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MEDICAID & MEDICARE

History

Prior to the initiation of the "Great Society," the Federal government -- with the exception of Veteran's Benefits -- played a very minor role in the provision of health care services. In 1963, the Federal government spent, exclusive of Veteran's Benefits, only \$623 million on health care services. This represented 0.5% of the total Federal budget of \$111 billion.

o Programs

There are currently two major health care programs administered and financed by the Federal government:

-- Medicare:

- * Established under the Social Security Act in 1966. Program provides medical care for Americans over 65 and for the disabled.
- * Medicare is financed by general revenues, payroll tax contributions and beneficiary premiums.

-- Medicaid:

- * Established at the same time as Medicare. Provides grants to States to assist them in providing medical care to low-income families and individuals.
- * The Federal government provides States with open-ended matching payments for their expenditures, with the Federal payments (based upon State per-capita income) ranging from 50 to 78% of the cost of the program.

o Coverage

- Medicare currently covers 28.5 million people.
- Medicaid now provides health care benefits for almost 23 million people. Beneficiaries include more than 10 million needy children, 3 million disabled Americans and 3.5 million elderly.
- Medicare and Medicaid together cover approximately 26 million senior citizens, or about 99% of that age group.
- The two programs cover approximately 5 million disabled Americans.

o Costs

- Total Federal spending for health care (including programs operated by the Department of Defense and Veterans Administration) has soared from \$5.5 billion in 1965 to \$71 billion in 1980 (an increase of twelve and a half times) and now consumes about 12% of the Federal budget.
- While total public and private spending for health care rose rapidly over this period (\$42 billion in 1965 to \$247 billion in 1980) the Federal share of all health care costs more than doubled -- from 13% in 1965 to 29% in 1980.

The President's Proposals

o For Medicare: (Highlights)

- Reduce the excessive rate of health care cost inflation by introducing measures to improve market forces in the health care industry. (Specific measures will not be proposed until later this year.)
- Institute modest co-payments for home health services at the rate of 5% for the first 100 visits (about \$2.40 per visit) and 20% thereafter.
- Make Medicare coverage secondary to private group insurance for the working aged.
- Reduce the rate of increase in Medicare hospital reimbursement by 2% annually.
- Eliminate private room subsidies.
- Eliminate duplicative reimbursement for physicians rendering care in hospital outpatient departments.
- Integrate Federal employees into Medicare through payment of the payroll tax.

o For Medicaid: (Highlights)

- Require recipients to pay a very modest co-payment for Medicaid services (\$1 to \$2 per visit) in order to minimize unnecessary use.
- Phase in full State responsibility for erroneous payments.
- Give States flexibility to recover long-term care costs from beneficiary estates and relatives.

Justification (General)

o Reduce growth of Federal spending.

-- The cost of health care services has grown much more rapidly than other programs. Under current law, Medicare will grow by 16%, or \$8 billion next year, compared to average over-all budget growth of 4.5%. While growing more slowly, the Medicaid budget will still be \$888 million higher next year.

-- The president's proposals will save:

* \$2.5 billion in Medicare for 1983, and a total of \$42.9 billion from 1983 to 1987.

* \$2 billion in 1983 for Medicaid, and a total of \$17.3 billion from 1983 to 1987.

o Reduce health price increases.

-- Health care costs have risen well beyond the inflation rate.

* From 1966 (the year Medicare and Medicaid began) to 1980 general prices rose 154% and medical expenditures rose by over 435%.

-- Rapidly rising medical costs are due largely to the lack of cost-consciousness among both users and suppliers of health care. Costs can be passed onto the taxpayers through the reimbursement procedure.

-- Requiring beneficiaries to assume a small percentage of health care costs introduces a market force which constrains users from requesting and suppliers from suggesting medically unnecessary services.

Justification for Specific Program Areas

o For Medicare:

-- Protect the solvency of the program without resorting to massive tax increases.

* Considered alone, the Medicare trust fund will see expenditures exceeding income in 1985 and will be exhausted by the early 1990s. Unless program economies are instituted, we run the risk of jeopardizing the continuance of essential protection for aged and disabled Americans.

-- Co-payments.

- * Free and unlimited home health service has led to program costs growing at an annual rate of 20-30%.
- * Co-payments provide a market incentive which will restrain users and suppliers from seeking and providing medically unnecessary services.

-- Secondary coverage.

- * Medicare subsidizes the cost of medical care for companies employing aged workers by providing the workers with primary insurance coverage (which the employer then does not have to pay for).
- * This proposal would require employers to offer aged workers the same health insurance they offer their other employees, and would save \$306 million in 1983.

-- Reducing rate of increase in hospital reimbursement.

- * Currently, Medicare reimburses hospitals for the full cost of medical service to beneficiaries, regardless of how efficiently the services are provided.
- * This has led to hospital cost increases of close to 20% in 1981.
- * Reducing the rate of increase in Medicare reimbursement by 2% annually would encourage greater efficiency in the provision of health care, and would save taxpayers \$653 million in 1983 alone.

-- Eliminating private room subsidies.

- * Subsidizing private rooms for Medicare patients was never the intent of the program.
- * Such subsidies, resulting from improper cost accounting, unnecessarily cost taxpayers \$54 million annually.

-- Outpatient reimbursement.

- * This proposal would eliminate the double payment whereby Medicare pays the overhead of physician services in hospital outpatient departments through physician charges, and again through hospital cost reimbursement.
- * Proposal would save \$160 million in 1983.

-- Federal employees.

- * Currently more than half of Federal workers, who have their own health insurance and retirement system, are eligible for Medicare Hospital Insurance because they worked for a short time in the private sector and paid a small amount toward the payroll tax.
- * Fairness requires that those eligible for benefits should pay a more equitable share of the system's costs.
- * The best way to ensure this is to bring Federal employees fully into the system like nearly all other Americans. This would increase 1983 tax revenues by \$619 million.

o For Medicaid:

-- Recipient Fees.

- * Requiring recipients to pay a small fee (\$1 for an out-patient visit, for instance) would not deter a poor person from seeing a doctor if he really needed to, but would discourage unnecessary visits.

-- Reduce eligibility errors.

- * These errors currently cost State and Federal governments approximately \$770 million annually.
- * Phasing in full State responsibility for erroneous payments would encourage better administration of the program, thereby making more funds available to help the needy.

