



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 19, 1999

S. 331

Work Incentives Improvement Act of 1999

*As ordered reported by the Senate Committee on Finance
on March 4, 1999*

SUMMARY

S. 331, the Work Incentives Improvement Act of 1999, would alter cash and health-care benefits for people with disabilities. Title I would provide states with options to extend Medicaid coverage to certain disabled workers, enhance Medicare for certain former recipients of Social Security Disability Insurance (DI), and establish grants and demonstration projects for states to assist disabled workers. Title II would revamp the system under which people collecting benefits from DI and Supplemental Security Income (SSI) receive vocational rehabilitation (VR) services and would make it easier for working beneficiaries to retain or regain cash benefits. Titles III and IV would require several demonstration projects, give certain members of the clergy another opportunity to enroll in the Social Security system, and tighten restrictions on the payment of Social Security benefits to prisoners. To offset the costs of the bill, Title V would increase certain revenues. CBO estimates that the bill would add to the total federal surplus by \$0.7 billion over the 2000-2004 period; of that amount, \$0.1 billion would represent a reduction in the off-budget Social Security surplus, and the remaining \$0.8 billion an improvement in the on-budget surplus.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative provisions that relate to the old-age, survivors, and disability insurance program under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that Subtitles A and B in Title II and Titles III and IV of this bill fall within that exclusion. The remainder of the bill contains no intergovernmental mandates as defined in UMRA. However, the optional programs would result in greater state spending if they chose to participate.

The Joint Committee on Taxation has determined that two provisions in the revenue section of the bill constitute private-sector mandates. The direct cost of those provisions would exceed the statutory threshold specified in 2002 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 331 on direct spending and revenues is summarized in Table 1. The costs of this legislation fall within budget functions 550 (Health), 570 (Medicare), 600 (Income Security), 650 (Social Security), and 800 (General Government).

BASIS OF ESTIMATE

For purposes of estimating the budgetary effects of S. 331, CBO assumes enactment by September 1999.

Current Law

About 8 million people between the ages of 18 and 64 now collect cash benefits under DI, SSI, or both. In both programs, applicants must show that they are incapable of substantial work in order to be awarded benefits. Nevertheless, the programs have several provisions that are meant to smooth beneficiaries' return to work. The law permits DI recipients to earn unlimited amounts for a nine-month period (known as the trial work period, or TWP) and a subsequent three-month grace period before suspending benefits. During the three years after the TWP—a period known as the extended period of eligibility, or EPE—those beneficiaries may automatically return to the DI rolls if their earnings sink below substantial gainful activity (SGA, now defined in regulation as \$500 per month and soon to increase to \$700). Furthermore, Medicare benefits (for which DI beneficiaries qualify after two years on the rolls) also continue for three years even if cash benefits are suspended. Medicare coverage then stops unless the worker pays a steep premium (up to \$309 a month in 1999).

The SSI disability program is restricted to people with low income and few resources. Although applicants for SSI benefits must meet the same disability criteria as in the DI program, the SSI program's subsequent treatment of earnings differs somewhat. SSI recipients who work get a reduced benefit (essentially, losing \$1 of benefits for each \$2 of earnings over \$85 a month) but do not give up their benefit entirely. If their earnings top SGA but they are still medically disabled, they move into section 1619(a) status (and still collect a small cash benefit). If their earnings rise further, they enter 1619(b) status (where they collect no cash benefit but retain Medicaid). If their incomes are too high even for the 1619(b) program, they may still enroll in Medicaid if their state offers a buy-in program permitted by the Balanced Budget Act of 1997 (BBA).

Table 1. Summary of Estimated Budgetary Effects of S. 331

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
DIRECT SPENDING						
Spending Under Current Law						
Old-Age, Survivors, and						
Disability Insurance (OASDI)	387,451	404,075	422,855	442,719	463,820	486,589
Supplemental Security Income	28,179	29,625	31,258	33,005	34,826	36,766
Medicare ^a	191,815	205,707	219,269	227,239	247,888	265,755
Medicaid	107,484	116,578	124,841	134,927	146,073	159,094
IRS spending	95	102	104	106	108	110
Other Health and Human Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	715,024	756,087	798,327	837,996	892,715	948,314
Proposed Changes						
Old-Age, Survivors, and						
Disability Insurance (OASDI)	0	7	15	26	32	29
Supplemental Security Income	0	-1	-6	-7	-7	-11
Medicare ^a	0	12	35	55	75	106
Medicaid	0	16	18	21	24	27
IRS spending	0	0	0	0	0	3
Other Health and Human Services	<u>0</u>	<u>16</u>	<u>57</u>	<u>82</u>	<u>83</u>	<u>84</u>
Total	0	50	119	177	207	238
On-Budget	0	43	104	151	175	209
Off-Budget (OASDI)	0	7	15	26	32	29
Proposed Spending Under S. 331						
Old-Age, Survivors, and						
Disability Insurance (OASDI)	387,451	404,082	422,870	442,745	463,852	486,618
Supplemental Security Income	28,179	29,624	31,252	32,998	34,819	36,755
Medicare ^a	191,815	205,719	219,304	227,294	247,963	265,861
Medicaid	107,484	116,594	124,859	134,948	146,097	159,121
IRS spending	95	102	104	106	108	113
Other Health and Human Services	<u>0</u>	<u>16</u>	<u>57</u>	<u>82</u>	<u>83</u>	<u>84</u>
Total	715,024	756,137	798,446	838,173	892,922	948,552
REVENUES						
Proposed Changes						
On-Budget	0	73	53	143	641	594
Off-Budget (OASDI)	<u>0</u>	<u>2</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>
Total	0	75	60	152	650	603
DEFICIT (-) OR SURPLUS						
Proposed Changes						
On-Budget	0	30	-51	-8	466	385
Off-Budget (OASDI)	<u>0</u>	<u>-5</u>	<u>-7</u>	<u>-17</u>	<u>-23</u>	<u>-20</u>
Total	0	25	-58	-25	443	365

Note: Components may not sum to totals due to rounding.

a. Medicare consists of outlays of the Hospital Insurance and Supplementary Medical Insurance trust funds, less premiums.

