

92D CONGRESS }  
2d Session }

COMMITTEE PRINT

STAFF DATA ON H.R. 1:  
**ANALYSIS OF COST OF  
COMMITTEE BILL**

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COMMITTEE ON FINANCE  
UNITED STATES SENATE  
RUSSELL B. LONG, *Chairman*



JUNE 12, 1972

Prepared by the staff and printed for the use of the  
Committee on Finance

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U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1972

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## Charts

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## Chart 1

## Cost Increases in H.R. 1 and Committee Bill

The chart shows the net increase in cost over current law for calendar years 1973 and 1974 for H.R. 1 and the Committee bill. Details for each of the program categories are shown in the succeeding charts and text.

The estimated costs for H.R. 1 are those prepared by the Department of Health, Education, and Welfare. As discussed in the text accompanying chart 5, some of these costs are believed to be significantly understated.

The cost estimate for the tax credit provisions relates to the retirement income credit provision in the House bill plus the credit added by the Committee for employers hiring persons who have been in the Committee's employment program. This estimate was prepared by the staff of the Joint Committee on Internal Revenue Taxation.

In summary, the Committee bill would cost \$5.7 billion more than the House bill in 1973 and \$6.3 billion more in 1974. Of the 1974 increase, \$3.9 billion represents increased social security benefits and \$2.4 billion represents increased general fund costs (principally payments to low-income working persons).

The Committee bill would cost \$17.6 billion more than existing law in 1974, as shown below:

[In billions of dollars]

	Present law	Commit- tee bill	Increase
Social security cash benefits.....	\$43.2	\$50.6	+\$7.4
Medicare Part A.....	8.3	10.7	+2.4
Medicare Part B.....	3.3	3.9	+0.6
Medicaid.....	6.1	6.1	.....
Aid to the aged, blind, and disabled.	2.7	4.9	+2.2
Programs for families.....	7.0	11.5	+4.5
Increase in tax credits.....			+1.5
<b>Total.....</b>			<b>+17.6</b>

Chart 1

# Cost Increases in H.R.1 and Committee Bill

(in billions)

	1973		1974	
	H.R.1	Committee bill	H.R.1	Committee bill
<b><u>General Funds</u></b>				
Medicare Part B	\$0.4	\$0.3	\$0.4	\$0.6
Medicaid	-0.5	---	-0.5	---
Aged, blind, disabled	1.1	2.0	2.6	2.2
Programs for families	1.3 <sup>1/</sup>	2.7	2.5 <sup>1/</sup>	4.5
Tax credit provisions	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>
<b>SUBTOTAL</b>	<b>2.7</b>	<b>5.4</b>	<b>5.4</b>	<b>7.8</b>
<b>Increase in Committee bill</b>		<b>(+2.7)</b>		<b>(+2.4)</b>
<b><u>Trust Funds</u></b>				
Social security cash benefits	3.9	7.0	4.3	7.4
Medicare Part A	<u>1.5</u>	<u>1.4</u>	<u>1.6</u>	<u>2.4</u>
<b>SUBTOTAL</b>	<b>5.4</b>	<b>8.4</b>	<b>5.9</b>	<b>9.8</b>
<b>Increase in Committee bill</b>		<b>(+3.0)</b>		<b>(+3.9)</b>
<b>TOTAL</b>	<b>8.1</b>	<b>13.8</b>	<b>11.3</b>	<b>17.6</b>
<b>Increase in Committee bill</b>		<b>(+5.7)</b>		<b>(+6.3)</b>

<sup>1/</sup> Based on HEW estimate; Myers estimate is \$2.0 billion higher in 1974.

**Chart 2****Social Security Cash Benefits**

H.R. 1 as passed by the House of Representatives provided for a first year increase in the cost of social security cash benefits of \$3.9 billion. A 5 percent general benefit increase accounted for \$2.1 billion of this total. Under the Committee bill, there would be an additional increase in social security cash benefit costs of \$3.1 billion for a total increase over existing law of \$7.0 billion. The 10 percent general benefit increase in the Committee bill represents a cost of \$2.2 billion over the 5 percent increase in the House bill.

## Chart 2

Social Security Cash Benefits

(First full year costs, in billions)

Increases in House Bill

5 percent benefit increase	\$2.1
Widow's benefits	0.9
Increase in earnings limit	0.6
Other changes	<u>0.3</u>
SUBTOTAL	3.9

Increases in Committee Bill

Benefit increase of 10% rather than 5%	2.2
Special minimum up to \$200	0.3
Credit for delayed retirement	0.2
Other changes	<u>0.4</u>
SUBTOTAL	3.1
TOTAL INCREASE IN COMMITTEE BILL OVER PRESENT LAW	7.0

## Chart 3

**Medicare and Medicaid***Medicare Part B*

The principal increased cost in the committee bill is attributable to covering the disabled under Medicare on a basis similar to that approved by the House.

The Committee also approved adding coverage of chiropractors under Medicare and limiting the percentage by which the Medicare Part B premium paid by older people could be raised from one year to the next.

In addition, other changes were approved that were designed to smooth Medicare operation.

*Medicaid*

The Committee bill would for the first time cover eligible mentally ill children under age 21 receiving treatment in an accredited medical institution.

The Committee also provided that workfare participants otherwise ineligible for Medicaid would have the opportunity to "buy in" by paying premiums, with Federal subsidy for any remaining costs of benefits.

The principal change resulting in a decrease in Medicaid costs was the Committee's repeal of Section 1902 (d) which presently prohibits States from moderating their programs.

*Medicare Part A*

Extension of hospital insurance for the disabled accounts for the major cost increase shown on the chart.

A new benefit was added by the Committee covering a limited number of drugs appropriate for use in treating the chronically ill.

The definition of eligibility for services in an extended care facility was liberalized in the committee bill so as to simplify administration and improve availability of benefits.

Chart 3

# Medicare and Medicaid, 1974

GENERAL FUNDS		(dollars in billions)
<u>Medicare Part B:</u>		
Present law		\$1.8
Extend coverage to disabled		0.4
Cover chiropractic, limit premium, other changes		0.2
<u>Medicaid:</u>		
Present law		5.3
Mentally ill children		0.1
Coverage of workfare participants		0.2
Other changes		-0.3
<b>NET INCREASED GENERAL FUND COSTS</b>		<b>+0.6</b>
TRUST FUNDS		
<u>Medicare Part A:</u>		
Present law		8.3
Extend coverage to disabled		1.5
Coverage of drugs		0.7
Extended care definition, other changes		0.2
<b>NET INCREASED TRUST FUND COSTS</b>		<b>+2.4</b>

**Chart 4****Aid to the Aged, Blind, and Disabled**

Under the Committee bill, the Federal share of aid to the aged, blind, and disabled for 1974 is estimated to be \$4.9 billion, including \$4.4 billion in assistance payments (\$2.2 billion more than under current law) and \$0.5 billion for administrative costs (\$0.3 billion more than existing law). This \$2.5 billion increase in Federal expenditures is offset by a reduction of \$0.3 billion in food stamp costs for a net increased Federal cost of \$2.2 billion. (Recipients would be ineligible for food stamps but would get offsetting increases in cash assistance.)

The increase in Federal costs results from the new Federal standards for assistance to the aged, blind, and disabled, and from the changed funding mechanism under which the Federal Government assumes most of the cost of assistance payments and an increased share of administrative costs.

Chart 4

# Aid to the Aged, Blind and Disabled, 1974

cost in billions

## Present law:

Welfare payments	\$2.2
Administration	0.2
Food stamps	<u>0.3</u>
TOTAL	<u>2.7</u>

## Committee increases:

Welfare payments (including cashing out of food stamps)	+2.2
Administration	+0.3
Food stamps	<u>-0.3</u>
TOTAL INCREASE	<u>+2.2</u>

## Chart 5

**Cost of Programs for Families: H.R. 1 and the Committee Bill**

The table shows the total cost of the program for families in H.R. 1 and the Committee bill for calendar year 1974. The comparable cost of present law is \$7 billion. Two estimates are shown for each bill, one prepared by the Department of Health, Education and Welfare, and the other by Mr. Robert Myers, consultant to the Committee and former Chief Actuary of the Social Security Administration. The detailed bases of these estimates are shown in the appendixes to this pamphlet. Certain adjustments in the HEW estimates for H.R. 1 are included, and these are explained below; some of the errors in the Department's estimate for the Committee bill are also mentioned below.

*Government Employment.*—The HEW estimate is based on a cost of \$3,000 per job, while the Committee bill provides for a maximum of \$2,400 per job.

*Children's Allowance.*—The Committee bill has no provision for a children's allowance, although the HEW estimate includes one-half billion dollars for this item.

*Welfare Payments.*—The HEW estimate of costs under H.R. 1 (\$6.4 billion) has been adjusted to reflect welfare payments financed under the "hold-harmless" provision of the bill, and an offset for the public service job program included under the bill but omitted in the HEW estimate.