-- Recovering long-term care costs.

- * Because of the high cost of long-term care services, individuals with relatively high incomes and assets may become Medicaid-eligible. However, Federal law and regulations pose barriers to State collection of these costs from beneficiaries' families.
- * Removing these barriers would eliminate an inappropriate subsidy to individuals and families which have the resources to pay for the medical services, while continuing to ensure access to care for those who need it but are unable to pay.

Questions & Answers

- o Reducing budget at expense of the poor. Isn't the Administration trying to reduce health care costs at the expense of those who really need health care and simply can't afford its high cost?

- The Reagan Administration will still be devoting more funds to medical care than ever before -- \$78.1 billion in 1983, up from \$58.2 billion in 1980.

- The President's budget would continue to provide health care for 99% of the aged, as well as for the non-aged, needy poor.

- Expenditure savings would come largely from administrative efficiencies or reasonable efforts to discourage medically unnecessary use of health services.

- o Cutting off health care to the poor. How many poor people would lose their health benefits?

- Under the President's proposals, nearly 47 million people would receive health care benefits in 1983 -- approximately the same number of people as in 1982.

- Barring occasional human error or administrative oversight, all of the needy would continue to be served by available health care services.

- o Quality of health care. How can health care costs be cut without cutting health services or quality of health care?

- The administration's reforms are designed to root out waste and duplication.

- President Carter's Inspector General of HEW estimated that in 1977 there was between \$4.1 and \$4.6 billion in waste, fraud and abuse in the Medicaid program alone.

- Instead of hurting either quality or access, the President's proposals would improve them.

- * Introducing modest co-payment fees would restrain the unnecessary use of medical services, thereby allowing more attention to be devoted to those who are genuinely in need.

- * Slowing health care price increases would make care more easily affordable to those who are not covered by Federal health care programs.

- o Instituting co-payments. By imposing fees for outpatient visits, aren't you discouraging the poor from getting the health service they need?
- The fees are so small (\$1 for Medicaid, about \$2.40 for Medicare) for each visit that they are unlikely to keep anyone -- even someone dependent on public assistance -- from receiving health care if they genuinely needed it.
- But some fees are necessary to reduce overuse and restore fairness.
 - * If health services are absolutely free, individuals tend to use them regardless of their real needs. This, in turn, adds unnecessary costs to these programs, increases prices, and forces taxpayers and other health care users to pay more.
 - * Overuse is thus unfair in that those who do not really need health services are permitted to jeopardize access to them by people who really do need them.
 - * Modest fees will preserve this vital access to care.
- Bottom line: Those who need health care will still be able to get it under the President's proposals.

CHILD HEALTH CARE

History

The Administration is proposing budget changes in two major child health care programs:

- o Women, Infants and Children (WIC) nutrition program
 - This program provides pre-natal, maternal, nutritional and preventive health care for pregnant women, nursing mothers and their babies.
 - From a cost of about \$11 million in 1974, the program has grown to a cost of nearly \$950 million in FY 1982.
 - WIC presently serves 2.2 million women and their infants and children.
 - To be eligible, a family's income has to be below 185% of the poverty line.
- o Child immunization program.
 - This program began in 1963 to immunize children against childhood diseases.
 - In 1981, 6.3 million children were vaccinated under this program.

Reagan Proposals

- o For WIC:
 - Merge this program with the Maternal and Child Health Block Grants to States.
- o For Child Immunization:
 - Vaccinate 3.8 million children in 1983, with a program budget of \$29 million for FY 1983, \$600,000 above the FY 1982 level.

Justification

o For WIC:

- Consolidating program into a single block grant will improve the effectiveness of State and local health efforts by insuring coordination of WIC with other health services for pregnant or nursing mothers and their young children.
- The block grant consolidation will also relieve States and localities of the duplicative regulatory burden imposed by the current separate administration of WIC Maternal and Child Health Care.
- State and local authorities are better equipped to determine the needs of their jurisdictions than the Federal government. A block grant will give them a greater measure of control in administering this program.
- Compared with 1982 program levels for the component programs, the President's proposal will save \$282 million for FY 1983 alone, while at the same time improving effectiveness.

o For Child Immunization:

- The major catch up vaccination effort begun in 1977 has now largely succeeded and been completed; 96% of all children at school entry are now vaccinated.
- The remaining task is to vaccinate children for the first time. The number of new children entering the population each year is approximately 3.5 to 4 million; this is the figure the budget provides for.

Questions & Answers

- o Punish poor for having babies. It's easy to get the impression that Reagan wants to punish the poor for having babies. How else can the Administration explain its proposal to cut the budget for WIC by 30%?
 - Budget reduction stems from administrative savings due to program consolidation.
 - Under the streamlined program we anticipate that roughly the same number of people will be served.
 - Effectiveness of service is enhanced by program consolidation.
- o Administrative costs. Can we really save \$282 million in administrative costs in WIC without hurting quality?
 - Yes. Merging the WIC program into a block grant with the Maternal and Child Health program will reduce duplicative and burdensome regulatory requirements and at the same time give States and localities the freedom to target the aid to the areas and population groups most in need.
- o Childhood diseases. Why is the Administration proposing to reduce the number of children being vaccinated from 1981 to 1983? Won't this increase the spread of childhood diseases, especially among the poor?
 - The child immunization program has succeeded in vaccinating 96% of the children at school entry in America from disease.
 - The remaining task is to vaccinate the 3.5 to 4 million children who come into the population next year, and the proposed budget fully provides for that.

SOCIAL SECURITY DISABILITY INSURANCE

History

When Congress established the Social Security disability program in 1956, it authorized benefits for people 50 years old and older whose disabilities were expected to be permanent.

o Program Changes:

- In 1960, workers of all ages became eligible.
- In 1965, Congress eliminated the permanent disability requirement, saying that a worker could qualify if the disability was expected to last for at least one year.
- In 1980, Congress amended the law to require periodic review of all disability cases, starting in January 1982.

o Coverage & Costs

- DI caseloads have risen by 80% since 1970, and costs have climbed by 500%. Past and expected increases in coverage and costs are shown below:

	<u>Number of Recipients</u>	<u>Costs</u>
1965	1.0 million	\$ 1.2 billion
1970	1.5 million	2.4 billion
1975	2.5 million	6.7 billion
1981	4.7 million	17.0 billion
1985	3.0 million	24.0 billion

The President's Proposals

- The Administration expedited the review process required by the 1980 law, commencing it in March 1981, 10 months earlier than originally scheduled.
- In addition, the President has proposed to establish a "megacap" on benefits to ensure that disability income from all public sources never exceeds the worker's prior after-tax earnings, adjusted for inflation.

