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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503
March 31, 1988

file
✓

MEMORANDUM FOR KEN DUBERSTEIN
KEN CRIBB
DAN CRIPPEN
ALAN KRANOWITZ
CHUCK HOBBS

FROM: JOE WRIGHT

SUBJECT: Status of Welfare Reform Legislation

We had met twice with the Senate Finance Committee staff to see whether or not there was any chance of a reasonable compromise along the lines of the Michel-Brown bill that was proposed in the House for Welfare Reform -- there is not. The staff, as they probably have been instructed to do, are sticking with the Moynihan bill. It looks like the Senate may begin mark-up in late April to early May -- it totally depends upon the timing of the trade legislation.

Meanwhile, I spoke with Sheila Burke who has our "side-by-side" comparing the Michel-Brown to the Moynihan bill and sees very little room for compromise at this stage. She does believe that Bentsen has committed to Moynihan that he will mark-up the bill and pass it out of committee. Bob Dole has not focused on the bill at all and Sheila has not prepared any type of a draft bill.

Hank Brown has made a list of amendments that should be considered by the Senate to the Moynihan bill -- and OMB has been working with his staff to expand that list and make it consistent with what we have already given them. Brown is not working with D'Amato to come up with some type of welfare and child support enforcement package that will take the "push" out of welfare reform. That was an idea that came up late last year and has gone nowhere.

There is some confusion. Evidently Governor Sanunu said that he spoke with Howard Baker and felt that the Administration "would deal" on the bill to come up with a position between Moynihan and Michel-Brown. We have said that must be a misunderstanding and are holding the line.

Meanwhile, Bill Armstrong, Malcom Wallop and Bill Roth have all said that they will strongly fight for us in Committee and on the Floor against any type of welfare reform that looks like the Moynihan bill. We are sending them information next week in anticipation of a possible early mark-up by the Committee.

Another inner-agency meeting is scheduled for tomorrow, Friday, to make sure that everybody is one board -- but it looks like things are still "on track" and we've got the group reasonably well together on the Administration position and Michel-Brown.

File

Tuesday, May 3, 1988

Welfare Reform LSG

1) Status?

- House passed 12/16, 230-194—Michel/Brown defeated 251-173
- Senate Finance Committee reported 4/20, 14-3
- Senate floor action??

2) Can we get an acceptable bill?

- Dole amendments?
 - Including AFDC-UP?
 - Likelihood of passage?
- Votes on final passage?
- Conference outcome?

3) If not, how do we ensure veto strength?

4) What are the political ramifications of either outcome?

THE WHITE HOUSE
WASHINGTON



May 6, 1988

MEMO TO: *Ken Lubenstein*

FROM: DAN CRIPPEN

SUBJECT: Welfare Reform LSG on Monday

Attached is possible amendment to welfare reform --
likely to get Governor's support -- Hobbs will
address

Attachment

Sec. 802. BETTER LIVES THROUGH INCREASED SYSTEM EFFECTIVENESS
AMENDMENT

(a) IN GENERAL.--TO AMEND Title VIII of S.1511 by adding at the end thereof the following new part:

Part G--Increased System Effectiveness through State Flexibility to Achieve Better Lives for all Americans.

Purpose

Sec. 499(a) Each American who needs public assistance deserves effective public assistance. Because individual circumstances and needs vary widely, States must have the flexibility to tailor the public assistance system to the needs of their citizens whenever doing so will improve quality of service, reduce individual dependency, and result in no increase to the Federal budget. The purpose of this part is to provide such flexibility to the States.

(b) This part applies to the public assistance system, which includes all Federal or federally assisted programs a purpose of which is to alleviate poverty or the effects of poverty and under which benefits are individually means tested, or the basis for allocating Federal funds among States includes consideration of the size of the low-income population within the jurisdiction being served by the grantee.

(c). Notwithstanding any other provision of law, a State may submit a filing to the President to modify the public assistance system consistent with the individual needs and concerns of the State. This filing shall be called the Governor's Welfare Plan.

(d). Notwithstanding any other provision of law, the President shall waive any law or part thereof, or regulation or part thereof, applicable to a program to be included in the proposed State modifications upon a finding that

- (1) proposed benefit levels will be adequate to allow beneficiaries to reasonably meet the needs previously addressed by the programs included in but superseded by the Governor's Welfare Plan;
- (2) no additional Federal costs will be incurred;
- (3) the Governor's Welfare Plan can be appropriately evaluated;
- (4) the Governor's Welfare Plan has a termination date;
- (5) the rights of individuals and families

under title VI of the Civil Rights Act of 1964, the Age Discrimination Act of 1973, title IX of the Education Amendments of 1972, title VIII of the Civil Rights Act of 1968, and all other applicable law prohibiting discrimination, will be protected.

(e) The President shall establish appropriate procedures to implement this part.

Sec. 802 (b) EFFECTIVE DATE.--The amendment made by subsection (a) shall become effective on enactment the Family Security Act of 1987.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

*For
5-19 LSG*

May 18, 1988

MEMORANDUM FOR KEN DUBERSTEIN
ALAN KRANOWITZ
KEN CRIBB
CHUCK HOBBS
DAN CRIPPEN

FROM: JOE WRIGHT *JWR*

SUBJECT: Conversation with Senator Moynihan on Welfare Reform

Following up on the LSG instructions -- Barbara Selfridge and I met with Senator Moynihan and had a very pleasant 1 1/2 hour conversation. To reduce it down to the most basic conclusion: there is no way to get an agreement.

I told him that we simply could not accept the AFDC-UP program since it added too many families to the welfare roles (by OMB and CBO estimates) and that this would be looked upon by our conservatives as President Reagan expanding welfare benefits unnecessarily. Moynihan countered by saying that it was not the highest priority to him -- but it was to the liberal Democrats and governors and he could not back away now.

The other discussions on transition benefits and performance standards did not take on the importance of the AFDC-UP issue. I also told him that our current demonstration authority on providing waivers to the states was actually better than what he had proposed in his bill since it combined a more complete program mix. He again backed into the "jurisdictional problem".

We left it by agreeing to disagree. I told him that we would get back together again in the White House and let him know whether or not there was any further communication that would be helpful (albiet doubtful) and we hoped it would all be "gentlemanly" on the floor and in conference. He felt that he could hold to most of the Senate position in conference, although there would be a few "add ons" that would be necessary, naturally.

I think that the meeting was useful from a communication point of view -- but it sure did not resolve any differences. Bill Armstrong would like us to get back to him ASAP and let him know what our position is going to be on this legislation, i.e.: are we going "all out" for a veto fight? His latest "Dear Colleague" letter is attached. I suppose we need an LSG on this ASAP. Moynihan felt that this could come up on the Senate floor in about three weeks.

cc: Jay Plager
Barbara Selfridge
Gordon Wheeler

THE WHITE HOUSE

WASHINGTON

May 6, 1988

MEMO TO:

Ken Lubenstein

FROM:

DAN CRIPPEN

SUBJECT:

Welfare Reform LSG on Monday

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(e) The President shall establish appropriate procedures to implement this part.

