Strengthening the Social Safety Net

There is a widely shared consensus in this country in support of a strong safety net for Americans who, through no fault of their own, have fallen on hard times. However, the government programs that make up this safety net are failing both the citizens who rely on them and the taxpayers who fund them. It should not come as a surprise that a system designed in the 1960s is not equipped to deal with the unique pressures of the 21st century.

From a budgetary perspective, these programs are growing at an unsustainable rate. Medicaid spending is growing by over 7 percent a year – far faster than the growth of the overall economy. Federal spending on food stamps has quadrupled over the past ten years. And spending on federal rental assistance programs has increased by 33 percent since 2006. This rate of spending will strain the safety net until it breaks, necessitating much higher taxes on all Americans and indiscriminate cuts that hit the poorest Americans the hardest.

From a moral perspective, these programs are failing the very people they are intended to help. First, the strains they have placed on federal and state budgets have effectively broken these programs, especially Medicaid. In response to budget constraints, governments continually underpay doctors and hospitals – making across-the-board cuts to a one-size-fits-all program instead of implementing smart reforms that allow states to carefully tailor benefits. As a result, doctors and nurses are fleeing the system to escape endless red tape and underpayments. Meanwhile, beneficiaries are left with fewer provider choices and reduced access to care.

Second, many of these programs do not provide beneficiaries with the tools they need to bounce back into self-sufficient working lives as quickly as possible. Bipartisan efforts in the late 1990s transformed cash welfare by encouraging work, limiting the duration of benefits, and giving states more control over the money being spent. Opponents of these reforms said that they would lead to large increases in poverty and despair.

Instead, the exact opposite occurred. These reforms cut welfare caseloads in half against a backdrop of falling poverty rates. Child-poverty rates fell by 1 percent per year in the five years following the passage of the 1996 welfare-reform bill. Today, a smaller percentage of American children live in poverty than in 1995, even though the nation is still emerging from a severe recession.[1]

These reforms worked because the best welfare program is one that ends with a job and a stable, independent life for the individual. Now it is time to implement these same reforms across other areas of the social safety net, especially Medicaid (medical care for the poor), the Supplemental Nutrition Assistance Program (the food stamp program), various federal housing initiatives, and other programs that have not been significantly reformed since they were created decades ago.

If government is going to require able-bodied recipients of aid to find work, as it should, then it must also do a better job of helping them bounce back into productive working lives. Federal education and job-training programs are badly in need of updating in order to keep the workforce competitive in a 21st-century, global economy. The government must do a better job of targeting resources to make sure America's workforce is adaptable and its workers are secure.

The safety net should never become a hammock, lulling able-bodied citizens into lives of complacency and dependency. Instead, the aim should be to empower individuals, putting them in stronger position to achieve. Government can play a positive role in this area with policies aimed at helping the less fortunate get back on their feet while encouraging the chronically impoverished to achieve greater control over their lives.

In proposing reforms that promote independence, this budget not only builds on the successes of the reforms of the late 1990s – it also draws upon ideas embodied in The Welfare Reform Act of 2011, a legislative proposal put forward by Republican Study Committee Chairman Jim Jordan, House Budget Committee Vice Chairman Scott Garrett, House Budget Committee member Jason Chaffetz, and other reformers in the House.[2]

Repairing a Broken Medicaid System

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[1] U.S. Census Bureau. *Poverty Data*. "Table 3. Poverty Status of People, by Age, Race, and Hispanic Origin: 1959 to 2009" http://www.census.gov/hhes/www/poverty/data/historical/hstpov3.xls (accessed March 31, 2011).