Both DI and SSI recipients are evaluated at the time of award for their potential to go back to work. Sketchy data suggest that a minority are referred to VR providers, chiefly state agencies, and only a minority of those referred are served. If the beneficiary successfully completes nine months of employment at SGA, the VR provider is reimbursed by the Social Security Administration (SSA). In 1996, SSA began recruiting alternate providers under the Referral System for Vocational Rehabilitation Providers (RSVP) program. Candidates for this program must first be referred to and rejected by the state VR agencies, and the alternate providers face the same reimbursement system (that is, a single payment after nine months of substantial work). Thus, VR for DI and SSI recipients remains fundamentally a state program.

In both the DI and SSI programs, recipients are reviewed periodically to verify that they are still disabled. These Continuing Disability Reviews (CDRs) are scheduled according to the recipient's perceived likelihood of improvement. If medical improvement is deemed possible, the cycle calls for a review every three years. (Those beneficiaries thought likely to improve are reviewed more often, and those unlikely to improve less often.) If the CDR results in a finding that the beneficiary is no longer disabled, cash and medical benefits stop. A CDR can also be triggered by a report of earnings.

Expanded Availability of Health Care Services (Title I)

Title I of S. 331 would increase federal spending by about \$0.7 billion over the 2000-2004 period and by about \$2 billion over the 2000-2009 period through policies that would expand the availability of health care services. It would expand existing state options for covering the working disabled under Medicaid and would extend Medicare coverage for DI recipients who return to work. Title I would also provide states with grants to develop infrastructure to assist the working disabled and establish demonstration projects for states to provide Medicaid benefits to workers with severe impairments who are likely to become disabled.

State Option to Eliminate Income, Resource, and Asset Limitations for Medicaid Buy-In. Section 101 of S. 331 would amend Medicaid law to allow states the option to raise certain income, asset, and resource limitations for workers with disabilities who buy into Medicaid. This policy, combined with the incentives created by grants and demonstration projects (discussed below), would induce some states to expand Medicaid to include the working disabled and would marginally increase enrollment in those states that would otherwise have expanded Medicaid to include this group, resulting in an increase in spending of about \$100 million over five years (see Table 2).

Table 2. Estimated Direct Spending and Revenue Effects of S. 331, By Provision

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title I										
State Option to Eliminate Income, Resource and Asset Limitations for Medicaid Buy-in Medicaid	15	16	18	20	22	24	26	29	32	35
State Option to Continue Medicaid Buy-in for Participants Whose DI or SSI Benefits Are Terminated After a CDR Medicaid	1	2	3	4	5	6	8	9	11	13
Extension of Medicare with No HI Premium for Former DI Beneficiaries Who Exhaust Their Current-Law EPE Medicare	10	29	48	68	95	125	163	195	234	294
Grants to States to Provide Infrastructure to Support Working Individuals with Disabilities HHS outlays	6	7	7	8	9	10	11	12	13	14
Demonstration Project for States Covering Workers with Potentially Severe Disabilities HHS outlays	10	50	75	75	75	15	0	0	0	0
Title II										
Establishment of the Ticket to Work and Self-Sufficiency Program										
Disability Insurance	1	2	3	5	-3	-18	-48	-77	-33	-37
Medicare	a	a	a	a	1	1	1	-3	-14	-31
Supplemental Security Income	<u>a</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>-1</u>	<u>-6</u>	<u>-16</u>	<u>-30</u>	<u>-10</u>	<u>-11</u>
Subtotal (effect on outlays)	1	3	4	7	-3	-23	-63	-110	-57	-79
Bar on Work CDRs for Certain DI Beneficiaries With Earnings										
Disability Insurance	5	15	20	20	20	25	25	25	25	25
Medicare	<u>2</u>	<u>6</u>	<u>7</u>	<u>7</u>	<u>8</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>11</u>
Subtotal (effect on outlays)	7	21	27	27	28	33	34	35	35	36
Expedited Reinstatement of DI Benefits Within 60 Months of Termination										
Disability Insurance	0	1	1	1	2	3	3	4	5	6
Medicare	<u>0</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>3</u>
Subtotal (effect on outlays)	0	1	1	1	3	4	4	6	7	9
Title III										
Permanent Extension of DI Demonstration Project Authority										
Disability Insurance	3	5	5	5	5	5	5	5	5	5
\$1-for-\$2 Demonstration Projects										
Contractor Costs (DI)	0	a	4	5	6	6	4	4	4	4
DI Benefit Costs	0	0	3	8	13	18	19	18	18	18
Medicare Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>4</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>
Subtotal (effect on outlays)	0	a	7	13	20	28	29	31	31	31

Continued

Table 2. Continued

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title IV										
Provisions Affecting Prisoners										
Payments to Prison Officials (OASDI)	2	7	8	9	9	10	10	10	10	10
Payments to Prison Officials (SSI)	a	1	1	1	1	1	1	1	1	1
Savings in Benefits (OASDI)	-3	-15	-18	-20	-23	-25	-25	-25	-25	-25
Savings in Benefits (SSI)	<u>-2</u>	<u>-7</u>	<u>-8</u>	<u>-9</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>	<u>-11</u>
Subtotal (effect on outlays)	-3	-15	-17	-20	-24	-25	-25	-25	-25	-25
Open Season for Clergy to Enroll in Social Security										
Off-Budget (OASDI) Revenues	2	7	9	9	9	10	10	10	10	11
On-Budget (HI) Revenues	1	2	2	2	2	2	2	2	2	2
Other On-Budget Revenues	a	-1	-1	-1	-1	-1	-1	-1	-1	-1
OASDI Benefits	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>a</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Subtotal (effect on total surplus)	3	8	10	10	10	10	10	10	11	11
Title V										
Modification to Foreign Tax Credit Carryback and Carryover Periods										
Revenues	0	0	94	596	533	496	464	431	295	na
Repeal of Non-accrual Experience Method for Service Providers										
Revenues	72	52	48	44	10	12	14	16	18	na
Extension of IRS User Fees										
Revenues	0	0	0	0	50	53	56	0	0	0
Outlays	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal (effect on total surplus)	0	0	0	0	47	50	53	0	0	0
Total										
Outlays										
On-Budget	43	104	151	175	209	181	202	222	277	327
Off-Budget	<u>7</u>	<u>15</u>	<u>26</u>	<u>32</u>	<u>29</u>	<u>25</u>	<u>-7</u>	<u>-35</u>	<u>9</u>	<u>6</u>
Total	50	119	177	207	238	206	195	187	287	334
Revenues										
On-Budget	73	53	143	641	594	562	535	448	314	na
Off-Budget	<u>2</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>11</u>
Total	75	60	152	650	603	572	545	458	324	na
Deficit (-) or Surplus (+)										
On-Budget	30	-51	-8	466	385	381	333	226	37	na
Off-Budget	<u>-5</u>	<u>-7</u>	<u>-17</u>	<u>-23</u>	<u>-20</u>	<u>-15</u>	<u>17</u>	<u>45</u>	<u>1</u>	<u>4</u>
Total	25	-58	-25	443	365	366	350	271	38	na
Notes: Components may not sum to totals due to rounding.										
na= not available.										
OASDI= Old-Age, Survivors, and Disability Insurance, DI=Disability Insurance, SSI=Supplemental Security Income, CDR=Continuing Disability Review, EPE=extended period of eligibility, HI=Hospital Insurance (Medicare Part A), HHS=Department of Health and Human Services, IRS=Internal Revenue Service										
a. Less than \$500,000.										