Sec. 802 (b) EFFECTIVE DATE.--The amendment made by subsection (a) shall become effective on enactment the Family Security Act of 1987.

United States Senate

WASHINGTON, DC 20510

WELFARE REFORM

May 10, 1988

Dear Colleague:

Congress is poised to make another well-intentioned, but seriously flawed effort to reform America's welfare system.

The Senate will soon consider S. 1511, reported by the Finance Committee on April 22. Sponsors of this measure say it will lead to less welfare dependency. I believe the bill will do little more than boost welfare spending by \$2.8 billion and perpetuate the cycle of dependency. It will expand welfare benefits and welfare rolls. It will create new incentives for families to go on welfare, and worsen the disincentive to stay on because it "pays" more than work. Before it is worthy of the label "reform", S. 1511 is in need of substantial change.

Work Training Program

S. 1511 establishes a new "JOBS" program to provide education training, and work for welfare recipients. Funding for JOBS, which would replace the Work Incentives program (WIN), would reach \$1 billion per year. While such a program could play a key role in ending dependency, this one contains some major flaws.

First, the program fails to include "participation rates" to ensure that a minimum number of welfare recipients will benefit from JOBS. While the bill purports to require participation in the program, states retain considerable discretion on how to spend JOBS money and may select activities which limit resources to a small number of welfare recipients. Minimum participation rates will provide an incentive to make JOBS available to a broader cross-section of the welfare population, especially those with low skills. Absent such rates, states may devote JOBS resources to those most able to leave welfare and least, in need of the program.

The second major flaw in JOBS is that states would not have to provide any significant work-related activity, such as work-for-welfare or job search. States could allow welfare recipients to participate in JOBS through any form of education, from high school to post-secondary. The program will become a major new source of Federal education assistance, further supplanting local responsibilities and duplicating existing Federal programs. Rather than training individuals to leave welfare for work, JOBS may entice some to go on the rolls to reap significant education benefits. That's not only a bad incentive, but unfair to low-income, non-welfare families not receiving such broad assistance.

Minimum Compensation

S. 1511 would also enshrine the disincentive for people to stay on welfare because it "pays" more than work. Under JOBS, states may not require an individual to accept a job if it results in a net loss of all income, including the value of Food Stamps and Medicaid, unless the state provides a supplementary benefit. This sharply expands current law which provides that a recipient cannot be required to work at less than AFDC cash benefits.

The basic premise underlying this provision is that welfare is an acceptable economic choice. This severely undermines the value of work in promoting personal responsibility and independence. In some states, this provision would mean a welfare recipient could reject a job unless it paid almost twice the minimum wage. It is unreasonable to assume everyone on welfare can initially attain something markedly better than entry level jobs, and therefore should be allowed to refuse them.

Mandatory AFDC-UP

S. 1511 takes another major step back from real reform by mandating the AFDC-UP program. States now have the option of providing AFDC cash benefits to two-parent families where the principal earner is unemployed.

The Administration estimates that mandatory UP benefits will add 90,000 families to the welfare rolls at a cost of \$1.1 billion to the Federal government and \$600 million to the states over five years. The rationale for UP -- that AFDC is needed to keep families intact -- is much in dispute, and several studies conclude the opposite is true. The Seattle/Denver Income Maintenance Experiment [SIME-DIME] concluded that guaranteed household incomes "dramatically increased the rates at which marriages dissolved among blacks and whites."

Other scholars disagree. States are now free to choose which policy is right for them. 26 states, some facing high unemployment, have enacted AFDC-UP. 24 others have chosen not to. Until the need is more certain on a national basis, Congress should not force this cost on states that think it is bad policy.

Higher Welfare Spending

The Congressional Budget Office estimates S. 1511 will increase Federal welfare expenditures by \$2.8 billion over five years. The Administration puts the total increase at \$3.5 billion. This new spending would be financed in part by raising taxes on some working mothers: the bill phases-out the dependent child care tax credit for those earning over \$70,000.

The Administration also estimates the bill would increase state welfare costs by \$1.6 billion over five years. A major source of higher state costs are proposed "transition benefits" for families leaving AFDC. The bill requires states to provide child care for 9 months for those no longer eligible for AFDC. This benefit would be an open-ended entitlement, not limited by funds available under JOBS. The Federal government would match state payments up to \$160 per month per child.

The bill also requires states to provide 12 months of Medicaid to families no longer eligible for AFDC. Current law already requires states to provide 4 to 9 months of Medicaid, and up to 15 months at state option for some families.

The Administration estimates these two transition benefits would cost the Federal and state governments \$700 million each over five years, and keep 500,000 families on public assistance. Only former AFDC families would receive these benefits, not other poor families. Again, this inequity may induce some to join the welfare rolls.

Changes Needed

I hope my colleagues will consider several important changes to S. 1511 when it comes before the Senate.

- * The JOBS program should ensure a minimum percentage of participation by welfare recipients and direct states to provide some work-related activity.
- * Disincentives to remain on welfare, such as the expanded minimum compensation provision, should be deleted. Incentives to seek welfare, such as broad education and transition benefits, should be limited.
- * AFDC-UP should remain a state option.

Absent these changes, another opportunity to end the dependency inflicted on so many poor families by the welfare system will once again be lost.

Sincerely,



William L. Armstrong

United States Senate

WASHINGTON, DC 20510

S. 1511 -- SENATE WELFARE REFORM BILL

BILLIONS MORE FOR WELFARE ... THOUSANDS MORE IN DEPENDENCY

(1) Legislative Status

- * On Wednesday, April 20, the Senate Finance Committee approved S. 1511, legislation making another well-intentioned effort to reform the nation's troubled welfare system. Sponsors of this measure say it will reduce welfare dependency. In fact, the bill will do little more than spend another \$2.8 billion Federal dollars and \$1.6 billion in state money over the next five years to perpetuate the cycle of dependency.
- * The bill will expand welfare benefits and welfare rolls. It will create new incentives for families to go on welfare, and worsen the disincentive to stay on because it "pays" more than work.

(2) JOBS Program

- * The bill requires states to establish a new "JOBS" program for education and work training for welfare recipients (replacing the current Work Incentives program). Funding for the JOBS program would begin at \$500 million in FY91 rising to \$1 billion in FY93. While such a program can play a key role in ending dependency, the JOBS program has several major flaws.
- * First, the program fails to establish minimum "participation rates" -- a requirement that JOBS benefit at least a minimum number of welfare recipients. Under S. 1511, states retain discretion to limit the JOBS program to a small number of welfare recipients. States may devote JOBS resources to those most able to get off welfare and least in need of the program. Participation rates would help ensure the program serves those who most risk long term dependency.
- * Second, the JOBS program proposes no mandatory work-related programs for welfare recipients, such as work-for-welfare and job search. A recipient could meet the requirements of the program through any form of education, from high school, to vocational education, to a college degree. While basic education is essential to prepare for work, the program may become a massive new source of Federal funds for all levels of education, further supplant local education responsibilities and duplicate existing Federal post-secondary assistance.
- * Rather than providing job training, the program may end up enticing people to go on welfare just to reap significant education benefits. Not only is this a bad incentive, but it's

also unfair to lower-income, non-welfare families not receiving such broad education assistance.