*Child Care.*—The HEW estimate of \$0.5 billion in Appendix B for this item under H.R. 1 has been increased to \$0.8 billion because the Department's estimate included no allowance for furnishing child care services to volunteers. The Myers estimate for the Committee bill actually provides for \$1.2 billion worth of child care but \$0.4 billion of this is financed by wages paid under the Government employment program.

*Public Service Jobs.*—The HEW estimate included in Appendix B includes no cost for the public service job program under H.R. 1. The \$0.8 billion provided in H.R. 1 for this program, has been added to the HEW estimate.

*Administration.*—The Myers estimate includes \$1.1 billion for administration of the Committee bill, but \$0.4 billion of this is financed by wages paid under the Government employment program and thus is already included in the cost of Government employment.

Chart 5

## Cost of H.R. 1 and Committee Bill, 1974: Programs for Families

(dollars in billions)	H.R. 1		Committee Bill	
	HEW estimate	Myers estimate	HEW estimate	Myers estimate
Government employment	---	---	\$5.7	\$2.6
Wage supplement	---	---	1.7	0.3
Children's allowance	---	---	0.5	---
10% work bonus	---	---	1.1	1.2
Welfare payments	\$5.1	\$7.1	3.2	3.7
Cost of cashing out food stamps	1.5	1.5	1.8	1.8
Child care: Additional	0.8	0.8	1.5	0.8
Included in Gov't employment	---	---	---	(0.4)
Public service jobs	0.8	0.8	---	---
Services, training	0.6	0.6	0.8	0.4
Administration: Additional	0.7	0.7	1.7	0.7
Included in Gov't employment	---	---	---	(0.4)
<b>TOTAL</b>	<b>9.5</b>	<b>11.5</b>	<b>18.0</b>	<b>11.5</b>
<b>Present law</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>
<b>NET INCREASED COST</b>	<b>2.5</b>	<b>4.5</b>	<b>11.0</b>	<b>4.5</b>

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**APPENDIX A**

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**(Memorandum on Cost Estimates Prepared by Robert J. Myers)**

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June 8, 1972

MEMORANDUM

TO: The Honorable Russell B. Long,  
Chairman, Committee on Finance

FROM: Robert J. Myers, Actuarial Consultant

*Robert J. Myers*

SUBJECT: Actuarial Cost Analysis of Workfare  
Program Proposal

This memorandum will present my analysis of the Workfare Program proposal. This analysis casts considerable light on the cost aspects of the proposal, especially as my results differ from the cost estimates therefor made by the Department of Health, Education, and Welfare.

As part of this study, I shall discuss what I believe to be the weaknesses and deficiencies in the Department of HEW's cost estimates for the Family Assistance Plan (FAP), as contained in H. R. 1, and for the Workfare Program. One problem in considering the Department's cost estimates is that they are changed so frequently without explanation of why the differences have occurred; however, the methodology is generally the same.

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Department of HEW Cost-Estimating  
Methodology for FAP

HEW has used the procedure of analyzing what results that FAP would have if it had applied individually to each case in a small sample derived by the interview process several years ago. Several difficulties are involved in this process -- and, quite admittedly, there are also difficulties involved in any procedure for making cost estimates for a new and complex program.

Further, there is a question as to the adequacy and validity of the sample. Is it properly representative of the lowest-income population for whom FAP is designed? Who will be the group for whom most costs will be due? How well is income reported in the survey (it is mentioned that the survey is deficient as to the amount of welfare payments reported, but no details are given as to just how much)? How much less well will income be reported once FAP is enacted when there is a financial incentive not to report?

Another very important criticism of the HEW cost estimates is that they make no allowance for persons adjusting their economic conditions to the provisions of the plan. This is bound to occur in any program like FAP that provides benefits on a "rights" basis under a mathematically-determinable basis. This is evidenced by the manner in which Social Security beneficiaries adjust their earnings to fit in with the retirement test (and changes therein). Another evidence of this was the significant increase in hospitalization of the aged after Medicare went into effect as compared with the immediately preceding experience; the actuarial cost estimates that were made initially had included some allowance for this fact, but not for nearly as much as actually occurred.

There will certainly be great pressure under FAP -- and with resultant effect -- for eligibles to get rid of income that causes a "\$1 for \$1" reduction and to not report both such income and also earned income in excess of the \$720 annual exempt amount. This factor should be recognized in the cost estimates.

Also, the use of Electronic Data Processing methods -- despite their great attractiveness and utility in certain operations, such as mass recordkeeping and tabulation of crude statistics -- can quite possibly introduce errors and bias that will be undetected when only the overall results of the procedures are visible (because of possible programming errors and because of gaps of misunderstanding between the estimators and the EDP technicians). Even though completely precise and accurate arithmetical calculations can be made for each case separately, and a completely accurate summation of these results obtained, there is no assurance that such summation will be an accurate portrayal of costs. This is so because such individual-case calculations might not be accurate portrayals of the situation which would result after the program became effective. Thus, each of the basic bits of data are in themselves imprecise, since the static conditions to which they apply would be so vastly changed by what would actually happen when the program goes into operation.

The fact that the Social Security earnings-record system would be used to police FAP, at least insofar as earnings are concerned, is not of great significance in reducing costs. Much of the earnings of the FAP potential eligibles is not covered or is significantly under-reported (or unreported) because of poor coverage compliance in the areas of domestic, casual, small-business, and agricultural work.

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Still another important point is with regard to the adjustment made by HEW to allow for non-claiming of FAP benefits. It is likely that there will be some of this, particularly when only small residual benefits are involved, but I doubt greatly whether there will be anywhere near as much as HEW assumes in its report of February, 1971 to the House Committee on Ways and Means, "Welfare Reform -- Costs and Caseloads" (90 percent where annual benefits are \$200 or less, decreasing to 5 percent where benefits are over \$1,000). If FAP is administered on the basis that I believe likely, great publicity will be made, and beneficiaries will be sought after, so that there will be little non-claiming (as is in income-tax refunds and Social Security benefits). The argument that there is much non-claiming in the New York plan for the working poor is not relevant, since that plan is poorly publicized and also since its payments carry a stigma. It is not at all clear whether or not this non-claiming factor is included in the FAP cost estimates contained in the House Report on H. R. 1 or in subsequent estimates for FAP furnished to the Committee on Finance.

The HEW projections of the cost of FAP curiously show a decreasing trend of recipients and costs as years go by. In fact, this appears to be due to the assumption that FAP benefit amounts will remain static (despite dynamic economic conditions), that there will be significant incentives to leave the welfare rolls for paid employment, and that the working-poor population will decline in size under the dynamic economic assumptions used. With the 66-2/3 percent "tax" on earnings above the exempt amount, such incentives would seem to be considerably dampened and thus ineffective.

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In summary, I believe that the HEW estimates for FAP are significant under-statements of cost, despite the assertions that they are "conservative". On the very surface, it is just not reasonable that such an expansion of the number of welfare recipients will result in so little an increase in cost.

Cost Estimates for H. R. 1

The latest of many changing cost estimates made by HEW shows a total Federal cost for programs for families with children and for the residual food stamp program under H. R. 1 as passed by the House of Representatives of \$8.5 billion for FY 1974. This amount appears to be subdivided as follows:

Payments to families (FAP)	\$5.8 billion
Food stamps, payments in lieu thereof	1.0
Child care	.5
Services and training	.6
Administration	<u>.7</u>
 Gross Total Cost	 \$8.6 billion
 Impact on other programs (Cuban refugees and Indians)	  <u>-.1</u>
 Net Total Cost	 \$8.5

It should be noted that the above gross cost figures for programs for families with children represent the gross costs of these particular portions of the program. They thus do not show the net costs after allowance has been made for the elimination of existing programs (such as AFDC). The same method of presentation of estimated costs is followed in dealing subsequently with the Workfare program.

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Not included in these cost figures are the costs for two other items in H. R. 1 that should properly be included in order to be comparable with the costs later presented for the Workfare program. There is an additional \$300 million for child care representing the cost for the services of women with children under age 6 who volunteer to do such work, and there is an additional \$500 million as the net cost of public service jobs over the public assistance costs otherwise payable to persons in such jobs (which provision is not in the Workfare program).

The resulting net total cost of \$8.4 billion for programs for families with children (i. e., not considering the \$1.0 billion remaining cost for food stamps or the \$.1 billion savings for other programs) according to the adjusted HEW estimate is, in my opinion, too low as a measure of the ongoing permanent-program costs for a number of reasons. First, it includes only a half year of FAP costs for payments to families in which both parents are present and neither is incapacitated and the father is employed; adjustment for this factor would add \$.3 billion. Second, the portion of the "hold harmless" provision cost due to AFDC is not included; adjustment for this factor would add \$.5 billion. Finally, the basic cost for the FAP program is under-estimated because of not recognizing the strong incentives to go onto, and remain on, the program (or conversely not to go off the program because of the little incentive to earn more); adjustment for this factor would add \$1.2 billion.