[2] U.S. Congress. House. *The Welfare Reform Act of 2011*. H.R. 1167. 112th Cong., 1st sess., 2011. http://rsc.jordan.house.gov/UploadedFiles/JORDAN_009_xml.pdf

Major proposals

- **Secure the Medicaid benefit by converting the federal share of Medicaid spending into a block grant tailored to meet each state's needs, indexed for inflation and population growth. This reform ends the misguided one-size-fits-all approach that has tied the hands of so many state governments. States will no longer be shackled by federally determined program requirements and enrollment criteria. Instead, they will have the freedom and flexibility to tailor a Medicaid program that fits the needs of their unique populations.**

- **Improve the health-care safety net for low-income Americans by giving states the ability to offer their Medicaid populations more options and better access to care. Medicaid recipients, like all Americans, deserve to choose their own doctors and make their own health care decisions, instead of having Washington dictate those decisions for them.**

- **Save $750 billion over ten years, contributing to the long-term stabilization of the federal government's fiscal path and encouraging fiscal responsibility at the state level.**

Medicaid, the program created in the 1960s to provide health-care coverage for the poor, is coming apart at the seams. The open-ended nature of the program's financing structure has created rapidly rising costs that are nearly impossible to check. In 1966, the first year of the program's operation, total costs were $400 million. By 2009, the total cost of administering Medicaid had soared to $378.6 billion. Absent fundamental reform, costs are expected to continue climbing and are expected to reach a total of $840 billion by 2019.

Under Medicaid, state governments and the federal government share the cost of providing medical services to low-income families. But a flawed federal-state matching formula has fueled runaway state spending – and the results in terms of state debt are plain to see. Medicaid is now the largest line-item on most states' budgets – surpassing even education – and accounted for 22 percent of total state spending in 2010.

Meanwhile, much of the federal government's share of the spending is wasted because the bureaucracy cannot provide adequate oversight of this open-ended program: Medicaid's improper payment rate is over 10 percent, more than three times the amount of waste that other federal agencies generate. This translates into $33 billion worth of waste each year.

Medicaid's current structure gives states a perverse incentive to grow the program and little incentive to save. The federal government pays an average of 57 cents of every dollar spent on Medicaid. Expanding Medicaid coverage during boom years is tempting and easy to do – state governments pay less than half the cost of such expansions. Yet to restrain Medicaid's growth, states must rescind a dollar's worth of coverage to save 43 cents.

Moreover, states are not given adequate flexibility when it comes to achieving those savings – one-size-fits-all federal mandates tie their hands with regard to coverage options, and many times the only way states can achieve savings is through formulaic cuts to medical providers. This is why so many doctors refuse to take Medicaid – states have reduced their reimbursements below what the market will bear.[3]

For doctors who see Medicaid patients at below-market reimbursement rates, losses are shifted to non-Medicaid patients.[4] The cost-shifting that occurs from government rationing remains a significant contributor to health inflation, which in turn puts quality, affordable health coverage out-of-reach for an increasing number of Americans.

At the same time, federal spending has followed the same exploding trajectory as states. The Congressional Budget Office estimates that federal spending on Medicaid will grow annually by 7 percent from nearly $260 billion in 2012 and to nearly $560 billion within the next ten years. Should this problem continue to be ignored, two outcomes are inevitable: significant cuts in benefits and massive tax increases.

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[3] Sack, Kevin. "As Medicaid Payments Shrink, Patients Are Abandoned." *The New York Times*, March 15, 2010 http://www.nytimes.com/2010/03/16/health/policy/16medicaid.html (accessed March 31, 2011).

[4] Trapp, Doug. "Low Medicare, Medicaid Pay Rates Impact Private Costs." *American Medical News*, January 5, 2009 http://www.ama-assn.org/amednews/2009/01/05/gvsb0105.htm (accessed March 31, 2011).

All Americans will pay more because of this broken Medicaid system – and not just in higher taxes. Because Medicaid's reimbursement rates have been ratcheted down to below-market levels, the care that Medicaid patients receive is often substandard. Recent studies have indicated that Medicaid patients are more likely to die after coronary artery bypass surgery, less likely to get standard care for blocked heart arteries, and more likely to die from treatable cancer, than those with other coverage options.[5] By some measures, such as in-hospital death rates following major surgeries, Medicaid patients fared even worse than the uninsured.[6]

Medicaid has fostered a two-tiered hierarchy within the health-care marketplace that stigmatizes Medicaid enrollees, and its perverse funding structure is exacerbating budget pressures at the state and federal level, while creating a mountain of waste. With administrators looking to control costs and providers refusing to participate in a system that severely under-reimburses their services, Medicaid beneficiaries are ultimately left navigating an increasingly complex system for even the most basic procedures. Absent reform, Medicaid will not be able to deliver on its promise to provide a sturdy health-care safety net for society's most vulnerable.