Under current law, states have the option of extending Medicaid coverage to certain workers with disabilities with incomes under 250 percent of poverty. This option was created in the Balanced Budget Act of 1997 and to date, only one state has an approved state plan amendment to implement it. Based on discussions with state officials, CBO assumes that states with one-quarter of eligible people will develop small expansion programs under this option over the next few years. Some of those states are likely to use current authority under the Medicaid program to disregard some income of people applying under this option, thus effectively enrolling persons with incomes slightly higher than 250 percent of poverty. Other states may develop income cut-offs at or below that level. Based on figures from SSA of the number of people who graduate from the 1619(b) program due to earnings, CBO calculates that about 1,000 working disabled will be enrolled in Medicaid on an average annual basis under current law.

Under S. 331, CBO assumes that about half of the states adopting the current law option would revise their plans to raise certain income, asset and resource limitations beyond the 250 percent limit. Taking up the option would allow those states access to incentive grants and demonstration funds made available under the bill and would relieve states of administering complex eligibility determinations in instances where states would otherwise have disregarded income. A possible effect of S. 331 in those states would be that more people would seek out the benefit if states made higher income limits explicit. As a result, there would be a small increase in the number of people enrolled under that option.

CBO also assumes that several additional states would exercise the option to buy-in the working disabled under S. 331 to gain access to incentive grants and demonstration funds made available under the bill. In total, CBO assumes that states with half the potential eligibles would pursue the option under S. 331, increasing Medicaid enrollment by about 2,500 people on an average annual basis.

The estimated federal share of Medicaid benefits for the working disabled population is about \$6,500 per capita in fiscal year 2000 and about \$9,000 per capita in 2004. States would incur administrative costs for expanding the program to include the working disabled population. Beneficiaries would also pay cost-sharing amounting to an estimated 5 percent of the total cost of the benefits. The resulting net increase in federal spending attributable to this policy would be about \$100 million over five years and \$250 million over 10 years.

CBO's estimate takes into account a range of assumptions about state participation and about the eligibility limits that states would establish. Based on discussions with state officials developing or implementing policies in this area, CBO assumes that states would be likely to proceed cautiously, so as to limit financial exposure. If several large states were to

participate in this program, new program enrollment could potentially be twice CBO's estimate; conversely, fewer participating states would decrease the estimate. If all states were to take up the option and have no ability to restrict or limit the benefits to all qualified working disabled people meeting the federal definition of disability regardless of any income, assets and resources, federal costs could be substantially higher than the estimate. At the same time, states could maintain current limits or set eligibility limits to target a narrow subset of eligibles, thus resulting in a smaller increase in costs.

State Option to Continue Medicaid Buy-In for Participants Whose DI or SSI Benefits are Terminated After a CDR. Section 101 would also provide states the option to continue Medicaid coverage for persons enrolled under the buy-in option for the working disabled if those persons lose SSI or DI due to medical improvement, as established at a regularly scheduled CDR, yet still have conditions that qualify as a "severe medically determinable impairment." Under current law, an estimated 5 percent of the buy-in population will have medical improvements each year that will result in the loss of their disability status, and thus eligibility for the Medicaid buy-in. Continuing coverage for those people would raise federal Medicaid spending by \$15 million over five years and \$60 million over 10 years, assuming that most states choosing the Medicaid buy-in option would take up this option. If all states took up this option, federal Medicaid costs would be \$20 million over five years and \$80 million over 10 years.

Extension of Medicare with No HI Premium to Former DI Beneficiaries Who Exhaust Their Current Law EPE. Section 102 of S. 331 would allow graduates of the EPE in the next 10 years to continue to receive Medicare benefits indefinitely without having to pay any Part A premium. The federal cost of this provision is estimated at \$10 million in 2000 and about \$250 million over five years.

About 15,000 people start an EPE each year, and about 6,000 finish one. The bill would provide Medicare coverage to people who otherwise would have lost it at the end of the EPE. CBO estimates that an extra 27,000 people would continue to be eligible for Medicare in 2004, the fifth year of the provision, growing to 60,000 in 2009. CBO assumes that the per capita cost for those beneficiaries is about one-half the cost of the average disabled beneficiary, reflecting the likelihood that they are somewhat healthier than other disabled beneficiaries, and the possibility that some beneficiaries would gain employer-sponsored insurance and rely on Medicare as a secondary payor.

Grants to States to Provide Infrastructure to Support Working Individuals with Disabilities. To states that choose at least the first of the two Medicaid buy-in options, section 103 of the bill would make available grants to develop and establish state capacity

for providing items and services to workers with disabilities. The bill would appropriate \$20 million in 2000, \$25 million in 2001, \$30 million in 2002, \$35 million in 2003, and \$40 million in 2004. The amount would be indexed to the consumer price index (CPI-U) through 2010. Each state's grant would be limited in each year to 15 percent of the estimated total federal and state spending on the more costly of the two state options in the bill. Based on CBO's estimate of the state option to expand the Medicaid buy-in, the limitation would hold spending levels to about \$10 million annually; five-year costs would be \$40 million and 10-year costs would be \$100 million. Funds not allocated would remain available for allocation to states in future years. Funds allocated to states would be available until expended.

Demonstration Project for States Covering Workers with Potentially Severe Disabilities. Under section 104 of S. 331, states electing the first option under section 101 would also be eligible for grants to pay for demonstration projects that provide Medicaid to working persons with physical or mental impairments who could potentially become blind or disabled without Medicaid benefits. Those people would be ineligible for Medicaid benefits under current law because they do not have conditions that meet the DI or SSI definition of disability. The bill would appropriate \$70 million in 2000, \$73 million in 2001, \$77 million in 2002, and \$80 million in 2003. Funds would remain available until expended, except that no payment could be made by the federal government after fiscal year 2005. CBO estimates that the costs of the provision would total \$300 million over the 2000-2004 period.