(3) Work Disincentive

- * S. 1511 encourages people to stay on welfare because it "pays" more than work. Under the JOBS program, an individual may not be required to accept a job if it results in a net loss of all income including the value of Food Stamps and Medicaid, unless the state provides a supplementary benefit. This sharply expands current law which provides that an individual cannot be required to work for less than AFDC cash benefits.
- * This provision makes welfare an appropriate economic choice, and diminishes the value of work in promoting personal responsibility and independence. Moreover, it will price many welfare recipients out of the job market. In California and New York, an hourly wage of over \$5 would be needed for a full time worker with a family of three to equal AFDC, Medicaid, and Food Stamps. For a family of four in these states, a minimum hourly wage of over \$6 would be required.
- * On an annual basis, the minimum compensation necessary before California or New York could require a welfare recipient to work would exceed \$12,700. This is \$5,700 per year more than the current minimum wage. Most entry-level jobs do not provide compensation of this level.
- * It is wholly unrealistic, and bad policy, to assume that every welfare recipient can initially attain something markedly better than entry level jobs in the economy.

(4) AFDC-UP

- * S. 1511 takes a major step back from welfare reform by mandating the so-called AFDC-UP program on the states. States now have the option of providing AFDC cash benefits to two-parent families where the principal earner is unemployed.
- * The Administration estimates that 90,000 families will be added to the welfare rolls under this provision at a cost of \$1.1 billion to the Federal government and \$600 million to state governments over five years.
- * The rationale for AFDC-UP -- that benefits are needed to keep families intact -- is much in dispute, and several studies conclude the opposite is true. A major study conducted in Seattle and Denver [SIME-DIME] concluded that guaranteed household incomes "dramatically increased the rates at which marriages dissolved among blacks and whites." So long as the need is uncertain on a national basis, the Federal government should not mandate the program. States are now free to choose which policy is right for them.

(5) Overall Cost

- * The Congressional Budget Office estimates that S. 1511 would increase Federal welfare costs by \$1.4 billion in the first year and \$2.8 billion over five years. The Administration estimates the bill would increase welfare spending by \$3.5 billion in five years. This increase would be financed in part by raising taxes on some working mothers: the bill would phase-out the dependent child care tax credit for those earning over \$70,000.
- * The Administration also estimates the bill would increase state welfare costs by \$1.6 billion over five years. A major source of higher state costs are proposed expansions in "transition" benefits for those leaving welfare. The bill requires states to provide child care for 9 months for those no longer eligible for AFDC. This benefit would be an open-ended entitlement, not limited by funds available under JOBS. The Federal government would match state payments up to \$160 per month per child.
- * The bill also requires states to provide 12 months of Medicaid to families no longer eligible for AFDC. Current law already requires states to provide 4 to 9 months of Medicaid, and up to 15 months at state option for some families.
- * The Administration estimates these two transition benefits would cost the Federal and state governments \$700 million each over five years, and keep 500,000 families on public assistance. Only former AFDC families would receive these benefits, not other poor families. Again, this inequity may induce some to join the welfare rolls.

Changes Needed

Before it is worthy of the label "reform", S. 1511 is in need of substantial change.

- * The JOBS program should ensure a minimum percentage of participation by welfare recipients and direct states to provide some work-related activity.
- * Disincentives to remain on welfare, such as the expanded minimum compensation provision, should be deleted. Incentives to seek welfare, such as broad education and transition benefits, should be limited.
- * AFDC-UP should remain a state option.

Absent these changes, another opportunity to end the dependency inflicted on so many poor families by the welfare system will once again be lost.

United States Senate

WASHINGTON, DC 20510

DEPENDENCY AND DISINCENTIVES: CAN WELFARE BE FIXED?

By Senator Bill Armstrong

Almost everyone agrees: America's Welfare Machine needs fixing.

Thoughtful people from all across the political spectrum are convinced the Great Society programs to combat poverty--Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamps--aren't accomplishing their mission.

This consensus has produced yet another well-intentioned effort at welfare reform, now making its way through the U.S. Senate. But in terms of real reform, this bill falls far short of the mark. If enacted, it would likely result in little more than the expenditure of another \$3.6 billion in federal dollars and \$1.6 billion in state funds over the next five years, and the addition of thousands more families to the welfare rolls.

Why? Because it fails to tackle welfare's greatest problems: the infamous "cycle of dependency" and the disincentives that make it hard for poor Americans to climb out of poverty, to educate themselves, to find jobs, and to provide for their families.

The legislation recently passed by the Senate Finance Committee, and headed for the Senate floor with a full head of steam, would

perpetuate the cycle of dependency in this country and, indeed, make that dependency even worse.

The centerpiece of the bill--a new "JOBS" program for education and work training for welfare recipients--fails to make states ensure that even a minimal number of welfare recipients actually participate in work training activities. Such a requirement could help many more families escape from welfare and become independent. Without minimum participation rates, states have little incentive to give aggressive training to those who risk long-term dependency on welfare.

Nor does the JOBS program propose any mandatory work or training programs for welfare recipients, such as workfare or job search skills. A welfare beneficiary could meet the requirements of the program through any form of education--high school, vocational, or college. Instead of a last-resort source of funds for the basic necessities, welfare could become a new fountain of education benefits. It's the wrong incentive, and it's unfair to lower-income, non-welfare families not receiving such broad education assistance. Why should we tax one poor working family to help pay the college costs of people on welfare, all in the name of welfare "reform"?

Perhaps the worst feature of the welfare bill is its minimum compensation requirement: under the JOBS program, states may not require a beneficiary to accept a job if it would result in a net loss of all income, including the value of Food Stamps and Medicaid, unless the state provides a supplementary benefit. This sharply expands current law, which provides simply that states may not require a recipient to accept a job paying less than AFDC cash benefits.

The proposed minimum compensation levels in the welfare bill will price many welfare recipients out of the job market: a job would have to pay more than \$12,700 per year before a state such as New York or California could require the welfare recipient to work. It's unrealistic to assume many welfare recipients can initially find jobs which pay \$5,700 more per year than the current minimum wage.

More than ever before, such changes would make welfare an easy and attractive choice--not a last resort. Where is the respect for the value of work, for personal responsibility and independence? They are absent from this bill, just as they are absent from our current, badly flawed, system.

If the American Welfare Machine is to be repaired, the federal government must give states the flexibility to find solutions that best suit their localities and circumstances. The centralization of the current welfare state is widely regarded as one of its shortcomings; it makes no sense to centralize further and inhibit even more the flexibility and accountability of the states.

