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INCOME MAINTENANCE

1978 Spring Planning Review
Income Maintenance
Overview

This branch embraces programs located in two cabinet agencies (USDA and HEW) and two independent agencies--the Railroad Retirement Board (RRB) and the Community Services Administration (CSA). In terms of mission, there are two broad functions: (1) assisting people to become self-sufficient through the provision of income and services, and (2) the provision of earnings-related income to former workers and their families when the wage earner retires, dies, or is disabled.

Two issues below seek to raise the question of the appropriate level of Federal involvement--the conflicts and consistency of objectives, and the establishment of Administration goals. Welfare reform is a shorthand term for our distress at the operation of the current melange of income assistance programs, their inequities, apparent lack of success in meeting their goal of promoting self-sufficiency, and their burgeoning costs.

In practically all areas we have proposed significant reforms usually resulting in resource reductions, e.g., Food Stamps, AFDC, Social Security, and the CSA program level.

In most cases significant savings can only accrue if legislation is enacted, as the large outlay programs are entitlements. Such legislative proposals are realistic, generally, only if they have prospective application thus grandfathering current beneficiaries.

In the "social service" areas, the utility of the basic programs are open to question, both with regard to the program levels and the ultimate capacity of the programs to achieve desired objectives. In view of the lack of precise objectives and the inability to truly make marginal tradeoffs among the narrow service programs, the



trend is toward blocking the funds and devolving the allocation decisions to lower levels of government. An issue that we do not address below is the future expansion of block grants. We believe this is premature as the Title XX block grant and the child nutrition block grant proposals do not seem to be moving rapidly to enactment, and the general need to retain current program levels and even offer sweeteners to push such proposals forward are not within the current fiscal guidance.

1978 Spring Planning Review
Income Maintenance
Program Evaluations

Major Studies and Evaluations are Summarized Below

Disability Insurance Program: The 1977 Budget allowance letter asked HEW to undertake a study of the Disability Insurance Program in order to explain the large growth rate of beneficiaries. (Ongoing)

Supplemental Security Income Study Group: The group, formed of HEW and outside members, submitted its study of the Supplemental Security Income Program. HEW has completed a report on its position on and implementation of each recommendation. (Completed)

Multiple Benefits Study: CSA has been asked to fund a study of the amount and distribution of multiple benefit receipt, covering at least SSI, AFDC, and Food Stamps. (Not yet funded)

Food Stamp Allotments: CSA has been asked to fund a study of alternative market baskets for poverty levels which would include developing alternative poverty level food plans (Food Stamp allotments). (Not yet funded)

AFDC Eligibles: CSA has been asked to fund a Census Bureau study of single-parent families to enable evaluation of the utilization and effectiveness of the program. (Not yet funded)

Income Assistance and Unemployment: CSA has been asked to fund a study of the relationship between unemployment rates and eligibility rates for income assistance programs. (Not yet funded)

Food Stamps:

- Update 1973 profile of data on Food Stamp recipients, mandatory deductions, certification period, employment, and other income. (Completed)
- Determine appropriate allotment levels for participants in outlying areas consistent with the Thrifty Food Plan and section 5 of the Food Stamp Act. (To be proposed by OMB to USDA)

Community Services Administration: An internal OMB study will be undertaken of the effectiveness of CSA's Community Economic Development Program. (To be initiated)

Department of Health, Education, and Welfare
Income Maintenance Branch
Summary Tabulation
Budget Authority
(\$ in millions)

	<u>1976</u>	<u>1977</u>			<u>1978</u>			<u>1979</u>		
	<u>Current Estimate</u>	<u>Current Policy</u>	<u>Potential Level</u>	<u>Low Option</u>	<u>Current Policy</u>	<u>Potential Level</u>	<u>Low Option</u>	<u>Current Policy</u>	<u>Potential Level</u>	<u>Low Option</u>
Open-ended programs and fixed costs (relatively uncontrollable under present law):										
OASDI	70,782	84,726	81,154	81,154	96,468	90,357	90,357	107,650	100,281	100,281
Payments to OASDI	4,123	6,639	6,639	6,639	6,738	6,738	6,738	7,596	7,596	7,596
Black Lung	1,000	914	914	914	943	943	943	971	971	971
SSI	5,519	5,910	5,910	5,910	6,227	6,227	6,227	6,663	6,663	6,663
Public Assistance--										
AFDC	5,902	5,968	6,315	6,315	6,385	6,744	6,385	6,840	7,211	6,840
Social Services	<u>2,805</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>
Subtotal	90,131	106,773	103,548	103,548	119,377	113,625	113,266	132,336	125,338	124,967
Discretionary programs (relatively uncontrollable):										
SRS program admin.	60	39	63	63	39	63	39	39	63	69
Indochinese refugees	---	50	50	50	---	---	---	---	---	---
Cuban refugees	85	82	82	82	78	78	---	75	75	---
OHD	<u>1,227</u>	<u>1,054</u>	<u>1,287</u>	<u>1,287</u>	<u>1,107</u>	<u>1,287</u>	<u>1,229</u>	<u>1,107</u>	<u>1,287</u>	<u>1,229</u>
Subtotal	1,372	1,225	1,482	1,482	1,224	1,428	1,268	1,221	1,425	1,268
Total	91,503	107,998	105,030	105,030	120,601	115,053	114,534	133,557	126,763	126,235

Department of Health, Education, and Welfare
Income Maintenance Branch
Summary Tabulation
Outlays
(\$ in millions)