Ticket to Work and Self-Sufficiency Program and Related Provisions (Title II)

Ticket to Work and Self-Sufficiency Program. Title II would temporarily change the way that VR services are provided to recipients of DI and SSI benefits. The budgetary effects of the proposed tickets program comprise several components, which are detailed in Table 3.

Table 3. Estimated Effects on Outlays of the Ticket to Work and Self-Sufficiency Program

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DI Beneficiaries										
Payments to Program Manager	1	2	1	2	3	3	1	a	0	0
Milestone Payments to Providers	0	a	1	6	14	22	26	11	a	a
Incentive Payments to Providers	0	a	a	3	15	33	59	81	62	49
Partial Repeal of Current										
VR System	0	a	a	-4	-13	-22	-33	-50	a	a
Benefits Avoided	0	a	a	-5	-25	-59	-104	-122	-98	-89
Extra Benefits Paid	<u>0</u>	<u>a</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>5</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>3</u>
Subtotal, DI	1	2	3	5	-3	-18	-48	-77	-33	-37
Medicare Savings ^b	0	0	a	a	1	1	1	-3	-14	-31
Total	1	2	3	5	-2	-16	-46	-79	-47	-68
SSI Beneficiaries										
Payments to Program Manager	a	1	a	1	1	1	a	a	a	a
Milestone Payments to Providers	0	a	1	3	7	11	13	6	a	a
Incentive Payments to Providers	0	a	a	1	4	9	15	21	16	13
Partial Repeal of Current										
VR System	0	a	a	-2	-6	-11	-17	-25	a	a
Benefits Avoided	0	a	a	-1	-7	-16	-27	-32	-26	-23
Extra Benefits Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal, SSI	a	1	1	2	-1	-6	-16	-30	-10	-11
Medicaid Savings	c	c	c	c	c	c	c	c	c	c
Total	a	1	1	2	-1	-6	-16	-30	-10	-11

Notes: Components may not sum to totals due to rounding.

DI = Disability Insurance, SSI = Supplemental Security Income.

a. Less than \$500,000.

b. These amounts are the Medicare savings that would occur under current law. Title I of the bill would extend Medicare for these beneficiaries.

c. CBO assumes that nearly all of the vocational rehabilitation recipients who leave the SSI rolls would continue to get Medicaid coverage through the 1619(b) program.

The current VR program serves a fraction of DI and SSI recipients. Approximately 10 percent to 15 percent of new DI and SSI recipients are referred to state VR agencies; although SSA does not track what happens to them next, scattered clues suggest that about 10 percent of those referred are accepted. Recently, SSA has made approximately 650,000

DI awards a year; therefore, around 7,000 to 8,000 probably received VR services. SSA pays about 6,000 claims per year for VR services provided to DI recipients. SSA also pays about 6,000 claims for VR services to SSI recipients. Since about 3,000 claims are for people who collect benefits under both programs, total claims reimbursed are about 9,000 a year.

Some DI and SSI recipients return to work without the help of VR agencies. Research suggests that only 10 percent to 20 percent of DI recipients ever work after they start collecting benefits, and only 2 percent to 3 percent eventually have benefits withheld because of earnings. In contrast, SSA reimburses claims for VR services for about 1 percent of recipients. Thus, for each VR success, one or two other DI recipients go back to work and are suspended from the rolls without VR.

S. 331 would revamp the VR system by permitting nearly any recipient who desires VR to receive it, by allowing clients to choose from a variety of providers in addition to state VR agencies, and by stretching out reimbursements to providers for up to five years, contingent on their clients' sustained absence from the rolls.

Under S. 331, SSA would issue tickets to DI and SSI beneficiaries that they could assign to approved VR providers, whether state, private for-profit, or nonprofit. The bill would grant wide latitude to SSA in deciding the terms and conditions of the tickets; SSA tentatively plans to issue tickets to new beneficiaries at the time of award, unless they are deemed likely to recover, and to current beneficiaries after a CDR. By accepting a ticket, providers—labeled "networks" in the bill—would agree to supply services, such as training, assistive technology, physical therapy, or placement. A program manager, selected by SSA, would aid in recruiting providers and handling the nuts-and-bolts administration of the program.

Providers could choose between two forms of reimbursement from SSA. One system would be based solely on outcomes; the provider would receive 40 percent of the average DI or SSI benefit for up to five years, so long as the client stayed off the rolls. Some providers fear, though, that they would experience acute cash-flow problems under such a system. To address that concern, the bill also offers a blended system, dubbed the "milestones-outcome" system. Under that system, SSA would make some payments earlier, but would trim subsequent payments to ensure that the overall cost (calculated on a net present value basis) did not exceed the cost of a pure outcomes system.

The new program would be phased in gradually but last only five years. S. 331 calls for it to start in selected areas a year after enactment, and to operate nationwide 3 years after that. The last tickets would be issued five years after the start of implementation. Because the

program would then end unless reauthorized, potential providers may hesitate to enlarge their capacity to serve DI and SSI clients.

CBO estimates that about 7 percent of newly-awarded beneficiaries would seek VR services if they were readily available, versus only about 1 percent who receive them under current law. Both the Transitional Employment Demonstration (TED, a demonstration conducted in the mid-1980s and confined to mentally retarded recipients) and Project Network (a demonstration begun in 1992 and open to both DI and SSI beneficiaries) suggested that about 5 percent of beneficiaries would enroll in VR if given the chance. CBO judged that the level of interest ultimately would slightly exceed 5 percent for two reasons. First, intake under Project Network developed bottlenecks, which may have discouraged some potential participants. Second, Project Network barred any recipients who were employed or self-employed from enrolling; no such bar would be in place under S. 331, however, and those recipients would probably be interested in receiving services and would be attractive to providers.

Research suggests that getting VR raises the propensity to work, and thus the chances for an earnings-related suspension. But raw figures can easily exaggerate the effectiveness of VR. The handful of beneficiaries who would sign up for VR are probably the most motivated, and many would have worked anyway. In fact, CBO assumes that one effect of S. 331 would be to enable providers to be reimbursed for providing services for many people who would have worked anyway.

