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WORK INCENTIVES IMPROVEMENT ACT OF 1999

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Mr. ROTH, from the Committee on Finance,
submitted the following

R E P O R T

[To accompany S. 331]

[Including cost estimate of the Congressional Budget Office]

The Committee on Finance, to which was referred the bill (S. 331) to expand the availability of health care services for workers with disabilities and create a Ticket to Work and Self-Sufficiency Program, having considered the same, reports favorably thereon as amended by the Committee, and recommends that the bill do pass.

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I. SUMMARY AND BACKGROUND

A. SUMMARY

S. 331, as reported by the Committee on Finance, expands new options to States under the Medicaid program for workers with disabilities; continues Medicare coverage for working individuals with disabilities; and establishes a Ticket to Work and Self-Sufficiency Program.

B. BACKGROUND AND REASONS FOR LEGISLATION

The goal of the bill is to help individuals with disabilities go to work if they so choose. The bill takes significant steps toward reforming Federal disability programs; improving access to needed services, including health care and employment assistance; and removing barriers to work.

Many persons with disabilities who currently receive Federal disability benefits, such as Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI), want to work. However, less than one-half of 1 percent of these beneficiaries leave the disability rolls and become self-sufficient. If disabled individuals try to work and increase their income, they lose their disability cash benefits and, subsequently, lose their health care coverage. The threat

of losing health benefits is a powerful disincentive for disabled beneficiaries who want to work.

The unemployment rate among working-age adults with severe disabilities is nearly 75 percent. Today, more than 7.5 million disabled Americans receive cash benefits from SSI and SSDI. Disability benefit spending for SSI and SSDI total \$73 billion a year, making these disability programs the fourth largest entitlement expenditure in the Federal Government. If only 1 percent—or 75,000—of the 7.5 million disabled adults were to become employed, Federal savings in disability benefits would total \$3.5 billion over the worklife of the beneficiaries. Removing barriers to work is a major benefit to disabled Americans in their pursuit of self-sufficiency and independence, and it also contributes to preserving the Social Security Trust Fund.

C. LEGISLATIVE HISTORY

The Finance Committee's first hearing on removing barriers to work for individuals with disabilities was held on July 29, 1998. At this hearing, and at a subsequent hearing on February 4, 1999, a total of 11 witnesses including disability services consumers, providers, and advocates testified about barriers to employment that currently exist in Federal disability and health care programs. The witnesses particularly singled out lack of access to health insurance as a primary obstacle to employment.

On January 28, 1999, Senator Jeffords, on behalf of himself, Senator Kennedy, Senator Roth and Senator Moynihan, introduced S. 331, the Work Incentives Improvement Act of 1999, a bill designed to remove barriers to employment for individuals with disabilities. At the February 4 hearing, S. 331 was specifically endorsed by Senator Bob Dole as well as representatives of the disability community.

On March 4, 1999, the Finance Committee ordered reported favorably, as amended by the Committee, S. 331, the Work Incentives Improvement Act of 1999, by a recorded vote of 11 to 1, with an additional 5 proxy votes in favor of the bill and with 1 proxy voted no.

II. EXPLANATION OF THE BILL

A. SECTION 1. SHORT TITLE

The short title of the bill is the "Work Incentives Improvement Act of 1999."

B. SECTION 2. PURPOSES

The Chairman's mark is based on S. 331 and has four primary purposes as set forth in the bill. First, the mark provides health care and employment preparation and placement services to individuals with disabilities to support efforts to return to work and to reduce dependency on cash assistance. Second, the mark creates new options for States to allow individuals with disabilities to purchase Medicaid coverage. Third, the mark lengthens the current period of extended eligibility for Medicare coverage for disabled beneficiaries who are leaving cash benefits for work. Finally, the

mark establishes a return to work “ticket” program that will allow beneficiaries to seek the services necessary to obtain and retain employment and reduce their dependency on cash benefit programs.

C. TITLE I—EXPANDED AVAILABILITY OF HEALTH CARE SERVICES

1. SECTION 101. EXPANDING OPTIONS UNDER MEDICAID FOR WORKERS WITH DISABILITIES

Present law

Current law requires most States to provide Medicaid coverage for disabled individuals who are eligible for Supplemental Security Income (SSI). Individuals are considered disabled if they are unable to engage in substantial gainful activity (defined in Federal regulations as earnings of \$500 per month) due to a medically determinable physical or mental impairment which is expected to result in death, or which has lasted or can be expected to last for at least 12 months. Eleven States link Medicaid eligibility to 209(b) disability definitions which may be more restrictive than SSI criteria.

Eligibility for SSI is determined by certain federally-established income and resource standards. Individuals are eligible for SSI if their “countable” income falls below the Federal maximum monthly SSI benefit (\$500 for an individual, and \$751 for couples in 1999). Not all income is counted for SSI purposes. Excluded from income are the first \$20 of any monthly income (i.e., either unearned, such as social security and other pension benefits, or earned) and the first \$65 of earned income plus one-half of the remaining earnings. The Federal limit on resources is \$2,000 for an individual, and \$3,000 for couples. Certain resources are not counted, including an individual’s home, and the first \$4,500 of the current market value of an automobile.

In addition, States must provide Medicaid coverage for certain disabled and blind individuals who no longer receive SSI because they work and their earnings cause them to exceed SSI income eligibility thresholds. SSI cash benefits phase down until their earnings reach the current threshold of \$1,085 per month. Medicaid coverage continues for those with incomes rising above this threshold until earnings reach a level that takes into account amounts needed to cover health care costs and living expenses. That earnings level varies by State. For 1998, that level ranges from \$34,125 annually or \$2,844 per month to \$13,792 annually or \$1,149 per month. This eligibility status applies as long as the beneficiary:

- (1) continues to be blind or have a disabling impairment;
- (2) except for earnings, continues to meet all the other requirements for SSI eligibility;
- (3) would be seriously inhibited from continuing or obtaining employment if Medicaid eligibility were to end; and
- (4) has earnings that are not sufficient to provide a reasonable equivalent of benefits from SSI, State supplemental payments (if provided by the State), Medicaid, and publicly funded

attendant care that would have been available in the absence of those earnings.

Recent law allowed States to increase the income limit for Medicaid coverage of disabled individuals. The Balanced Budget Act of 1997 (P.L. 105–33) allowed States to elect to provide Medicaid coverage to disabled persons who otherwise meet SSI eligibility criteria but have income up to 250 percent of the Federal poverty guidelines. Beneficiaries under the more liberal income limit may “buy into” Medicaid by paying premium costs. Premiums are set on a sliding scale based on an individual’s income as established by the State.

Explanation of provision

Under the proposal, States would have the option to establish one or two new Medicaid eligibility categories:

First, States would have the option to cover persons with disabilities whose income would make them ineligible for SSI. In addition, States may establish limits on resources and income that differ from the SSI requirements. This means that income levels set by the State could exceed 250 percent of the Federal poverty level and resources levels could exceed \$2,000 for individuals, and \$3,000 for couples, and the \$20 exclusion or disregard of monthly unearned income could be increased.