	1976	1977			1978			1979		
	<u>Current Estimate</u>	<u>Current Policy</u>	<u>Potential Level</u>	<u>Low Option</u>	<u>Current Policy</u>	<u>Potential Level</u>	<u>Low Option</u>	<u>Current Policy</u>	<u>Potential Level</u>	<u>Low Option</u>
Open-ended programs and fixed costs (relatively un- controllable under present law):										
OASDI	73,767	83,863	84,689	84,689	92,780	94,302	92,571	102,009	103,830	99,569
Payments to OASDI	4,115	6,639	6,639	6,639	6,738	6,738	6,738	7,596	7,596	7,596
Black Lung	986	914	914	914	943	943	943	971	971	971
SSI	5,235	5,806	5,806	5,806	6,227	6,227	6,227	6,663	6,663	6,663
Public Assistance--										
AFDC	5,902	5,968	6,315	6,315	6,385	6,744	6,385	6,840	7,211	6,840
Social Services	<u>2,352</u>	<u>2,620</u>	<u>2,620</u>	<u>2,620</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>	<u>2,616</u>
Subtotal	92,357	105,810	106,983	106,983	115,689	117,570	115,480	126,695	128,887	124,255
Discretionary pro- grams (relatively uncontrollable):										
SRS program admin.	63	37	63	63	37	63	37	37	63	37
Indochinese refugees	67	100	100	100	30	30	30	---	---	---
Cuban refugees	86	82	82	82	78	78	---	75	75	---
OHD	<u>1,206</u>	<u>1,174</u>	<u>1,242</u>	<u>1,242</u>	<u>1,215</u>	<u>1,280</u>	<u>1,250</u>	<u>1,215</u>	<u>1,287</u>	<u>1,252</u>
Subtotal	1,422	1,393	1,487	1,487	1,360	1,451	1,317	1,327	1,425	1,289
Total	93,779	107,203	108,470	108,470	117,049	119,021	116,797	128,022	130,312	125,544

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

INCOME MAINTENANCE PROGRAMS

RECONCILIATION OF MARCH 25 ESTIMATE AND BASE

(in millions of dollars)

IM-7

Budget authority Outlays

I. Reconciliation of 1977 base:

(March 25) estimate.....	107,829	107,261
Administration initiatives:		
(a) Revision of Title XX Block Grant proposal...	+61	+61
(b) Transfer of funds to HEW from State for Indo- chinese refugees.....	---	+20
Reestimates:		
(a) OASDI-Reestimates and new economic assumptions...	+85	-194
(b) AFDC-Reestimate of: proposed legislation savings.....	+9	+9
(c) Title XX Social Services- Reestimate of base.....	---	+5
(d) OHD-Reestimate of base...	+14	+41
Total, 1977 base.....	107,998	107,203

II. Base for 1978 through 1981:

1978.....	120,601	117,049
1979.....	133,557	128,022
1980.....	146,111	139,623
1981.....	158,201	151,192

Department of Health, Education, and Welfare
Income Maintenance Branch
Analysis of changes
(in millions of dollars)

	1977		1978		1979	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Base estimates	107,998	107,203	120,601	117,049	133,557	128,022
OASDI-Nonenactment of benefit legislation	---	+826	---	+1,522	---	+1,821
OASDI-Nonenactment of revenue legislation	-3,572	---	-6,111	---	-7,369	---
AFDC-Postponement of Quality Control Savings	+240	+240	+250	+250	+260	+260
AFDC-Congressional inaction on legislative savings proposals	+107	+107	+109	+109	+111	+111
SRS Program Administration-Nonenact- ment of Health Block Grant	+24	+26	+24	+26	+24	+26
OHD-Congressional increases	+178	+43	+125	+25	+125	+25
OHD-Effect of nonenactment of Health Block Grant	+55	+25	+55	+40	+55	+47
Most likely level	105,030	108,470	115,053	119,021	126,763	130,312
AFDC-Restore Quality Control Savings ..	---	---	-250	-250	-260	-260
AFDC-Resubmit cost savings legisla- tion	---	---	-109	-109	-111	-111
OASDI-Repropose 1977 benefit legislation	---	---	---	-826	---	-1,522
SRS Program Administration-Enactment of Health Block Grant	---	---	-24	-26	-24	-26
OHD-Enactment of Health Block Grant ...	---	---	-58	-30	-58	-35

	1977		1978		1979	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
High alternative target	105,030	108,470	114,612	117,780	126,310	128,358
OASDI-Eliminate lump-sum death						
benefit	---	---	---	---	---	-339
OASDI-Prospectively eliminate						
minimum benefit	---	---	---	-50	---	-50
OASDI-Freeze minimum benefit for						
those currently on rolls	---	---	---	-130	---	-150
Medium alternative target	105,030	108,470	114,612	117,600	126,310	127,819
Terminate Cuban Refugee program	---	---	-78	-78	-75	-75
OASDI-Prospectively eliminate						
dependents' benefits	---	---	---	-725	---	-2,200
Low alternative target	105,030	108,470	114,534	116,797	126,235	125,544

Department of Health, Education, and Welfare
Income Maintenance Programs
Summary of Department totals
(in millions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Budget authority</u>					
Base estimate	107,998	120,601	133,557	146,111	158,201
Most likely level					
(Base & budget threats)	105,030	115,053	126,763	138,246	148,410
High alternative target	105,030	114,534	126,235	XXX	XXX
Medium alternative target	105,030	114,534	126,235	XXX	XXX
Low alternative target	105,030	114,534	126,235	XXX	XXX
 <u>Outlays</u>					
Base estimate	107,203	117,049	128,022	139,623	151,192
Most likely level					
(Base & budget threats)	108,470	119,021	130,312	142,284	154,260
High alternative target	108,470	117,780	128,358	XXX	XXX
Medium alternative target	108,470	117,600	127,819	XXX	XXX
Low alternative target	108,470	116,797	125,544	XXX	XXX

1978 Spring Planning Review
Issue # : Welfare Reform

Statement of Issue

What should be the FY 1978 planning assumption for reform of the income assistance programs?

History

The first truly comprehensive approach to welfare was developed by the "Heineman" Commission in 1969. The Commission urged a flat cash grant program with a 50% tax rate on income, coverage of the working poor, broader unemployment insurance, and cashing out in-kind programs. Before the Commission finished its work, the Family Assistance Plan (FAP) was proposed by the Nixon Administration. FAP followed, but less generously, the Commission's recommendations in most respects. By the end of 1973 the Congress had enacted only the SSI part of FAP, replacing Old Age Assistance (OAA), Aid to the Blind (AB), and Aid to the Permanently and Totally Disabled (APTD).

In 1974, HEW developed the Income Supplementation Program, a negative income tax plan, but legislative recommendations were not submitted.

