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Statement of  
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Task Force on Entitlements and  
Human Assistance Programs

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Mr. Chairman and Members of the Task Force

I am very pleased to appear before you today and I commend the task force for addressing this important issue. About 1 out of every 4 Americans depend on entitlement programs for their major source of support and for the most part these people are the elderly, the sick, the retired, the poor and the disabled. They have adjusted their lives to certain expected entitlement benefits and are among the first to feel major shifts in federal funding and the least able to adapt to changes. Entitlement programs, however, make up almost half of the federal budget and this fraction is growing to a point where control of entitlement spending is imperative. Balancing fiscal responsibility with the needs of the people presents a major challenge to federal policy makers. The Congressional Budget Office's estimate puts federal spending in fiscal year 1983 at \$807 billion. Of this amount, entitlement programs accounted for \$381 billion, or about 47 percent, a considerable increase since fiscal year 1972, when entitlements accounted for \$88 billion, or about 38 percent of that year's budget. The figures for entitlement spending exclude interest payments on the national debt.

What are Entitlements?

Programs are generally considered to be entitlements if legislation requires the payment of benefits to any person or unit of government that meets the eligibility required by law. Eligible recipients have legal recourse if this binding obligation on the government is not fulfilled.

Entitlements are divided into two main categories: those financed from federal trust funds (or insurance-based programs) and those paid for out of general revenues (or the needs-based programs).

The insurance based programs, which constitute the major portion of entitlement spending, include social security, unemployment insurance, and Medicare. These programs benefit persons and their families who have contributed or on whose behalf contributions have been made. Benefits are paid without regard to the income or wealth of the family unit to which the recipient belongs. Government staff retirement programs will not be covered by our testimony but are being studied by others.

By contrast, the needs-based programs are directed primarily at low-income persons and families whose eligibility is determined by the amount of income, assets, and other circumstances, and not on prior tax payments. The needs-based programs include Medicaid, Aid to Families with Dependent Children, Supplemental Security Income, Food Stamps, Child Nutrition, and Social Services. The programs provide benefits in the form of cash or in-kind support and are administered at several levels of government.

In operation, these programs are income redistribution programs, intended to address serious problems such as illness and poverty. The States who distribute these federally aided benefits also have a vested interest. They often enter into long-term legal and financial commitments--such as employing staff, constructing buildings, contracting for services in order to properly administer the federal entitlement programs, and contributing toward the program benefits.

The majority of entitlement spending is aimed at providing some economic security for workers and dependents when their income becomes reduced by old age, disability, death, illness, or unemployment. For example, in fiscal year 1980, 38.1 percent of entitlement spending was for Social Security and Railroad Retirement, 14.6 percent was for medical care, and 4.2 percent was for unemployment insurance.

Tax expenditures resulting from entitlement payments also have a financial impact on the budget. Tax expenditures are selective tax reductions for particular groups of people or for people engaged in particular activities. For example, excluding certain income such as social security payments from taxation are quite sizable as well as other expenditures like the tax credit for the elderly, or the earned income credit for the working poor. These expenditures should be considered when reviewing entitlement related expenditures. The Government effectively incurs these expenses, no less than if each beneficiary were paid out of congressionally appropriated funds.

Why have entitlements come to cost so much?

Growth in entitlement spending is generally caused by more people getting benefits through the expansion in the number of programs and more liberal benefits to meet target population needs.

Over the past 15 to 20 years one of the biggest reasons for the increased spending is that the Congress has decided that more people should get more benefits. The Congress has

created new programs and amended existing ones to broaden eligibility. Four programs have been created and expanded since 1964 that account significantly for the rise in entitlement spending since then. Two of these--Medicare and Supplemental Security Income--serve the elderly. Two others, Food Stamps and Medicaid, primarily serve the poor but also include some elderly.

As the people born after World War II grow toward retirement, they will also significantly affect the growth of expenditures for programs serving the elderly, particularly Social Security and Medicare. Estimated federal spending for the elderly amounted to about \$212 billion in fiscal year 1980 or 37 percent of the federal budget. This percentage is likely to continue to grow since the number of elderly and their proportion of the total population will increase as they are expected to live longer than in the past. Health programs for the elderly cost \$112 billion in fiscal year 1978. The Department of Health and Human Services estimates that total annual health care expenditures will reach about \$756 billion by 1990.