These expected effects can be illustrated by following the experiences of one hypothetical cohort of 650,000 new DI beneficiaries. Under current law, about 7,800 might be served under the state VR programs; 6,100 of them would eventually generate a reimbursement by SSA and would be suspended for at least a month. Another 8,300 would be suspended due to earnings, for at least one month, without any reimbursement to VR. Thus, total suspensions would be about 14,400, or about 2 percent of the cohort, under current law. CBO estimates that, if those beneficiaries could freely enroll in VR using a "ticket," about 7 percent or 47,000 would get VR services. Most of those VR clients would work, and many (about 13,400) would be suspended for at least one month, an increase of 7,300 in VR-reimbursed cases. However, CBO estimates that about 5,900 of these workers would have gone back to work unaided. Thus, for this cohort, net suspensions would be about 1,400 higher.

In estimating S. 331, CBO adjusted those hypothetical figures for its caseload projections and timing factors. First, CBO projects that the volume of disabled-worker awards gradually climbs from 625,000 in 1999 to about 780,000 in 2005. That increase reflects the aging of

the baby-boom generation into its high-disability years and the scheduled increases in Social Security's normal retirement age. Second, CBO assumed that some extra rehabilitations would occur among the nearly 5 million people now on the DI rolls, not just among new awards, although current beneficiaries are generally poorer candidates for VR than new applicants with more recent work experience. Third, CBO adjusted the numbers for the gradual phase-in of the new system. Under the bill's schedule, assuming enactment by September 1999, the first services would be rendered at a handful of sites in fiscal year 2001. If those clients engaged in trial work in 2002, the first extra suspensions would occur in 2003. The last tickets would be issued in 2005, and the last extra suspensions would occur in 2007.

Specifically, CBO estimates that the number of net additional suspensions in DI—that is, suspensions that would not occur in the absence of the new program—would equal 500 in 2003, 2,200 in 2004, and an average of 4,600 annually between 2005 and 2007. Gross suspensions that involve reimbursement to a VR provider would climb gradually from 6,000 to 8,000 a year under current law, but would be markedly higher—about 15,000 in 2007, almost double the current-law estimate—under the proposal. And the number of suspensions involving no reimbursement to VR would fall.

CBO also had to make assumptions about recidivism. Many studies have documented that DI recipients who leave the rolls often return. It is not clear whether recipients of VR services are more or less likely to return to the rolls than others; some evidence suggests that the extra boost provided by VR fades over time. Because S. 331 proposes to pay providers for up to five years, but only if the recipient stays off the rolls, assumptions about recidivism are critical. Based on a variety of sources, CBO assumes that recipients suspended from the rolls have about a two-thirds chance of still being suspended one year later, about a one-half chance three years later (when, technically, their DI entitlement is terminated), and a 40 percent chance after five years.

Effects of the Tickets Program in DI. The budgetary consequences of S. 331, from the standpoint of the DI program, would consist of seven effects:

- o Payments to the program manager. SSA would hire a program manager to coordinate issuance of tickets, the recruitment of providers, and other tasks. Based on a similar arrangement in the RSVP program, CBO assumes that payments to the program manager would amount to just a few million dollars a year.
- o Milestone payments to providers. As explained earlier, the bill would give providers a choice between a pure outcome-based system (in which providers would get

periodic payments only during the period of suspension) and a blended outcome-milestone system (in which they could get some money earlier). CBO assumes that most providers would opt for the blended system, which CBO assumes to consist of a \$500 payment after several months of work and a \$1,000 bonus on the date of suspension. Placements would be considerably easier for providers to achieve than suspensions. The first milestone payments would be made in 2002 but would be very small. They would peak at \$26 million in 2006: an estimated \$15 million for 30,000 gross placements, mostly from ticketholders served in 2005, and another \$11 million for 11,000 suspensions, mostly from ticketholders served in 2004 (and who spent 2005 in trial work).

- o Incentive payments to providers. The incentive payments would occur over a period of up to five years if the beneficiary remained off the rolls. Therefore, they would continue throughout CBO's 10-year horizon even though the last tickets would be issued in 2005. In the pure outcomes system, incentive payments would be 40 percent of average benefits. CBO assumes that most providers would opt for the blended payment system, under which—in return for getting some earlier milestone payments—they would accept incentive payments of 30 percent. Again, outlays would be very small in the early years. Incentive payments would peak at \$81 million in 2007. That is the year in which the last batch of VR clients, who got their tickets in 2005, would be suspended (under the assumption that they got services in 2005 and engaged in trial work in 2006). By 2007, gross suspensions of ticketholders over the preceding five years are assumed to be about 35,000. Some of those would have returned to the rolls, but 25,000 would remain suspended. Incentive payments would equal 25,000 times 30 percent of the previous year's average DI benefit (about \$900 a month), or \$81 million. By 2009, under CBO's assumptions about recidivism, only 17,000 of those 25,000 would still be off the rolls, and the 2,000 who were first suspended in 2003 and 2004 would no longer be in the five-year period for incentive payments. Thus, incentive payments in that year would be \$49 million.
- o Partial repeal of current VR system. CBO assumes that, under current law, the DI trust fund would reimburse about 6,000 claims for VR services at present (at an average cost of about \$11,000) and about 7,300 in 2007 (at an average cost of about \$14,000). The new program would partially displace the current system for five years. Specifically, if tickets were issued in 2001 through 2005, they would partially divert clients who would otherwise have generated reimbursements to VR providers (at the end of trial work) in 2003 through 2007. In 2007, \$50 million in reduced payments would result.

S. 331 would grant state VR agencies the option of remaining in the current reimbursement system—that is, charging SSA for the full amount of costs incurred after the client has worked for nine months. Because the new program would expire after five years, many state agencies might choose not to undergo the disruption of a switch.

- o Benefits avoided. The various payments to providers discussed above all depend on the number of gross rehabilitations. The savings in DI benefits, in contrast, depend on the number of net or extra rehabilitations. That distinction is important: when providers serve clients who would have worked and eventually been suspended anyway, they do not generate savings in DI benefits.

Over the 2003-2007 period, CBO estimates that there would be a total of 35,000 gross rehabilitations of ticket holders, of which only 17,000 would represent extra rehabilitations. Under CBO's assumptions about recidivism, about 11,000 of those 17,000 would still be off the rolls in 2007; at an average benefit of about \$900, \$122 million in benefit savings would result. That year marks the peak savings, because no more tickets would be issued after 2005. By 2009, the 11,000 would have shrunk further to 8,000, and \$89 million in benefit savings would be realized.