Yet that is exactly what the proposed legislation would do: direct Uncle Sam to poke his nose where it doesn't belong. For example, it would force states to provide AFDC cash benefits to two-parent families where the principal earner is unemployed. States now have that option, and 26 of 50 exercise it. But it's a costly and controversial policy which shouldn't be forced on the states. The Department of Health and Human Services estimates it will add 130,000 families to the welfare rolls, expanding the cloud of dependency. And the rationale for extending the program--that it keeps families intact--has been disproved by major studies in Seattle and Denver.

The Senate bill would also force states to extend various "transition benefits" for families once AFDC cash assistance has ended. The administration estimates these transition benefits would cost the federal and state governments \$700 each over five years and keep 500,000 families on the welfare rolls. Again, the incentive is wrong and the results are unfair: benefits should not be an incentive to apply for welfare, and the benefits are unfair to other low-income, non-welfare individuals who don't receive such assistance.

The hotbed of welfare reform in recent years has been at the state level, yet the Senate bill did not adequately address President Reagan's proposal to let states experiment with a wide range of anti-poverty programs. Not surprisingly, most state initiatives aim to end dependency through work, not increased benefits. Real welfare reform depends, in part, on allowing states to experiment and find the best ways to make a package of benefits work for particular localities and families.

The legislation now before the Senate needs work before it will improve the current system. And the task of welfare reform won't be complete until Congress establishes a youth "training" wage, targets housing assistance more effectively to the needy and the homeless, and expands opportunities for low-income public housing residents to become homeowners. We also need to fight welfare fraud, so that limited resources are directed to the poor who are legally entitled to them.

The conviction that society has an obligation to care for its destitute members is deeply rooted in the Western tradition and in the principles of America. But welfare is not a "right" per se, as is the right to free speech or freedom of worship. The goal of our welfare

system should not be to dispense an ever-greater number of dollars to an ever-greater number of citizens. Its method should not be centralization and redistribution. And its success should be measured, not by how many families are on welfare, but by how few continue to need it.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAY 6 1988

MEMORANDUM FOR KEN DUBERSTEIN

FROM:

JOE WRIGHT

SUBJECT:

Major Problems with the Moynihan and Downey
Welfare Reform Bills

Attached is the paper you requested outlining the major problems with S. 1511 (Moynihan) and H.R. 1720 (Downey). There is a 2-page summary side-by-side followed by papers which provide more detail on each of the problems.

c: Ken Cribb
Dan Crippen
Alan Kranowitz
Frank Donatelli
Chuck Hobbs
Nancy Kennedy
Jay Stone

MAJOR PROBLEMS WITH S.1511 (MOYNIHAN) AND H.R.1720 (DOWNEY)

	<u>S.1511</u>	<u>H.R.1720</u>	<u>S.1655/H.R.3200 (Administration)</u>
1. Mandatory AFDC-UP	Yes, mandatory. States have option to limit recipients' time on the rolls.	Yes, mandatory.	No, remains State option.
2. Increased Federal Match for AFDC Benefit Increases	No	Yes	No
3. Other AFDC Eligibility and Benefit Expansions	No	Yes, 5 others. Also expands Food Stamps eligibility and benefits.	No
4. Additional Medicaid Transition Benefits	Yes, mandated expansion of entitlement for individuals.	No*	No
5. New Transitional Child Care Benefits	Yes, mandated new entitlement for individuals.	Yes, mandated new entitlement for individuals.	Yes, but only at State option and not an individual entitlement.
6. Participation Standards: Levels of Recipient Participation State Work Programs Must Meet	No	No	Yes
7. Funding for Education and Training	Capped entitlement, with 60-80% Federal matching rates and no restrictions on type or duration.	Open-ended entitlement, with a 65% Federal matching rate and no restrictions on type or duration.	Capped appropriation, with a 50% Federal match rate and limitations on type and duration.
8. Focus on Early Intervention and Prevention in Work Programs	Only minimal emphasis.	No such emphasis.	Yes, strong emphasis.

	<u>S.1511</u>	<u>H.R.1720</u>	<u>S.1655/H.R.3200 (Administration)</u>
9. "Anti-Work" Provisions	Employment can be refused if compensation is less than the welfare package -- unless the State supplements wages.	Four provisions, including one similar to S.1511's.	None
10. Broad Demonstration Authority	No, no meaningful new authority.	No, no provision.	Yes, similar to Administration's Low Income Opportunity Improvement Act.
11. Five Year Costs			
Administration	New Spending: \$3.5b Revenues : <u>3.3b</u> Net Deficit : <u>\$+.2b</u>	New Spending: \$ 8.6b Revenues : <u>3.0b</u> Net Deficit : <u>\$+5.6b</u>	New Spending: \$ -.2b Revenues : <u>2.0b</u> Net Deficit : <u>\$-2.2b</u>
CBO**	New Spending: \$2.8b Revenues : <u>2.8b</u> Net Deficit : <u>\$0.0b</u>	New Spending: \$ 7.1b Revenues : <u>2.8b</u> Net Deficit : <u>\$+4.3b</u>	New Spending: \$ 0.9b Revenues : <u>2.0b</u> Net Deficit : <u>\$-1.1b</u>
Tax Increases in Revenues	Yes	Yes	No

*H.R.1720's original Medicaid transition provision, which is similar but more generous than S.1511's, is now in a freestanding bill because a failed Democratic tactical maneuver last year put it in reconciliation, and it was not enacted.

**CBO's estimates for S.1655/H.R.3200 cannot be compared with their estimates for the other two bills.

1. MANDATORY AFDC-UP

AFDC-UP is a program providing cash assistance to two-parent families in which the principal wage earner is unemployed. Under current law States have the option to provide this coverage. They are not required to do so.

S.1511 (M): Requires all States to have an AFDC-UP program and liberalizes the definition of unemployment.

States are given the option of limiting cash assistance to six out of 12 months in any year. If they exercise this option they must (1) provide Medicaid coverage for all children up to age 18 for as long as the family is otherwise eligible for assistance and (2) have a program of active assistance to parents to help them find jobs.

H.R.1720 (D): Requires all States to have an AFDC-UP program and liberalizes the definition of unemployment in the same way that S.1511 does. This mandatory-UP provision is identical to the one included in the 1987 Reconciliation Bill that the President personally threatened to veto because it included mandatory AFDC-UP.

S.1655/H.R.3200 (Admin.): Retains current law under which the States have the option of providing AFDC-UP.

2. INCREASED FEDERAL MATCH FOR AFDC BENEFIT INCREASES

The Federal Government shares in the costs of AFDC benefits at matching rates ranging from 50 to 80 percent depending on each State's per capita income. Benefits are set by each State, and there is no Federal requirement that they be automatically adjusted for inflation.

S.1511 (M): No provision.

H.R.1720 (D): For States which increase benefit levels after October 1, 1988, provides a 25 percent increase in Federal matching for the amounts attributable to the benefit increase(s). This provision, which results in permanent increases in Federal matching rates, applies to benefit increases made during the four years after October 1, 1988.