A major factor in the rising cost of entitlement programs has been Congress' decision to compensate for inflation by letting benefits rise with the cost of living through automatic indexing. From 1970 to 1977, inflation accounted for half of the growth in Social Security expenditures.

Although the Medicare program is not directly indexed, its costs have grown in recent years because they are tied directly to hospital costs which have risen at a substantially faster pace than consumer prices.

Balancing fiscal responsibility  
with the needs of the people

While fiscal restraint is clearly needed, the nation must chart a course between the need for fiscal restraint and the needs of those who depend upon the constancy of government policy--the poor, the aged, the handicapped, and the unemployed. The ultimate question then is not whether the entitlement programs will continue to grow, but rather how they will grow and whether the Congress can improve oversight and control over them. Will their future growth be orderly, efficient, and controlled, or will separate programs continue to grow with little relation to other programs or to the persons they serve? While the answers to these questions are likely to be dictated by the nation's capacity to meet this growth, we should not ignore the current deficiencies in the entitlement programs that provide income assistance. These deficiencies, as well as the present and future demands on the entitlement programs providing income assistance, suggest very clearly the need for thoughtful review of these programs so that present expenditures can be better coordinated and used to meet the basic needs of the people and still provide incentives that foster independence and self-sufficiency.

I will now briefly explain some of the shortfalls, identify alternatives to limit the growth in entitlement programs, and discuss an approach to direct the growth of future entitlement expenditures. Some of these ideas have been discussed in prior GAO reports.

An overall systematic view of existing income security policies and the accompanying management infrastructure is generally lacking. For example, under the insurance programs, we find substantially different treatment of people depending on their occupations. There are gaps in protection, some persons qualify for benefits under several programs, others in need qualify for little or nothing. Some insurance programs provide a minimum level of benefits for those persons whose earnings during their life time were below the poverty level. Disability provisions vary substantially from program to program in their coverage and in their determination processes. There are gaps in coverage, overlaps in coverage, replacement income ratios that vary within programs and from one program to another, and rules and benefit levels that produce work disincentives.

The effectiveness of our public assistance programs has been in doubt for quite some time. The extreme procedural complexity and the number of federal and state agencies involved, requiring several layers and variations of administration, has resulted in high administrative costs, fraud, waste, and payment errors.

Over the past 10 years, studies have documented repeated problems with the entitlement programs, such as rapidly increasing costs and caseloads, inadequate benefits, work disincentives, and the financial instability of insurance programs. Certain observations repeat. First, some programs contribute to common goals, often serve the same individual, interact with one another, and have broad impact on the

economy. Second, their failure to be viewed--within a well-defined policy framework--as a coherent system contributes significantly to program problems. Third, the uncoordinated sprawl of management responsibility seriously complicates policy making, management, evaluation and oversight.

Despite such disparities, each program or set of related programs continues to be independently planned and managed with little coordination between programs or the persons they serve.

Data and reporting deficiencies cause an inability to grasp the system's net effects and the consequences of proposed changes to it. There is no way to determine who is getting how much, how often, with what degree of accuracy, and by what measure of social or economic need. At the program level, data are not consistent from program to program and are not readily available for cross comparison purposes. The 1974 Privacy Act and the 1976 Tax Reform Act provide significant protection for the important rights of citizens but have made exchanges of data sometimes difficult and untimely.

#### Alternative Approaches for Controlling Entitlement Growth

Curbing the growth in entitlement programs, which consist principally of payments to individuals, may require some combination of less generous benefit amounts, less generous indexing, stricter eligibility rules so that fewer people qualify, cutting or phasing out whole programs, tighter management, and restructuring programs to shape their growth. Some of these actions clearly are more easy to accomplish than

others. But, the potential impacts of any actions must be analyzed prior to implementation and evaluated after implementation to determine if the anticipated effects have been achieved and to assess what unanticipated side effects may have occurred.