Second, if States provide Medicaid coverage to individuals described above, they may also opt to continue to provide coverage to individuals, aged 16–64, who cease to be eligible for Medicaid under the previous option because of medical improvement, but who still have a severe medically determinable impairment, and who are employed. Individuals covered by Medicaid through other disability options (such as 1619b or the Balanced Budget Act of 1997 option) would continue Medicaid if eligibility ceases because of medical improvement. States may establish limits on resources and income that differ from the Federal requirements. Individuals would be considered to be employed if they earn at least the Federal minimum wage, and work at least 40 hours per month, or are engaged in work that meets criteria for work hours, wages, or other measures established by the State and approved by the Secretary of the Department of Health and Human Services (HHS).

Individuals covered under these options could “buy into” Medicaid coverage by paying premiums or other cost-sharing charges on a sliding fee scale based on an individual’s income, as established by the State. (Premium and cost-sharing charges do not apply to existing Medicaid mandatory or optional groups.) The State would be required to make premium or other cost-sharing charges the same for both these two new eligibility groups. In addition, a State may require individuals with income above 250 percent of the Federal poverty level to pay the full premium cost.

Federal funds paid to a State for Medicaid coverage of these new eligibility groups must be used to supplement State funds used for their existing programs that assist disabled individuals to work. In order to receive Federal funds, States are required to maintain their current level of effort for these groups.

Reason for change

These new Medicaid options are designed to make it possible for States to remove a significant barrier to employment confronting individuals with disabilities—the reality that increased earnings can result in the loss of health insurance coverage. The new options would provide access to Medicaid coverage for working disabled individuals without requiring them to first receive cash benefits to qualify.

Effective date

The proposal would be effective on or after October 1, 1999.

2. SECTION 102. CONTINUATION OF MEDICARE COVERAGE FOR WORKING INDIVIDUALS WITH DISABILITIES

Present law

Disabled beneficiaries are provided with an extended period of time to test their ability to work without losing their entitlement to Social Security Disability Insurance (SSDI) and Medicare Part A benefits. The period consists of:

- (1) a *trial work period* during which disabled beneficiaries can work for up to 9 months (within a 5-year period) with no effect on their cash disability or Medicare benefits; and
- (2) after a 3-month grace period, Medicare Part A coverage continues for a 36-month *extended period of eligibility*, while cash benefits are suspended for any month in which the individual is engaged in substantial gainful activity (\$500 in monthly earnings).

When the Medicare entitlement ends because of the individual's work activity, if the individual is still medically disabled, Medicare coverage can be purchased by the individual through the payment of monthly premiums (currently \$309 per month for Part A, and \$45.50 per month for Part B).

Explanation of provision

The proposal would extend Medicare Part A coverage for working SSDI beneficiaries engaged in substantial gainful activity for the 10-year period following enactment of this subsection of the bill without requiring beneficiaries to pay the Medicare Part A premium. In addition, Medicare Part A coverage could continue after the termination of the 10-year period for any individual who is enrolled in the Medicare Part A program for the month that ends the initial 10-year period, without requiring the beneficiaries to pay the premium.

The proposal would require the Comptroller General of the United States to submit a report to Congress no later than 8 years after enactment that would examine the effectiveness and cost of extending Medicare Part A coverage to working disabled beneficiaries without charging them a premium. The report would be required to recommend whether the Medicare coverage extension should continue beyond the initial 10-year period set forth in the bill.

Reason for change

Fear of losing Medicare coverage, or being required to make premium payments totaling \$309 per month, has contributed significantly to the very low rate of SSDI beneficiaries returning to work (only 1 percent of SSDI beneficiaries move through the extended period of eligibility and ultimately leave the program). This provision would lengthen the current extended period of eligibility to remove a real barrier to employment.

Many individuals with disabilities who join the workforce do not initially secure positions that offer health insurance benefits. However, if private sector coverage is offered, current law related to when Medicare is primary rather than secondary payer is unchanged.

Effective date

The proposal would be effective on or after the date of enactment of the bill.

3. SECTION 103. GRANTS TO DEVELOP AND ESTABLISH STATE INFRASTRUCTURES TO SUPPORT WORKING INDIVIDUALS WITH DISABILITIES

Present law

No provision.

Explanation of provision

Infrastructure grants.—The proposal would require the Secretary of HHS to award grants to States to design, establish and operate infrastructures that provide items and services to support working individuals with disabilities, and to conduct outreach campaigns to inform them about the infrastructures. States would be eligible for these grants under the following conditions:

(1) they must provide Medicaid coverage to the first new eligibility category described above; and

(2) they must provide personal assistance services to assist individuals eligible under the proposal to remain employed (that is, earn at least the Federal minimum wage and work at least 40 hours per month, or engage in work that meets criteria for work hours, wages, or other measures established by the State and approved by the Secretary of HHS).

“*Personal assistance services*” refers to a range of services, provided by one or more persons, to assist individuals with disabilities to perform daily activities on and off the job. These services would be designed to increase individuals’ control in life and ability to perform daily activities on or off the job.

Formula for allocation of demonstration funds and award amounts.—The Secretary of HHS would be required to develop a formula for the award of infrastructure grants. The formula must provide special consideration to States that extend Medicaid coverage to persons who cease to be eligible for SSDI and SSI because of an improvement in their medical condition, but who have a severe medically determinable impairment, and who are employed.

Grant amounts to States must be a minimum of \$500,000 per year. They may be up to a maximum amount of 15 percent of Fed-

eral and State Medicaid expenditures in a given fiscal year for individuals eligible under one or both of the new eligibility groups described above, whichever is greater.

Annual report. States would be required to submit an annual report to the Secretary on the use of the grant funds. In addition, the report must indicate the percent increase in the number of SSDI and SSI beneficiaries who return to work.

Funding. The proposal would authorize the following amounts:

- FY2000, \$20 million;
- FY2001, \$25 million;
- FY2002, \$30 million;
- FY2003, \$35 million;
- FY2004, \$40 million; and
- FY2005–FY2010, the amount of appropriations for the preceding fiscal year plus the percent increase in the CPI for All Urban Consumers for the preceding fiscal year.

The Secretary of HHS, in consultation with the Work Incentives Advisory Panel established by the bill, would be required to make a recommendation, by October 1, 2009, to the Committee on Commerce in the House and the Committee on Finance in the Senate, whether the grant program should be continued after FY2010.

Reason for change

The grant program would provide limited financial support to States committed to developing new systems of care for working disabled individuals.

Effective date

This provision would be effective October 1, 1999.

4. SECTION 104. DEMONSTRATION OF COVERAGE OF WORKERS WITH POTENTIALLY SEVERE DISABILITIES

Present law

No provision.

Explanation of provision

The Secretary would be required to establish a State demonstration program that would provide medical assistance equal to that provided under Medicaid for disabled persons age 16–64 who are “workers with a potentially severe disability.” These are individuals who meet a State’s definition of physical or mental impairment, who are employed, *and* who are reasonably expected to meet SSI’s definition of blindness or disability if they did not receive Medicaid services.