Also in 1974, the Martha Griffiths subcommittee of the Joint Economic Policy Committee made its final report "Income Security for Americans: Recommendations of the Public Welfare Study." The report proposed a system of allowances for poor people administered by the Internal Revenue Service, i.e., another negative income tax plan.

Background

The present Federal income assistance programs are characterized by rapid growth, piecemeal development, and widely varying categorical (non-income) eligibility. The three programs most commonly tagged as "welfare"--Aid to Families with

Dependent Children (AFDC), Supplemental Security Income Program (SSI), and Food Stamps--will have doubled their benefit outlays in five years, going from \$8.6 billion in 1974 to \$17.1 billion in 1979. The various programs were enacted at different times with divergent goals and inconsistent requirements, each as if the other programs did not exist. There is substantial agreement that welfare needs improvement, if not complete overhaul.

Major Criteria for Developing Reform Proposals

The criteria listed below are drawn largely from an unpublished HEW paper.

- (1) Adequacy of Benefits - Admittedly the most difficult to agree on; in addition to overall adequacy, this includes the objective (or criterion) of the relative adequacy of benefits by type and size of family unit.
- (2) Horizontal and Vertical Equity - People in similar circumstances should be treated similarly, and in dissimilar circumstances treated dissimilarly. The difficulty is in determining what circumstances are relevant, e.g., one parent present or two.
- (3) Target Efficiency - Benefits should go to those in need and not to those judged not in need.
- (4) Work Incentives - Employable transfer recipients should be significantly better off if they work than if they do not, which requires that benefits be reduced less than the amount earned.
- (5) Non-Monetary Impact - The impacts of the welfare system on a recipient's behavior should be positive, encouraging independence, reducing social stigmas, respecting the recipient's privacy, and promoting respect for the institutions of government.
- (6) Simplicity and Fiscal Control - The objectives, mechanics, and achievements of the system should be understandable to recipients and to taxpayers. The system should minimize fraud and errors, and be subject to fiscal control through legitimate political channels.

Costs of Welfare Reform

The cost of reforming the welfare system, relative to current expenditures, will vary enormously depending on several major factors. Rough estimates of costs, derived from an HEW computer model (TRIM), suggest a range of \$11 billion savings to \$36 billion cost.

The major cost factors are:

- The extension of coverage beyond present categorical limits, i.e., intact (two-parent) families, or all households including childless ones.
- The level and structure of the guarantee of benefits, i.e., the amounts for each size family.
- The "tax" or benefit reduction rate on income.
- Type and level of deductions, e.g., child care expenses.
- Differences in guarantees or taxes for employables versus unemployables (e.g., SSI eligibles).
- Selection of programs for cash-out, e.g., AFDC, SSI, Food Stamps, Section 8 housing payments.

Other factors which will have an impact on welfare reform costs include: definition of household, treatment of assets, locus of administration (e.g., federalization versus State-run), income accounting and recertification periods, State sharing of costs, and State supplementation of benefit levels.

Table I gives illustrative net costs or savings, and participation, for options containing three guarantee levels, three coverage ranges, selected tax rates and full federalization, based on HEW computer runs using "reasonable" values for these factors. See Attachment A for more detail.

Table I -- Illustrative Welfare Reform Alternatives: Costs and Participation
(Assumptions are stated in Attachment A)

4-Person Guarantee and Tax Rate on Earnings ^{a/} (in 1975 dollars)	FY 1979 Costs/Savings (in billions of dollars)			FY 1979 Persons Participating (in millions)			FY 1979 Households Participating (in millions)		
	Narrow Coverage ^{b/}	Include Intact Families	Universal Coverage	Narrow Coverage	Include Intact Families	Universal Coverage	Narrow Coverage	Include Intact Families	Universal Coverage
\$3,000 Guarantee									
--60% tax rate	\$-11	\$-9	\$-7	9.8	13.8	15.5	4.2	5.0	6.3
--40% tax rate	-10	-7	-5	11.1	18.8	21.3	4.6	6.2	8.1
\$3,600 Guarantee									
--60% tax rate	-8	-5	-3	11.5	16.7	18.7	5.1	6.2	7.8
--40% tax rate	-7	-2	1	13.3	23.7	26.9	5.7	7.9	10.2
\$5,500 Guarantee									
--60% tax rate	4	11	16	17.3	28.0	31.5	8.6	10.9	13.4
--50% tax rate	5	15	20	18.4	43.4	37.8	9.0	12.2	15.3
--40% tax rate	7	21	28	19.9	43.6	49.6	9.5	14.7	18.8
--40% tax rate on earnings and 75% tax rate on other income	13	28	36	23.8	48.5	55.0	11.6	17.1	21.5

a/ Tax rate on other (unearned) income is 100%, except as noted.

b/ Categorical coverage equivalent to present cash welfare programs, excluding two-parent families

Other Issues

Welfare reform goes substantially beyond selecting desired costs and caseloads for an adequate proposal. Some of the key factors, not solely cost considerations, which must be addressed include:

- State Supplementation - When SSI was federalized, the States were permitted to supplement the standard Federal benefit. HEW has some difficulty in administering these supplemental benefits, since they must be calculated according to complicated and widely varying State requirements. Whether and within what constraints the Federal Government would administer State supplements to welfare reform could be a sensitive issue.
- Medical Assistance - Medicaid is viewed by some people as an in-kind income assistance program which could be cashed out like food stamps. Others would encompass it in a national health insurance scheme with the government paying the premiums. As an alternative under welfare reform, the cost of health premiums could be covered in the basic welfare grant or there might be an actual or attributed deduction from the grant to finance national health insurance premiums. Alternatively, under a federalized welfare system, the States could be required to use their freed-up matching funds to finance medical assistance for the needy.
- Child Care - Child care deductions are usually considered a means of encouraging welfare recipients to enter the labor force and increase their degree of self-support, with possible other social benefits as well. The cost impact of child care can vary considerably depending on whether there is a standard deduction, a maximum deduction, or a full deduction for all costs.
- Privacy - Assuming the likelihood of a federally-administered system, the locus of that administration can raise serious privacy questions. If, for example, the program were administered by the Treasury in concert with the income tax program, a much greater amount of information on individuals could be accessible at a single source.