Before discussing ways to change entitlements, we must remember that because entitlement programs provide mandated benefits for everyone who meets the eligibility standards, achieving appreciable savings will seriously affect beneficiaries or individuals expecting to receive benefits in the near term.

#### Trimming programs

Restraining entitlement growth can be achieved by eliminating benefits only marginally related to need or to earned right--or by reallocating recipients to other more appropriate programs. GAO has issued several reports which showed the savings that could be realized by eliminating or modifying Social Security Act provisions that either no longer meet their original purpose or have been supplemented by other government programs, such as social security benefits for post secondary students. We reported that payments to students divert contributions from the Social Security program's basic purpose of providing some minimum family income in the event of a taxpayer's retirement, disability, or death.

#### Limit the indexing of benefits

To substantially reduce the growth in entitlement spending, indexed programs will need some limits. The methods of

limiting indexing range from discontinuing automatic indexing entirely to making various types of changes in the way entitlement benefits are adjusted for inflation. In the past, we have suggested that one of the options for constraining the indexation process is to give the President and the Congress discretion to modify the amount of adjustment indicated by the index.

#### Tightened eligibility criteria

Eligibility criteria can be tightened in either of two ways. Statutes can be changed by the Congress or administrative agencies can interpret eligibility criteria more strictly. In the case of the original Medicaid statute, for example, the Congress determined that the states defined "medically needy" more generously than it thought necessary. Consequently, it passed legislation that redefined the term more precisely. More recently, Congress changed the retirement age to reduce Social Security spending and tightened the eligibility criteria for the Aid to Families with Dependent Children program. Administrative changes that make it more difficult to qualify for benefits or that eliminate reimbursement for particular services are often challenged in the courts, and the challenges frequently succeed.

#### Lower benefit levels

Lowering benefit levels is another way of reducing entitlement spending. Of course, any consideration of lowering benefits must be balanced with the needs of the target population. The Social Security Disability Amendments of 1980

(Public Law 96-265), for example, statutorily lowered the benefits to future program participants in the Social Security Disability program. This change is estimated to save \$2.6 billion in fiscal years 1981-1985.

#### Cap entitlement programs

Imposing an authorization ceiling or cap on appropriations is another attempt to control entitlement spending. In the past, the Congress has capped programs either to counteract exploding costs or to correct fraud and other abuses. However, it is not clear whether these caps eventually reduced spending because some caps have led to the enactment of supplemental appropriations.

Grants to the states for Social Services, Vocational Rehabilitation, and the Food Stamp program have all been capped. The Special Supplemental Food Program for Women, Infants, and Children, began as a pilot program in 1972, was made a capped entitlement for fiscal years 1979-1982. Capping can focus congressional attention not only on the increased cost of the program but also on the issue of whether the program should continue in its current open ended form. Because increasing expenditures beyond the current cap requires both new authorizing legislation and an appropriation, the Congress has the opportunity to reevaluate the entitlement in light of new and more precise cost information. Raising the cap may be coupled with more stringent provisions for reducing fraud and improving program management. This was done with Food Stamps in 1980 and 1981.

### Improve program management

There are a number of ways to eliminate or control improper entitlement payments which will reduce the need for subsequent debt collection activities and thereby also reduce the rate of entitlement spending. One approach is to improve the benefit payment process. Erroneous payments are made because of insufficient data on income, assets, or other recipient circumstances; because data are reported incorrectly; and because verification systems' themselves fail. GAO has recommended a number of actions which have resulted in efforts to correct erroneous information currently maintained and to detect and prevent improper and inaccurate payments. As an example, SSA plans to obtain more information from SSI applicants and recipients about resources, including information on bank accounts, interest, and dividend income for use in determining eligibility and benefit amount. SSA is also gradually expanding the use of State data to verify eligibility.

As a result of our recommendations, efforts have also been made to increase payment accuracy. For example, there are a number of federal benefit programs whose payments affect the amount of the SSI payment. Overpayments result when recipients of veterans' and railroad retirement benefits fail to report increases in these benefits to SSA. The computer matching of SSI records with benefit records under other federal payment programs reduces overpayments.