Thus, according to my views, the net total cost of programs for families with children under H. R. 1 for FY 1974 would be \$10.4 billion (as compared with the adjusted HEW estimate of \$8.4 billion).

Cost Estimates for Workfare Program

The HEW estimate for the Workfare Program for FY 1974, assuming that it would be fully effective throughout this entire year, including the cost for the residual food stamp program and the savings due to the impact on other programs, but exclusive of the Federal cost for the residual AFDC program (which provision was changed after HEW made its cost estimates) is \$14.2 billion, subdivided as follows:

Guaranteed Job Opportunity	\$ 5.7 billion
Low-wage Supplement	1.7
Work Bonus of 10 Percent	1.1
Food Stamps	1.8
Child Care	1.5
Services and Training	.8
Administration	<u>1.7</u>
Gross Total Cost	\$14.3
Impact on Other Programs	<u>-.1</u>
Net Total Cost	\$14.2 billion

To the above cost there should be added \$3.7 billion, representing the cost of the Federal funding of the residual AFDC program (as estimated in the Committee Print "Fiscal Relief for States -- Explanation of Committee Decisions," June 5, 1972). This makes a total cost for the Workfare Program, according to the HEW estimates, of \$17.9 billion for FY 1974.

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In my opinion, the foregoing cost estimate made by HEW is significantly over-stated. In large part, this is because of the failure to recognize the work incentives involved in the program and the built-in elements encouraging the full reporting of earnings and because of misunderstanding the full details and implications of the total Workfare proposal.

It should be noted that the HEW estimate for the Workfare program is based on the presumption that the Federal minimum wage will be \$2.00 per hour in FY 1974. I will use this basis in my analysis of how the HEW estimate should be modified and adjusted to produce a more realistic estimate. However, the HEW estimate does not adequately reflect the effects of other changing economic conditions.

The HEW estimate for the Guaranteed Job Opportunity portion of the Workfare program assumes that the estimated families who would be on AFDC in FY 1974 if that program were left unchanged would be 3.3 million and that 40 percent of them, or 1.3 million, would be "employable" under the definition of the Committee. To this 1.3 million would be added, according to the HEW estimate, .2 million unemployed male heads who choose to take employment with the Work Administration (WA), and there would be subtracted .2 million persons who would be direct employment placements in private industry.

Finally, the HEW estimate assumes that 600,000 persons will leave low-paying private jobs (at less than \$1.50 per hour in FY 1974) to obtain the guaranteed employment with the WA.

This estimate, based on 1970 survey data (without apparent adjustment even for increasing wage levels, let alone for the fact that many of these low-earnings jobs are such because of being part-time, for convenience, etc. ), is really an arbitrary assumption, and it seems unusually overstated and, at most, should be assumed at only a nominal figure, such as only about 100,000.

In summary then, the HEW estimate for the Guaranteed Job Opportunity provisions is that 1.9 million persons will, on the average, be employed by the WA in FY 1974 (1.3 million from AFDC, plus .2 million unemployed male heads, minus .2 million direct employment placements in private industry, plus .6 million who leave private jobs).

Furthermore, HEW assumes that all persons employed by the WA will work for 40 hours a week and will be paid \$3,000 per year (i. e. , 50 weeks of 40 hours per week at \$1.50 per hour). First, it is obvious that not all will choose to work a full 40 hours. Second, the Committee intention is to have the annual pay rate not exceed \$2,400, so that, with the \$1.50 hourly rate of pay, only 32 hours of work would be possible (even so, not all would choose to work this long). Accordingly, I would estimate the comparable cost of the Guaranteed Job Opportunity Program at \$3.0 billion for FY 1974, before taking into account the effect of the provisions for income tax credits to employers who hire employees from the WA for at least two years and the effect of the persons who would otherwise work for the WA but who move out into regular work in the administration of the Workfare program (an assumed 100,000 persons) and in the child care portion of the program (an assumed 50,000 persons).

This cost is based on 1.4 million employees at an annual salary rate of \$2,400, minus a 10-percent adjustment to allow for those not working the maximum possible time of 32 hours; in essence, this means 1.25 million employees on a full-time, or man-year, basis.

The \$2,400 figure used above is merely the prescribed maximum annual wage rate, while the 1.4 million employees used is that derived by HEW in its estimate (1.9 million) reduced by my lower assumption as to the number of persons who will leave private jobs to go to the WA. The adjustment factor of a 10-percent reduction to allow for those not working a full 32-hour week is empirically derived, but seems reasonable (and, if anything, is probably not large enough).

After taking into account the removal from WA employment of 250,000 persons as a result of the income tax credits to employers who hire WA employees for at least two years and the 150,000 persons who would otherwise work for the WA but who move into regular work for the WA in administration or child care, and the addition of an assumed 250,000 "volunteers" from the residual AFDC program (who prefer the higher WA earnings to AFDC and who thus add to the WA costs, but do not reduce the Federal cost for the residual AFDC program), the net number of WA employees, on a man-year basis is estimated at 1.1 million. Accordingly, my estimate of the cost of the Guaranteed Job Opportunity program, after making all appropriate adjustments, is \$2.6 billion for FY 1974.

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The low-wage supplement portion of the Workfare program applies to family heads in jobs not covered by the Federal minimum wage law who earn at least 75 percent of the minimum wage prescribed thereunder, but less than such minimum wage. This program would, in my opinion, have the effect that any wages below such 75 percent point would be raised thereto, so as to qualify for the low-wage supplement. The HEW estimate is based on 2.4 million workers falling into this category, working an average of only 27 hours per week at only \$1.10 per hour. These data are inconsistent with the conditions established in the proposal, which are that benefits are paid only to those with wages of at least \$1.50 per hour, and no account is taken of rising wage trends up to 1974. Thus, the average wage supplement used in the HEW estimate amounts to about \$.68 per hour (75 percent of the excess of \$2.00 over \$1.10), whereas the most that it can be is \$.38 (75 percent of the excess of \$2.00 over \$1.50), and the average will probably be about \$.20.

I believe that, under the low-wage supplement provisions, not more than 1.0 million workers would be involved, on the average, over the course of a year, with an average supplement of about \$.22 per hour for an average work week of about 30 hours. This yields a total annual cost of \$.3 billion for the low-wage supplement provisions. The figure of 1.0 million eligible workers on the average is derived from Social Security earnings data, taking into account the facts that the supplements are payable only to family heads who are employees (i. e., excluding the self-employed) and that some with very low amounts due will not apply for them; also, projection of the wage levels in the tabulated data was made to what they will likely be in FY 1974.

The average supplement is assumed at \$.22 per hour, since the supplement can range from \$.01 to \$.38, and it will be somewhat higher than the midpoint of \$.19-1/2, because there will be less likelihood of people applying for very low amounts. The assumption as to an average work week of 30 hours seems reasonable for low-income persons such as would benefit under these provisions and is consistent with the corresponding HEW figures of 27 hours.

The cost estimate of \$1.1 billion for FY 1974 for the Work Bonus of 10 percent for low-earnings workers that was made both by the Committee on Finance and by the Office of Tax Analysis, Treasury Department, seems reasonable and was confirmed by independent calculations that I made using projected Social Security earnings data for past years. To this, however, must be added \$.1 billion to allow for the estimated 250,000 workers who transfer from the WA to private employment as a result of the provisions for income tax credits to employers who hire WA employees for at least 2 years.

As to the Food Stamp provisions of the Workfare program, HEW estimates a cost therefor of \$1.8 billion for FY 1974. As indicated previously, this is not entirely -- but rather only partially -- a new cost, since \$1.0 billion thereof relates to persons who would be receiving such benefits if present law were left unchanged, and the remaining \$.8 billion represents the payment of the equivalent of the value of food stamps to persons not now receiving them, even though in a category eligible.

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I believe that, in the aggregate, the HEW estimate is reasonably good. The number of eligible families seems somewhat too high (because of over-estimating the number of eligible working poor), but this is counterbalanced by the average value of the food stamps for which payments in lieu are made being assumed somewhat too low.

As to the HEW cost estimates for the Child Care provisions under Workfare, the total children requiring child care (children between ages 6 and 12) is derived by multiplying the 900,000 families with any children at these ages by an average of 2.3 children per family. The latter factor is far too high because it should represent the average number of children aged 6 - 11 per family in families with such children; the proper factor is probably about 1.8 children per family, based on my analysis of census and Social Security data. Thus, my estimate of the total potential child care costs is \$1.4 billion for FY 1974 (based on the HEW estimate of 900,000 families requiring child care, times the above-mentioned 1.8 children per family, times the HEW estimate of \$800 as the annual cost of child care per child).

But there should be an offset against this total potential cost to allow for employing persons under the Guaranteed Job Opportunity Program to run a substantial part of the Child Care program. The HEW estimate allows only 12 percent for this factor. I believe that an allowance of as much as 40 percent is actually reasonable (which includes \$150 million representing the wages for the estimated 50,000 persons moved from WA employment to regular employment in this program, but which does not include the sizeable number of persons who would work in this program but who would remain as WA employees).