- Regional Variations - In the present AFDC system, benefits vary enormously from State to State but tend not to vary so greatly within a region. Whatever policy is chosen, regional variations or a flat grant nationally, there may be a significant effect on economic development and on population migration.
- Unknown Effects in the Future - Finally, there are likely to be unforeseen, and perhaps unpleasant, results of any future welfare reform option. The Medicare and Medicaid programs, with their unanticipated rapid growth, come to mind.

Alternatives

1. Status Quo - Offer no new major initiatives for income assistance programs in the near future and continue to operate existing programs without appreciable change.
2. Propose moderate changes to individual programs to achieve greater overall rationality in the income assistance system and pursue enactment of the Income Assistance Simplification Act or similar proposal.
3. Begin immediate development of Presidential welfare reform options paper for inclusion in 1978 Budget proposal. Will necessitate immediate establishment of task force to define and price pertinent variables and present to the President a set of clear alternatives for decision.

Attachment A--Cost and Participation Estimates
for Illustrative Welfare Reform Alternatives

Three possible annual guarantee levels were chosen: \$5,500 (poverty level) for a family of four; \$3,600; and \$3,000--in 1975 dollars. Table A below gives the structure of these benefit guarantees for family sizes of 1-4 persons. The three alternative eligibility or coverage ranges are: (1) narrow coverage includes those who are eligible under the present categorical programs of SSI and AFDC, and excludes present AFDC-UF coverage; (2) adds to narrow coverage those intact families with children who qualify by income; and (3) all who qualify by reason of income. The benefit reduction rates on earned income are 40%, 50% and 60%, and on unearned income, 75% and 100%.

The costs/savings of each option are shown at 1979 levels, where the guarantees have been augmented over 1975 levels by 23% for inflation. Subsumed within the calculation for each option are different guarantee levels for employables and unemployables (see Table A). The computer model estimated costs for all eligibles with no assets test applied. The costs shown reflect downward adjustments for assets, less-than-full participation, and known inaccuracies in the data, totaling 20%. The net budget impact was derived by subtracting estimated 1979 costs for the four major categorical and in-kind programs from the total cost of the option. The calculations of participants also reflect downward adjustments for assets, participation, and under-count of income, totaling 25%.

Table A--Annual Guarantee by Family Size in Illustrative Plans
(amounts in 1975 dollars)

<u>Family Size</u>	<u>4-Person Guarantee of \$3,000</u>		<u>4-Person Guarantee of \$3,600</u>		<u>4-Person Guarantee of \$5,500</u>	
	<u>Aged, Blind or Disabled</u>	<u>Other Households</u>	<u>Aged, Blind or Disabled</u>	<u>Other Households</u>	<u>Aged, Blind or Disabled</u>	<u>Other Households</u>
1	\$1,950	\$1,000	\$2,300	\$1,200	\$3,500	\$1,800
2	2,375	2,000	2,775	2,400	3,975	3,600
3	2,875	2,500	3,375	3,000	4,925	4,500
4	3,375	3,000	3,975	3,600	5,875	5,500

1978 Spring Planning Review
Department of Health, Education, and Welfare
Social Security Administration
Issue # : Social Security

Statement of Issue

Constraining the growth of Social Security.

Background

Social Security is the most pervasive Federal program. Ninety percent of the nation's workers pay social security taxes. Twenty million aged persons, and 30 million persons altogether, receive Social Security benefits. Social Security represents a large fraction of the Federal budget. Payroll tax receipts in 1977 will represent 23% of all budget receipts, and the benefits that will be paid will represent 21% of Federal outlays.

Financing

Under present economic and demographic assumptions, the system will run both short- and long-term actuarial deficits. The 1976 Trustees' Report projects a \$20 billion deficit over the calendar years 1976 through 1981. Over the 75-year actuarial valuation period, the Trustees' Report projects a deficit of 8.32% of taxable payroll. The Administration has proposed a tax rate increase to cover the short-term problem, and has indicated it will propose "decoupling" to remove the double indexing to inflation of future retirees' benefits. Depending upon how "decoupling" is done, it removes half or all of the long-term actuarial deficit.

There are additional issues in Social Security involving:

- the nature and extent of nonwage-related benefits;
- taxing on an individual basis while distributing benefits based on family composition; and
- the nature and distribution of the taxes used to finance the system.

Nonwage-Related Benefits

The Social Security benefit structure has traditionally been used to accomplish two objectives:

- "social insurance"--i.e., a wage-related benefit in which the criteria is individual equity. This was the first objective, historically.
- "social adequacy"--i.e., a floor of protection for those who had substantial participation in covered employment. This objective was added to the program as it evolved.

Although these objectives pull in opposite directions, as a matter of history the Social Security benefit structure has often been used to provide income assistance to the poor. This had added more of the "social adequacy" objective to the program over the years.

The Social Security tax, however, still has a single rate and base for all workers (whether single, married, or married with children).

Examples of nonwage-related benefits are:

Higher replacement rates for low-wage workers

At low-wage levels, the benefit formula replaces a greater fraction of wages than it does at higher levels. This weighting of the formula reflects the presumption that low-wage workers have less margin for reduction in their incomes upon retirement or disability than do higher wage workers. (See Attachment A.)

The minimum benefit (1977: \$1,833 million)

Until 1951, the minimum benefit was \$10 monthly--a level set for administrative convenience to avoid making payments out of proportion to administrative costs. Since 1951, the minimum benefit has been used to increase income to meet the social adequacy objective, through ad hoc increases, and it now is \$101.30 monthly. For the lowest average monthly wage of \$76, it represents a 133% replacement rate.

Survivors and dependents benefits (1977: \$5,928 million)

Strictly speaking, survivors and dependents benefits are nonwage-related, as the tax rate and base are identical for all workers.

The student benefit (1977: \$1,252 million)

Until 1965, the dependent's benefit ceased when the dependent reached age 18, and was presumed to enter the labor force. In 1965, the Act was amended to continue the dependent's benefits until age 22, for those in school full time.