The key to the welfare reform of the late 1990s was Congress's decision to grant states the ability to design their own systems. It is now time to grant them the same flexibility with regard to Medicaid.

Stopping the Abuse of Medicaid by Repealing the Health Care Law

One of the most problematic aspects of the health care law enacted last year is that it puts an additional 20 million Americans by 2019 into a Medicaid system that is fundamentally broken.

- *Medicaid is failing the 50 million Americans it already serves.* A growing number of physicians and hospitals will no longer accept large numbers of Medicaid patients, as federal and state governments have reduced reimbursement rates to the point where doctors are losing money every time a Medicaid patient walks through their doors. Pushing even more people into this broken system will only put additional strain on those provider networks that are still willing to take Medicaid patients. The result will be poor-quality care and long waits for vulnerable citizens.

- *Medicaid is putting too much strain on federal and state budgets as it is.* State budgets are strained to the breaking point by a Medicaid system that doesn't work, and the federal government's share of the burden is unmanageable. The new health care law would make this problem worse by increasing federal spending by $627 billion over the next decade, according to CBO. And according to Medicaid's non-partisan chief actuary, state spending is projected to grow to over $327 billion by 2019.

- *The new law makes bad incentives worse, not better.* Making matters worse, the federal government will temporarily pay 100 percent of the costs of new enrollees, reducing incentives for states to control Medicaid costs. This window of more generous federal funding will encourage states to add as many new people to their Medicaid rolls as they can while the federal government is picking up the tab. However, states will eventually be on the hook for additional costs.

The way forward in Medicaid is to follow the reforms included in this budget, not expand a broken program. Repealing the new law and replacing it with true, patient-centered reforms will better serve Medicaid patients while contributing to solvency of federal and state budgets.

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[5] Gottlieb, Scott, M.D. "Medicaid Is Worse Than No Coverage at All." *The Wall Street Journal*, March 10, 2011 http://online.wsj.com/article/SB10001424052748704758904576188280858303612.html (accessed March 31, 2011).

[6] Ibid.

Offering states more flexibility for their Medicaid beneficiaries will remove the stigma Medicaid recipients face, and allow them to take advantage of a range of options available. Several of the nation's governors have made innovative proposals to fix Medicaid. This budget encourages further efforts in this direction.

Protecting Assistance for Those in Need

Major proposals

- **Convert the Supplemental Nutrition Assistance Program (SNAP) into a block grant tailored for each state's low-income population, indexed for inflation and eligibility beginning in 2015 – after employment has recovered. Make aid contingent on work or job training.**

- **Encourage recipients of federal housing aid to lead lives of increased self-sufficiency by decreasing disparities between assisted and unassisted renters and by making aid contingent on work or job training.**

The welfare reforms of the late 1990s are a success story of modern domestic policy, but they did not go as far as many think. Reformers were not able to extend their work beyond cash welfare to the other 77 means-tested programs that the federal government operates. Notably, programs that subsidize food and housing for low-income Americans remain dysfunctional, and their explosive growth is threatening the overall strength of the safety net. If the government continues running trillion-dollar deficits and experiences a debt crisis, the poor and vulnerable will undoubtedly be the hardest hit, as the federal government's only recourse will be severe, across-the-board cuts.

The Supplemental Nutritional Assistance Program (SNAP, formerly known as food stamps) serves a vital role in the safety net by providing food aid to low-income Americans. But this program cannot continue to grow at its current rates. The cost of this program has exploded in the last decade, from less than $18 billion in 2001 to over $80 billion today. As recently as 2007, SNAP was projected to cost slightly less than $400 billion over 10 years. Currently, it is projected to cost almost $700 billion.

Much of this is clearly due to the recession, but not all of it: Enrollment has grown from 17.3 million recipients in 2001, to 23.8 million in 2004, to 28.2 million in 2008, to 44.3 million today. The trend is one of relentless and unsustainable growth – the large recession-driven spike came on top of very large increases that occurred during years of economic growth.