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The HEW cost estimate for services and training for the Workfare program for FY 1974 is \$.8 billion (\$.2 billion for training and \$.6 billion for services), as against only \$.6 billion for H. R. 1 (\$.5 billion for training and \$.1 billion for services).

In my opinion, since the emphasis is on work and on training while working, the cost for training will probably be only about \$.1 billion. The HEW estimated cost for services seems too high, both in relation to the similar cost under H. R. 1 and in absolute terms. Thus, the unit cost of \$300 per year per family seems over-stated, and then this is applied to 1.9 million families. (As mentioned earlier, I believe that the best estimate of the net number of full-time workers under the Guaranteed Job Opportunity program is 1.1 million, not 1.9 million.) Accordingly, I estimate the cost for training for FY 1974 at about \$.3 billion.

As to administrative costs, the HEW estimate assumes such costs to be 10 percent of the payments under the Guaranteed Job Opportunity, Low-wage Supplement, and Work Bonus Programs. Considering the complex nature of these programs and the flow of people in and out of them, a higher administrative expense ratio, such as 12 percent, seems more reasonable. Applying this latter ratio to my estimates for each of these programs yields a figure of \$.4 billion (as compared with HEW's figure of \$1.0 billion) for FY 1974. This figure allows for a substantial part of the administrative work being performed by WA employees, the cost for whom is included in the cost of the Guaranteed Job Opportunity program.

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Further, as to administrative expenses, such costs will be increased as a result of the Federal Government paying the full State administrative expenses for any supplemental payments. HEW estimates this element for FY 1974 to be half of the \$1.4 billion administrative expenses for the present Federally-assisted programs (or \$.7 billion), since the States would pay such amounts under present law. This seems entirely too much since it represents administrative expenses for the adult categories and for Medicaid, in addition to those for the AFDC category. The proper amount for these administrative expenses of the residual AFDC would be about \$.2 billion for FY 1974, according to my estimate.

The Joint Committee on Internal Revenue Taxation has estimated that the previously-mentioned income-tax credits for employers who hire WA employees will have an annual cost of \$200 million (which at \$800 per person means 250,000 jobs).

In summary, the estimated cost for the Workfare program, as I have modified and corrected the HEW estimates, may be summarized as follows for FY 1974, assuming that the program is fully effective throughout the entire year:

Guaranteed Job Opportunity	\$ 2.6 billion
Low-wage Supplement	.3
Work Bonus of 10 percent	1.2
Residual AFDC	3.7
Food Stamps Cash-Out	1.8
Child Care	.8
Services and Training	.4
Tax Credits for Employers	.2
Administrative Expenses	<u>.7</u>
Gross Total Cost	\$11.7

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In summary, my analysis of the gross costs of the program for families with children under H. R. 1 and under the Workfare program for FY 1974 (assuming that the program will be fully effective throughout the entire year) may be presented as follows (in billions):

<u>Program</u>	<u>HEW Estimate</u>	<u>My Estimate</u>
H. R. 1	\$ 8.4	\$10.4
Workfare	<u>17.8</u>	<u>11.7</u>
Increase of Workfare over H. R. 1	\$ 9.4	\$ 1.3

As to net costs under H. R. 1, and under the Committee proposals as they relate to programs for families with children and to the food stamp program as it applies to such families for FY 1974 (assuming that the program will be fully effective throughout the entire year), there are the following data according to my estimates (in billions):

	<u>H. R. 1</u>	<u>Workfare</u>
Gross Cost	\$10.4	\$11.7
Less Food Stamp Cost <u>a/</u>	-1.1	-1.1
Less Impact on Other Programs <u>b/</u>	- .1	- .1
Less Cost of Present AFDC <u>c/</u>	-5.7	-5.7
Less Present Employer Tax Credits <u>d/</u>	<u>--</u>	<u>- .1</u>
Net Cost	\$ 3.5	\$ 4.7

a/ Cost of present food stamp program for families with children only.

b/ Reduction in cost for programs for Cuban refugees and Indians.

c/ Includes payments to recipients, child-care costs, training costs, and administrative expenses.

d/ H. R. 1 would not eliminate these provisions; the Committee proposal would substitute a new basis.

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**APPENDIX B**

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**(Cost Estimate Material Prepared by the Department of  
Health, Education, and Welfare)**

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## **COST ESTIMATE MATERIAL PREPARED BY THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE**

**(Clerk's Note: This appendix contains an excerpt from a statement submitted to the Committee in June, 1970, by the Department of Health, Education, and Welfare describing the basis for their estimates of the cost of the version of the Family Assistance Act then before the Committee. While some modifications have been made in their current estimates, including the use of a more recent data base, the Committee understands that the basic methodology remains unchanged.)**

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### **Cost Estimating Methodology**

The Family Assistance Act has several important features which distinguish it in significant ways from the present welfare system. Each major feature requires a different cost estimating procedure.

**Adult categories:** In developing estimates of the costs of the proposed changes in the adult category programs, the basic focus was on their relative impact. The effort was directed toward a method of revising the States' own estimates (which are used for budget preparation) to account for the impact of the proposed changes. No attempt was made to develop new or independent State-by-State estimates of costs and caseloads, under current law, for 1971. The method requires the following basic steps:

1. Using December 1969 data, adjust per case cost figures to account for changes in Social Security and other non-assistance income expected to occur between 1969 and 1971.

2. Using the results in Step 1, adjust caseload and average payments to account for the impact of the \$110 minimum income requirement and other changes.

3. Apply current Federal matching formulas obtained in Step 1 and the proposed Federal matching formula to the results obtained in Step 2.

4. "Annualize" the results of Step 3 by multiplying by 12 and compare the two sets of estimates to obtain the relative impact of the Administration's proposals.

5. Apply the results obtained above to the States' own estimates of 1971 costs and caseloads.

**Payments to families:** The most far-reaching feature of the Family Assistance Plan is that the Federal Government will make direct money payments to all low-income families with children, with the amount depending on family size and the amount and types of family income. Because the proposed program is totally different from any current program, an entirely new cost-estimating methodology was required. The procedure developed is not only a cost-estimating technique but is also a useful tool in the decision process.

In the discussions within the Administration about various alternative approaches to basic welfare reform, it was possible at key points to use the cost estimating system to help design the new program. For example, the basic payment level can be increased or decreased while other factors are held constant to determine the change that would occur in total costs. This characteristic is especially important in a program such as the Family Assistance Plan because of the interaction between policy variables. This costing method also provides information that shows how the plan or variations in the plan would affect families. Data can be produced to show the numbers of families and the number of individuals eligible for benefits, family income, and other characteristics when changes are made in payment levels, income disregards, and other important policy variables.

In developing the first cost estimates for FAP, the basic data source used was the special Survey of Economic Opportunity (SEO). The Survey comprises detailed information on 30,000 families. This source was selected because it was the best detailed, statistically accurate, information base. While other data sources provide information on some variables, no other data source provides information for the same families for all of the important variables that affect the cost of the Family Assistance Program.

The 1966 and 1967 Surveys of Economic Opportunity were conducted for the Office of Economic Opportunity in the spring of 1966 and 1967. The field work for both surveys was performed for OEO by the Bureau of the Census. Creation of the SEO files was the joint product of OEO, the ASSIST Corporation, and members of the Brookings Economic Studies and Computer Center staffs.

The Surveys of Economic Opportunity include much of the information routinely collected in the annual February-March Current Population Surveys (CPS). CPS items include personal characteristics, such as age, race, sex, education, family relationships and marital status, and work-experience and income for the previous year.

In the SEO, in both years, information was obtained regarding family assets and liabilities, housing, and migration patterns. Information was collected regarding job training in 1966. In 1967, data were

collected on personal health, marriage, and childbearing. The majority of additional questions were asked in both years, with some questions substantially revised in 1967.

Since the Current Population Survey for 1969 is now available, it is being used as the primary source for the development of the FAP cost estimates. The advantages of using the 1969 CPS are two-fold. First, the data is more current. Second, it provides an easy way of continually updating the results. Additionally, trend analysis can be performed by using the CPS for successive years. The SEO is still being used to analyze the characteristics of families eligible for Family Assistance benefits when the desired information is not available in the CPS. (A description of the CPS is included as an appendix.)

The value of using survey data lies in the fact that each family in the sample, and the characteristics of the family, bear a distinct and definable relationship to the general population. Therefore, by knowing what effect the Family Assistance Plan would have on the sample families, it is possible to determine the impact of the Plan on the total population.

**A. Methodology:** In the computation of the cost to the Federal Government and the benefit to recipients of Family Assistance Payments, each household is first identified to determine whether it is a family containing at least one child. Financial records for families with children are then taken up one by one, and all computations on each family completed prior to moving to the next family. Results of each computation are recorded and the entries for one family added to those obtained from computations on the records of prior families. At the end of the process, the totals reflect the results of computations for all families.