Justification (General)

The administration and the President have been unfairly accused of being responsible for cutting off DI benefits to a significant number of individuals who are alleged to be rightfully entitled to them. In point of fact, nothing could be further from the truth. Consider the following:

- The 1980 legislation requiring periodic review of all disability cases was a congressionally mandated reform approved under the Carter Administration.
- Prior to the implementation of that legislation, only about 100,000 cases were reviewed annually, even though the Social Security Administration was authorized to review considerably more cases than this.
- According to GAO -- Congress' own audit agency -- about 500,000 people were receiving disability benefits who were not actually disabled.
- These illegitimate payments have been draining more than \$2 billion yearly from the financially beleaguered Social Security Trust Fund.
- The Reagan Administration has been making a concerted effort to ensure that all reviews of disability cases are full, fair, and protective of the rights of individuals.
- It is inevitable that in any program affecting millions of people, there will be occasional mistakes in individual cases.
 - * A recent examination of decisions made in cases reviewed shows that only 1.3% of the decisions resulting in cessation of benefits were in error.
- Of the few cases where mistakes are made -- and have received extensive press attention -- benefits in these cases are reinstated after routine appeals (legally required and already underway before the recent press interest), which proves that the safety net does work -- the system can and does adequately safeguard individuals' rights.

Justification for Specific Administration Proposals

o For beginning reviews 10 months early:

-- This decision was made at the specific recommendation of the GAO.

-- The urgent need to protect the integrity and solvency of the Disability Insurance Fund demanded commencement of the review process at the earliest opportunity.

o For "Megacaps":

-- Continuing overly-generous benefits from uncoordinated, multiple sources offers a perverse incentive that induces people not to work even when they are able.

FEDERAL AID TO ELEMENTARY, SECONDARY AND VOCATIONAL
EDUCATION AND IMPACT AID

History

Traditionally, public education has been supported primarily by State and local funds. In 1920, the Federal government contributed only .03% to the cost of all public education. During the late 1950's the Federal role in public education began to grow, and today 8.1% of all money spent on public elementary and secondary education comes from the Federal government.

o Programs

Federal aid to elementary, secondary and vocational education falls into six major program areas:

-- Impact Aid:

- * Provides direct Federal aid to approximately 2,000 school districts where parents either work for the Federal government or live on federal property or Indian lands.

-- Aid to Disadvantaged Students:

- * Provides aid to 5.3 million children who are considered educationally disadvantaged due to their cultural and economic environment. Program is currently authorized under the Education, Consolidation & Improvement Act (ECIA) of 1981.

-- Indian Education:

- * Provides Federal grants to Indian school districts, with program currently serving 325,000 Indian children and about 15,000 Indian adults.

-- Vocational and Adult Education:

- * Programs assists youth in preparing for careers and adults who are in need of training or retraining. These programs served, in 1979-80, 1.9 million people.

-- Aid to Handicapped Children:

- * Provides Federal funds authorized by the Education of the Handicapped Act and the Education Consolidation and Improvement Act (ECIA) to help States and localities educate handicapped children. This program currently serves 4.2 million children.

-- Rehabilitation Services and Handicapped Research:

- * Provides counseling, vocational training, physical and mental rehabilitation and transportation to assist handicapped individuals to become gainfully employed or live independently. Currently serves 1.4 million people.

o Costs

- In 1962, the Federal government spent \$448 million on aid to elementary, secondary and vocational education. By 1980 outlays for such aid had risen to \$6.7 billion, representing a 14-fold increase.

-- Example:

- * Outlays for Aid to Handicapped Children rose from \$249 million in 1977 to over \$1 billion in 1981, a more than four-fold increase in only four years.

The President's Proposals

o For Impact Aid:

- Limit aid to those districts enrolling children whose parents both live and work on Federal property.
- Transfer construction costs for schools serving children of military personnel to the Department of Defense.
- Transfer construction costs for schools serving children living on Indian lands to the Department of the Interior.
- Transfer operation of the Impact Aid program to the Treasury.

o For Aid to Disadvantaged Students:

- Consolidate this program into a simplified block grant to the States.

o For Indian Education:

- Under the Administration's proposal to dismantle the Department of Education, these programs would be transferred to the Bureau of Indian Affairs in the Department of the Interior.

o For Vocational and Adult Education:

- Consolidate programs into a simplified block grant to the States.

o For Education for the Handicapped:

- Consolidate the two sources of federal funding for these programs (Education of the Handicapped Act and the Education Consolidation and Improvement Act of 1981) into one State block grant.

o For Rehabilitation Services and Handicapped Research

- Transfer program to HHS and consolidate into a simplified block grant to the States.

Justification (General)

Proposed changes would:

- o Reduce the rate of growth in federal spending
 - Federal costs have grown far out of line with increases in services, rising 14-fold since 1962. This growth in spending is partly due to complicated and burdensome federal requirements to States and localities to receive Federal aid.
- o Restore State and local responsibility for aid to education.
 - States and localities are better able to determine the specific needs of their regions than is a distant and inflexible bureaucracy in Washington.
 - Providing simplified block grants to states will not only reduce administrative burdens, but will also give the States the flexibility they need to make more efficient use of funds.
- o Transfer programs into agencies better equipped to handle them.
 - Part of the Administration's rationale for dismantling the Department of Education is that many of the programs administered by it do not properly belong there, and that other agencies are better suited for the job.
 - Agency overlap now exists in those cases where the Department of Education provides services very similar to those provided in other departments, such as HHS. This adds to administrative costs without improving services.
 - Thus, consolidating programs into other departments would greatly reduce administrative costs.