The Secretary is required to approve demonstration programs if the State meets the following requirements:

- (1) the State has elected to take up the first new Medicaid option to cover working persons with disabilities with incomes in excess of current limits;
- (2) Federal funds are used to supplement State funds used for workers with potentially severe disabilities at the time the demonstration is approved; and

(3) the State conducts an independent evaluation of the demonstration program. The proposal would allow the Secretary to approve demonstration programs that operate on a sub-State basis.

For purposes of the demonstration, individuals would be considered to be employed if they earn at least the Federal minimum wage and work at least 40 hours per month, *or* are engaged in work that meets threshold criteria for work hours, wages, or other measures as defined by the demonstration project and approved by the Secretary.

Funding. The proposal would authorize the following amounts:

- FY2000, \$70 million;
- FY2001, \$73 million;
- FY2002, \$77 million; and
- FY2003, \$80 million.

Payments to States. Payments under this demonstration program could not exceed, in the aggregate, \$300 million. Payments may be provided to States only through FY2005. The Secretary is required to allocate funds to States based on their applications and the availability of funds. Funds awarded to States would equal their Federal medical assistance percentage (FMAP) of expenditures for medical assistance to workers with a potentially severe disability.

The Secretary of HHS would be required to make a recommendation, by October 1, 2002, to the Committee on Commerce in the House and the Committee on Finance in the Senate, whether the grant program should be continued after FY2003.

Reason for change

The demonstration would test whether providing individuals with potentially severe disabilities early access to insurance coverage can delay or prevent the onset of a fully disabling condition. Also, the demonstration would test whether access to insurance would make it possible for these individuals to remain in the work force longer, rather than moving on to the cash assistance rolls.

Effective date

This provision would be effective October 1, 1999.

D. TITLE II—TICKET TO WORK AND SELF-SUFFICIENCY AND RELATED PROVISIONS

1. SUBTITLE A. TICKET TO WORK AND SELF-SUFFICIENCY

A. SECTION 201. ESTABLISHMENT OF THE TICKET TO WORK AND SELF-SUFFICIENCY PROGRAM

Present law

The Commissioner is required to promptly refer individuals applying for Social Security disability insurance (SSDI) or Supplemental Security Income (SSI) benefits for necessary vocational rehabilitation (VR) services to State vocational rehabilitation (VR) agencies. State VR agencies are established pursuant to Title I of the Rehabilitation Act of 1973, as amended. A State VR agency is reimbursed for the costs of VR services to SSDI and SSI beneficiaries with a single payment after the beneficiary performs “sub-

stantial gainful activity” (i.e., had earnings in excess of \$500 per month) for a continuous period of at least 9 months. The Social Security Administration (SSA) has also established an “alternate participant program” in regulation where private or other public agencies are eligible to receive reimbursement from SSA for providing VR and related services to SSDI and SSI beneficiaries. To participate in the alternate participant program, a beneficiary must first be referred to, and declined by, a State VR agency. Such private and public agencies are reimbursed according to the same procedures as State VR agencies.

Explanation of provision

The Committee provision would direct the Commissioner of Social Security to establish a “Ticket to Work and Self-Sufficiency Program” under Title XI of the Social Security Act. Each eligible SSI or SSDI beneficiary would receive a “ticket” which may be used to obtain employment services, VR services, and other support services (e.g., assistive technology) from a participating provider (termed “employment networks”) of his or her choice. The Commissioner is expected to issue regulations regarding eligibility for participation in the program.

Employment networks may include both State VR agencies and private and other public providers. Employment networks would be prohibited from seeking additional compensation from beneficiaries. Any disabled beneficiary who is enrolled with an employment network is otherwise ineligible for services from a State VR agency unless the employment network has entered into an agreement with that State VR agency.

The Committee provision would direct the Commissioner to contract with one or more private or public entities with expertise and experience in the field of vocational rehabilitation and employment services to serve as a “program manager” to assist the Commissioner in administering the program. Program managers would be selected through a competitive bidding process. Such assistance would include recruiting and monitoring employment networks; ensuring the availability of adequate services in the geographic area covered by the program manager; providing information to beneficiaries about available employment networks; and ensuring that any beneficiary may change employment networks for good cause. Program managers are ineligible to serve as employment networks, or have a financial interest in an employment network, in the geographic area served by the program manager.

Employment networks (i.e., providers of services) would consist of a single provider (public or private) or an association of providers, and may include a one-stop delivery system established under Title I of the Workforce Investment Act of 1998. Employment networks would be required to demonstrate relevant expertise and experience; meet certain financial reporting requirements; and prepare annual performance reports that would be provided to beneficiaries and to the public. Employment networks and beneficiaries would together develop an individual work plan in such a way that the beneficiary can exercise informed choices in selecting an employment goal and specific services need to achieve that goal. A beneficiary’s written plan would take effect upon written approval by

the beneficiary or beneficiary's representative. The Commissioner would not initiate a continuing disability review for beneficiaries enrolled in the program.

Each employment network (i.e., providers) would elect to be paid according to one of two payment systems:

- (1) an outcome payment system, or
- (2) an outcome milestone payment system. However, a participating State VR program also retains the option of seeking reimbursement for services to any beneficiary under the current law payment system. Under the outcome payment system, each month that a beneficiary is not receiving cash benefits the beneficiary's employment network would receive an amount not to exceed 40 percent of the average SSDI or SSI monthly payment (as applicable to the beneficiary) in the previous calendar year. Such payments would not continue for more than 60 months.

Note: In 1997, the average monthly SSDI benefit payment was \$722; the average monthly SSI benefit payment was \$389.

Under the outcome milestone payment system, employment networks may receive payment when one or more milestones (as determined by the Commissioner) are achieved leading to the goal of permanent employment. The payment schedule of the outcome milestone payment system would be designed so that the total of the payments with respect to any beneficiary is less than (on a net present value basis) the total amount of payments to which the employment network would be entitled under the outcome payment system.

The Commissioner would periodically review both payment systems, and if necessary, alter the percentages, milestones, or payment periods to ensure that networks have adequate assistance to assist beneficiaries into the workforce.

The Committee provision provides for graduated implementation of the program nationwide. Implementation would commence no later than 1 year after enactment of the legislation, and full implementation would be completed within 3 additional years.

The Committee provision would authorize transfers from the Social Security Trust Funds for reimbursement of employment networks, and authorize amounts to be appropriated to the Social Security Administration for SSI recipients. The Committee provision would also authorize appropriations for the administrative expenses of the program.

The Committee provision provides for reauthorization of the program 5 years after the Commissioner commences implementation of the program. However, payment for any beneficiary who is enrolled in the program would continue for the period otherwise provided regardless of whether the program is reauthorized in a timely manner.

The Commissioner is directed to conduct an evaluation of the program. Evaluation reports would be transmitted to the Senate Finance Committee and the House Ways and Means Committee at the end of the third, fifth, and seventh year of program operation.

The Committee provision would also establish within the Social Security Administration a "Work Incentives Advisory Panel." The panel would consist of 12 members, whose duties would include ad-

vising the Commissioner of Social Security and other cabinet officials on implementation of the Ticket to Work program; on demonstration programs relating to work incentives, and on any other issues related to work incentives planning relating to Social Security disability insurance (SSDI), Supplemental Security Income (SSI), Medicaid, and Medicare.