The procedure for each unit is to: (1) determine whether the interview or family unit contains a child under 18 or a student under 21 and is categorically eligible for a benefit payment; (2) determine the size of the unit so that the benefit payment to the family if it had no income can be computed; (3) count the family income that, under the proposed legislation, would reduce the basic benefit on a dollar for dollar basis; and (4) finally, deduct the countable income from the basic benefit to determine the actual benefit payment. Where countable income exceeds the basic benefit, the benefit is determined to be zero. *The actual benefit paid is the difference between the "basic benefit" (FAP payment to a family with no other income) and a family's "countable income."*

The total benefits computed in this way constitute the total, direct transfer costs of the Family Assistance Act as it pertains to families with children.

Since the Federal Government would no longer participate financially in the Aid to Families with Dependent Children (AFDC) program, the net costs of the Family Assistance Plan are the costs as computed above, minus the Federal share of AFDC under current law plus the cost of the Federal matching of State supplemental payments and the "hold harmless" provision.

Since each unit in the file contains information on income by source, it is possible to indicate the impact on each unit's total family income. For example, AFDC payments (or what could be supplementary payments under Part E of the Family Assistance Plan) would be reduced on a dollar for dollar basis if the unit received Family Assistance Plan benefits. That family's income would increase, therefore, only if it had no welfare benefit. Thus, the net effect of instituting the Family Assistance Plan on family income, as well as the overall impact on poverty, can be estimated. Similarly, the possible reductions in the Family Assistance Plan if other program benefits, such as social security, were increased can be estimated.

In summary, the procedure permits estimating: (1) the costs of FAP if nothing else were changed, (2) the probable savings in other programs due to the implementation of FAP, and (3) the probable savings in FAP if other programs were changed.

**B. Projecting the cost estimates:** The latest available survey data is the Current Population Survey which reports on family and household status at the time of the interview (March 1969) and on family income for 1968. These data were projected forward to 1971 and 1976 by incorporating known growth rates in population and income. An examination of Table 5 indicates that reasonable results are obtained from this procedure. Between 1971 and 1976 there is an overall decline in the number of families estimated as eligible for benefits. As expected, the decline is the greatest for families in which the head works full time and there is an absolute increase in the number of families where the head does not work. The results of the projection method were also confirmed by comparing the results of projecting the 1967 SEO forward to 1969 with the results obtained by using the 1969 CPS without projection factors. The difference in these comparative projections is less than ten percent.

The projection method presently in use cannot by itself account for changes in the unemployment rate although efforts are underway which will introduce this flexibility into the procedures. Since unemployment has increased since the time of the 1969 CPS, it was necessary to incorporate an adjustment factor into the estimates. The Bureau of Labor Statistics was requested to develop this factor. Appendix II provides a brief summary of the method developed as well as a more technical discussion.

**C. State supplementation:** Title I of the Family Assistance Act requires that States must supplement family assistance benefits for specified types of families. The estimate provided for this feature is based on:

1. the known relationship of the State supplemental payment to the Family Assistance payments;
2. data on existing caseloads, payments, and, where available, distributions of cases by payment levels;
3. fragmentary data on income of AFDC recipients by source;
4. assumptions about the distribution of female-headed families in the income brackets just above each State's need standard.

The method used for computing State supplementals discussed above must be used rather than using a methodology similar to the one described for estimating regular Family Assistance benefits. The sample size is generally not large enough to produce State-by-State estimates though it may still prove possible to do so for some of the larger States.

Although the CPS is primarily designed to furnish material for making aggregate estimates, States identifying codes are contained in the CPS (they were not in the SEO). Because of this, the procedures for computing Family Assistance costs have been expanded to produce estimates on a State-by-State basis for both the "working poor" population and the families eligible for State supplementals. The cost review group is working to refine these individual State estimates.

**D. Other cost factors:** There are other cost factors, less amenable to control, which may affect the costs of the Family Assistance Plan. These factors are of two sorts: (1) those that derive from outside the system and (2) changes induced by the introduction of the system itself. The procedure described above can be used to measure such cost impacts.

Changes from outside the system are related to such things as the unemployment rate and productivity. Analysis is now underway which will indicate the sensitivity of FAP costs to changes in these factors (for example, the increase in FAP costs associated with a given percentage increase in unemployment).

Changes in behavior brought about by the Family Assistance Plan itself are difficult to determine (though again, where the changes can be determined, their cost effects can be estimated). Two possible changes are in work behavior and family formation patterns. However, the FAP is designed to minimize the incentives for undesirable responses in these areas.

Because of the importance of the welfare reform proposals and the uncertainties involved in estimating costs of any new program, a cautious and conservative approach has been adopted. For example,

the cost estimates for the Family Assistance Plan assume that all eligible families participate to the full extent of their eligibility. Further, the potential savings due to the training programs have not been included in the estimates. Similarly, the estimated cost of the Federal sharing of State supplemental costs assumes a continuation of recent trends in AFDC although the Administration believes that the proposed legislation would substantially dampen these trends. A final example of this conservative approach is reflected in an adjustment made in the CPS to correct an apparent inconsistency between the survey data and actual program data. The amount of Public Assistance income reported in the survey is less than the actual dollars paid out. Most professionals in the field believe that this is the result of interviewed families failing to report receipt of welfare income. Nonetheless, an adjustment was made in the data under the very unlikely possibility that the entire discrepancy is explained by a failure to include the appropriate number of public assistance recipients in the survey. This adjustment technique increases the estimated cost of FAP.

The Administration is prepared to discuss its estimating procedures in detail and to make available these procedures to the Committee in its consideration of the Family Assistance Act.

## Appendix I

### Description of the current population survey<sup>1</sup>

The estimates are based on data obtained in the Current Population Survey of the Bureau of the Census. Most of the data were collected in March 1969 though some tables contain data collected in March of other years. For 1967 through 1969 the sample is spread over 449 areas comprising 863 counties and independent cities, with coverage in each of the 50 States and the District of Columbia. Approximately 50,000 households are designated in the Current Population Survey for interview each month. Of this number, 2,250 occupied units, on the average, are visited but interviews are not obtained because the occupants are not found at home after repeated calls or are unavailable for some other reason. In addition to the 50,000 there are also about 8,500 sample units in an average month which are visited but are found to be vacant or otherwise not to be enumerated. For the years prior to 1967, the sample was spread over fewer areas with fewer interviewed households. Prior to the March 1966 survey, income data were collected from only 75 percent of the households included in the CPS. See *Current Population Reports*, Series P-23, No. 22, "Concepts and Methods Used in Manpower Statistics from the Current Population Survey," June 1967, pp. 7-10, for more information about the sample design.

The estimation procedure used in this survey involved the inflation of the weighted sample results to independent estimates of the civilian noninstitutional population of the United States by age, race, and sex. These independent estimates were based on statistics from the 1960 Census of Population; statistics of births, deaths, immigration, and emigration; and statistics on the strength of the Armed Forces. To these totals were added the population in the Armed Forces living off post or with their families on post. A further adjustment was made so that all members of a household got the same weight while at the same time leaving unchanged the estimates for certain basic labor force categories.

Since the estimates in this report are based on a sample, they differ somewhat from the figures that would have been obtained from a complete census, using the same schedules, instructions, and enumerators.

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<sup>1</sup> Extracted from "Income in 1968 of Families and Persons in the United States" *Current Population Reports*, Series P-60, No. 66, Page 12. Published by the Bureau of the Census, U.S. Department of Commerce.

Particular care should be exercised in the interpretation of figures based on relatively small numbers of cases as well as small differences between figures. As in any survey work, the results are subject to errors of response and non-reporting and to sampling variability.

In most cases the schedule entries for income are based on memory rather than on records, and in the majority of cases on the memory or knowledge of one persons, usually the wife of the family head. The memory factor in data derived from field surveys of income probably produces underestimates because the tendency is to forget minor or irregular sources of income. Other errors of reporting are due to misrepresentation or to misunderstanding as to the scope of the income concept.

## Appendix II

### The effect of rising unemployment on costs of the Family Assistance Act (Summary)

The Labor Department has made a preliminary estimate of the increased expenditures under the Family Assistance Act resulting from rising unemployment. The estimates are as follows:

<i>Increase in unemployment rates:</i>	<i>Dollar increases in FAP payments (Millions)</i>
1.0 -----	\$ 100
2.0 -----	200
3.0 -----	300

### Reason increases are small

Although unemployment almost always results in some loss of income to the individual worker and his family, in only rare instances does it drive family income below the poverty line (or in this case below the FAP cutoff). There are a number of reasons for this.

1. Even in a recessionary year, such as 1961, unemployment for any given worker tends to be of comparatively short duration. In 1961, there were 6 million married men (wife present) who experienced unemployment at some time during the year. Counting all spells, about half were unemployed for 10 weeks or less. Only 14 percent were out of work for half the year or longer.