Justification for Specific Program Areas

o For Impact Aid:

- In many cases, Impact Aid goes to school districts where parents work for the Federal government but pay normal local property taxes because they do not live on federal land.
- Only when parents live on Federal land, and therefore do not pay local property taxes, is there a justification for Impact Aid.
- Since property tax is not foregone when parents live on private property, there is no property tax "impact," and thus less justification for Impact Aid in such areas.
- These changes would save \$169 million in 1983 over 1982.

o For Aid to Disadvantaged Students:

Introduction of simplified block grants to the States will:

- Eliminate burdensome Federal regulatory requirements that now hamper effective administration of local school programs for the disadvantaged.
- Allow the States, which know their own problems and requirements best, to play a larger role in administering the programs.

o For Indian Education:

- Almost all programs designed to assist Indians are located in the Department of the Interior. By transferring Indian education programs to that department, the Administration will ensure that those people who are most experienced in serving the particular needs of Indian students will operate these education programs.
- This change would save \$20 million from 1982 budget levels.

o For Vocational and Adult Education, and Handicapped Education:

Consolidating Vocational and Adult Education and Handicapped Education programs into their own State block grants would:

- Enable the States which know their priorities and needs best to better serve the needs of their students.
- Save \$239 million over what was spent on these programs in 1982.
- o For Rehabilitation Services and Handicapped Research:
 - Simplified block grants to States would:
 - * Give States greater flexibility in use of funds.
 - * Reduce Federal administrative burdens.
 - * Allow States to provide rehabilitation services more effectively to their handicapped citizens.
 - Transferring this program to HHS places the program within an agency better suited to administer it.
 - These changes would save \$211 million in 1983.

Questions & Answers

- o Reduced funding. How can we expect to get the same quality of educational service with the budget cut so drastically?
 - The Administration proposals will provide better service at lower cost because they will:
 - * Reduce Federal administrative overhead and regulatory burdens;
 - * Transfer programs into agencies better equipped to manage them.
- o State responsiveness. How can you be sure that at least some State governments won't be callous and indifferent to those most in need?
 - There is little evidence to indicate that this would be the case. State and local governments have always assumed a much greater role in the education of all of their citizens. There is no reason to assume that they would use block grant funds in any other manner than to provide for those the monies are intended to serve.
 - State governments are better equipped and experienced in the education field. We therefore have every reason to believe they would more effectively use Federal aid to meet the needs of their students.
- o Loss of Services. How many fewer people will be served?
 - Fewer people may be served, but States will be able to assure that those who need educational services the most will continue to be served.

FEDERAL AID TO HIGHER EDUCATION

History

Federal programs for aid to higher education were established to assist students of ability who might otherwise be unable to attend college because of financial need. However, since their inception these programs have expanded far beyond their original purpose and now provide government subsidies to many undergraduate and graduate students who can and should pay their own way.

o Programs

Federal aid to higher education falls into three major program areas:

-- Guaranteed Student Loans (GSL):

- * Established in 1965 to provide low-interest loans to students from low- and moderate-income families.
- * The current program completely subsidizes interest during a student's postsecondary education and any interest above 9% after school graduation.
- * In 1978 family income qualifications for obtaining loans were abolished. In 1981, income qualifications were added back only for families with incomes over \$30,000.

-- Pell Grants:

- * Established in 1972 (original name: Basic Educational Opportunity Grants) to provide direct financial aid to students with demonstrated financial need.
- * Need analysis provisions have been liberalized by legislation in recent years to loosen eligibility requirements and increase the size of awards.

-- Campus Based Aid:

- * Includes National Direct Student Loans (NDSL, begun in 1958), which provides loans at 4% interest; College Work-Study (begun in 1965), which pays a portion of a student's salary in a federally-approved work-study program; and Supplemental Education Opportunity Grants (SEOG, established in 1965), which provides direct grants to needy students.
- * Eligibility is determined by the student's institution according to student's need, under guidelines set by the Federal government.

o Coverage

- 10 years ago, only 14% of college students received government loans and grants, with nearly 60% of it going to low-income families.
- Now, more than 40% of the nation's 12.5 million degree-seeking college students receive such aid, with significant amounts of aid going to students from middle- and upper-income families.

o Costs

- Overall costs for this area of the budget have grown enormously over the past 16 years. In 1965, outlays for such aid were \$250 million. By 1981 it had soared to \$6.3 billion, representing a 25-fold increase.
- Costs for GSLs have increased seven-fold between 1977 and 1981, from \$331 million to \$2.5 billion.
- Pell Grant costs have increased more than 50%, from \$1.5 billion in 1977, to an estimated \$2.3 billion in 1981.
- Campus-based aid has risen from \$942 million in 1977 to \$1.1 billion in 1981.

The President's Proposals

o For GSL:

- Increase "origination fee" charged on new loans from 5% to 10%.
- Require all applicants to demonstrate need. Currently, only students from families earning more than \$30,000 per year must do so.
- Limit graduate and professional students to borrowing from the less subsidized auxiliary loan program which would allow them to now borrow at 14% interest (the rate would be adjusted annually to 2% below the T-bill rate). At the same time, increase the amount they can borrow in the auxiliary loan program to \$8,000 per year and \$40,000 over five years.

o For Pell Grants:

- Reduce or eliminate benefits to the highest income students by increasing from 10.5% to between 18 to 30% in 1983 the percentage of discretionary income (income remaining after a reserve for basic family expenses is subtracted) that families are expected to contribute to the support of a student.

o For Campus Based Aid:

- Fund NDSL with funds received by repayments into its \$5 billion revolving loan fund; otherwise provide no new funds.
- Provide no funds for SEOG, except for funds schools wish to transfer from their work-study funding.
- Focus College Work-Study assistance on the neediest students from lower-income families.

Justification (General)

The President's proposed budget for higher education is designed to achieve three primary goals:

o Preserve assistance for those who need it most.

- The President's proposals fully support the Federal government's role to preserve aid for those able students who could not otherwise afford a college education.
- Even with the proposed adjustments, nearly \$14 billion in student aid will be available in 1983; the largest level in history.
- But when more than 40% of the undergraduate students in the country receive student aid, it is time to recognize that these programs have gone beyond their original intent, and some growth reduction is called for.

o Restore the principle of family responsibility for children's education.

- The primary beneficiary of education is the student. Thus, the student and his family should assume the primary responsibility for financing an education.
- Yet massive increases in student aid since 1978 has shifted responsibility for financing college from the family to the Federal government.

-- For example, between 1978 and 1981 total family income rose by 30%, with college costs having risen at essentially the same rate.

* At the same time, the average contribution of middle class parents to a freshman's education dropped 13.8%.

o Help slow the growth of federal spending.