S.1655/H.R.3200 (Admin.): No provision.

3. OTHER AFDC ELIGIBILITY AND BENEFIT INCREASES

Eligibility and benefit amounts in income-tested programs, such as AFDC and Food Stamps, are determined on the basis of income. These programs commonly include provisions under which certain kinds and amounts of income are not counted, i.e., are "disregarded," in determining eligibility, benefit amounts or both.

S.1511 (M): None.

H.R.1720 (D): Contains several provisions which expand the definition of income that is disregarded in determining eligibility for AFDC, AFDC benefit amounts or both. Expansions include the following:

- o The Earned Income Tax Credit is not counted.
- o The disregard for earned income is increased, indexed and for the first time applied in part to applicants as well as recipients.
- o The child care disregard is increased and counted in a way that reduces countable income more than it does now.
- o Parents' income is not counted in determining eligibility and benefits of minor mothers, and minor mothers living with their families are considered as a separate family, giving them more cash assistance than they now get.
- o States are given the option to further increase the earned income disregard and the amounts of child support that are disregarded under H.R.1720.

In addition, H.R.1720 contains the following provisions which expand Food Stamp eligibility, benefits or both:

- o The child care disregard is increased.
- o A new \$50 per month disregard of child support is added.
- o The Earned Income Tax Credit is disregarded.
- o New disregards are added for post-secondary education expenses, and eligibility is expanded for post-secondary students.
- o Eligibility is extended for farm households.

S.1655/H.R.3200 (Admin.): None.

4. ADDITIONAL MEDICAID TRANSITION BENEFITS

Current law requires States to provide four or nine months of no-cost Medicaid coverage to the families who lose eligibility for AFDC because they increase their earnings or their hours of employment (for AFDC-UP) or they lose their time-limited earned income disregard. The length of coverage is related to family income, with relatively higher income families receiving four months of coverage and relatively lower income families receiving nine months. States have the option of providing an additional six months of Medicaid to the families covered by the mandatory nine months of coverage.

S.1511 (M): States must continue Medicaid coverage for a period of six months for all families who leave the rolls due to work. In addition, they must offer these families the option of continuing their Medicaid coverage for an additional six months. During these additional six months, the States must charge a premium related to income.

H.R.1720 (D): Does not now contain a provision. However, it did contain a provision that is similar to the one in S.1511. Now contained in a freestanding bill, the former H.R.1720 provision would provide a total of two years of transitional Medicaid coverage: six months at no cost to recipients and 18 months with a sliding scale premium established by the State.

S.1655/H.R.3200 (Admin.): Retains current law.

5. NEW TRANSITIONAL CHILD CARE BENEFITS

Transitional child care benefits are benefits for families who leave the rolls as a result of work. There is no Federal mandate that these benefits be provided under current law. States can use Work Incentive Program (WIN), Title XX Social Services, Job Training Partnership Act (JTPA) Block Grant and other sources of funds to provide these benefits as they see fit.

S.1511 (M): States must provide nine months of child care to families who lose their AFDC eligibility because they increase their earnings or hours of work or they lose their time-limited earned income disregards. This child care must be necessary for the parent's employment, and the family must contribute to the cost according to a State-established rate schedule.

Open-ended Federal funding for this transitional benefit is set at the Medicaid matching rate (50-80 percent) and is available for child care costs up to amounts established by the State, which cannot exceed local market rates.

H.R.1720 (D): States must provide at least 12 months of child care to the families covered by S.1511 so long as their incomes are below 150 percent of the poverty level. This child care must be reasonably related to parents' employment, and the family must contribute to the cost according to a sliding scale fee schedule set by the State.

Open-ended Federal matching is set at the Medicaid matching rate and is available for child care costs up to the disregard amounts for child care established by H.R.1720.

S.1655/H.R.3200 (Admin.): States can use funds appropriated for their employment and training programs to provide transitional child care. This care is available to the families defined by S.1511 so long as their incomes are under 150 percent of the poverty level. Costs allowed are those up to the disregard amount for child care now in law.

6. PARTICIPATION STANDARDS

Under current law, certain AFDC recipients are subject to requirements that they participate in employment and training activities. For the majority of these recipients, this requirement has resulted only in their "registering" for work-related activities, not in their active participation. Participation standards are levels of active recipient participation in employment and training activities that States must meet.

S.1511 (M): No provision.

H.R.1720 (D): No provision.

S.1655/H.R.3200 (Admin.): Sets an overall participation standard of 15 percent in the first year, rising to 70 percent over nine years. Within the overall standard, there is a separate standard for mothers and children ages 16-18 who have not completed high school. Under this standard, 80 percent of these teens must remain in or return to school by the end of the third year.

7. FUNDING FOR EDUCATION AND TRAINING

Employment and training programs for AFDC recipients can include a variety of activities. Job Search, Community Work Experience (CWEP), and grant diversion (work subsidized by AFDC grants) are three activities for which open-ended funding at a 50 percent matching rate has been provided to States since 1981. WIN provides 90-10 funds which can be used for other kinds of training, as well as for education of all kinds. The Administration's original work proposal did not provide funding for education and training because JTPA, Vocational Education and a variety of other programs fund these activities, and education is primarily the responsibility of State and local governments.

S.1511 (M): Costs for work program administration and work-related activities, including education and training, are eligible for Federal matching funds as an entitlement. Costs are matched at the Federal Medicaid matching rate (50-80 percent) or 60 percent, whichever is higher. They are subject to an overall national limit of \$500 million for FY 1989, \$650 million for FY 1990, \$800 million in FY 1991 and \$1 billion in FY 1992 and thereafter.

Education and training of any type and duration can be funded, including post-secondary education. Funding for child care and work expenses of program participants is not included under the cap but funded on an open-ended entitlement basis at various matching rates ranging from 50 to 80 percent.

H.R.1720 (D): Provides open-ended 65 percent Federal matching for work-related activities, including education and training of any type and duration. Open-ended Federal matching at various rates ranging from 50 to 80 percent also is provided for program administration and for child care and work expenses of program participants.

S.1655/H.R.3200 (Admin.): Provides \$500 million in the first year and "such sums" in subsequent years for all work program components -- employment and training activities, program administration, child care and work expenses. Federal matching is 50 percent for all components. Training funded must be "directed toward immediate employment" and education must be "remedial in nature."

8. FOCUS ON EARLY INTERVENTION AND PREVENTION IN WORK PROGRAMS

Mothers with children under age six now are exempt from participation in employment and training activities. Research shows that these mothers account for almost 90 percent of all women who will use AFDC for 10 years or more. Within this group, the most dependency-prone mothers are those who first enter the rolls with a child under age three: they account for almost two-third's of all long stays on the rolls. Research suggests, too, that delaying action to prevent dependency is not cost effective.