2. The kinds of workers affected by cyclical unemployment are not typically those with earnings close to the poverty line. Rather, they are workers from manufacturing industries and construction, where hourly earnings are relatively high. Therefore, the annual earnings of such workers, and the total incomes of their families, could remain well above the FAP cutoffs even if they suffer as much as 2 or 3 months of unemployment. Most of that unemployment will be covered by Unemployment Insurance.

3. The most important determinant of family income, among families with dependent children, is the earnings level of the family head. When unemployment goes up, family heads are likely to be hit relatively the hardest, but not all the additional unemployed will be heads of families with children. Many of them will be unrelated individuals, wives or other relatives of the head, or heads of childless families. Some will be the heads of families already eligible for FAP. *It is only those family heads with children whose incomes were modestly above the FAP line, and whose incomes would be driven below the FAP line by unemployment, that are reflected in the estimates of additional eligible families.*

*The Derivation of the Estimates* (See attached technical paper for full details.\*)

The estimates were derived by examining the pattern of unemployment rates during the 1960's, selecting 2 years when unemployment was considerably higher than in the 1966-69 period, and then utilizing the work experience data for those years to recalculate family incomes and the FAP population as of 1968.

1. The years 1961 (unemployment rate of 6.7 percent) and 1963 (5.7 percent) were selected as representative of high, or at least higher, unemployment situations. These provided estimates of the impact of a 2-percentage point and a 3-percentage point increase in the unemployment rate. The 1-percentage point result was arrived at by interpolation.

2. The next step was to determine what would happen to family income-distributions if the work experience distribution of family heads (i.e., weeks worked, and whether full-time or part-time) for 1961 and 1963 prevailed in 1968. A new 1968 family income distribution was derived, first by superimposing the 1961 pattern; and then the 1963 pattern, of heads' work experience. This produced more low income families and fewer high income families because it reduced the number of year-round full-time workers and increased the number of part-year and part-time workers.

3. The assumption was made that the net change at each income level between the actual 1968 estimate and the derived estimate would be allocated only to families headed by males under age 65 because this is the group most vulnerable to losses in employment and earnings as a result of cutbacks in economic activity. Within this broad group, the change at each income level was allocated proportionately among family groups of different sizes, with and without children.

4. Once a new set of family income distributions by family size and composition had been created, it was possible to estimate the impact on the FAP population. By interpolation within income classes, i.e., \$3,320 for a family of 3; \$3,920 for a family of 4, etc., it was possible to estimate how many families would be included. Only

\*See p. 39.

the minimum Federal payment was considered, not the State supplement.

5. The method produced estimates of the FAP population under 1961 and 1963 employment conditions which could be compared with 1968 estimates derived by the same general procedures. These comparisons were then converted to ratios and moved forward to 1971.

The principal limitations of the method is that it makes no explicit allowance for other economic developments, associated with rising unemployment, which have an effect on family income. Among these are cutbacks in overtime and scheduled hours, which would be offset by increased payments under UC, SUB, and other transfer programs. Also, the method takes no account of the possible loss of jobs among other family members or, on the other hand, the possible increase in the labor force activity of secondary workers who are motivated to offset the head's loss of earnings. We believe these and other subtle cross-currents can only be measured through a complex micro model.

### **Effect of Increased Unemployment on Family Assistance Program, Beneficiaries and Cost**

The first-year cost of the Family Assistance Program, assuming that it were to be operational during calendar year 1971, has been estimated at \$4.4 billion. There would be an average annual payment of \$981 to 3,857,000 families with dependent children. These estimates were developed by the Urban Institute using data from the Survey of Economic Opportunity of March 1967 (which measure the income and poverty status of the population as of calendar year 1966), which were subsequently aged or projected to 1971. The unemployment rate implicit in these estimates was 3.8 percent, the annual average rate for 1966. The unemployment rate went down further to 3.5 percent in 1969 but it has been climbing unevenly for the past few months, reaching a seasonally adjusted rate of 4.4 percent in March 1970. Table A below shows the annual average unemployment rates since 1960.

*Table A.—Rate of unemployment 1960 to date*

1960 -----	5.5	1966 -----	3.8
1961 -----	6.7	1967 -----	3.8
1962 -----	5.5	1968 -----	3.6
1963 -----	5.7	1969 -----	3.5
1964 -----	5.2	First quarter 1970 -----	4.2
1965 -----	4.5		

Source: U.S. Bureau of Labor Statistics.

Looking at the entire period since World War II, we find a range from a low of 2.9 percent in 1953 to a high of 6.8 percent in 1958.

Recent trends have naturally stimulated questions about the pos-

sible impact of higher unemployment on the coverage and cost of the FAP program. However, it is not possible to make a direct connection between the unemployment rate and FAP because unemployment is measured as of a point in time (workseeking activity within a 4-week period) whereas FAP eligibility, as currently estimated, depends mainly on a family's total income during an entire calendar year. Moreover, not all unemployment is equally important with respect to losses of income. Many studies have shown that by far the most significant factor is what happens to the employment and earnings of the family head. For these reasons, we have used the unemployment rate only indirectly as an indicator of general employment and economic conditions. We have used the rate as a means of selecting two other years—1961 when the rate was 6.7 percent and 1963 when it was 5.7 percent—for a test of the impact on family income (and consequently on the FAP) of a less favorable distribution of weeks worked and hours worked by family heads. The assumption was made that a return to a 6.7 percent unemployment rate would result in the same distribution of weeks worked full time and part time by family heads as that prevailing in 1961, and that a rise to 5.7 percent unemployment would produce the 1963 pattern of work experience for family heads. The distributions for the 3 years are shown in Table B below.

TABLE B.—WORK EXPERIENCE OF FAMILY HEADS

	Percent distribution			Numbers in thousands		
	1968	1963	1961	1968	1963 <sup>1</sup>	1961
Total.....	100.0	100.0	100.0	49,622	49,622	49,622
Full time:						
50 to 52 weeks.....	67.4	64.7	62.3	33,455	32,085	30,864
27 to 49 weeks.....	10.1	11.5	13.3	5,007	5,728	6,600
1 to 26 weeks.....	3.5	3.8	4.6	1,730	1,876	2,283
Part time:						
50 to 52 weeks.....	2.3	2.2	2.6	1,117	1,115	1,290
27 to 49 weeks.....	1.2	1.4	1.4	614	710	695
1 to 26 weeks.....	1.8	2.2	2.5	880	1,115	1,241
Did not work at all.....	13.7	14.1	13.4	6,819	6,995	6,649

<sup>1</sup> Inflated to total with work experience in 1968.

Source: Current population survey, Bureau of the Census.

Family income data for calendar year 1968 are published by the work experience of the family head in 1968. The next step in the procedure was to re-weight the 1968 total family income distribution for all 49.6 million families headed by civilians, using the work experience patterns derived from 1963 and 1961 data. These re-weighted family income distribution can then be compared with the actual 1968 distributions in order to get a measure of the effect of less regularity of

work, which is in turn associated with higher unemployment and generally lower levels of economic activity. The results are shown in Table C below. The table stops at \$6,000 because a family of 7 persons phases out of the FAP program at \$5,720 (assuming no State supplement). Published family income distribution are not available for larger-sized families.

TABLE C.—EFFECT ON 1968 FAMILY INCOME DISTRIBUTION OF USING 1963 AND 1961 PATTERNS OF FAMILY HEADS' WORK EXPERIENCE

	Percent distribution			Number of families in thousands		
	1968 work experi- ence	1963 work experi- ence	1961 work experi- ence	Net difference from reweighted distri- bution based on—		
				1968 actual	1963 work experi- ence	1961 work experi- ence
Under \$6,000, total.	29.1	30.1	30.6	14,467	+475	+718
Under \$1,000.....	1.8	1.9	1.9	905	+39	+53
\$1,000 to \$1,499.....	1.5	1.6	1.6	759	+34	+53
\$1,500 to \$1,999.....	2.0	2.0	2.1	970	+45	+53
\$2,000 to \$2,499.....	2.6	2.8	2.8	1,306	+64	+84
\$2,500 to \$2,999.....	2.5	2.6	2.6	1,219	+51	+71
\$3,000 to \$3,499.....	3.2	3.3	3.4	1,570	+62	+98
\$3,500 to \$3,999.....	2.9	3.0	3.1	1,442	+62	+85
\$4,000 to \$4,999.....	5.9	6.1	6.2	2,648	+71	+136
\$5,000 to \$5,999.....	6.7	6.8	6.9	3,348	+47	+85

Source: Current Population Survey, Bureau of the Census. Estimates prepared by Bureau of Labor Statistics.