-- Uncontrolled growth in spending is in large part responsible for high interest rates and economic stagnation.

-- Student aid growth has contributed significantly to this spending explosion. Spending in this area has risen from \$40 million in 1960 to \$6.2 billion in 1981, representing a 15,750 percent increase.

-- College enrollments are expected to decline by 25% in the next decade. Between 1976 and 1981 they only increased by 8%. However during the same period, the cost of GSLs went up 214% and Pell Grants by 96%. This kind of explosive and unreasonable growth must be contained and student aid should be brought more in line with the projected decline in student enrollment.

Justification for Specific Program Areas.

o For Guaranteed Student Loans:

-- Prior to 1978, when income restrictions were lifted, millions of middle- and upper-income students somehow managed to finance their education without relying on GSLs.

-- Families who can afford to pay should be expected to adjust their spending priorities, and students to take summer or school-year jobs, to help pay for their college education. With the current lax standards for obtaining GSLs, it is becoming more and more the taxpayer rather than the student's family who has to adjust spending priorities.

-- It is highly unfair to use tax dollars of a low-income family, whose children may not even be able to consider college, to subsidize loans for middle- and upper-income families. Standards are so lenient that a family with two children in Harvard can earn \$100,120 a year and still qualify for maximum federal loans.

- Interest-free borrowing encourages students, regardless of financial need, to build up high levels of debt by selecting colleges far more expensive than they otherwise could afford. This debt will unnecessarily burden them throughout much of their early adult life.
- Heavy interest subsidies to middle- and upper-income families permit funds to be used for purposes other than education: for example, buying money market securities, buying cars or paying for vacations.
- Limiting graduate and professional students to borrowing at less subsidized rates is completely justified given that their anticipated earning power will be well above the norm when they graduate, and thus they should be expected to repay their loans at the less subsidized rates.

o For Pell Grants:

- Until the last few years, more than 50% of Pell Grant recipients were from families earning less than \$6,000, and 70% were from families earning less than \$9,000.
- Due to liberalization of eligibility requirements, larger segments of the population in the over-\$15,000 income group are receiving awards. Currently, 18% of recipients come from families earning \$20,000 or more.
- The proposed changes will begin to return this program to serving the intended recipients. More than 80% of funds will be targeted to families earning less than \$12,000 a year.

o For Campus-Based Aid:

- Too large a percentage of students from middle-income families are receiving NDSL and SEOG aid. Today, 39% of students receiving NDSL, and 24% receiving SEOG, are from families earning \$18,000 and above.
- Cuts in SEOG and NDSL will prevent overlap and duplication with the Pell Grant Program which by itself is adequate to provide grants to the neediest students.
- College Work Study is the most appropriate form of campus-based aid, and will still be available to the neediest students.

Questions & Answers.

- o Depriving poor from getting an education. Won't the cuts deprive millions of "truly needy students" from getting an education?
 - No. The proposed reductions in the number of students aided for 1983 are not major. For instance, the number of students receiving aid will decline by less than 8% -- from 5.2 million in 1981, to 4.8 million students in 1983.
 - What cuts have been made are to those who can afford to pay.
 - Undergraduate students who demonstrate financial need will continue to be eligible for:
 - * up to a \$1,600 grant
 - * up to a \$2,500 guaranteed loan
 - * Work Study support averaging \$700
 - * State and private aid
 - Almost \$14 billion will be available to help finance higher education in the 1982-83 school year -- the highest level in history.
- o Middle-class. Middle-income families find it difficult to pay for education today. Why shouldn't they receive subsidies too?
 - Middle-income families with demonstrated need will still be eligible for aid under the Administration's proposals.
 - But families which can afford to pay should be expected to contribute a larger share of their income toward their children's education, even if it means adjusting family spending priorities; yet middle-income family contributions to the average freshman's college costs decreased by 13.8% between 1978 and 1981.
 - We recognize, of course, that the middle class is hard pressed. But it is unfair for low-income families to pay taxes to finance higher education for the middle- and upper-classes.

- o Benefits to society from increased aid. Doesn't society benefit by providing as much aid as possible for post-secondary education? After all, the skills and knowledge that come from a college education will repay society many times over the initial cost to the taxpayer by increasing the recipient's earning power and thereby greatly enlarging the nation's productivity.
- Aid will remain for those who truly need it; society's commitments will be fulfilled in this way.
- But primary benefit of education is to the individual; that is why students and families -- especially those who can afford to pay -- should assume primary responsibility for financing their own college education.
- Indeed, the increased spending is really due to increased subsidies to middle- and upper-income students who can and would pay their own way through college without the subsidies.
- We have to remember that money for federal aid does not come free. Heavy taxes used to support aid to the middle- and upper-income classes deprive many poorer students of the financial opportunity to even consider college.

FEDERAL AID FOR HOUSING

History

o Programs.

There are currently five major housing programs administered by HUD:

-- Public Housing:

- * HUD supports construction of low-income public housing, owned and operated by local public housing agencies, that houses 1,204,000 families who rent the units.

-- Section 8 Existing Housing Program:

- * Subsidizes 844,000 households living in private market rental housing, with rents limited to a maximum "fair market rent" established by HUD.

-- Section 8 New Construction Program:

- * Provides assistance to 475,000 households living in privately owned, newly constructed or rehabilitated rental housing. HUD commits to pay "fair market rents" for 20 to 40 years for these units if landlord agrees to rent to eligible low-income tenants.

-- Rent Supplement and Rental Assistance Payments (RAP):

- * Provides assistance to 207,000 low-income tenants in privately owned housing. Both projects pay landlord the difference between tenant rent contribution and market rent, although subsidies in the Rent Supplement program are limited to no more than 70% of market rent.

-- Elderly and Handicapped Housing Direct Loan Program:

- * Assists non-profit organizations to build Section 8 subsidized housing for low-income elderly and handicapped tenants. Provides subsidies for 97,000 units.

o Total Coverage

- HUD rental assistance programs currently provide for approximately 2.7 million housing units, or 7.6 million people. In addition, HUD also administers a number of programs that provide interest reduction subsidies. In total, HUD provides assistance to 3.3 million households, or 9.7 million people.

o Costs

- From 1960 to 1973, the cost of subsidized housing assistance, measured in constant 1973 dollars, increased seven-fold -- from \$210 million to \$1.6 Billion.
- In only the last 10 years, housing assistance has grown by five and a half times -- from \$1.7 billion in 1973 to an estimated \$8.7 billion in 1983. This is a 22-fold increase since 1960.
- Even with administration's proposed revisions, housing assistance will still increase by \$626 million next year.
- Without the proposed revisions, housing costs will be an additional \$500 million above the President's budget in 1983, and an estimated total of \$2.3 billion over the President's budget by 1987.