Reason for change

Currently, few Social Security disability insurance (SSDI) or Supplemental Security Income (SSI) beneficiaries are referred for vocational rehabilitation (VR) services, and fewer actually return to work because of VR services. The Congressional Budget Office (CBO) has estimated that about 10 to 15 percent of new SSDI and SSI beneficiaries are referred to State VR agencies, and that about 10 percent of those referred are accepted for services. According to the Social Security Administration (SSA), in 1998, 9,950 SSDI or SSI beneficiaries graduated from the disability benefit rolls to employment because of VR services paid for by SSA. During that time, about 4.8 million disabled workers received SSDI benefits each month, and about 3.6 million disabled individuals (ages 18–64), SSI benefits. The General Accounting Office (GAO), as well as public and private commissions, have recommended major changes in SSA's approach to employment assistance.

The Committee provision is intended to improve not only VR services but actual employment outcomes by permitting nearly any SSDI or SSI beneficiary who desires VR services to receive them; by permitting beneficiaries to choose from a variety of providers in addition to State VR agencies, and by improving the payment for services by stretching out reimbursements to VR providers for up to 5 years, contingent on their clients' sustained employment. By maintaining a link between payments and successful job outcomes, the program is intended to reward employment and not simply the provision of VR services. Given SSA's limited experience in administering employment and vocational rehabilitation services, the Committee provision would provide for program managers to assist in recruiting employment networks and handling the nuts-and-bolts of administration of the program.

The Committee provision is based on H.R. 3433, the "Ticket to Work and Self-Sufficiency Act of 1998," as passed by the House of Representatives on June 4, 1998.

Effective date

Generally 1 year after enactment.

2. SUBTITLE B. ELIMINATION OF WORK DISINCENTIVES

A. SECTION 211. WORK ACTIVITY STANDARD AS A BASIS FOR REVIEW OF AN INDIVIDUAL'S DISABLED STATUS

Present law

Eligibility for Social Security disability insurance (SSDI) cash benefits requires an applicant to meet certain criteria, including the presence of a disability that renders the individual unable to engage in substantial gainful activity. Substantial gainful activity is defined as work that results in earnings that exceeds an amount

set in regulation, currently \$500 per month. Continuing disability reviews (CDRs) are conducted by the Social Security Administration to determine whether an individual remains disabled and thus eligible for continued benefits. CDRs may be triggered by evidence of recovery from disability, including, for example, return to work. The Social Security Administration is also required to conduct periodic CDRs—every 3 years for any beneficiary who is determined to be nonpermanently disabled, and at times determined by the Commissioner for beneficiaries with a permanent disability.

Explanation of provision

The Committee provision would establish that the standard for work-related CDRs for long-term SSDI beneficiaries (i.e., individuals who have been receiving disability benefits for at least 24 months) would be limited to those triggered by employment that results in earnings that exceed substantial gainful activity, or to periodic continuing disability reviews.

Reason for change

The Committee provision is intended to encourage long-term SSDI beneficiaries to return to work by ensuring that a small amount of work activity would not trigger a continuing disability review. However, like all beneficiaries, long-term beneficiaries would have benefits suspended if earnings exceed the substantial gainful activity level, and would be subject to periodic continuing disability reviews.

Effective date

On enactment.

B. SECTION 212. EXPEDITED REINSTATEMENT OF BENEFITS

Present law

Individuals entitled to Social Security disability insurance (SSDI) benefits may receive expedited reinstatement of benefits following termination of benefits because of work activity any time during a 36-month extended period of eligibility (EPE). That is, benefits may be reinstated without the need for a new application and disability determination. Individuals eligible for Supplemental Security Income (SSI) benefits whose benefits have been terminated because of work may receive expedited reinstatement at any time until benefits have been suspended for 12 consecutive months because of work. Otherwise, the Commissioner of Social Security must make a new determination of disability before a claimant can reestablish reentitlement to disability benefits.

Explanation of provision

The Committee provision would provide that an individual:

- (1) whose entitlement to Social Security disability insurance (SSDI) benefits had been terminated on the basis of work activity following completion of an extended period of eligibility (EPE); or
- (2) whose eligibility for Supplemental Security Income (SSI) benefits (including special SSI eligibility status under section

1619(b) of the Social Security Act) had been terminated following suspension of those benefits for 12 consecutive months on account of excess income resulting from work activity, may request reinstatement of those benefits without filing a new application.

The individual must have become unable to continue working on the basis of his or her medical condition and must file a reinstatement request within the 60-month period following the month of such termination.

While the Commissioner is making a determination of a reinstatement request, the individual will be eligible for provisional benefits (cash benefits and Medicare or Medicaid, as appropriate) for a period of not more than 6 months. If the Commissioner makes a favorable determination, such individual's prior entitlement to benefits would be reinstated, as would be the prior benefits of his or her dependents who continue to meet the entitlement criteria.

Reason for change

The Committee provision is intended to encourage SSDI and SSI beneficiaries to return to work by providing assurance that cash and health benefits could be restored in a timely fashion if an individual must discontinue employment and continues to meet standards for disability set by the Social Security Administration.

Effective date

One year after enactment.

3. SUBTITLE C. WORK INCENTIVES PLANNING, ASSISTANCE, AND OUTREACH

A. SECTION 221. WORK INCENTIVES OUTREACH PROGRAM

Present law

The Social Security Administration prepares and distributes educational materials on work incentives for individuals receiving Social Security disability insurance (SSDI) and Supplemental Security Income (SSI) benefits, including on the Internet. Social Security personnel in its 1,300 field offices are available to answer questions about work incentives. Work incentives currently include: exclusions for impairment-related work expenses; trial work periods during which an individual may continue to receive cash benefits; a 36-month extended eligibility period during which cash benefits can be reinstated at any time; continued eligibility for Medicaid and Medicare; continued payment of benefits while a beneficiary is enrolled in vocational rehabilitation program; and plans for achieving self-support (PASS).

Explanation of provision

The Commissioner of Social Security is directed to establish a community-based work incentives planning and assistance program for the purpose of disseminating accurate information to individuals on work incentives. Under this program, the Commissioner would:

- (1) establish a program of grants, cooperative agreements, or contracts to provide benefits planning and assistance, including

protection and advocacy services, to individuals with disabilities, and outreach to individuals with disabilities who are potentially eligible for work incentive programs; and

(2) establish a corps of work incentive specialists located within the Social Security Administration.

The Commissioner would determine the qualifications of agencies eligible for award of a grant, cooperative agreement, or contract. Social Security Administration field offices and State Medicaid agencies are deemed ineligible. Eligible organizations may include Centers for Independent Living, protection and advocacy organizations, and client assistance programs (established in accordance with the Rehabilitation Act of 1973, as amended); State Developmental Disabilities Councils (established in accordance with the Developmental Disabilities Assistance and Bill of Rights Act); and State welfare agencies (funded under Title IV–A of the Social Security Act).