S.1511 (M): Exempts from participation most mothers with children under age three, allowing States to require participation by those with children age one to three. Young parents under age 22 who have not completed high school may be required to attend school even if they have children under age three. With the exception of mothers in this group, mothers with children under age six can only be required to participate in employment and training activities part-time.

Penalizes States which do not spend half of all work program funds on certain target groups -- most of whom will already have been on the rolls a long time. Requires States to give priority to volunteers in these groups.

H.R.1720 (D): Exemptions are identical to those in S.1511 except there is no provision for young parents to attend school. H.R.1720 exempts from participation those mothers with children under age three, allowing States to require participation by those with children age one to three. Mothers with children under age six can only be required to participate part-time.

Requires States to serve certain target groups, many of whom already will have been on the rolls a long time, and requires States to give priority to volunteers in these groups.

S.1655/H.R.3200 (Admin.): Exempts women with children under age six months from participation. Targets mothers with young children through participation standards and larger allocations of funding to States that successfully serve certain groups, primarily young mothers and unmarried mothers with children under age three.

9. "ANTI-WORK" PROVISIONS

Anti-work provisions are provisions which make it more difficult to get AFDC recipients into jobs by giving them grounds for refusing a job or by making it more difficult to require participation in the kinds of work-related activities that have been shown to be effective, most notably Job Search and CWEP.

S.1511 (M): Allows AFDC recipients to refuse a job if it would result in a net loss of family income, including the value of Food Stamps and health benefits. This provision applies unless the State provides cash supplements to earners until each family's income equals the combined value of the welfare benefits they would otherwise receive.

S.1511 also limits the amount of time an individual can be required to participate in job search.

H.R.1720 (D): Contains a "net loss of family income" provision similar to S.1511's, without the State option to supplement wages. It also includes:

- o Limits on the amount of time recipients can participate in Community Work Experience Programs.

- o Requirements that employment and training program participants be paid the same wages as individuals employed in the same or similar occupations by the same employer.

- o A requirement that individuals must participate in education, training or other activities following eight weeks of job search.

S.1655/H.R.3200 (Admin.): No provision.

10. BROAD DEMONSTRATION AUTHORITY

Under the Administration's Low Income Opportunity Improvement Act, States could receive waivers in a wide range of current programs for the low-income population to test new ways of helping families and individuals become more self-sufficient. The number of demonstrations is not limited. A demonstration could make very substantial changes in a program(s) so long as the State could demonstrate that the beneficiary needs met by the program being changed would continue to be met and the demonstration would cost no more each year than the affected programs would cost in the absence of the demonstration. Substantial waiver authority now exists only for programs in the Social Security Act, such as AFDC, Medicaid, and Child Support Enforcement.

S.1511 (M): The authority covers only Title XX, AFDC and Child Support Enforcement. It requires that individuals' benefits not be reduced and that entitlement programs not be altered so as to result in large increases or decreases in funding. The number of demonstrations that can be ongoing at any time is set at 50.

H.R.1720 (D): No provision.

S.1655/H.R.3200 (Admin.): Incorporates the Administration's Low Income Opportunity Improvement Act with only minor, agreed-upon changes.

11. FIVE YEAR COSTS

Attached are two tables showing for the three bills:

- o Spending and revenue totals by year for 1989-1993.
- o Detail on the 1989-1993 revenue projections.

-- Extension of the IRS debt collection authority. This provision is included in all three bills.

-- Phasing out of the Dependent Care Tax Credit for upper income families. This tax increase is included in both S.1511 (M) and H.R.1720 (D) in slightly different forms. The credit is phased out in S.1511 (M) for incomes between \$70,000 and \$93,750, and in H.R.1720 (D) for incomes between \$65,000 and \$95,000.

-- Expansion of the requirement that parents must include their children's Social Security numbers on their tax returns to children age two to five. This provision is included in S.1511.

May 5, 1988

WELFARE REFORM BILL COSTS
(outlays and revenues in millions)

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>5-Year Total</u>
<u>ADMINISTRATION</u>						
<u>S.1655</u>						
New Spending	\$74	\$56	\$-54	\$-102	\$-133	\$-159
Revenues	-343	-412	-412	-412	-412	-1,991
Total	-269	-356	-466	-514	-545	-2,150
 <u>S.1511</u>						
New Spending	276	416	810	948	1,038	3,486
Revenues	-384	-698	-716	-738	-760	-3,296
Total	-108	-282	94	210	278	190
 <u>H.R.1720</u>						
New Spending	619	1,311	1,800	2,327	2,505	8,563
Revenues (prelim)	-363	-622	-639	-660	-681	-2,965
Total	256	689	1,161	1,667	1,824	5,598
 <u>CBO</u>						
<u>S.1655*</u>						
New Spending	134	166	122	195	296	913
Revenues	-400	-400	-400	-400	-400	-2,000
Total	-266	-234	-278	-205	-104	-1,087
 <u>S.1511</u>						
New Spending	60	378	918	830	655	2,845
Revenues	-417	-573	-588	-606	-628	-2,812
Total	-357	-195	330	224	27	33
 <u>H.R.1720</u>						
New Spending	Being reestimated. Costs are certain to show an increase in the deficit for years after 1990.					\$7.1 billion**
Revenues (prelim)	-422	-578	-593	-611	-633	-2,837
Total						\$4.3 billion

*CBO estimates for S.1655 cannot be compared with their estimates for the other two bills.

**Preliminary partial reestimate.

May 3, 1988

WELFARE REFORM REVENUE ESTIMATES
(savings in millions)

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>5-Year Total</u>
<u>ADMINISTRATION</u>						
Debt Offset Extension	\$343	\$412	\$412	\$412	\$412	\$1,991
Dependent Care Credit Phaseout	15	205	222	243	264	949
TIN Extension	26	81	82	83	84	356
<u>CBO/TAX COMMITTEE</u>						
Debt Offset Extension	400	400	400	400	400	2,000
Dependent Care Credit Phaseout	17	173	188	206	228	812
TIN Extension	*	*	*	*	*	*

*Tax Committee reportedly indicated that the provision saved something under \$10 million per year and does not intend to provide an estimate.

POTENTIAL "COMPROMISE" BILL COMING FROM A CONFERENCE
ON THE DOWNEY-MOYNIHAN BILLS

Cost

One-year cost: \$87-\$504 million
Five-year cost: \$2.3-\$8.7 billion

These costs will be characterized as "modest" and "insignificant" in comparison with the supposed need and amounts now being spent.

Broad Waiver Authority for State Demonstrations

None.

Congressionally Specified and Directed Demonstrations

Many; this way the Democrats can say they favor demonstrations too, though all of theirs will involve cost, in contrast to the budget-neutral proposal advanced by the Administration.

Benefit Expansions

Mandatory AFDC-UP.

The definition of "prior employment" used to restrict eligibility in the AFDC-UP program will be liberalized, allowing States to count up to 4 quarters of education or training as "work". States will be empowered to turn AFDC-UP into a wage supplement program by allowing full-time workers to qualify for cash assistance.