The Reagan Proposals

o For Public Housing:

- Administration proposes that no additional public housing units be funded, although funding will continue for already committed units.

o For Section 8 Existing Housing Program:

- Administration proposes to eliminate rent ceilings for subsidized units and provide a fixed cash subsidy to the tenant instead of the landlord, permitting the tenant to select the housing which best suits his needs.
- The new program will be called the "Modified Section 8 Certificate Program". (The "certificate" is the document issued to tenants which indicates the amount of HUD rent subsidy they will receive.

o For Section 8 New Construction Program:

- Administration proposes to terminate this program and reallocate some of the remaining funds that were going to it into the Modified Section 8 Certificate Program.

o For Rent Supplement and RAP:

- Administration proposes to terminate these programs and fold them into the Modified Section 8 Housing Certificate Program.

o For Elderly and Handicapped Housing Direct Loan Program:

- Administration proposes to continue this program at reduced level and provide direct loans for construction of 10,000 additional units for the elderly and handicapped in 1983.

o Additional Proposed Reforms

- Impose a graduated series of across-the-board rent increases for current tenants in subsidized housing at the rate of one percent of total income per year until a 30% of income for rent requirements is reached in 1986.
- Include food stamps as income when calculating eligibility for rent subsidies.
- Require all tenants to pay monthly utility bills that exceed 25% of their monthly income.

Justification (General)

The major thrust of the President's proposals is the introduction of the Modified Section 8 Housing Certificate Program which reforms the Section 8 Existing Housing program.

o This and other subsidized housing reforms will save \$6.7 billion over the next 5 years. (1983-1987)

o It will better serve the participants because it will provide rental assistance to the tenant rather than subsidize costs of housing units.

- This will permit the subsidy recipients to choose for themselves the units they wish to occupy, thus increasing their freedom to live where they want.

- Fixed subsidies will give tenants incentive to "shop around" and find lower rents.

- Permitting tenant choice of residence will reduce excessive concentrations of low-income households in particular neighborhoods, which is well known to have very destructive effects upon the development of normal family life.

Justification for Specific Program Areas

o For Public Housing

- This program is very expensive, with operating subsidies exceeding a total of \$1 billion, and construction costs averaging \$63,000 per unit.
- Costs of program have been growing at an annual rate of 24.2%, whereas the percent of U.S. households living in substandard housing has declined from 25% in 1960 to 7.5% in 1977.
- Program has resulted in excessive concentrations of low-income households in economically decaying central cities where job and educational opportunities are limited.
- Replacing program with the Section 8 Housing Certificate Program will greatly reduce these problems (e.g., annual subsidies under Modified Section 8 Certificate Program would average around \$2,000 per unit), and provide recipients greater freedom of choice over where they live and how they spend their money.

o For Section 8 Existing Housing Program:

- Costs under the current program are unnecessarily high. Rental costs for subsidized units exceed private market units by 26% because landlords have an incentive to raise rents to the published fair market rent level and tenants have no incentive to negotiate their own rents.
- By providing fixed subsidy certificates to tenants under a Housing Certificate Program, tenants would have incentive and ability to "shop around" for less expensive units.

o For Section 8 New Construction Program:

- Changes will reduce unnecessary costs. Current annual subsidy -- averaging nearly \$4,000 per family and ranging as high as \$17,000 per family -- is needlessly too expensive.
- Equivalent service can be provided by terminating this program and permitting recipients to participate in the Modified Section 8 Housing Certificate Program, the cost of which would average about \$2,000 per recipient per year.

o For Rent Supplement and RAP:

- Folding this program into the Modified Section 8 Certificate Program will consolidate similar administrative functions and thereby reduce administrative costs.

o For Elderly and Handicapped Housing Direct Loan Program:

-- Costs

- * If the program were to continue in 1983 as currently structured, average construction cost would exceed \$53,000 per unit.
- * Administration reforms would allow for more competitive bidding and would eliminate unnecessary amenities such as ceiling "skylights" and swimming pools.
- * Even with these efficiencies, program would still provide average subsidy of \$5,000 per tenant during first year of occupancy.

-- Service

- * Present high cost has prevented HUD from serving many elderly persons in need of housing assistance.
- * Elderly and handicapped housing funds would be directed away from very costly new construction programs and toward the less expensive Modified Section 8 Housing Certificate Program that will serve more individuals at lower cost.

Questions & Answers

- o Insensitivity to the poor. With poverty levels going up dramatically in the past two years, isn't it insensitive to cut back on programs that have as their only purpose to provide decent housing to the poor, handicapped and elderly?
- The major problem confronting the poor today is not inadequate housing, but inadequate income. The Modified Section 8 Housing Program is designed to meet that inadequacy by providing housing subsidies directly to the tenant instead of the landlord. This will:
 - * Give tenants an incentive to "shop around" for less expensive housing units of comparable quality to get the most for their money.
 - * Give low-income families greater freedom to choose where they want to live.
 - * Save taxpayers \$500 million in estimated savings for FY 1983 and an estimated \$6.7 billion from 1983 to 1987.
 - * Alleviate the socially destructive pattern that now exists with federal housing programs that isolates low-income households in particular neighborhoods which then degenerate into slums.
- The bottom line is that compassion cannot be measured in the amount of federal dollars spent, but rather with a better understanding of the needs of low-income Americans. The President's program can provide better for these needs at much less cost.
- o Number of poor hurt. As a result of the Reagan cutbacks, how many millions of poor Americans will be denied adequate housing the years ahead?
 - 3.4 million households will continue to receive housing subsidies under the administration's proposals for 1983, and it is projected that this number will rise by 400,000 to 3.8 million in 1985. This compares to only 2.7 million households receiving assistance in 1980.
 - Only those families whose incomes are high enough that they can afford adequate housing on their own will lose assistance.