The procedure has obvious limitations in that it does not attempt to measure the impact on family income within any given category of weeks worked. That is, the computations involve retaining the 1968 family income distribution within each work experience of head grouping, but changing the overall work experience weights as described earlier. It is not clear, however, whether this oversimplification results in a net overstatement or net understatement of the impact on family income. On the one hand, the procedure does not reflect any losses of earnings of other family members who might lose their jobs in a period of rising unemployment, but neither does the procedure reflect any possible increase in the work effort of other family members in order to compensate for the loss of the head's earnings. These offsetting influences will be studied further but it should be noted that their overall impact on family income may turn out to be relatively small. In 1968 nearly 80 percent of the aggregate income of husband-wife families was accounted for by the income of the head. The procedure also fails to reflect prospective cutbacks in overtime and in the scheduled workweek (unless it results in part-

time work for long periods of time) which invariably accompany rising unemployment and thereby reduce weekly and annual earnings. But again, in the opposite direction, the procedure does not allow for the receipt of unemployment insurance, SUB, and other payments to families arising directly or indirectly from the disemployment of the family head. Presumably these influences will be taken account of in the HEW model now being developed.

Not all of the families added to the income brackets under \$6,000—718,000 using the 1961 work experience patterns and 575,000 using 1963—would necessarily be eligible for the Family Assistance Program. The number added would depend on the presence of dependent children, and on family size in relation to family income. Here again a number of assumptions were made, as follows:

1. All of the additional low income families were assumed to be headed by men because male family heads are much more likely than female heads to be in the labor force year round and are therefore more vulnerable to the loss of earnings as a result of unemployment.

2. At each income interval up to \$6,000 the additional families were assumed to be distributed proportionately among all family size groups, with and without children, except for families headed by men 65 years of age and over. The latter were assumed to be unaffected with respect to family income because retirement income is more important than income from employment in that age group.

3. The original income distributions by family size and number of children, for families headed by men under age 65 were then re-estimated separately for the 1963-based and the 1961-based work experience, incorporating the additional low-income families.

4. A decision was then made as to whether the additional low-income families were to be added to FAP on the basis of 1) presence of children, and 2) income in relation to FAP cutoffs by family size—

2 person families—\$2,720

3 person families—\$3,320

4 person families—\$3,920

5 person families—\$4,520

6 person families—\$5,120

7 or more person families—\$6,000 (although 7-person families phase out at \$5,720, we allowed an extra margin to take account of larger families for whom separate data are not available)

5. FAP eligibility was determined on the basis of the Federal minimum. The available data did not permit us to take account of State supplements. The results are summarized in Table D on the following page.

TABLE D.—ESTIMATED NUMBER OF FAMILIES ADDED TO LOW-INCOME BRACKETS AND TO FAP

Family income bracket	Assuming 1963 work experience of family head				Assuming 1961 work experience of family head			
	Total added to income bracket	Added to FAP	Not added to FAP		Total added to income bracket	Added to FAP	Not added to FAP	
			No children under 18	Income exceeds FAP cutoff			No children under 18	Income exceeds FAP cutoff
Total under \$6,000.....	475	207	191	77	718	296	286	136
Under \$1,000.....	39	20	19	.....	53	27	26	.....
\$1,000 to \$1,499.....	34	17	17	.....	53	27	26	.....
\$1,500 to \$1,999.....	45	24	21	.....	53	28	25	.....
\$2,000 to \$2,499.....	64	39	25	.....	84	51	33	.....
\$2,500 to \$2,999.....	51	32	19	.....	71	44	27	.....
\$3,000 to \$3,499.....	62	32	26	4	98	31	34	20
\$3,500 to \$3,999.....	62	23	25	14	85	31	34	20
\$4,000 to \$4,999.....	71	15	24	32	136	29	46	61
\$5,000 to \$5,999.....	47	5	15	27	85	9	28	48

An upward adjustment was then considered to take account of the fact that the use of summary CPS income tabulations results in an understatement of the overall number of male-headed FAP families for 1968—2.2 million as compared with an earlier estimate of 3.1 million based on the Urban Institute micro model. However, for 1971, the official DHEW estimate is down to 2.3 million, so the adjustment was considered unnecessary.

Using the HEW figures on average FAP payment to male-headed families at each family income interval, it was possible to estimate that the additional cost, in terms of direct benefits paid to families, would be about \$300 million if unemployment went up by 3 percentage points and about \$200 million if unemployment went up by 2 percentage points. No attempt was made to measure indirect costs such as additional training needs.

The final estimates are summarized in Table E, rounded to reflect the imprecision of the estimation procedures.

TABLE E.—EFFECT OF HIGHER UNEMPLOYMENT RATES ON FAP

Rise in unemployment rate from 3.8	Eligible families (thousands)	Cost (millions of dollars)
1 percentage point.....	100	100
2 percentage points.....	200	200
3 percentage points.....	300	300

The 1 percentage-point effect is simply a rough interpolation. It was not estimated directly because there was no year in which the unemployment rate averaged 4.8 percent. In 1965, when it was 4.5 percent, the work experience distributions for family heads were very close to those of 1968. It is unlikely that use of the 1965 weights together with the other assumptions in our procedure would have added as many as 100,000 eligible families.

**Material Prepared by the Department of Health, Education, and  
Welfare Concerning the Cost of the Committee Bill**

**COST COMPARISON: FINANCE COMMITTEE PROPOSAL VERSUS  
H.R. 1**

[Note: This proposal is compared to H.R. 1 on the basis of gross costs for all family programs (including food stamps, which are cashed out by H.R. 1).]

[In billions of dollars]

	Finance Committee proposal	H.R. 1
Guaranteed employment.....	5.7	
10 percent rebate.....	1.1	
Children's allowance <sup>1</sup> .....	.5	
Wage subsidy.....	1.7	
Residual AFDC.....	3.2	
	} 6.4	
Subtotal.....	12.2	6.4
Food stamps.....	1.8	<sup>2</sup> .4
Child care (required to work only).....	1.5	<sup>3</sup> .5
Services and training.....	.8	.6
Administration.....	<sup>4</sup> 1.7	.7
Impact on other programs.....	-1	-1
Subtotal.....	5.7	<sup>5</sup> 2.1
Total.....	17.9	<sup>6</sup> 8.5

<sup>1</sup> Family programs (full year of working poor, no deduction for public jobs).

<sup>2</sup> While no H.R. 1 recipients receive food stamps, this is the amount paid States through the hold harmless provision as a result of State action to cash out food stamps.

<sup>3</sup> To make the costs comparable, the \$800,000,000 in H.R. 1 was adjusted downwards to eliminate the costs for volunteers.

<sup>4</sup> Gross Federal costs of administration are estimated as follows:

	<i>Billions</i>
Residual welfare program.....	\$0.7
Guaranteed employment.....	.6
10 percent rebate.....	.2
Wage subsidy/children's allowance.....	.2
Total.....	1.7

<sup>5</sup> The \$800,000,000 for public service jobs is not included, since the Finance proposal refers to funding of public service jobs and may contain a like provision; since it is not included in benefit payments, the net addition to H.R. 1 costs would be \$500,000,000.

<sup>6</sup> Hold harmless payments not related to the food stamp cash out are not included; inclusion would add some \$200,000,000 more to H.R. 1 costs. The finance proposals will undoubtedly also include a State fiscal relief provision.

### Introduction

The following estimates were prepared by the Department of Health, Education, and Welfare and the Office of Management and Budget. The gross Federal costs of the Senate Finance Committee's alternative welfare proposal are based on the descriptions provided in Committee Prints 12 and 14 (dated April 12 and April 19, respectively). In many areas, the details of the various programs are not clearly described. In others, there are options suggested rather than a specific plan. This required numerous assumptions in order to arrive at cost estimates.

In all cases, these assumptions are made explicit and a conservative approach was used wherever doubt existed.

The gross total cost of the Senate Finance Committee proposal is \$17.9 billion -- or \$9.4 billion over the comparable estimates for H.R.1. The costs are done on a full-year basis for fiscal year 1974.

## I. Guaranteed Employment

The Senate Finance Committee Proposal would provide guaranteed public sector jobs for all employable recipients at 75% of the minimum wage. It is estimated that 1.9 million people would be directly employed by the Federal Employment Corporation, including some 600,000 persons presently working at jobs paying less than the Corporation wage. Based on legislation now before the Congress, a conservative estimate of the minimum wage for FY 1974 is \$2.00 per hour, with the Corporation wage set at \$1.50 per hour.

### A. Estimated Employees of the Federal Employment Corporation

(1) Estimated AFDC families in FY 1974...	3.3 million <sup>1/</sup>	
(2) 40% estimated "employable" by Finance Committee definitions.....	1.3	"
(3) Less direct placements in private employment.....	-.2	"
(4) Plus unemployed male heads who volunteer.....	+.2	"
(5) Unemployed persons in guaranteed employment.....	1.3	"
(6) Number of "volunteers" from low- paying jobs.....	.6	<sup>2/</sup>
Total number of Corporation Employees		1.9 million

### B. Estimated Costs

1.9 million employees x \$3,000 salary<sup>3/</sup> = \$5.7 billion

<sup>1/</sup> The number of actual families on the AFDC rolls as of January 1, 1972 was 2.9 million. This was projected forward at an 8% annual growth rate reaching an average for FY 1974 of 3.3 million. The assumed growth rate is roughly half the rate of increase actually experienced over the preceding 5 years.