- o Extra benefits paid. Some people might file for DI benefits in order to get VR services. They may even be encouraged to do so by prospective providers (for example, by an insurance company that helps to run their employer's private disability or workers' compensation coverage). For those induced filers, the entire benefit cost (for any time they spend on the rolls) and the VR cost (if they do eventually get suspended) would be a net cost to the DI program.

To some extent, SSA could minimize this problem by setting the terms and conditions under which it would issue tickets—for example, by denying them to beneficiaries who are expected to recover medically. But some such filers might still seep through. CBO assumes that a few hundred such filers would be attracted to DI during the five years of the tickets program, and some would remain on the rolls, leading to extra benefit costs of up to \$5 million annually.

- o Resulting Medicare savings. DI recipients who return to work continue to receive Medicare coverage for three years after their suspension from DI. By leading to the rehabilitation and suspension of more DI recipients, the Ticket to Work and Self-Sufficiency Act would generate some savings in Medicare. DI beneficiaries who are

capable of working are probably healthier than other beneficiaries, and their per-capita Medicare cost therefore less than average.

Under CBO's assumption that the first services would be rendered in 2001 and the first resulting suspensions in 2003, small Medicare savings would begin in 2006. By 2009, 13,000 extra suspensions are assumed to have occurred over the 2003-2006 period (the group for whom the three-year EPE would have expired); 5,700 would still be off the rolls; and \$35 million in Medicare savings would result.

Although these Medicare savings would result if the Ticket to Work and Self-Sufficiency Act were enacted in isolation, elsewhere S. 331 proposes to give continued Medicare coverage to all beneficiaries who complete an EPE. Therefore, these Medicare savings would be rendered moot by the cost (shown in Title I) of that proposal.

Small costs—estimated by CBO to be between \$1 million and \$4 million a year—would result from the induced filers who remain on DI long enough (two years) to qualify for Medicare.

On balance, over the 1999-2003 period, CBO estimates a small net cost in the DI program from the proposed tickets, mainly because there would be few extra rehabilitations but there would be some startup costs and small payments to induced filers. Later, CBO foresees small net savings, chiefly because the DI benefit savings from extra suspensions slightly outweigh the costs of paying for VR services rendered by an expanded pool of providers.

Effects of the Tickets Program in SSI. S. 331 would also bring SSI participants into the new tickets to work program. CBO estimated the effects on the SSI program in a manner similar to its estimates for DI. There are a few notable differences.

The number of SSI recipients affected by the bill is generally estimated to be only half as many as in DI. Under current law, SSA pays for about 9,000 rehabilitations a year—6,000 in DI and 6,000 in SSI, of which 3,000 are concurrent. Under the bill, services rendered by providers to concurrent beneficiaries would essentially be compensated under the DI rules. Thus, to avoid double-counting concurrent beneficiaries, CBO generally assumed only half as many cases in its SSI estimates as in the analogous DI estimates.

Average benefits for disabled SSI beneficiaries are also only about half as large as in the DI program—in 2003, for example, about \$425 in SSI versus \$825 in DI. Therefore, all payments under the proposed system that are pegged to the average benefit, such as the

incentive payments to providers, would be smaller in SSI. In fact, that provision has aroused concern that providers would be less willing to provide services to the SSI population. CBO implicitly assumes that providers would serve this group, perhaps emphasizing cheaper services with repeated interventions if necessary.

Because SSI is limited to beneficiaries with low income and few resources, CBO assumed that there would be few induced filers. CBO also assumed that most SSI beneficiaries affected by the bill would retain Medicaid coverage through section 1619(b).

The upshot of S. 331 in the SSI program is a pattern that resembles that for DI: small early costs, giving way to small savings after 2003.

Ban on Work CDRs for Certain DI Beneficiaries With Earnings. The bill would bar so-called work CDRs if the beneficiary has been on the rolls for more than 24 months. Work CDRs are triggered by a report of earnings. Beneficiaries would still be subject to regularly-scheduled periodic CDRs.

SSA conducts approximately 80,000 work CDRs a year. CBO estimates that about 1,500 people whose benefits would otherwise be terminated would benefit from this provision. Assuming that they are, on average, halfway between periodic CDRs scheduled at three-year intervals, they would get an extra 18 months of benefits. When fully effective, the provision is expected to lead to annual DI costs of about \$25 million and Medicare costs of about \$10 million.

Expedited Reinstatement of DI Benefits Within 60 Months of Termination. The bill would provide for expedited reinstatement of benefits for former DI recipients whose benefits were terminated because of earnings in the last 60 months. Under current law, those beneficiaries have the usual five-month waiting period waived if they seek benefits; but their application is judged no differently from one filed by someone who has never been on the rolls. S. 331 would alter that by stipulating that benefits must be awarded unless SSA can demonstrate that the applicant's medical condition has improved. S. 331 would also provide for automatic payment of up to five months of provisional benefits while the request for reinstatement is under consideration. Generally, those provisional payments would not be subject to recoupment even if the request is ultimately denied. CBO estimates that these liberalized procedures would tip the balance in up to a hundred cases each year, ultimately costing about \$6 million in DI and \$3 million in Medicare by 2009.

CBO does not estimate that either of these two provisions would lead to additional suspensions from the DI rolls as a result of earnings, because there are no firm empirical data on which to base such an assumption.

Demonstration Projects and Studies (Title III)

Permanent Extension of DI Demonstration Project Authority. SSA has had the authority to conduct certain research and demonstration projects that occasionally require waivers of provisions of title II of the Social Security Act. That waiver authority expired on June 10, 1996. This bill would extend it permanently. This extension would be the fifth since the waiver authority was enacted in 1980. This general waiver authority should not be confused with the so-called \$1-for-\$2 demonstrations in the next section; those demonstrations are costlier and longer-lasting than the modest projects that SSA would likely conduct on its own initiative.

When the waiver authority has been in effect, SSA has generally spent between \$2 million and \$4 million annually on the affected projects. CBO judges that the proposed extension would lead to extra outlays of \$3 million in 2000 and \$5 million a year thereafter.