- o The private sector can't do the job. The number of new housing starts is now at a near historic low. If the private sector cannot provide the housing the poor need, why shouldn't the government take up the slack and ensure that housing is provided by whatever means necessary?
 - As demonstrated, the government is taking up the slack for those who most need help.
 - However, the high interest rates that are depressing the private housing industry are a result of excessive government spending. In particular, federal housing subsidies crowd out more efficient private housing production.
 - Reducing these federal subsidies, stimulating economic growth, and bringing inflation and interest rates under control is the best strategy for providing adequate and affordable housing for low-income Americans.
- o Discriminating against the poor. Don't the administration's proposals to increase rent across-the-board for federally owned or subsidized housing, or to count food stamps as part of a tenant's income unjustly discriminate against the poor?
 - Without small 1% of income per year across-the-board rent increases many households would be allowed to pay well below 30% of their income for rent. This would be highly inequitable to unsubsidized low-income households which already pay, on average, more than 50% of their cash income on rent.
 - Counting food stamps as income only reflects more honestly the total cash and cash-equivalent resources available to low-income households for purposes of determining their genuine need for Federal assistance.

FEDERAL TRAINING & EMPLOYMENT PROGRAMS

History

The Federal government initiated job training and employment programs under the New Deal. Until the "Great Society," Federal involvement was very limited, with the government spending only \$209 million for all employment training programs in 1963.

Beginning with the passage of the Emergency Employment Act in 1971 and the Emergency Jobs and Unemployment Assistance Act in 1974, a major shift in emphasis from job training to direct provision of public jobs occurred. In 1964 public jobs accounted for none of the employment and training dollars spent. By 1980, public jobs accounted for more than 36%.

o Programs:

- The Federal government's principal employment and training programs are authorized by the Comprehensive Training and Employment Act of 1973. CETA programs are administered by units called prime sponsors, which are States, cities and counties or combinations thereof of over 100,000 population.
- Grants to prime sponsors are used to provide various kinds of training, counseling and supportive services to unemployed and economically disadvantaged individuals.
- CETA has also provided subsidized public jobs in the public sector, stipends, and other income support to those individuals who participated in federally-sponsored job experience or training.

o Coverage:

- When the CETA program initially started up in 1975, 2.8 million people were enrolled in the program.
- By 1978 there were 4.5 million participants in CETA.
- In 1982, approximately 1.3 million people will participate in CETA.

o Costs:

- At the height of the Great Society (1968) these programs cost \$1.6 billion.
- By 1974 the amount had nearly doubled to \$3.1 billion.
- This amount more than tripled in the first 1978 Carter budget, to \$10.7 billion.
- The 1982 budget allocated \$5.4 billion for employment and training assistance -- still more than triple the amount spent in 1968.

The President's Proposals

- Replace the present system of categorical grants to prime sponsors with block grants to States.
- Provide no further funding for subsidized public jobs.
- Provide no further funds for training stipends, wages, or other forms of income support.

Justification

o Provide job training services at lower cost.

- The proposed changes in job training programs would save \$2 billion in 1983 over what will be spent in 1982.
- The average cost per recipient, per service-year, would decline from \$6,400 in 1982 to \$4,600 in 1983.
- Proposed changes would allow for approximately the same number of people to be served in job training programs while saving a total of \$18.3 billion through FY 1987.

o Eliminate wasteful program aspects.

-- Public jobs do not help solve the unemployment problem because they:

- * Do not help the poor get real jobs that will provide long-range benefits for either the employee or society.
- * Are not cost-effective in that they cost the taxpayer substantially more than the economic benefit they provide for the job recipient.
- * Often were used to provide jobs for people who are not poor (such as city employees who otherwise would be paid out of regular city funds).

-- Training stipends are often duplicative and counter-productive because they:

- * Duplicate other income maintenance programs.
- * Induce participants to enter programs for the money they provide rather than the skill training which would serve them over the long-term, thus lessening their commitment to becoming trained for a job.

o Put programs on the state level.

-- Giving the States full responsibility for administering employment and training programs would eliminate duplication of administration because states already have extensive and far-reaching programs in these areas.

-- Block grants would give States the flexibility to more effectively target funds on their most pressing local or State-wide employment problems, because:

- * The block grant would eliminate many of the restrictive, costly, and unnecessary administrative requirements in the current program.

Questions & Answers.

- o Reduced Funding. The Administration is calling for dramatic spending cuts for employment and training -- from a high of \$10.8 billion under Carter's 1979 budget to \$2.8 billion in 1983. How can this be justified in a recession with unemployment at its highest level since the Great Depression?

-- Two questions:

- * Job training vs. public jobs.
 - Public jobs do not provide good work experiences.
 - They turn, for all practical purposes, into mere income support programs.
 - Income support is more cost-effectively handled through other federal programs designed for that purpose.
 - Training during an economic downturn helps prepare workers for new jobs as the economy expands during recovery.
- * Composition of job training expenditures.
 - Job training helps people get real jobs.
 - Stipends use up job training funds that could go to actual training.
 - Other income support programs help trainees meet work expenses, so stipends are unnecessary.

-- Bottom line.

- * The financing provided under the Reagan proposal will allow for the same number of people to be served in critical job training aspects of the employment and training program as are currently served.
 - * Three million additional new jobs will be created as a result of economic recovery. In the long run, this is the best thing we can do to provide the jobs the poor so desperately need.
- o The right to a job. Doesn't the Federal government have a responsibility to see to it that everyone who wants to work has a job?
- The president certainly believes that everyone who wants to work should be able to do so. However, public service jobs are not the answer.
- * It costs more for the federal government to "create" a job than it does for private firms to create the same job.
 - * Taking resources away from the private sector to "create" public jobs means fewer jobs are produced per dollar invested.