The lump-sum death benefit (1977: \$339 million)

The lump-sum death benefit, a fixed amount of \$255, goes to the survivor, or if there is no survivor, to the person who paid burial expenses. It bears no relation to wages, taxes paid, or other benefits.

Possible modifications to the system

If we are concerned about more closely relating benefits to wages (and taxes paid), there are several courses of action.

The most direct method is to propose removal of such benefits from the system. This course was followed in the 1977 Budget with the student benefit. Specific educational benefits, enacted after the student benefit was added to Social Security, now exist which serve the same function for those in need.

The higher replacement rate at low-wage levels and the minimum benefit have been added to the program to provide an "adequate" benefit to those with low-wage histories. The enactment of the Supplemental Security Income (SSI) program, which provides a nationwide Federal benefit for the aged and disabled, makes it possible to consider shifting the provision of these "extra" benefits to that program.

As SSI is means-tested, it would be a more efficient vehicle for distributing benefits based on a "social adequacy" purpose. For example, those with pensions from noncovered employment who now receive the Social Security minimum would be screened out of the extra benefit by the means test.

Survivors and dependents' benefits were added to the system so long ago that many regard them as a normal part of the programs. There are two possible means, however, of adjusting the Social Security program to explicitly provide financing for these benefits if they are retained. One is to provide an actuarial reduction in the retiree's benefit if the additional benefits are to be paid. A second, involving substantial administrative difficulties, would be to provide for a higher tax rate if survivors and dependents' benefits are to be paid.

Additional Problem Areas

Taxing on an individual basis while distributing benefits based upon family composition

Social Security benefit distribution is designed for a family with a male wage-earner, a nonworking wife, and children, which stays stable over time.

Several major changes in family characteristics have placed this model of family structure out of synchronization with actual family structure today. One is the large increase in female labor force participation. March 1974, Department of Labor statistics show that 43% of married women were in the labor force.

A major problem is the differing return on benefits among single, married with one-earner and married with two-earner families. In many cases, a working wife receives no more benefits on her own wage credits than she could have gotten without working at all. If a single-earner and two-earner family who earn over the taxable maximum are compared, the total paid by the two-earner family will be greater than the single-earner family, without a guarantee of larger benefits for the two-earner family.

The Nature and Distribution of Taxes Used to Finance the System

The Social Security payroll tax now represents for many families a larger tax than the personal income tax. It may now be necessary to consider changes to this tax structure used to support Social Security.

Briefly, some options are:

- Use of an income tax surcharge. (A 1972 OMB study indicated that 89% of families would pay less total Federal taxes than under the present system.)
- Removal of the taxable maximum on employers. (This, however, has the undesirable effect of increasing the cost of employment, but does not retain the present incentive to employ high skill, high wage workers.)
- An income tax credit to those at the low-wage end of the scale to partially or fully offset the payroll tax up to a certain income level. (The earned tax credit is an example of this approach.)
- Financing of nonwage-related benefits through general revenues. (This decreases the Social Security system's cost, but not overall Federal costs unless nonwage-related benefits are means-tested.)

Alternatives

Alternative #1 (high option)

This alternative would repropose the three items of benefit legislation included in the 1977 Budget. They are: removal of the option of retroactive claims if future benefits are actuarially reduced (to avoid beneficiaries having to rely on lower monthly checks); conversion of the retirement test to an annual basis only (to avoid collection of benefits by those who bunch earnings in a few months); and, phasing out the student benefit (since other education benefits are available to those in need). This represents a simple extension forward of the 1977 Budget strategy.

Alternative #2 (medium option)

This alternative would add three legislative proposals. The first would be the elimination of the lump-sum death benefit as an unwarranted extra benefit. For those currently receiving the minimum benefit, legislation would be proposed to freeze the amount, removing the linkage to the CPI. To the degree recipients remained in need, SSI, which is indexed, would provide additional benefits. Legislation would also be proposed to eliminate the minimum benefit prospectively, relying instead upon SSI to provide adequate income to retirees with low earnings histories.

Alternative #3 (low option)

This alternative would add another legislative proposal to prospectively eliminate dependents' benefits from the program. The alternatives for financing such benefits within the current program, through an actuarial reduction or a separate higher tax were rejected due to their administrative complexity. The prospective elimination of dependents' benefits is proposed to more closely relate benefits received to taxes paid by individual earners.

Budgetary effects (outlays in billions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Likely potential level	94.3	103.8	114.1	124.2
Alternative #1	93.4	102.3	112.3	122.0
Alternative #2	93.2	101.8	111.8	121.5
Alternative #3	92.6	99.6	108.4	117.3

Implementation of OMB recommendation

The Department of HEW should be advised of the specific legislative items considered in establishing the low option planning figure.

The Social Security Benefit Formula

The present social security weighted benefit formula replaces wages according to the following percentages of average monthly wages.

129.48%	of the first \$110
47.10%	of the next \$290
44.01%	of the next \$150
51.73%	of the next \$100
28.77%	of the next \$100
23.98%	of the next \$250
21.60%	of the next \$175
20.00%	of the next \$100

This formula reflects the June 1975 benefit increase and the January 1976 wage base.

1978 Spring Planning Review
Community Services Administration

Statement of Issue

Should the Community Services Administration's community action and community economic development programs be authorized beyond FY 1978?

Background

The Community Services Administration(CSA), successor to the Office of Economic Opportunity (OEO), was created by the Community Services Act of 1974, and is authorized through FY 1977 with an automatic extension through FY 1978 if Congress takes no action. Since FY 1974, CSA's appropriation increased from \$358.8 million to \$520.2 million in FY 1976, although only 12 of its 19 authorized programs received funding in FY 1976.

Under the Act, CSA's programs can be transferred to HEW and Commerce through a Presidential reorganization plan. The new CSA Director, Samuel Martinez, has publicly stated that he has been assured by the White House that such a reorganization would not take place before FY 1978.

Alternatives

- #1. Propose simple extension of CSA's present authority as an independent agency.
- #2. Propose extension of CSA authority but eliminate its categorical community action programs. (See attached list)
- #3. Seek no reauthorization of CSA programs.