\$1-for-\$2 Demonstration Projects. Under current law, after completing the TWP and the three-month grace period during which earnings are disregarded, a disabled worker gives up his or her entire benefit in any month that earnings exceed SGA. Both anecdotal and statistical evidence suggest that many beneficiaries balk at that, instead quitting work or holding their earnings just below the threshold. Some advocates favor, instead, cutting benefits by \$1 for every \$2 of earnings over SGA. More modestly, some favor a treatment of earnings more like the SSI program's—a cut of \$1 in benefits for every \$2 of earnings over \$85 a month.

Such proposals would probably encourage more people who are already on the DI rolls to work. Although fewer beneficiaries would be suspended (i.e., have their benefit reduced to zero), many might have their benefit substantially reduced. A major concern about such proposals, though, is that they would encourage an unknown number of people to file for benefits. Survey data suggest that there are millions of severely impaired people who are nevertheless working and not collecting DI. Filing for benefits, and working part-time, might actually improve their standards of living. That incentive would be much stronger if the DI program liberalized its treatment of earnings. The SSA Office of the Actuary in 1994 estimated that applying a \$1-for-\$2 policy for earnings above \$500 would cost \$5 billion in extra DI benefits over a five-year period and that setting the threshold at \$85 would cost \$2 billion.

S. 331 would require SSA to conduct demonstrations to test the effects of a \$1 reduction in benefits for each \$2 of earnings. It would require that SSA conduct the demonstrations on a wide enough scale, and for a long enough period, to permit valid analysis of the results. CBO assumed that, to meet those criteria, the demonstrations would have to include perhaps half a dozen small states, that the intake phase of the project would have to last three or four years to permit observation of induced filers, and that the incentives themselves would have to be promised to the beneficiaries for an indefinite period. Because the demonstrations would pose formidable issues of design and administration, CBO assumes they would not get under way until 2002. CBO also assumes that the demonstration would be conducted in areas with and without the tickets to work and self-sufficiency, to enable the effect of the incentives to be isolated from the effects of the new VR program. Even a relatively small-scale demonstration might thereby apply to approximately 2 percent to 3 percent of the nation. Multiplying that percentage times the DI benefit costs suggested by the Actuaries' 1994 memo suggests that the demonstration would, after intake is complete, cost almost \$20 million in extra DI benefits a year. It would also lead to slightly higher Medicare costs, since the induced filers would qualify for Medicare after two years on the DI rolls. Finally, CBO assumes that running the demonstrations and collecting and analyzing data would be handled by an expert contractor, at a cost of several million dollars a year. In sum, the \$1-for-\$2 demonstration projects proposed by the bill are estimated to cost \$190 million over the 2002-2009 period.

Technical Amendments (Title IV)

Title IV contains technical corrections and clarifications to the Social Security Act. Two sections do have budgetary effects.

Provisions Affecting Prisoners. S. 331 would tighten restrictions on the payment of Social Security benefits to prisoners. Current law sets strict limits on the payment of SSI benefits to incarcerated people and somewhat milder limits on payments of OASDI. SSI recipients who are in prison for a full month—regardless of whether they are convicted—have their benefits suspended while they are incarcerated. OASDI recipients who have been convicted of an offense carrying a maximum sentence of one year or more have their benefits suspended. Those who are convicted of lesser crimes, and those who are in jail awaiting trial, may still collect OASDI benefits. Those provisions are enforced chiefly by an exchange of computerized data between the Social Security Administration and the Federal Bureau of Prisons, state prisons, and some county jails. Those agreements are voluntary and, until recently, involved no payments to the institutions.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 changed that arrangement by directing SSA to pay institutions for reporting information that led to the identification of ineligible SSI recipients. The payment is \$400 if the institution reports information within 30 days of confinement and \$200 if the report is made 30 to 90 days after confinement. The law also exempts matching agreements between SSA and correctional institutions from certain provisions of the Privacy Act.

This bill would establish analogous arrangements for the OASDI program. It would also drop the requirement that OASDI benefits be suspended only if the maximum sentence for the offense is one year or more. (A conviction would still be required; inmates who are in jail while they await trial could continue to collect benefits.) CBO estimated the effects of this provision, like its predecessor in the welfare reform law, by analyzing data from several sources that suggest about 4 percent to 5 percent of prisoners were receiving Social Security, SSI benefits, or both before incarceration. Reports from SSA's Inspector General showed that some of those prisoners were overlooked under matching arrangements either because their institution had not signed an agreement, had not renewed it promptly, or did not submit data on schedule.

CBO estimates that, over the 2000-2009 period, the provisions would lead to payments of \$85 million to correctional institutions out of the OASDI trust funds and benefit savings of \$205 million, for a net saving of \$120 million. CBO also expects that the broader arrangement, by doubling the pool of potential payments, would encourage more jailers to submit information accurately and promptly and would therefore lead to spillover savings in the SSI program amounting to about \$90 million over the 10-year period.

Open Season for Clergy to Enroll in Social Security. Section 1402(e) of the Internal Revenue Code allows certain clergy to exempt the self-employment income from their ministry from Social Security and Medicare taxes. Under current law, such an exemption is irrevocable.

Section 403 of S. 331 would allow clergy who have received an exemption a two-year opportunity to revoke that exemption beginning in calendar year 2000. Similar opportunities were offered in 1978 and 1987. Based on those experiences, CBO estimates that 3,500 taxpayers would choose to revoke their exemptions, and that the average new enrollee would have about \$20,000 of self-employment income. (There would be a slight decrease in income tax revenue, since a portion of payroll taxes is deductible for income tax purposes.) From 2000 through 2009, off-budget revenues would increase by \$87 million, and on-budget revenues would increase by \$10 million.

Those taxpayers who revoke their exemption will eventually receive higher Social Security benefits, but that effect will mostly occur in years beyond the 10-year estimation period. CBO estimates that outlays will increase by \$4 million in the 2000-2009 period.

Authorization for State to Permit Annual Wage Reports. S. 331 would amend the Social Security Act to allow states to permit employers of domestic workers to report on such employment annually rather than quarterly. State-maintained employment histories are used to verify eligibility for certain benefits, such as unemployment insurance, Food Stamps, and SSI. This change would not affect eligibility requirements. It could present an administrative burden to states that choose to allow annual reporting, because they would have to research cases manually if they suspect domestic employment. CBO expects any budgetary effects to be insignificant.