The blame lies with the same flawed structure that has fueled unsustainable growth in Medicaid. State governments receive federal dollars in proportion to how many people they enroll in the program, which gives them an incentive to add individuals to the rolls. States have little incentive to do everything they can to make sure that able-bodied adults on food stamps are working, looking for work, or enrolled in job training.

Spending on Federal Housing Assistance, by contrast, isn't growing due to flawed state formulas or even because of the recession – it is growing because policymakers are choosing to grow it, and because there are no time limits or work requirements that encourage recipients to lead lives of increased self-sufficiency. Federal rental subsidies have increased by 33 percent since 2006, and the President's budget would increase them even further. This is taking the nation's welfare policy in the wrong direction – America needs a strong safety net, not one that is strained to the breaking point.

As it does with regard to Medicaid, this budget would extend the successes of welfare reform to food aid and housing by implementing reforms that give states more flexibility to meet the needs of low-income populations and to make sure that the truly needy receive the assistance they need to live meaningful, independent lives.

With regard to SNAP, this budget proposes to apply two of the reforms that guided the success of welfare reform in the late 1990s. First, it ends the flawed incentive structure that rewards states for signing up ever-higher numbers of recipients. By capping the open-ended federal subsidy and freeing states to come up with innovative approaches to delivering aid to those who truly need it, this reform encourages states to reduce rolls and help recipients find work. Second, it calls for the kind of time limits and work requirements that proved successful at cutting welfare rolls in half and reducing poverty nationwide. These changes would be phased in gradually, however, to give states and recipients time to adjust and the economy time to recover.

With regard to housing, this budget calls for federal time limits and work requirements to extend the successes of welfare reform to rental assistance programs. It reduces incentives for dependency by narrowing the gap between assisted renters and unassisted renters with the same income levels, while continuing to provide a safety net to make sure that those with very low incomes can afford housing. Finally, it stops the explosive growth of this program so that aid can be focused on the truly needy.

Preparing the Workforce for a 21st Century Economy

Major proposals

- **Return Pell grants to their pre-stimulus levels to curb rising tuition inflation and make sure aid is targeted to the truly needy.**
- **Consolidate dozens of overlapping job-training programs into more accountable career scholarships to improve access to career development assistance and strengthen the first rung on the ladder out of poverty.**
- **Restore funding for the D.C. Opportunity Scholarship Program, giving thousands of elementary-school students in Washington, D.C. the chance at a better education and building a model of success for improving education nationwide.**

Imposing time limits and work requirements on federal need-based aid is a positive reform. But government-supported job-training programs must be accountable and effective so that vulnerable citizens can take advantage of them. This budget includes reforms to do just that.

As the U.S. economy becomes more complex and innovative, workers will have to be more knowledgeable and flexible to succeed – which means they will need additional education and/or job training throughout their careers. Life-long learning is becoming a necessary part of career development. Government cannot insulate workers from the forces of change and globalization, but it can help facilitate the training needed to avoid, or push through, any period of uncertainty or unemployment.

While the nation's existing job-training system has been improved over ineffective strategies of the past, the government can do a much better job of leveraging and targeting existing resources. The current policy landscape is dotted with failed, unaccountable and duplicative job-training programs – there are at least 49 such programs spread across nine agencies.

A 2008 study released by the Department of Labor found that the benefits of the nation's primary network of job-training programs – the network created by the 1998 Workforce Investment Act (WIA) – were "small or nonexistent" for laid-off workers.[7] Similarly, the Government Accountability Office, in a September 2008 report, concluded the Department of Labor did not set up comparable performance measures for $900 million in WIA grants that it awarded over seven years, so there is no way to evaluate their impact.[8]

The United States has an abundance of opportunities for those seeking additional education beyond high school. There are thousands of public and private colleges and universities. There is a robust system of community colleges that offer vocational training, two-year degrees, and established ladders to four-year institutions. There are also a number of for-profit and non-profit organizations that offer in-class and online instruction to advance basic literacy and various job skills.