Analysis

The major issues involved in this reauthorization question are the role of the Community Services Administration as a Federal agency and the role of CSA's community action agencies (CAAs) as grantees of Federal assistance for the poor.

Regardless of the Administration's position on CSA's reauthorization, several Congressmen, backed by community action supporters, can be expected to push for a reauthorization bill, probably with new features such as the following:

- increasing the Federal matching rate to at least 80% for all community action agencies (in FY 1977 the Federal match will be 60% for larger CAAs and 70% for smaller CAAs).
- adding categorical programs under CSA's administration; possible program areas include basic skills education, rehabilitation of first-time youthful offenders, alternatives to institutional care for the elderly, and development banking.
- eliminating statutory language that allows a transfer of CSA programs to HEW and Commerce through a Presidential reorganization plan.
- mandating a certain level of involvement of community action agencies in programs (e.g., Headstart) authorized by the Community Services Act of 1974 and now administered by agencies other than CSA.

While much smaller than the community action program, CSA's community economic development (CED) program may warrant special attention when reauthorization legislation is considered next fall. Since FY 1968, over \$250 million has been appropriated to the CED program. While CED's major goal for the past eight years has been the creation of self-sufficient community development corporations (CDCs), not a single corporation is in successful operation without Federal support.

Alternative #1 ("most likely" level)

If the Administration proposes a simple extension of CSA's authorization, it will reassert the need for decreased Federal matching in community action (from 80% in FY 1975 to 60% in FY 1977 for larger grantees), recognize the authorization for CSA categorical programs, and support a continuation of an independent anti-poverty agency. Appropriation levels for CSA can be expected to continue to increase.

Community action agencies will retain their Federal designation as special entities operating programs designed to assist the poor.

Alternative #2 (low alternative level)

Currently funded CSA categorical programs have been critized by the Administration as duplicative efforts of larger, more comprehensive Federal programs in HEW, DOL, HUD, VA, and USDA. With this alternative, authorization for these CSA categorical programs (including the \$10 million elderly program requested in the 1977 Budget) would be eliminated. Community action agencies are eligible funding recipients for many non-CSA Federal programs and now receive approximately \$900 million from other Federal agencies in addition to their CSA funds. To stimulate program delivery effectiveness and efficiency, the CAAs should be required to compete with State and other local entities for all of their Federal program dollars. Core administrative funding for CAAs would continue under this option with technical assistance and program monitoring by either an independent or reorganized CSA. CAAs would be recognized as potential Federal delivery mechanisms for many anti-poverty programs, but alternative #2 avoids making them presumptive sponsors or directly funding duplicative categoricals. CAA administration funding levels are expected to remain fairly constant, although significant savings would result from defunded categorical programs.

Alternative #3 (further reduction level)

Refusal to seek reauthorization could be based on the rationale that the Federal Government has spent millions of dollars on community action and community economic development programs with only marginal success at helping people improve their standard of living. The most direct way CSA has helped lift people out of poverty has been through the estimated 100,000 staff jobs in CAAs and CDCs. Theoretically, CAAs and CDCs could receive full support for basic operations from State and local governments if they are successfully meeting community priorities. Alternatively they could seek overhead support in grants from other agencies for program operations. Either option, however, places added burdens on States and localities or other agency budgets. Stiff opposition in the Congress to this position should be expected.

Budgetary effects (outlays in millions)

Alternative #1 assumes Congress will increase CSA's FY 1977 appropriation by \$184 million (BA) over the President's Budget and that moderate program growth will continue through FY 1981. Alternatives #2 and #3 assume a continuation of the 1977 Budget level of \$334 million (BA) for FY 1978. Beginning in FY 1979, the currently funded \$10 million elderly categorical program would be eliminated under Alternative #2 and no new budget authority would be requested for any CSA program under Alternative #3.

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alternative #1	531	549	570	590
Alternative #2	381	326	327	323
Alternative #3	381	120	10	--

CSA Categorical Community Action Programs

(Budget Authority in millions)

	<u>1975 Actual</u>	<u>1976 Actual</u>	<u>1977 Budget</u>
Emergency Energy Conservation Services	16.5	27.5	--
Senior Opportunities and Services	10.0	10.0	10.0
Community Food and Nutrition	22.4	26.2	--
Veterans Education and Training Services	--	2.5	--
National Summer Youth Sports	3.0	6.0	--
Summer Youth Recreation	17.0	17.0	--
Rural Housing	--	3.0	--
Research and Demonstration	8.8	11.3	--
State Economic Opportunity Offices	<u>12.0</u>	<u>12.0</u>	<u>--</u>
	\$89.7	\$115.5	\$10.0

COMMUNITY SERVICES ADMINISTRATION

Summary of agency totals
(in millions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Budget authority</u>					
Base estimate	334	334	334	334	334
Most likely level (Base & budget threats)	518	534	554	574	594
Low alternative target	518	334	324	330	335
Further reduction level	518	334	---	---	---
<u>Outlays</u>					
Base estimate	413	340	334	334	334
Most likely level (Base & budget threats)	550	531	549	570	590
Low alternative target	550	381	326	327	323
Further reduction level	550	381	120	10	---

First Concurrent Resolution

Function 450-Community and regional
development

Senate: \$334 million budget authority
(President's Budget level)

House: \$515-525 million budget authority

Conference: Accepted the Senate's higher total for
function 450, but did not identify
CSA's share.