Revenues (Title V)

S. 331 would amend the tax code to modify the foreign tax credit carryback and carryforward periods. The Joint Committee on Taxation (JCT) estimates that this provision would increase governmental receipts by \$1.2 billion over the 2000-2004 period. The bill also would limit the nonaccrual experience method of accounting to amounts to be received for the performance of qualified professional services. JCT estimates that this provision would increase governmental receipts by \$0.2 billion over the 2000-2004 period.

S. 331 would extend through fiscal year 2006 the authority of the Internal Revenue Service (IRS) to charge taxpayers fees for certain rulings by the office of the chief counsel and by the office for employee plans and exempt organizations. CBO estimates that the extension of the IRS's authority to charge fees for such services, which is set to expire at the end of fiscal year 2003, would increase governmental receipts by \$159 million over fiscal years 2004 through 2006, net of income and payroll tax offsets. CBO based its estimate on recent collections data and on information from the IRS. The IRS would have the authority to retain and spend a small portion of these fees without further appropriation. CBO estimates that the extension of the fees would increase direct spending by \$9 million over fiscal years 2004 through 2006.

SPENDING SUBJECT TO APPROPRIATION

S. 331 would also create several new programs or activities to be funded out of SSA's annual appropriation (see Table 4).

Table 4. Spending Subject to Appropriation

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
With Adjustments for Inflation					
Work Incentives Advisory Panel					
Budget authority	1	1	1	2	2
Outlays	1	1	1	2	2
Work Incentives Outreach					
Budget authority	23	23	23	23	23
Outlays	2	14	23	23	23
State Grants for Work Incentives Assistance					
Budget authority	7	7	7	7	8
Outlays	3	6	7	7	7
Total					
Budget authority	31	32	32	32	32
Outlays	7	21	32	32	32
Without Adjustments for Inflation					
Work Incentives Advisory Panel					
Budget authority	1	1	1	1	1
Outlays	1	1	1	1	1
Work Incentives Outreach					
Budget authority	23	23	23	23	23
Outlays	2	14	23	23	23
State Grants for Work Incentives Assistance					
Budget authority	7	7	7	7	7
Outlays	3	6	7	7	7
Total					
Budget authority	31	31	31	31	31
Outlays	7	21	31	31	31

Note: Components may not sum to totals due to rounding.

Section 201 of S. 331 would create a Work Incentives Advisory Panel to advise the Secretaries of Health and Human Services (HHS), Labor, and Education, and the Commissioner of Social Security on work incentives for the disabled, and to advise SSA on implementation and evaluation of the Ticket to Work program. The panel would consist of 12 members appointed by the Commissioner in consultation with the Congress. At least 5 of the members would be current or former SSI or DI recipients. S. 331 would permit the panel to hire a director and other staff and pay other necessary expenses. CBO estimates that the panel would cost between \$1 million and \$2 million a year.

Section 221 would establish a community-based program to disseminate information about work incentives and related issues. Grants totaling no more than \$23 million a year would be awarded competitively to community-based groups. Because this would be a brand-new program, CBO assumes that spending would be low at first, not reaching \$23 million until the third year.

Section 222 would require the Commissioner of Social Security to make grants to the protection and advocacy (P&A) system established under part C of title I of the Developmental Disabilities Act to assist disabled people to obtain vocational rehabilitation or employment. That P&A system is currently funded by the Children and Family Services Program in the Department of HHS. The bill would authorize \$7 million in 2000 and such sums as shall be necessary thereafter; CBO assumed that funding would remain at about \$7 million. Actual outlays would be \$3 million in 2000, and \$6 million to \$7 million a year thereafter.

Although they do not explicitly call for future appropriations, several other provisions of S. 331 would affect SSA's workload and thus the pressures on its annual appropriation. The Ticket to Work program (section 201) would require significant planning and oversight by SSA staff. Section 221 would direct SSA to establish a special corps of work incentive specialists to deal with questions from applicants, beneficiaries, and the community-based organizations funded under the same section. Enforcement of the tougher restrictions on prisoners in section 402 would require SSA staff time, because suspension of benefits occurs only after careful verification. Partly offsetting these extra costs, SSA would no longer be required to do work CDRs under section 211. CBO estimates that these effects on SSA's workload would, on balance, cost the agency between \$10 million and \$30 million a year in the 2000-2004 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

Table 5. Summary of Pay-As-You-Go Effects of S. 331

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	43	104	151	175	209	181	202	222	277	327
Changes in receipts	73	53	143	641	594	562	535	448	314	na

na = not available

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that S. 331 would impose two new private-sector mandates by modifying the foreign tax credit carryback and carryover periods and by limiting the use of the nonaccrual experience method of accounting. The direct costs of the new mandates would exceed the statutory threshold (\$100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 2002 through 2004 (see Table 6).

Table 6. Estimated Cost of Private-Sector Mandates

	By Fiscal Year, in Millions of Dollars						
	2000	2001	2002	2003	2004		
Cost to the Private Sector			72	52	142	640	543

Source: Joint Committee on Taxation

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that relate to the old-age, survivors, and disability insurance programs under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that subtitles A and B in title II and titles III and IV of this bill fall within that exclusion.

The remainder of the bill contains no intergovernmental mandates as defined in UMRA. However, it includes optional programs for states that would result in greater state spending if they chose to participate as well as additional grants to states for specific programs.

Title I contains a number of options for states to expand their Medicaid program to cover workers with disabilities who want to buy into Medicaid and to continue Medicaid coverage for individuals who lose their eligibility for DI or SSI following a continuing disability review. CBO estimates that state costs attributable to these optional expansions during the first five years would total about \$70 million for the first option and about \$10 million for the second. States that implement the first of these Medicaid options would be eligible for grants to develop and operate programs to support working individuals with disabilities. CBO estimates that states would receive a total of about \$40 million during the first five years the program is in effect. States would also have the option of charging participants premiums or other fees to offset a portion of the costs.

Title I would also allow states to establish demonstration projects that would provide Medicaid to working individuals with physical or mental impairments who, without Medicaid, could become blind or disabled. CBO estimates that state costs attributable to this optional coverage would total \$215 million over the first five years of implementation.

ESTIMATE PREPARED BY:

Federal Cost: Kathy Ruffing (DI and SSI), Jeanne De Sa and Dorothy Rosenbaum (Medicare and Medicaid), Noah Meyerson (Social Security receipts), Hester Grippando (IRS receipts), John Righter (IRS spending)

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: Joint Committee on Taxation

ESTIMATE APPROVED BY:

Paul N. Van de Water

Assistant Director for Budget Analysis