<sup>2/</sup> Assumes roughly one-fourth of 2.3 million workers presently earning less than \$1.50 per hour will quit their low-paying jobs and work for the Corporation. The number of total workers now earning less than \$1.50 per hour is derived from 4 separate Labor Department surveys conducted during 1970 and 1971 by the Employment Standards Administration. The number joining the Corporation might even be larger were it not for the one-month loss of benefits stipulated in the Committee print for those who quit work without good cause.

<sup>3/</sup> \$1.50 per hour x 2,000 hours = \$3,000

## II. 10% Special Incentive Payment

The \$1.1 billion estimate for the 10% special incentive payment is based on a March 10 computer run done by the Treasury Department's Office of Tax Analysis. The raw estimate, based on the Treasury's computerized tax model, was \$1,213 million. The results of the model were adjusted marginally upward to include non-filing earners and downward to reflect the model's inclusion of all dependents (rather than children only). These results are consistent with the \$1.1 billion estimate of the Senate Finance Committee.

## III. Childrens Allowance

Under the Senate Finance Committee proposal, a childrens allowance would be payable to all low-income families working substantially full-time. The full allowance would be set at \$25 per month for the fifth family member, \$15 for the sixth, and \$10 for each additional family member. This allowance would only be payable for family members born before July 1, 1973 and would be scaled down at a rate of \$1 in allowance for every \$2 of earnings above annual earnings of \$3,000.

Therefore, the estimate begins with an assumption that only families with income of \$3,000 or over would meet the work test and be eligible for benefits. These benefits would then be a function of income and family size. Census Current Population Reports for 1970 (Series P-60, #80, Table 19) array income by family size and form the basis for the total costs. Summary results are displayed below.

<u>Type of families</u>	<u>Number of families (thousands)</u>	<u>Total benefits (millions)</u>
Working male-headed family	600	\$205
Working female-headed family	300	107
Former AFDC families in guaranteed employment	<u>450</u>	<u>204</u>
Total	1,350	\$516

#### IV. Wage Subsidy

Under the Senate Finance Committee proposal, family heads employed at less than the minimum wage would be given a wage subsidy. These workers, earning at least \$1.50 per hour, would receive a wage supplement equal to three-fourths of the difference between their pay and the minimum wage.

Estimates of the cost of this wage subsidy plan assume that the number of heads of families eligible for H.R.1 and their pattern of work experience are approximately the same as family heads eligible for the wage subsidy. These estimates, derived from the HEW model used in computing H.R.1 costs, are based on Census Bureau Current Population Survey reports.

Total hours of work by Eligible Participants (2.4 million workers)	3.4 billion hours
Total earnings <u>if</u> paid at \$2.00 per hour	\$6.7 billion
Actual estimated earnings, from H.R.1 computer run	<u>\$3.8</u> billion
Difference	\$2.9 billion
Subsidy (75% of difference)	\$2.2 billion
Less offset from persons who leave private jobs to go into guaranteed employment	<u>.5</u> billion
TOTAL WAGE SUBSIDY COST	\$1.7 billion

### V. Residual AFDC

The Senate Finance Committee plan would retain the present AFDC program (with some possible modifications) for low-income, female-headed families with no employable members. These would be families in which the father is dead, absent or incapacitated, and in which there would be at least one pre-school age child.

The cost of such a residual program was estimated by an HEW computer model using the same techniques as the one used to derive H.R.1 costs, but containing State caseloads and payment formulas. The costs were estimated to be \$3.2 billion. As an independent check, the following calculations were made -- yielding the same total cost.

In the residual AFDC program, the Federal Government would pay 100% of the amount necessary to bring the family's countable income up to a minimum level -- depending on family size.

If the families had no income and their distribution by family size was the same as it is for all AFDC families, the average Federal payment would be \$2064 per family (see Table below).

<u>Number of family members</u>	<u>Percent Distribution</u>	<u>Minimum Payment</u>
2	30%	\$1600
3	25%	\$2000
4 or more	<u>45%</u>	<u>\$2400</u>
	100%	\$2064 average

However, about 40% of AFDC families have some income other than assistance. Assuming their countable income averages about \$750, the overall average Federal benefit would be \$1,800.

The number of AFDC families in the residual program in 1974 would be as follows:

Gross AFDC families	3.3 million
Less employables	-1.3
Less estimated reduction due to stringent eligibility criteria <sup>1/</sup>	<u>- .3</u>
Total eligible for residual program	<u>1.8 million</u>
Estimated number of families eligible for Federal matching	1.8 million
Times estimated average Federal matching for case	<u>\$1,800</u>
Estimated Federal cost of residual AFDC	\$3.2 billion

<sup>1/</sup> To be conservative in our figures, a 10% reduction in unemployable AFDC recipients is assumed to result from eligibility limitations being planned by the Senate Finance Committee.

VI. Food Stamp Caseload

Families eligible to participate in the employment programs of the Senate Finance Committee plan would lose their eligibility for food stamps. H.R.1 has a similar provision. As in H.R.1, the Senate Finance Committee proposal would assure States that the Federal Government would pay the full costs of State supplements to recipients necessary to make up for their loss of entitlement to food stamps.

(1) Eligible Families

AFDC <u>1/</u>	3.3 million
Working Poor <u>2/</u>	<u>1.2</u> million
Total	4.5 million

(2) Average food stamp bonus per family = \$400 3/

(3) \$400 x 4.5 million families = \$1.8 billion 4/

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1/ See Number I above for derivation of this projection.

2/ From HEW model used to estimate H.R.1 costs and caseload. (Table 10).

3/ This actually understates the current average bonus which is about \$40 per family per month.

4/ If the Committee plan is modified to prohibit families who participate in the wage subsidy program from further receipt of food stamps without compensating them, the costs could be reduced by \$.5 billion -- the full amount of the benefits lost to the family. (\$400 x 1.2 million = \$480 million).

VII. Child Care

Under the Finance Committee alternative, the Federal Employment Corporation would have to provide child care for the children of AFDC mothers deemed employable.

(1) Estimate number of families requiring care:	
40% of 3.3 million AFDC families are considered "employable"	1.3 million
Less 30% who have no children under 12 years of age	<u>-.4</u> "
Total families requiring child care.....	.9 million
(2) Multiply by the average number of children per family	<u>X 2.3</u>
(3) Total children requiring child care	2.1 million
(4) Multiply by annual cost of child care for school age children <u>1/</u>	<u>X\$800</u>
(5) Equals total potential child care costs	\$1.7 billion
(6) Less possible offset <u>2/</u>	<u>-.2</u>
Estimated cost of child care.....	\$1.5 billion

1/ The \$800 per child-year for part-time care (full-time during the summer when school is out) is the figure used for H.R.1 for a level of care superior to custodial, but not fully comprehensive.

2/ This 12% reduction reflects the possibility of (a) employing AFDC mothers as child care staff or (b) providing more custodial care. No training costs are added for training AFDC mothers as child care workers.

**VIII. Services and Training**

Because of the severe financial penalties to a Federal Employment Corporation employee who chooses training (33-1/3% reduction of his \$1.50/hour wage), it is assumed that total training costs will be no more than \$200 million.

**Training \$.2 billion**

The open-ended employability services and family planning, exclusive of child care, are estimated to cost \$300 per family for the 1.3 million employable family heads and the 600,000 "volunteers" who come into the corporation.

**Services \$.6 billion**

**NOTE:** Any services offered to non-Corporation employables, such as the direct private market placements or the wage subsidy people (to keep them from coming into the Corporation at greatly increased costs), would constitute added costs.

IX. Administration

Under the Finance Committee alternative, the Federal Government would assume the full administrative cost of five separate programs, four of which would be Federally-administered, one of which would be State-administered.

<u>Federal Programs:</u>	<u>\$ in billions</u>
*Administrative cost of Guaranteed Employment program <u>1/</u> .....	.6
*Administrative cost of wage subsidy.....	.2
*Children's Allowance and tax rebate programs	<u>.2</u>
TOTAL.....	\$1.0

State Programs:

Total administrative costs under current law for all federally assisted programs in FY 74 is estimated to be \$1.4 billion. Of this, the Federal share is 50% or \$700 million. Under the Finance Committee's alternative, the States would, in order to preserve their option for State administration without fiscal penalty in comparison to choosing Federal administration, be reimbursed for the full costs of administration.

<u>Total:</u> Federal	\$1.0 billion
State	<u>\$.7 billion</u>
	\$1.7 billion

X. Impact on Other Programs

The plan would reduce Federal costs for Cuban Refugees and Indians by a total of over \$100 million.

Offset: \$-.1 billion.

\* (10% of benefit payments)

1/ To retain the conservative bias, this includes only the administrative costs of the distribution function of the wages without the costs of supervision, placement, training, etc.