- * There is thus a net loss of real jobs in the economy, and the poor -- lowest on the opportunity scale -- suffer the most.
- The best way to provide jobs to those who really want them is through real economic growth.
 - * Experience in the 60s.
 - The economy grew by 50.7% from 1959 to 1969.
 - Unemployment fell from 5.5% to 3.5% in the same period.
 - * Experience in the 70's
 - The economy grew by 36.3% from 1969 to 1979.
 - Yet unemployment rose from 3.5% to 5.8% during the same period.
 - * Economic recovery program will create 3 million additional new jobs than would have otherwise been created.
- o Hurting the poor. Won't cutting job training funds hurt the poor's ability to find good jobs in the future?
 - Raw figures are misleading. Even though Carter spent almost five times more money on job training programs, only 18% of this went to actual training. (the rest went for administrative overhead and stipends).
 - Under the Reagan budget, 75% of the employment and training funds will be devoted to actual job training.
 - The financing provided will allow for the same number of people to be served in job training.
- o Stipends. Won't the elimination of stipends make it difficult or impossible for poor people to enroll in the job training programs?
 - These people will still qualify for other income support programs; their needs will be met.
 - The important point of job training is not the receiving of cash benefits. If trainees are to succeed, they must go into training because they want a job, not just because they want the money.
 - Job training benefits the recipient. The government should not have to pay him in order to induce him to participate.
 - Moreover, eliminating stipends, which duplicate other income maintenance programs, will enable the government to train more people for productive jobs at lower cost.

UNEMPLOYMENT COMPENSATION

History

Unemployment compensation was first authorized under the Social Security Act of 1935. It provides benefit payments to those who lose their jobs through no fault of their own.

o Programs

-- Unemployment Insurance:

- * Provides direct cash payments to individuals temporarily out of work and looking for jobs.
- * Regular benefits are financed through a State payroll tax on employers. Extended benefits are financed one-half from State and one-half from federal taxes on employers.
- * State and Federal administrative costs are financed by a Federal tax on employers.
- * Benefit levels and number of weeks beneficiary is entitled to benefits varies from State to State; usually 26 weeks for regular benefits, and 13 additional weeks for extended benefits in high unemployment States.

-- Trade Adjustment Assistance:

- * Provides training costs, and job search and relocation allowances to workers whose loss of work is attributed, at least in part, to foreign imports. Prior to last year, TAA also provided additional weeks of cash unemployment payments for such workers.
- * TAA benefits before their elimination last year, were set to equal the worker's weekly unemployment benefits and were paid to those who exhausted all their weeks of unemployment and were still not working. Such workers could receive a total of 52 weeks of unemployment and TAA benefits combined.

o Coverage

-- For Unemployment Insurance:

- * As of May 1982 there are 4.6 million individuals receiving unemployment payments.
- * It is projected that for all of 1982, 10.9 million individuals will receive unemployment payments at some time during the year.
- * About 97% of wage and salaried employment is covered by unemployment compensation.

-- For Trade Adjustment Assistance:

- * From April 1975 to March 1981, 1.3 million workers received TAA.
- * Currently, 8,126 individuals are receiving TAA benefits.

o Costs

-- For Unemployment Insurance:

- * Total cost of benefits for this program are projected at \$22 billion in 1982.
- * Costs in 1982 are projected to rise by 20% from the 1981 level of \$18.2 billion.

-- For Trade Adjustment Assistance:

- * TAA cost \$1.5 billion in 1981.
- * The Omnibus Reconciliation Act of 1981 reduced the cash benefits portion of the program so that in 1982 it will cost \$144 million.

The President's Proposals

o For Unemployment Insurance:

No major changes proposed. Minor proposed reforms include:

- Round the weekly unemployment benefit amount down to the next lower dollar. This change would be effective July 1, 1983 in order to provide States enough time to enact legislation to carry out this reform.
- Refuse eligibility to ex-service members who are not permitted to re-enlist because of a record of indiscipline or failure to maintain skill proficiency.

o For Trade Adjustment Assistance:

- As enacted in the 1981 Omnibus Reconciliation Act weekly cash benefits under the program will cease, effective July 1, 1982, except for those in approved training on that date.
- Special training and employment services will continue to be available for workers under TAA.

Justification

o For Unemployment Insurance:

- Rounding the weekly unemployment benefit amount down to the next lower dollar would not reduce benefits enough to adversely affect anyone, but would result in annual savings of \$6 million.
- Providing benefits to service members not permitted to re-enlist is analogous to providing benefits for civilians who quit their jobs or were let go due to insubordination, failure to perform or inexcusable absenteeism. Such benefits are therefore unjustified. This latter reform would save \$5 million in 1982 and \$30 million by 1983.

o For Trade Adjustment Assistance:

- Workers who have lost their job through no fault of their own should be treated similarly regardless of the reason of job loss.
 - * The regular unemployment insurance program provides adequate benefits
 - * Eliminating TAA payments helps target benefits to those unemployed workers most in need, regardless of the cause of their job loss.
- Long-term cash payments for displaced workers remove incentives to find new jobs. On the other hand, training, job search and relocation allowances may provide needed re-adjustment aid for those who cannot do it on their own.
- Most workers eligible for TAA have taken advantage of only the cash benefits and have not used the training or other adjustment benefits.
 - * Of all the recipients up through March 1981, only:
 - 3% entered training;
 - 1.2% completed training;
 - 0.35% took job search aid;
 - 0.24% received relocation allowances.
 - * Terminating the TAA cash benefits will encourage more people to accept different jobs, and if necessary, to participate in the training, job search and relocation allowances that will remain in the program.
- Research on unemployment insurance indicates that availability of additional weeks of cash benefits leads workers to remain unemployed for longer periods of time.

Questions & Answers

- o Unemployment for ex-servicemen. In this time of high unemployment, how can you justify denying benefits to ex-servicemen who have not been permitted to re-enlist? They have to eat, too.
 - There are many other income maintenance programs available to these individuals if they are in true need.
 - But to provide unemployment benefits to discharged servicemen who failed to maintain standards is not only inequitable, but also an insult to those servicemen who served their country with honor and distinction.
 - Giving unemployment to this group of ex-servicemen is equivalent to giving it to a civilian who has quit his job, and is therefore unjustified.
- o Trade Adjustment Assistance. The steel and auto industries are severely depressed in large part due to foreign import competition. Isn't it unfair to deny these workers TAA when they will have such a difficult time finding a new job?
 - Workers who lost their job through no fault of their own should be treated the same regardless of the reason of job loss. It is unfair for one group of workers to receive preferential, extended assistance.
 - It is far more constructive to provide job training, search and relocation assistance to workers in trade effected industries and areas of high unemployment who cannot otherwise make it on their own.
 - * Cash benefits through TAA encouraged workers to stay on unemployment longer, with only a very small percentage taking advantage of the other benefits.
 - * Terminating these additional cash benefits would encourage more people to participate in the remaining parts of the program which are designed to help participants find new jobs, while preserving unemployment insurance to help meet their living expenses.