Congress must do a better job of delivering job training resources in a targeted, accountable way to people who need them, so that more can take advantage of the nation's network of private and non-profit job training centers. The last Congress did nothing to streamline the nation's duplicative job-training programs. Instead, it recklessly expanded Pell grants for higher education beyond government's means to pay, exacerbating an existing trend of spending-driven tuition inflation and endangering the viability of the program for the truly needy.

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[7] U.S. Department of Labor. *Workforce Investment Act Non-Experimental Net Impact Evaluation*. December 2008.

[8] Scott, George A. Testimony before the U.S. Senate, Health, Education, Labor and Pensions Subcommittee on Employment and Workforce Safety. *Investing in a Skilled Workforce: Making the Best Use of Tax-Payer Dollars to Maximize Results*. Hearing, September 23, 2008.

The President's budget recognizes that Pell spending is on an unsustainable path and recommends a few reforms to start to get control of the program's costs. This budget takes the necessary next steps to ensure Pell spending is brought under control and targeted to the truly needy instead of being captured in the form of tuition increases. Recent studies have demonstrated that increases in Pell grants appear to be matched nearly one for one by increases in tuition at private universities.[9]

Second, this budget advances reforms to increase job-training outcomes across the board. It improves accountability by calling for the consolidation of duplicative federal job-training programs into more accountable, targeted career scholarship programs. Instead of wasting job-training money on duplicative administrative bureaucracy, this budget calls for job-training programs to be streamlined and better coordinated with each other and with the Pell program to maximize every dollar to those who need it.

This budget advances improved oversight and accountability for all job-training programs and the Pell program by tracking the type of training provided, the cost per student, employment after training, and whether or not trainees are working in the field for which they were trained. These programs should also track beneficiaries' participation levels in federal support programs (e.g. welfare and SNAP) before and up to five years after training to determine if the training led to self-sufficiency. These common-sense measures will enable policymakers to determine whether the private and non-profit institutions that train beneficiaries of these programs are training them effectively.

In addition to a recommitment to lifelong learning initiatives, this budget takes significant strides toward strengthening educational opportunities for thousands of children trapped in failing schools. This budget restores funding for the D.C. Opportunity Scholarship Program. Created in 2003, this educational program empowered thousands of Washington, D.C.'s neediest children to escape failing schools and made possible their participation in schools of their choosing.

While the President and his party's leaders engaged in their stimulus spending spree, they explicitly defunded this critical program. Refusing to reauthorize the D.C. Opportunity Scholarship Program, the President and his party's policies are restricting parental options and denying low-income students access to a high-quality education in the nation's capital.

This budget would reinstate the successful D.C. Opportunity Scholarship Program. Additional funding for this program would be offset by means-testing the D.C. Tuition Assistance Grant Program (DCTAG) that provides D.C. residents up to $10,000 grants per year for five years to make up the difference between in-state and out-of-state tuition. Currently, the DCTAG program is neither need- nor merit-based, and it is available to those from families with incomes of up to $1 million per year.

The House of Representatives recently passed legislation to restore the D.C. Opportunity Scholarship Program in an effort to restore hope for a brighter future to thousands of children in need.[10] This budget builds on bipartisan education reform aimed at giving America's next generation – especially children in need – hope and opportunity for a brighter future.

A strong social safety net must couple state flexibility and individual work requirements with a streamlined, targeted system for providing low-income Americans the resources they need to train for work and prepare for independent lives.

This budget builds on the successes of the past, advances proposals put forward by the reformers of today, and lays the groundwork for a flexible, competitive workforce in the future.

[9] Singell, Larry D., Jr. and Joe A. Stone. *For Whom the Pell Tolls: The Response of University Tuition to Federal Grants-in-Aid.* September 2005. http://pages.uoregon.edu/lsingell/Pell_Bennett.pdf

[10] U.S. Congress. House. *The Scholarships for Opportunity and Results Act (SOAR) Act.* H.R. 471. 112th Cong., 1st sess., 2011. http://www.gpo.gov/fdsys/pkg/BILLS-112hr471eh/pdf/BILLS-112hr471eh.pdf