Annual appropriations for this program would not to exceed \$23 million. The grant amount in each State would be based on the number of beneficiaries in a State, subject to certain limits.

Reason for change

The Committee provision is intended to improve information about, and encourage the use of, work incentives by, Social Security disability insurance (SSDI) and Supplemental Security Income (SSI) beneficiaries. Disabled beneficiaries and advocates report that the work incentives for SSI and SSI beneficiaries are complex, difficult to understand, and information and assistance from the Social Security Administration is frequently not helpful. The Committee provision would improve both community-based sources of information through a grant program, and expertise within the Social Security Administration with a corps of work incentives specialists. Since some beneficiaries attempt to work without receiving rehabilitation services, work incentive information services would be available to all beneficiaries, not just those participating in the Ticket program.

Effective date

Fiscal year 2000.

B. SECTION 222. STATE GRANTS FOR WORK INCENTIVES ASSISTANCE TO DISABLED BENEFICIARIES

Present law

Grants to States to provide assistance to individuals with disabilities are authorized under the Developmental Disabilities Assistance and Bill of Rights Act (42 U.S.C. 6041 et seq.). Such assistance includes information on and referral to programs and services; and legal, administrative, and other appropriate remedies to ensure access to services.

Explanation of provision

The Commissioner of Social Security would be authorized to make grants to existing protection and advocacy programs authorized by the States under the Developmental Disabilities Assistance

and Bill of Rights Act. Services would include information and advice about obtaining vocational rehabilitation and employment services, and advocacy and other services a Social Security disability insurance (SSDI) or Supplemental Security Income (SSI) beneficiary may need to secure or regain gainful employment, including applying for and receiving work incentives.

Appropriations for this program would not to exceed \$7 million for fiscal year 2000, and such sums as needed thereafter. Individual grant amounts would be based on the number of beneficiaries in a State, subject to certain limits.

Reason for change

The Committee provision is intended to improve direct assistance and supports to Social Security disability insurance (SSDI) and Supplemental Security Income (SSI) beneficiaries in making use of vocational rehabilitation, work incentives, and any related assistance or supports that would help a beneficiary to go to work or maintain employment. Disabled beneficiaries and advocates report that the work incentives for SSI and SSDI beneficiaries are complex, difficult to understand, and information and assistance from the Social Security Administration is frequently not helpful. The Committee provision would improve “hands on” assistance to people with disabilities in obtaining access to employment assistance and work incentives by providing grants to existing State-authorized entities with expertise in working with people with disabilities. Since some beneficiaries attempt to work without receiving rehabilitation services, work incentive information services would be available to all beneficiaries, not just those participating in the Ticket program.

Effective date

Fiscal year 2000.

E. TITLE III—DEMONSTRATION PROJECTS AND STUDIES

1. SECTION 301. EXTENSION OF DISABILITY INSURANCE PROGRAM
DEMONSTRATION AUTHORITY

Present law

Section 505 of the Social Security Disability Amendments of 1980, as amended (42 U.S.C. 1310) provides the Commissioner of Social Security authority to conduct certain demonstration projects. The Commissioner may initiate experiments and demonstration projects to test ways to encourage Social Security Disability Insurance (SSDI) beneficiaries to return to work, and may waive compliance with certain benefit requirements in connection with these projects. This demonstration authority has expired.

Explanation of provision

The Committee provision would permanently authorize section 505 of the Social Security Disability Amendments of 1980, and provide new authority to:

(1) conduct demonstrations related to sliding scale benefit offsets using variations in the amount of the offset as a proportion of earned income; and

(2) conduct demonstration projects with presumptively eligible applicants.

Reason for change

Current demonstration authority has expired.

Effective date

Date of enactment.

2. SECTION 302. DEMONSTRATION PROJECTS PROVIDING FOR REDUCTIONS IN DISABILITY INSURANCE BENEFITS BASED ON EARNINGS

Present law

No provision.

Explanation of provision

The Committee provision would require the Commissioner of Social Security to conduct a demonstration project under which payments to Social Security disability insurance (SSDI) beneficiaries would be reduced \$1 for every \$2 of beneficiary earnings. The Commissioner would be required to annually report to the Congress on the progress of this demonstration project; the first report is due June 9, 2000.

Reason for change

SSDI beneficiaries lose all cash benefits when they work and earn more than the substantial gainful activity limit (currently \$500 a month), after participating in the 9-month trial work period. Because of the \$500 “earnings cliff,” many SSDI beneficiaries view remaining on the rolls as financially more attractive than risking the uncertainties of competitive employment, especially when low-wage jobs are the likely outcome.

To determine whether changes in this earnings-cliff hurdle would in fact encourage SSDI beneficiaries to return to work, the Committee provision would require SSA to test a gradual offset of SSDI cash benefits by reducing benefits \$1 for every \$2 in earnings over a determined level. A reduction in benefits based on earnings would lessen the total loss of benefits to beneficiaries who attempt work. However, some experts assert that the results of a permanent provision allowing a SSDI benefit offset of \$1 for every \$2 earned over a determined level would result in large costs to the Social Security Trust Funds because it would encourage disabled individuals who currently work despite their impairments to apply for benefits. The Committee provision would examine these several effects.

Effective date

On enactment.

3. SECTION 304. STUDIES AND REPORTS

Present law

No provision.

Explanation of provision

1. *Study by GAO of Existing Disability-Related Employment Incentives.*—The Committee provision would direct the General Accounting Office (GAO) to assess the value of existing tax credits and disability-related employment initiatives under the Americans with Disabilities Act and other Federal laws. The report is to be submitted within 3 years to the Senate Committee on Finance and the House Committee on Ways and Means.

2. *Study by GAO of Existing Coordination of the DI and SSI Programs as They Relate to Individuals Entering or Leaving Concurrent Entitlement.*—The Committee provision would direct the General Accounting Office (GAO) to evaluate the coordination under current law of work incentives for individuals eligible for both Social Security disability insurance (SSDI) and Supplemental Security Income (SSI). The report is to be submitted within 3 years to the Senate Committee on Finance and the House Committee on Ways and Means.

3. *Study by GAO on the Impact of the Substantial Gainful Activity Limit on Return to Work.*—The Committee provision would direct the General Accounting Office (GAO) to examine substantial gainful activity limit as a disincentive for return to work. The report is to be submitted within 2 years to the Senate Committee on Finance and the House Committee on Ways and Means.

4. *Report on Disregards Under the DI and SSI Programs.*—The Committee provision would direct the Commissioner of Social Security to identify all income disregards under the Social Security disability insurance (SSDI) and Supplemental Security Income (SSI) programs; to specify the most recent statutory or regulatory change in each disregard; the estimated current value of any disregard if the disregard had been indexed for inflation; recommend any further changes; and to report certain additional information and recommendations on disregards related to grants, scholarships, or fellowships used in attending any educational institution. The report is to be submitted within 90 days to the Senate Committee on Finance and the House Committee on Ways and Means.

Reason for change

These reports would provide new information to evaluate or improve employment and related assistance to SSDI and SSI beneficiaries.

Effective date

On enactment.