COMMUNITY SERVICES ADMINISTRATION

Analysis of changes

(in millions of dollars)

	Base	1977		1978		1979	
		<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Base estimates		334	413	334	340	334	334
1. Expected 1977 appropriation increases ..		184	137		41		5
2. Expected 1978 appropriation increases ..				200	150		45
3. Expected 1979 appropriation increases ..		—	—	—	—	220	165
Most likely level		518	550	534	531	554	549
1. Seek no authorization for categorical programs in FY 1979	1979 136					-136	-106
2. Continue 1977 Budget strategy for other CSA programs in 1978 and 1979 Budgets	1978 200 1979 94	—	—	-200	-150	-94	-45 -72
Low alternative target		518	550	334	381	324	326
1. Seek no authorization for any programs in FY 1979	1979 324	—	—	—	—	-324	-206
Further reduction level		518	550	334	381	0	120

COMMUNITY SERVICES ADMINISTRATION

RECONCILIATION OF MARCH 24 ESTIMATE AND BASE
(in millions of dollars)

	<u>Budget Authority</u>	<u>Outlays</u>
I. <u>Reconciliation of 1977 base:</u>		
(March 25) estimate	334	405
Completed congressional action:		
(a) Renewed availability of 1975 lapsed budget authority (+\$10M) in 1976 Appropriations Act	---	5
(b) Emergency Supplemental Appropriations Act, 1976-Summer youth programs (+\$23M BA).....	---	<u>3</u>
Total, 1977 base	334	413
II. <u>Base for 1978 through 1981:</u>		
1978	334	340
1979	334	334
1980	334	334
1981	334	334

Department of Agriculture
Food Programs
(in millions of dollars)

	1976	1977			1978			1979		
	<u>Estimate</u>	<u>Base</u>	<u>Likely</u>	<u>Low</u>	<u>Base</u>	<u>Likely</u>	<u>Low</u>	<u>Base</u>	<u>Likely</u>	<u>Low</u>
<u>Budget Authority</u>										
<u>Open-Ended Programs</u>										
1. Food Stamps	5,783	4,743	4,743	4,743	4,915	4,915	4,915	5,100	5,100	5,100
2. Child Nutrition	2,154	2,022	2,956	2,956	2,143	3,265	2,143	2,275	3,479	2,275
<u>Discretionary Programs</u>										
1. Special Nutrition Supplements (WIC)	313	6	278	278	-0-	263	-0-	-0-	263	-0-
2. Food Program Administration	<u>62</u>	<u>54</u>	<u>61</u>	<u>61</u>	<u>52</u>	<u>58</u>	<u>52</u>	<u>51</u>	<u>58</u>	<u>51</u>
Total	8,312	6,825	8,038	8,038	7,110	8,501	7,110	7,426	8,900	7,426
<u>Outlays</u>										
<u>Open-Ended Programs</u>										
1. Food Stamps	5,750	4,708	4,708	4,708	4,880	4,880	4,880	5,065	5,065	5,065
2. Child Nutrition	2,229	2,309	2,934	2,934	2,143	3,265	2,143	2,275	3,479	2,275
<u>Discretionary Programs</u>										
1. Special Nutrition Supplements (WIC)	288	6	269	269	-0-	263	-0-	-0-	263	-0-
2. Food Program Administration	<u>61</u>	<u>52</u>	<u>60</u>	<u>60</u>	<u>52</u>	<u>58</u>	<u>52</u>	<u>51</u>	<u>58</u>	<u>51</u>
Total	8,328	7,075	7,971	7,971	7,075	8,466	7,075	7,391	8,865	7,391

DEPARTMENT OF AGRICULTURE

RECONCILIATION OF MARCH 25 ESTIMATE AND BASE

(in millions of dollars)

IM-2

	<u>Budget authority</u>	<u>Outlays</u>
I. <u>Reconciliation of 1977 base:</u>		
(March 25) estimate.....	6,825	7,075
Administration initiatives..	-0-	-0-
Completed congressional action.....	-0-	-0-
Reestimates.....	-0-	-0-
Total, 1977 base.....	6,825	7,075
II. <u>Base for 1978 through 1981:</u>		
1978.....	7,110	7,075
1979.....	7,426	7,391
1980.....	7,706	7,671
1981.....	8,001	7,966

Department of Agriculture
Food and Nutrition Service
Analysis of Changes

(in millions of dollars)

	1977		1978		1979	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Base estimates	6,825	7,075	7,110	7,075	7,426	7,391
-Reject Child Nutrition Block Grant and fund Special Milk program	+1,213	+896	+1,391	+1,391	+1,474	+1,474
Most likely level	8,038	7,971	8,501	8,466	8,900	8,865
-None						
High alternative target	8,038	7,971	8,501	8,466	8,900	8,865
-Restrict existing programs to children from low income families			-900	-900	-950	-950
Medium alternative target	8,038	7,971	7,601	7,566	7,950	7,915
-Repropose Child Nutrition Block Grant			-491	-491	-524	-524
Low alternative target	8,038	7,971	7,110	7,075	7,426	7,391

Department of Agriculture
Food and Nutrition Service
Summary of Agency totals
(in millions of dollars)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Food Stamp/Child Nutrition					
<u>Budget authority</u>					
Base estimate	6,825	7,110	7,426	7,706	8,001
Most likely level					
(Base & budget threats)	8,038	8,501	8,900	9,280	9,670
High alternative target	8,038	8,501	8,900	X	X
Medium alternative target	8,038	7,601	7,950	X	X
Low alternative target	8,038	7,110	7,426	X	X
<u>Outlays</u>					
Base estimate	7,075	7,075	7,391	7,671	7,966
Most likely level					
(Base & budget threats)	7,971	8,466	8,865	9,245	9,635
High alternative target	7,971	8,466	8,865	X	X
Medium alternative target	7,971	7,566	4,915	X	X
Low alternative target	7,971	7,075	7,391	X	X

1978 Spring Planning Review
Department of Agriculture
Food and Nutrition Service
Issue # : Federal Nutrition Programs
(other than food stamps)

Statement of Issue

Should we propose Federal Nutrition Reform independent of a single block grant approach?

Background

The 1977 Budget contained two proposals for the Federal Nutrition programs:

Block Grants - The proposed Child Nutrition Reform Act of 1976 substitutes a block grant to States for the existing complex and overlapping categorical feeding programs (see Attachment A). Federal funds would enable the States to provide at least one-third of the Recommended Dietary Allowance (RDA) to all children from families with incomes below the poverty level. This proposal would: (1) strengthen efforts to assure that children from needy families have access to an adequate diet (now 700,000 needy children receive no benefits), (2) eliminate the existing Federal food subsidies to children from families above the poverty line, and (3) achieve a total outlay savings of \$740 million in FY 1977 (\$1.1 billion in BA).

Special Milk - The FY 1977 Budget does not seek funding for the Special Milk program. Added subsidies for milk under the Special Milk program are not necessary because meals served under the other School Lunch and Child Nutrition programs must include milk. Elimination of the Special Milk program would save approximately \$156 million in FY 1977.