Employment and Training Programs

Exemption from education and work training for women with children under 3 years (1 year at state option).

Mandatory social worker-designed plan for each recipient.

Additional restrictions on encouraging or requiring work, coupled with expanded education and training benefits.

Financing: 90% match for first \$140 million for all activities. Thereafter: 60% for work, training, and education; 50% of administration and work expenses; benefit matching rate for child care.

No requirements for states to make recipients participate in work training programs. Target populations will include families receiving AFDC 2 or more years, with a teen parent, and with a parent who hasn't completed high school. Priority will be given to volunteers.

Families will not be required to take a job if doing so would result in a net loss of income (including the value of Medicaid), and the amount of time a recipient can be required to participate in community work experience will be severely limited.

The day care disregard will be raised to \$175 per month per child and extended to education and training; state will be allowed to use vouchers or contracts.

Transition Services

"Transitional" Medicaid will be extended for up to 12 months, with buy-in features for former recipients with incomes above 150% of poverty.

"Transitional" day care will be provided for up to 6 months after leaving AFDC due to earnings.

THE WHITE HOUSE

WASHINGTON

July 16, 1987

MEMORANDUM FOR SENATOR BAKER
KENNETH M. DUBERSTEIN

FROM: WILLIAM L. BALL, III *WB*

SUBJECT: Welfare Reform

I. BACKGROUND

With both the Administration and the nation's governors articulating the need to reform the present welfare system, the 100th Congress has targeted the issue as a priority and efforts are well underway in both bodies to pass sweeping reforms. The Speaker pledged to have a bill on the floor of the House by May. The complexity of the issue has slowed the timetable somewhat, but following action this week, the Democratic package in the House, H.R. 1720, is nearly ready for floor consideration.

Senator Moynihan, Chairman of the Subcommittee on Social Security and Family Policy, also hopes to move a bill on a fast track. He began general hearings early this year and is expected to introduce a comprehensive measure next Tuesday.

II. SENATE

In the Hobbs meeting with Senator Moynihan on July 9, the Senator did not hold to the position he took in the meeting here at the White House earlier that week. Negotiations broke down entirely over AFDC-UP, Moynihan insisted that it remain and said since we wouldn't budge there was nothing more to discuss.

Moynihan intends to introduce his legislation next Tuesday and is looking for Republican co-sponsors, specifically the Republican Leader. Finance Minority staff thinks Dole will sign on, even with the two parent (UP) provision. This is backed up by Dole's letter of Wednesday, attaching a paper on major changes recommended. Under Title III, Child Support Supplement, he indicates no consensus on AFDC-UP, rather than stating it should not be included. Indications are, further, that Chafee and Durenberger will cosponsor and perhaps Heinz also.

III. HOUSE

The Democratic version of welfare "reform" has become a massive package of new programs and benefit increases funded with large federal subsidies to the states. It contains none of the initiatives advanced by the Administration.

Early in the process, Chairman Rostenkowski attempted to produce a "bipartisan" bill. However, working closely with the Administration, Ways and Means Republicans rejected the overture and voted unanimously against H.R. 1720.

The bill as reported by the Ways and Means Committee was estimated to cost more than \$5 billion over five years. Both the Education and Labor and Energy and Commerce Committees added several benefit increases which have pushed the cost to \$11 billion.

Tom Downey, the acting Ways and Means Subcommittee Chairman, has indicated that the Democratic leadership sees no hope of finding a "middle ground" with the White House and, therefore, will include H.R. 1720 in Reconciliation.

In an effort to generate veto strength in the House and leverage for the attempt to pass an acceptable bill in the Senate, the Administration has worked closely over the past two months with a Republican task force which is attempting to develop an alternative.

The task force has nearly completed its work on a package which encompasses many of the Administration's initiatives. It contains essential elements of the President's demonstration authority for states and a work and training program which is somewhat akin to the GROW proposal advanced in the President's FY '88 budget.

The group has attempted to adhere to the Administration's firm guidelines for the "musts" and "must-nots" of an acceptable bill. However, their substitute does provide \$350 million for training and education. In addition, the last outstanding issue is whether or not to include a child care proposal being advanced by Nancy Johnson at a cost of \$300 million. We oppose any expansion of child care benefits. In an effort to gain the support of the Administration for the substitute, the task force is looking at ways to reduce Johnson's program or perhaps cap the total cost of the bill at approximately \$500 million.

Given the rigid position we have taken in our negotiations with House Republicans and their willingness to assist us in opposing H.R. 1720, it is important that we send a consistent message to both bodies as the Senate begins its consideration of welfare reform.

IV. NEXT STEPS

- ° It must be determined what the Administration's posture will be. Hold firm for the guidelines articulated by our Budget and report of the Up From Dependency group or begin negotiations?
- ° There must be a consistent signal to both House and Senate.
- ° If we determine no major retreat from our previous position then:
 - Step up the assault on H.R. 1720 prior to floor consideration. Ask Cabinet Secretaries for action plans for floor effort. Determine methods to speak out and reiterate veto signal on H.R. 1720 - as part of Reconciliation or free standing.
 - Determine how the Administration will treat the House Republican Substitute. Meet with House Republican Leadership to review the bidding.
 - Ask for Republican Conference to ensure that rank-and-file understand the "politics" of the issue. Show Cabinet-level interest at that meeting.
 - Follow Conference with "Member-to-Member" Whip Check on support for Republican Substitute and opposition to H.R. 1720.
 - Step up activity by outside interest groups. Develop communications plan to generate editorial support.
 - Direct Secretary Bowen and his department to become actively involved.
 - Senator Baker et al meet with Bentsen and Packwood to lay out our problems with the Moynihan bill, indicating our attempts to reaching consensus with him.
 - Iterate to Senator Dole that we cannot back down on AFDC-UP and urge him not to cosponsor Moynihan's bill. Urge him to take a look at the House Republican Substitute as offered by Hank Brown.
 - Request Chafee, Durenberger and Heinz not to act until the Administration can personally brief them on our concerns.

COMPARISON OF N.G.A POSITIONS ON WELFARE REFORM
WITH THE LOW INCOME OPPORTUNITY ACT AND OTHER ADMINISTRATION
POSITIONS AND SENATOR MOYNIHAN'S FAMILY SECURITY ACT OF 1987

N.G.A. Position	Administration Position	Family Security Act (Moynihan)
"...government must commit itself to investing in the employability of the individual and to providing adequate income assistance."	* Policy Goal #1: Public assistance must be an adequate supplement for other resources in meeting essential needs.	"...child support must in the first instance come from parents, and only thereafter from the community."
"...in designing our employment and training programs, we are likewise committed to helping these individuals reduce their dependence on welfare."	* States would be given the flexibility to achieve Policy Goal #2: to focus public assistance resources on efforts to reduce future dependency on public assistance.	Would attempt to encourage recipients to work their way off AFDC by increasing federal subsidies to education, training and job-related services such as child care, and thereby would increase the attractiveness of welfare to people who are not now recipients.
"...job oriented welfare reform cannot succeed unless it is 'customized' to take into account the circumstances and needs of individuals and their families."	* States would be given the flexibility to achieve Policy Goal #3: to individualize determinations of need for and provision of public assistance and, to the extent possible, to make such determinations through local decisions in the context of state designed welfare reform.	Would create more national mandates and expand benefits without respect to individual need or unique state and community circumstances.