F. TITLE IV—TECHNICAL AMENDMENTS

1. SECTION 401. TECHNICAL AMENDMENTS RELATING TO DRUG ADDICTS AND ALCOHOLICS

Present law

Public Law 104–121 included amendments to the Social Security disability insurance (SSDI) and Supplemental Security Income (SSI) programs providing that no individual could be considered to be disabled if alcoholism or drug addiction would otherwise be a contributing factor material to the determination of disability. The effective date for all new and pending applications was the date of enactment. For those individuals whose claims had been finally adjudicated before the date of enactment, the amendments would apply commencing with benefits for months beginning on or after January 1, 1997. Individuals receiving benefits due to drug addiction or alcoholism can reapply for benefits based on another impairment. If the individual applied within 120 days after the date of enactment, the Commissioner is required to complete the entitlement redetermination by January 1, 1997.

Public Law 104–121 provided for the appointment of representative payees for recipients allowed benefits due to another impairment but who were also determined to have a drug addiction or alcoholism condition, and the referral of those individuals for treatment effective with applications and reapplications filed after July 1, 1996.

Explanation of provision

The Committee provision clarifies that the meaning of the term “final adjudication” includes a pending request for administrative or judicial review or a pending readjudication pursuant to class action or court remand. The provision also clarifies that if the Commissioner does not perform the entitlement redetermination before January 1, 1997, that entitlement redetermination must be performed in lieu of a continuing disability review.

The Committee provision also corrects an anomaly that currently excludes all those allowed benefits (due to another impairment) before March 29, 1996, and redetermined before July 1, 1996, from the requirement that a representative payee be appointed and that the recipient be referred for treatment.

Reason for change

The provision clearly defines “final adjudication” to avoid any misinterpretation by the courts. One court has concluded that the court can award benefits through January 1, 1997, because the Commissioner’s decision denying benefits was issued before March 29, 1996.

As written, current law creates an anomaly, whereby all those allowed benefits (due to another impairment) before March 29, 1996, and redetermined before July 1, 1996, are excluded from the requirement that a representative payee be appointed and that they be referred for treatment. The Committee provision corrects this anomaly.

Effective date

The amendments would be effective as though they had been included in the enactment of Section 105 of Public Law 104–121 (March 29, 1996).

2. SECTION 402. TREATMENT OF PRISONERS

*Implementation of Prohibition Against Payment of Title II Benefits to Prisoners**Present law*

Current law prohibits prisoners from receiving Old Age, Survivors and Disability Insurance (OASDI) benefits while incarcerated if they are convicted of any crime punishable by imprisonment of more than 1 year (regardless of actual sentence imposed). Federal, State, county or local prisons are required to make available, upon written request, the name and Social Security number (SSNs) of any individual so convicted who is confined in a penal institution or correctional facility.

Explanation of provision

The Committee provision requires the Commissioner to make agreements with any interested State or local institution to provide monthly the names, Social Security numbers (SSNs), confinement dates, dates of birth, and other identifying information of residents. The Commissioner is required to pay the institution \$400 for each Social Security recipient who becomes ineligible for benefits as a result of such a report, if the information is provided within 30 days of incarceration, and \$200 if the information is furnished after 30 days but within 90 days. Payments to correctional institutions would be reduced by 50 percent for multiple reports on the same individual who receives both SSI and OASDI benefits. The Commissioner is authorized to provide, on a reimbursable basis, information obtained pursuant to these agreements to any Federal or federally-assisted cash, food or medical assistance program, for the purpose of determining program eligibility.

Reason for change

The Committee provision provides new financial incentives for State and local correctional institutions to report information on inmates to the Social Security Administration (SSA) so that payment of Social Security benefits to prisoners being supported at taxpayer expense are discontinued promptly. Moreover, the Committee provision provides identical incentives now available to report identical information that leads to termination of Supplemental Security Income (SSI) benefits. Under current law, the Commissioner of Social Security already pays institutions \$400 for each Supplemental Security Income (SSI) recipient who becomes ineligible for benefits as a result of such a report, if the information is provided within 30 days of incarceration, and \$200 if the information is furnished after 30 days but within 90 days.

Effective date

Three months after the date of enactment.

*Elimination of Title II Requirement That Confinement Stem From
Crime Punishable by Imprisonment for More Than 1 Year*

Present law

Title II of the Social Security Act bars payment of Old Age, Survivors, or Disability Insurance (OASDI) benefits to prisoners convicted of, or who are institutionalized because they are found guilty but insane, not guilty by reason of insanity, incompetent to stand trial, or the subject of a similar verdict or finding based on a mental disease, a mental defect, or mental incompetence with respect to, any crime punishable by imprisonment of more than a year (regardless of the actual sentence imposed).

Explanation of provision

This provision would bar payment of OASDI benefits to prisoners and other individuals convicted of a criminal offense and confined, throughout a month, to:

- (1) a penal institution; or
- (2) other institution if found guilty but insane, regardless of the total duration of the confinement.

Reason for change

An audit conducted by the SSA Office of Inspector General determined that the language in existing law required that for each prisoner eligible for benefits, the duration of incarceration be determined on a case-by-case basis, based on data that can only be obtained from the courts. This is a costly, labor-intensive process that impedes timely suspension of benefits. As a matter of fairness, benefits would also be barred to persons who commit serious crimes but are found guilty by reason of insanity, regardless of the total duration of the institutionalization.

Effective date

Three months after enactment.

*Continued Denial of Benefits to Sex Offenders Remaining Confined
to Public Institutions Upon Completion of Prison Term*

Present law

No provision.

Explanation of provision

The amendment would prohibit Old Age, Survivors, or Disability Insurance (OASDI) benefits to sex offenders who, on completion of a prison term, remain confined in a public institution pursuant to a court finding that they continue to be sexually dangerous to others.

Reason for change

The denial of benefits is extended in the case of sex offenders who remain confined after completing their prison terms.

Effective date

On enactment.

3. SECTION 403. REVOCATION BY MEMBERS OF THE CLERGY OF EXEMPTION FROM SOCIAL SECURITY COVERAGE

Present law

Practicing members of the clergy are automatically covered by Social Security as self-employed workers unless they file an application for an exemption from Social Security coverage; the application must be filed within a period ending with the due date of the tax return for the second taxable year (not necessarily consecutive) in which they receive remuneration for their ministerial services and must include a statement of the applicants' objection to the acceptance of Social Security benefits on religious principles. Applicants must also inform the ordaining, commissioning, and licensing body of their church or order about their objection. If granted, this exemption is irrevocable.

Explanation of provision

The proposal would provide a 2-year "open season," beginning December 31, 1999, for members of the clergy who want to revoke their exemption from Social Security, i.e., wish to join Social Security. This decision to join Social Security would be irrevocable. A member of the clergy choosing such coverage would become subject to self-employment taxes and his or her subsequent earnings would be credited for Social Security (and Medicare) benefit purposes.

