the payment was eliminated, recipients of AFDC would be no better off when noncustodial parents paid child support than when they did not, perhaps reducing recipients' cooperation in seeking such payments. Noncustodial parents also might reduce their child support payments if this option was enacted, although new enforcement tools such as the withholding of wages might make it difficult for many to do so. In either case, the well-being of the children in these families would be adversely affected.

ENT-58 REDUCE THE FEDERAL MATCHING RATE AND INCREASE FEES IN THE CHILD SUPPORT ENFORCEMENT PROGRAM

Savings from Current-Law Spending	Annual Savings (Millions of dollars) 1996	1997	1998	1999	2000	Cumulative Five-Year Savings
			Reduce the Federal Matching Rate			
Budget Authority	590	650	710	770	830	3,550
Outlays	590	650	710	770	830	3,550
			Charge Fees for Services			
Budget Authority	270	290	320	350	380	1,610
Outlays	270	290	320	350	380	1,610

NOTE: These estimates do not take into consideration the interaction between the two options, which is noted in the discussion.

Enacted in 1975, the Child Support Enforcement (CSE) program provides administrative tools and funding that states can use to improve the payment of child support by absent parents. The federal government helps states finance their CSE efforts by paying 66 percent of the costs and making incentive payments. As a result of this federal funding and because states keep a portion of child support collections, they saved $486 million in 1993. By contrast, the federal government incurred costs of about $764 million in 1993, after accounting for the share of child support collections that is allotted for reducing welfare payments.

Reduce the Federal Matching Rate. The Congressional Budget Office estimates that lowering the federal matching rate from 66 percent to 50 percent in 1996 and subsequent years would save $590 million in 1996 and $3.6 billion through 2000, although the amount of savings could vary, depending on how states reacted to the change. Under CBO's assumptions, states would continue to save money in 1996 and 1997 but would experience growing net costs thereafter.

Reducing the federal share of CSE costs would alter the balance of costs and savings between the federal and state governments, decreasing both federal costs and state savings. Although a higher matching rate may have been needed in the past to induce states to set up CSE programs, such programs are now operating and cannot be dismantled without financial penalty. Also, this option would encourage states to improve the efficiency of their CSE efforts, since they would pay a larger share of the costs of inefficiencies, and could thus produce even lower program costs.

Lowering the matching rate would entail some risks, however. Because caseloads for child support workers are already high, it is unlikely that states could improve efficiency enough to offset the reduction in federal payments. Thus, they might cut CSE services, thereby reducing child support collections. The lower CSE collections for families receiving payments under the Aid to Families with Dependent Children (AFDC) program would decrease state revenues from that source, but some states still might be better off financially if they cut CSE services, because states with low incomes may receive only a small share--as low as 22 percent--of child support collected. Further, states receive only small financial benefits from child support collections for non-AFDC families. They might, therefore, be even more likely to cut back on efforts for those families, thereby lowering the children's living standards.

Charge Fees to Some Families. Although states are required to charge application fees for furnishing child support services to non-AFDC families, many states charge only nominal amounts. In 1994, child support enforcement agencies collected fees amounting to $33 million, or less than 2 percent of total program costs. This option would require states to charge non-AFDC families a fee of $25 at the time they applied for services and a fee equal to 5 percent of any child support collected for them. Some flexibility could be given to states by allowing them to charge the annual user fee to either the custodial or the absent parent, to exempt low-income families but charge more to higher-income families, or to pay the fee directly to the federal government without charging families.

By charging these fees, the federal government would save $270 million in 1996 and $1.6 billion through 2000, at the current 66 percent federal matching rate. With a matching rate of 50 percent, as discussed above, savings would decline to $200 million in 1996 and $1.2 billion through 2000. If fees were set to recover all costs for non-AFDC families in the CSE program, they would have to equal about 15 percent of collections for those families.

In view of the substantial services that many families receive from the CSE agencies, those fees would be a modest contribution toward meeting their costs. Charging fees could discourage some custodial parents from seeking assistance, however, potentially reducing collections of child support. The families most likely to be discouraged would probably be those most in need of the income, unless states chose to exempt low-income families from paying the fees. In addition, with immediate wage withholding for most new or modified child support orders in place and operating through CSE agencies, some families who did not want--or need--the CSE services would nonetheless have to pay the collection fee.