Entitlement programs are also open to fraud and abuse because of loosely written statutes, poorly written regulations, and weak internal control systems, especially with

regard to ADP systems. We have made numerous recommendations to virtually all federal agencies pointing out actions that are needed to strengthen the management controls that will help prevent fraud and abuse, to take appropriate actions against those who commit fraud, and to be more aggressive in collecting debts.

Finally, program evaluation, as an integral and fundamental part of program administration, should be emphasized more by program managers. We have continually found the lack of comprehensive evaluations at all levels of program operations and have stressed to the Congress as well as to the administration that there is an ever-present need for the comprehensive evaluation of Federal programs to provide Congress with timely information for program oversight. We have recommended on many occasions that evaluation language be included in legislation or committee reports to help insure that programs are evaluated.

#### Context for reviewing need for structural reform

Because of the entitlement programs' far reaching social impacts, deeply rooted difficulties, and projected cost growth, an overall, intergrated approach should be developed to look at the whole array of programs with a view toward making the needed adjustments to achieve income redistribution goals and objectives at least cost. We recognize that many of the following suggestions may be quite difficult if not impossible to accomplish in the short run. But, these approaches should be considered in the policy analyses of this task force.

What is needed is a thoughtful examination of the roles, responsibilities, and interrelationships of the various levels of government and a reduction of the procedural complexity in the broad array of entitlement programs. If multiple programs are required, there should be a high degree of coordination and interaction among programs, especially among those serving the same population.

The lack of a comprehensive approach has been one of the major obstacles in developing a coordinated and efficient system for providing income support. Broad policy making at the federal level has been influenced by the large numbers of departments, agencies, and congressional committees with partial jurisdiction over various entitlement programs.

A frequently proposed solution to the problems resulting from the multiplicity of federal programs is improved coordination of program planning and administration. However, the sheer number and variety of programs is a major barrier to achieving the degree of coordination necessary when programs with similar objectives and target groups have fragmented administration or are too restrictive to meet comprehensive needs. Better linkages of these programs seem appropriate. In theory, the single agency approach may provide for significant operating efficiencies. All the insurance programs, for example, involve check writing, extensive data processing, and sophisticated record keeping activities. In practice, however, this approach may not be feasible in the near term because of the current complex infrastructure and the diverse

interest groups involved. Also, the impact on service delivery resulting from any proposed consolidation should also be considered.

Legislation before the Congress provides for operational testing of concepts which include common terms and definitions, uniform application and eligibility determination procedures, and a common administrative structure that allows for unified planning, implementation, and evaluation. Other proposals that have been analyzed focus on adopting a perspective of service delivery based on the "whole person" concept in which all needs of a person are determined at the same time so that appropriate and systematic decisions can be made on how best to meet those needs.

Other proposals made in the past for reform include creating a cabinet-level Department of Income Maintenance and establishing a single legislative committee focus which could consolidate jurisdiction over all types of income support programs. The theory behind these reforms would consolidate the administration and oversight of all programs, insurance based and needs based, within a limited number of governmental entities.

It is important to keep in mind that, in the long run, most federal spending is within the control of the Congress. The executive branch is bound by statutes that mandate spending, but the Congress can alter those laws and thereby alter future spending. The enactment of the Omnibus Budget Reconciliation Act of 1981, which changed many laws to reduce spending, demonstrates that it can be done.

Controllability for the Congress means making a trade-off between two basic objectives:-- (1) providing a long-term, stable commitment to people who voluntarily or involuntarily participate in federal programs and (2) controlling the budget in both the short and long terms. There is no magic formula for making this trade-off.

During the past 10-15 years numerous suggestions have been made calling for overall system reform and the need for the development of an overall, coherent, and coordinated federal income security policy. The task force may want to consider the pros and cons of some of the major proposals that have been advanced over the years in attempting to devise solutions and strategies to control the growth of entitlement spending. We don't know at this time which, if any, will result in successful control of entitlements but they should be analyzed by this task force within the policy framework you develop.

Mr. Chairman, that concludes my testimony. I will be happy to respond to any questions you may have.