Reason for change

Some members of the clergy elected not to participate in Social Security (and Medicare) early in their careers, before they fully understood the ramifications of doing so. Because the election is irrevocable, there is no way for them to gain access to the program under current law. Clergy typically have modest earnings throughout their working life times and would be among those most likely to rely on Social Security (and Medicare) for much of their basic health care and living expenses in retirement. This proposal gives them a limited opportunity to enroll in the system, similar to those provided by Congress in 1977 and 1986.

Effective date

The proposal would be effective with respect to service performed in taxable years beginning after December 31, 1999, for a period of 2 years, and with respect to monthly benefits in or after the calendar year the individual's application for revocation is effective.

4. SECTION 404. ADDITIONAL TECHNICAL AMENDMENT RELATING TO COOPERATIVE RESEARCH OR DEMONSTRATION PROJECTS UNDER TITLES II AND XVI

Present law

Current law authorizes Title XVI funding for making grants to States and public and other organizations for paying part of the cost of cooperative research or demonstration projects.

Explanation of provision

Clarifies current law to include agreements or grants concerning title II of the Social Security Act.

Reason for change

Corrects an omission of intended Title II authority.

Effective date

August 4, 1994.

5. SECTION 405. AUTHORIZATION FOR STATES TO PERMIT ANNUAL WAGES REPORTS

Present law

The Social Security Domestic Employment Reform Act of 1994 (P.L. 103–387) changed certain Social Security and Medicare tax rules. Specifically, the Act provided that domestic service employers (that is, individuals employing maids, gardeners, babysitters, and the like) would no longer owe taxes for any domestic employee who earned less than \$1,000 per year from the employer. In addition, the Act simplified certain reporting requirements. Domestic employers were no longer required to file quarterly returns regarding Social Security and Medicare taxes, nor the annual Federal Unemployment Tax Act (FUTA) return. Instead, all Federal reporting was consolidated on an annual Schedule H filed at the same time as the employer’s personal income tax return.

Explanation of provision

The Committee provision would permit States the option of permitting domestic service employers to file annual rather than quarterly wage reports pursuant to section 1137 of the Social Security Act, which provides for an income and eligibility verification system for certain public benefits.

Reason for change

The Committee provision provides for consistency of certain State wage reporting with revised Federal requirements.

Effective date

On enactment.

G. TITLE V—REVENUE OFFSETS

1. SECTION 501 OF THE BILL AND SECTION 901 OF THE CODE. MODIFICATIONS TO FOREIGN TAX CREDIT CARRYOVER RULES

Present law

U.S. persons may credit foreign taxes against U.S. tax on foreign-source income. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S.-source income. Separate foreign tax credit limitations are applied to specific categories of income.

The amount of creditable taxes paid or accrued (or deemed paid) in any taxable year which exceeds the foreign tax credit limitation is permitted to be carried back 2 years and forward 5 years. The amount carried over may be used as a credit in a carryover year to the extent the taxpayer otherwise has excess foreign tax credit limitation for such year. The separate foreign tax credit limitations apply for purposes of the carryover rules.

Explanation of provision

The bill reduces the carryback period for excess foreign tax credits from 2 years to 1 year. The bill also extends the excess foreign tax credit carryforward period from 5 years to 7 years.

Reason for change

The Committee believes that reducing the carryback period for foreign tax credits to 1 year and increasing the carryforward period to 7 years will reduce some of the complexity associated with carrybacks while continuing to address the timing difference between U.S. and foreign tax rules.

Effective date

The provision applies to foreign tax credits arising in taxable years beginning after December 31, 2001.

2. SECTION 502 OF THE BILL AND SECTION 448 OF THE CODE. LIMIT USE OF NON-ACCRUAL EXPERIENCE METHOD OF ACCOUNTING TO AMOUNTS TO BE RECEIVED FOR THE PERFORMANCE OF QUALIFIED PERSONAL SERVICES

Present law

An accrual method taxpayer generally must recognize income when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy. An accrual method taxpayer may deduct the amount of any receivable that was previously included in income that becomes worthless during the year.

Accrual method taxpayers are not required to include in income amounts to be received for the performance of services which, on the basis of experience, will not be collected (the “non-accrual experience method”). The availability of this method is conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount charged.

A cash method taxpayer is not required to include an amount in income until it is received. A taxpayer may not use the cash method if purchase, production, or sale of merchandise is a material income producing factor. Such taxpayers are generally required to keep inventories and use the accrual method of accounting. In addition, corporations (and partnerships with corporate partners) generally may not use the cash method of accounting if their average annual gross receipts exceed \$5 million. An exception to this \$5 million rule is provided for qualified personal service corporations, corporations:

- (1) substantially all of whose activities involve the performance of services in the fields of health, law, engineering, archi-

itecture, accounting, actuarial science, performing arts or consulting; and

(2) substantially all of the stock of which is owned by current or former employees performing such services, their estates or heirs. Qualified personal service corporations are allowed to use the cash method without regard to whether their average annual gross receipts exceed \$5 million.

Explanation of provision

The bill provides that the non-accrual experience method will be available only for amounts to be received for the performance of qualified personal services. Amounts to be received for the performance of all other services will be subject to the general rule regarding inclusion in income. Qualified personal services are personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting. As under present law, the availability of the method is conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount.

Reason for change

The Committee understands that the use of the non-accrual experience method provides the equivalent of a bad debt reserve, which generally is not available to taxpayers using the accrual method of accounting. The Committee believes that accrual method taxpayers should be treated similarly, unless there is a strong indication that different treatment is necessary to clearly reflect income or to address a particular competitive situation.

The Committee understands that accrual basis providers of qualified personal services (services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting) compete on a regular basis and on an even footing with competitors using the cash method of accounting. The Committee believes that this competitive situation justifies the continued availability of the non-accrual experience method with respect to amounts to be received for the performance of qualified personal services. The Committee believes that it is important to avoid the disparity of treatment between competing cash and accrual method providers of qualified personal services that could result if the non-accrual experience method were eliminated with regard to amounts to be received for such services.

Effective date

The provision is effective for taxable years ending after the date of enactment. Any change in the taxpayer's method of accounting necessitated as a result of the proposal will be treated as a voluntary change initiated by the taxpayer with the consent of the Secretary of the Treasury. Any required section 481(a) adjustment is to be taken into account over a period not to exceed 4 years under principles consistent with those in Rev. Proc. 98-60.¹

¹ 1998-51 I.R.B. 16.

3. SECTION 503 OF THE BILL AND NEW SECTION 7527 OF THE CODE. EXTENSION OF IRS USER FEES

Present law

The IRS provides written responses to questions of individuals, corporations, and organizations relating to their tax status or the effects of particular transactions for tax purposes. The IRS generally charges a fee for requests for a letter ruling, determination letter, opinion letter, or other similar ruling or determination. Public Law 104–117² extended the statutory authorization for these user fees³ through September 30, 2003.

Explanation of provision

The bill extends the statutory authorization for these user fees through September 30, 2006. The bill also moves the statutory authorization for these fees into the Internal Revenue Code.

Reason for change

The Committee believes that it is appropriate to extend the statutory authorization for these user fees for an additional 3 years.

Effective date

The provision is effective on the date of enactment.

III. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATES

In compliance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the following table is presented concerning the estimated budget effects of S. 331 as reported.