The FY 1977 child nutrition block grant proposal was introduced by Congressman Michel on April 13 as H.R. 13208. We anticipate that Congress will not consider the Administration's revised FY 1977 block grant proposal and will fund the Special Milk program in FY 1977.

Child Nutrition Programs
(\$ in millions)

	<u>FY 1977</u>		<u>FY 1978</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Existing programs - appropriation request	3,139	3,107	3,421	3,421
<u>Special Milk - FY 1977 funds not requested</u>	<u>156</u>	<u>156</u>	<u>165</u>	<u>165</u>
Subtotal	3,295	3,263	3,586	3,586
Block grant legislative proposal ^{a/}	2,082	2,367 ^{b/}	2,195	2,195
Total savings in FY 1977	1,213	896	1,391	1,391
(Block Grants)	(1,058)	(740)	(1,226)	(1,226)
(Elimination of Special Milk)	(156)	(156)	(165)	(165)

^{a/} Includes S&E and elderly feeding program.

^{b/} Includes \$291 million in outlays from prior year obligations.

Alternatives - Guidance for Development of Future Policy Options

- #1. Program Consolidation (High Option) - Propose to consolidate or transfer selected USDA categorical nutrition program funds into other programs.
For example:

USDA Nutrition Program

- a. Special Supplemental Food for Women, Infants and Children
- b. Child Care Food (Day Care)
- c. Elderly Feeding

HEW Related Programs

- Maternal and Child Health Services
- Social Services and/or Head Start
- Elderly Nutrition (Title VII)

- #2. Restrict Existing Programs (Medium Option - USDA FY 1977 Rec.) - Eliminate subsidies to higher income children under the existing program structure. In FY 1978, the existing child nutrition program will provide over \$900 million to children from families with incomes in excess of the poverty level (see Attachment B).

		<u>Outlays in Millions</u>		
<u>Income Eligibility Criteria</u>		<u>FY 1977</u>	<u>FY 1978</u>	<u>FY 1979</u>
<u>% Poverty Level</u>	<u>Income for a Family of Four - FY 1977</u>			
195%+	\$11,193+	\$664	\$704	\$750
125% to 195%	\$7,175 to \$11,193	\$184	\$195	\$210
below 125%	less than \$7,175	\$1,930	\$2,046	\$2,170
Total program costs*		\$2,778	\$2,945	\$3,130

*Does not include supplemental feeding programs

- #3. Block Grants (Low Option - Current Policy) - Repropose the Child Nutrition Reform Act block grant to the next Congress.

Budgetary Effects (outlays in billions)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Alternative #1: Program Consolidation (High Option/ current law level- under development)	3.6	3.8	4.0	4.3
Alternative #2: Restrict Existing Program to Needy (Medium Option - USDA FY 1977 Rec.)	2.7	2.8	3.0	3.2
Alternative #3: Block Grants (Low Option - Current Policy)	2.2	2.3	2.5	2.6

Analysis

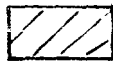
We anticipate that Congress will not consider any reform of the existing Child Nutrition/School Lunch programs in FY 1977. However, the Secretary could possibly achieve a savings of \$156 million in FY 1977 if he pursues the elimination of the Special Milk program when it is clear that both Houses intend to ignore the President's proposals and to appropriate funds for the existing programs. Public interest groups, primarily the American School Food Service Association, and school food service personnel have indicated that they view the Special Milk program as low priority and administratively burdensome.

Attachment A

	Outlays		
	FY 1976	FY 1977	FY 1978
	<u>Estimate</u>	<u>Budget</u>	<u>Estimate</u>
<u>Federal Nutrition Programs (other than Food Stamps)</u>			
School* Lunch (includes free, reduced and paid lunches) - Cash per meal served.	1,524	1,562	1,656
School Breakfast (includes free, reduced and paid lunches) - Cash per meal served.	96	164	174
Special Milk (includes free and paid milk) - Cash per half pint purchased.	144	-0-	-0-
Equipment Assistance for Schools - Cash grants.	47	-0-	-0-
Summer Feeding (free meals) - Cash per meal served.	83	117	124
Child Care** Food (includes free, reduced and paid meals) - Cash per meal served.	98	107	113
State Administrative Expenses - Cash grants.	7	8	8
Commodity Distribution - Commodities on a per-meal-served basis in addition to cash under the School Lunch, School Breakfast, Summer Feeding, and Child Care Food programs.	495	522	553
Special Supplemental Food for Women, Infants and Children (WIC) - Cash grants to States to provide vouchers or commodities.	198	242	250
Supplemental Feeding for Women, Infants and Children (Special Pack) - Commodities to States for individuals.	22	17	17

* Schools - Includes residential child care institutions.

** Child Care - Includes "institutional" and "family home" day care arrangements.



Alternative #2 - Restrict Existing Programs to Needy

needy	non-needy	
125% IPG (\$5,010) ^{2/}	195% IPG (\$9,770)	no upper income limit

Free Lunches

FEDERAL LUNCH PROGRAM SUBSIDIES

<div> <div>56.75¢ cash/meal</div> <div>Reduced Lunches</div> <div>46.75¢ cash/meal</div> </div>		Paid Lunches	
		12.5¢ cash/meal	12.5¢
11.75¢ commodities or cash-in-lieu meal			11.75¢

Total Federal subsidy per meal	81.0¢	71.0¢	24.25¢	
Cost to student per meal	-0-	20¢ (max. cost)	65¢ (avg.)	
Other sources (include State and local, and may include income from paying students)	32.0¢	42.0¢	24¢	Total
<u>Total School Lunch Costs</u>	<u>\$1.13</u>	<u>\$1.13</u>	<u>\$1.13</u>	
Lunches served (in millions)	1,787	212	2,515	4,514
FY 1978 School Lunch outlays (in millions)	\$1,448	\$151	\$610	\$2,209

^{1/} Includes \$51 million savings for reduced reimbursements in School Breakfast and Child Care programs.

^{2/} Estimated FY 1978 income levels for a family of four.