N.G.A. is silent on the matter of targeting public assistance only to the extent of need.

"It is our aim to create a system where it is always better to work than to be on public assistance."

"The Governors recommend that all employable welfare recipients must participate in an education, job training, or placement program, and accept a suitable job when it is offered."

"We believe that public assistance programs must foster the creation, strengthening and preservation of a solid family structure in which parents can do productive work and raise healthy children."

* States would be given the flexibility to achieve Policy Goal #4: to provide public assistance only to those in need and only to the extent of that need.

* States would be given the flexibility to achieve Policy Goal #5: to make work more rewarding than welfare.

* States would be given the flexibility to achieve Policy Goal #6: to require that those who are able to work do so for their public assistance benefits.

* States would be given the flexibility to achieve Policy Goal #7: to encourage the formation and maintenance of economically self reliant families.

Would provide welfare benefits in many cases in excess of individual needs.

Would increase the financial pay-off of choosing welfare over work by extending benefits to more two parent families and by providing new education, training and job related benefits to all recipients.

Would establish no standards to ensure meaningful participation and education & training would be acceptable substitutes for work.

Would require all states to provide cash assistance to families with unemployed parents without a work requirement for either parent.

"...we oppose federal requirements that tell us how to implement job-related services. ...States must have maximum flexibility in designing their education, training and employment programs for welfare recipients."

"The current system must be refocused to place primary emphasis on the placement of recipients into jobs and the removal of existing barriers to economic self sufficiency."

"It is our intent that the reforms in the income assistance program will be funded with savings realized through our preventive initiative and through our jobs program."

Support state demonstration authority.

* States would be given the flexibility to achieve Policy Goal #8: to encourage community-based administration of public assistance.

* States would be given the flexibility to achieve Policy Goal #9: to create opportunities for self-reliance through education and enterprise.

* Budget neutrality would guarantee that States met Policy Goal #10: to reduce the future costs of public assistance by reducing the need for it.

* Broad authority across all welfare programs to allow state to restructure programs to ensure that public assistance adequately meets needs while reducing dependency; states would be encouraged to obtain waivers of existing rules to permit long-term budget-neutral experiments; approval of federal administrative board required.

Would provide limited state flexibility; does not address community-based decision-making.

Would emphasize education and training at the expense of actual work experience and would erect further disincentives to self sufficiency by extending benefits beyond current levels.

CBO estimates that by 1992, total Federal spending on welfare would increase by \$2.3 billion over the five year period.

Inadequate waiver authority for States to conduct demonstrations: covers only 1/6 of welfare system; involves only HHS; limits authority to 10 demonstrations; and imposes excessive restrictions on the content of state demonstrations, such as prohibitions against reducing benefits for those not in need.

* "Employable recipients include those with children age 3 or older."

State flexibility permitted under demonstrations; otherwise employable recipients include those with children 6 months or older (lower at state option).

Employable recipients include those with children 3 or older (1 or 2 at state option).

"The emphasis on jobs should be reflected in the federal matching rate...there should be a higher matching rate for the jobs program than for the income assistance program."

Under demonstrations, states would be free to move program funds across program areas as they construct their own experimental employment/training programs, with total funding based on existing law and programs included in demonstration; otherwise work activities and support services matched on a 50% open-ended basis.

* Federal matching of 90% for first \$140 million beyond which federal matching is 60% on an open-ended basis.

"Once a participant has found a job, support services should be provided for a transition period."

States are free to design transitional health and child care services that match individual need as long as the total public assistance package of programs is budget neutral.

* Expands Medicaid eligibility: requires 9 months of transitional Medicaid coverage for families leaving CSS because of an increase in earnings or child support payments; creates entitlement to day care benefits for up to 9 months after leaving CSS.

DRAFT

* "Support should be provided for current AFDC recipients plus two-parent families where that option is not available... Given limited federal and state resources, this new income support payment must be phased in gradually.

"The Governors also recognize that unpaid child support represents a sizable resource for low income families, and we will continue to strengthen current enforcement efforts."

No position on independent Congressionally directed demonstrations.

States are given the flexibility to experimentally design programs for two-parent families in a manner that will not increase dependency.

General agreement, but further analysis is needed.

Oppose independent Congressionally directed demonstrations; broad waiver authority permits state discretion.

Would mandate states to provide welfare to intact families with unemployed parents. Also would liberalize program rules by redefining unemployment to allow four quarters in training or education to count as work (state option) and waives 100-hour rule, thus permitting full-time workers to receive welfare (state option).

* Numerous child support enforcement provisions.

* Includes a number of independent Congressionally directed demonstrations.

July 24, 1987

Welfare Reform Meeting—4:30, Roosevelt Room

Background

Pursuant to the welfare reform LSG of Monday, Chuck Hobbs has requested a meeting with several governors this weekend at their annual meeting in Michigan. Chuck's notion was that if we could develop a compromise on AFDC-UP, the governors would endorse the rest of the Administration's bill. A compromise has not been developed. Chuck's initial offer was potentially very expensive and opened the door for a federally-sponsored general welfare system in which anyone who has children would qualify. Further, legislative affairs is convinced that any compromise or negotiations at this point could jeopardize our efforts with House Republicans who have thus far resisted AFDC-UP.

Agenda

- Should we go forward with the meeting?

Donatelli is concerned that we have nothing new to say to the Governors and the meeting could be counterproductive. Gwen King is of the opinion that if we send 4-5 representatives, the Administration will appear less than unified and would, under those circumstances, prefer to cancel the meeting.

- Who should attend?

The initial team was to consist of Dr. Bowen, Chuck Hobbs, and a representative of Donatelli's shop. Because the LSG confirmed that OMB is to participate in the development of a negotiating position (which has not transpired), Miller requests that Jay Plager (Steelman's replacement) participate in Michigan. Bowen has no objections to Plager.

- What are the instructions to the Administration representatives?

The President has long opposed AFDC-UP. There is no Administration consensus on whether to ultimately compromise on this issue or, if we do compromise, what we should offer.

Recommendations

- 1) If there is a graceful way to cancel the meeting—with Chuck and the Governors—do so.
- 2) Plager should attend if the meeting is held.
- 3) Given the status of negotiations with the House Republicans and the lack of agreement on if or what to offer, the meeting should be informational only. The participants should reiterate the common grounds of the desirability for demonstrations and work and leave it at that.

Agenda

- Should we go forward with the meeting?
- Who should attend?
- What are the instructions to the Administration representatives?