² An Act to provide that members of the Armed Forces performing services for the peacekeeping efforts in Bosnia and Herzegovina, Croatia, and Macedonia shall be entitled to tax benefits in the same manner as if such services were performed in a combat zone, and for other purposes (March 20, 1996).

³ These user fees were originally enacted in section 10511 of the Revenue Act of 1987 (Public Law 100–203, December 22, 1987).

**ESTIMATED BUDGET EFFECTS OF S. 351,
THE "WORK INCENTIVES IMPROVEMENT ACT OF 1999,"
AS APPROVED BY THE SENATE COMMITTEE ON FINANCE ON MARCH 4, 1999**

Fiscal Years 1999 - 2008

(Millions of Dollars)

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1999-03	2004-06	1999-06
Outlay Provisions:														
Title I. -- Expanded Availability of Health Care Services [1]		--	-71	-166	-246	-310	-383	-409	-477	-571	-678	-785	-2,518	-3,311
Title II. -- Ticket to Work and Self-Sufficiency and Related Provisions [1]		--	-8	-24	-31	-34	-25	-10	21	35	48	-87	69	-28
Title III. -- Demonstration Projects and Studies [1]		--	-3	-5	-12	-16	-20	-28	-29	-31	-31	-36	-139	-175
Title IV. -- Technical Amendments [1]		--	6	24	28	32	35	37	37	38	38	90	185	275
Subtotal of Outlay Provisions [1]		--	-76	-171	-383	-328	-383	-410	-446	-528	-623	-838	-2,403	-3,239
Revenue Offsets (Title V.):														
1. 1-year carryback of foreign tax credits and 7-year carryforward	cal type 1231/01	--	--	--	94	596	533	496	464	431	295	690	2,219	2,509
2. Limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services	type DOE 9/30/03	15	57	52	48	44	10	12	14	16	18	216	70	286
3. Extension of IRS user fees through 9/30/06 [1]		--	--	--	--	--	50	53	56	--	--	--	159	159
Subtotal of Revenue Offsets		15	57	52	142	640	593	561	534	447	313	906	2,448	3,354
NET TOTAL		15	-19	-119	-121	312	200	181	86	-82	-310	68	45	115
Joint Committee on Taxation														

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column:

cal = credits arising in

DOE = date of enactment

[1] Estimate provided by the Congressional Budget Office.

type = taxable years beginning after
type = taxable years ending after

B. BUDGET AUTHORITY AND TAX EXPENDITURES

Budget Authority

In compliance with section 308(a)(1) of the Budget Act, the Committee states that Titles I–IV of the bill involve net budget outlays (budget authority) of \$3,239 million over fiscal years 1999–2008. (See table in A., above.)

Tax Expenditures

In compliance with section 308(a)(2) of the Budget Act, the Committee states that bill section 502 involves a reduction in tax expenditures of \$286 million over fiscal years 1999–2008.

C. CONSULTATION WITH CONGRESSIONAL BUDGET OFFICE

In accordance with section 403 of the Budget Act, the Committee advises that the Congressional Budget Office submitted the following statement on S. 331, as amended by the Committee.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 19, 1999.

Hon. WILLIAM V. ROTH, Jr.,
Chairman, Committee on Finance, U.S. Senate,
Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for S. 331, the Work Incentives Improvement Act of 1999.

Sincerely,

BARRY B. ANDERSON,
for
DAN L. CRIPPEN, *Director.*

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

S. 331—Work Incentives Improvement Act

(As ordered reported by the Senate Committee on Finance on March 4, 1999)

SUMMARY

S. 331, the Work Incentives Improvement Act of 1999, would alter cash and health-care benefits for people with disabilities. Title I would provide States with options to extend Medicaid coverage to certain disabled workers, enhance Medicare for certain former recipients of Social Security Disability Insurance (DI), and establish grants and demonstration projects for States to assist disabled workers. Title II would revamp the system under which people collecting benefits from DI and Supplemental Security Income (SSI) receive vocational rehabilitation (VR) services and would make it easier for working beneficiaries to retain or regain cash benefits. Titles III and IV would require several demonstration projects, give certain members of the clergy another opportunity to enroll in the

Social Security system, and tighten restrictions on the payment of Social Security benefits to prisoners. To offset the costs of the bill, Title V would increase certain revenues. CBO estimates that the bill would add to the total Federal surplus by \$0.7 billion over the 2000–2004 period; of that amount, \$0.1 billion would represent a reduction in the off-budget Social Security surplus, and the remaining \$0.8 billion an improvement in the on-budget surplus.

Section 4 of the Unfunded Mandates Reform Act (UMRA) excludes from the application of that act any legislative provisions that relate to the old-age, survivors, and disability insurance program under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that Subtitles A and B in Title II and Titles III and IV of this bill fall within that exclusion. The remainder of the bill contains no intergovernmental mandates as defined in UMRA. However, the optional programs would result in greater State spending if they chose to participate.

The Joint Committee on Taxation has determined that two provisions in the revenue section of the bill constitute private-sector mandates. The direct cost of those provisions would exceed the statutory threshold specified in 2002 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 331 on direct spending and revenues is summarized in Table 1. The costs of this legislation fall within budget functions 550 (Health), 570 (Medicare), 600 (Income Security), 650 (Social Security), and 800 (General Government).

BASIS OF ESTIMATE

For purposes of estimating the budgetary effects of S. 331, CBO assumes enactment by September 1999.

Current Law

About 8 million people between the ages of 18 and 64 now collect cash benefits under DI, SSI, or both. In both programs, applicants must show that they are incapable of substantial work in order to be awarded benefits. Nevertheless, the programs have several provisions that are meant to smooth beneficiaries' return to work. The law permits DI recipients to earn unlimited amounts for a nine-month period (known as the trial work period, or TWP) and a subsequent three-month grace period before suspending benefits. During the three years after the TWP—a period known as the extended period of eligibility, or EPE—those beneficiaries may automatically return to the DI rolls if their earnings sink below substantial gainful activity (SGA, now defined in regulation as \$500 per month and soon to increase to \$700). Furthermore, Medicare benefits (for which DI beneficiaries qualify after two years on the rolls) also continue for three years even if cash benefits are suspended. Medicare coverage then stops unless the worker pays a steep premium (up to \$309 a month in 1999).

The SSI disability program is restricted to people with low income and few resources. Although applicants for SSI benefits must meet the same disability criteria as in the DI program, the SSI pro-

gram's subsequent treatment of earnings differs somewhat. SSI recipients who work get a reduced benefit (essentially, losing \$1 of benefits for each \$2 of earnings over \$85 a month) but do not give up their benefit entirely. If their earnings top SGA but they are still medically disabled, they move into section 1619(a) status (and still collect a small cash benefit). If their earnings rise further, they enter 1619(b) status (where they collect no cash benefit but retain Medicaid). If their incomes are too high even for the 1619(b) program, they may still enroll in Medicaid if their State offers a buy-in program permitted by the Balanced Budget Act of 1997 (BBA).

Table 1. Summary of Estimated Budgetary Effects of S. 331

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
DIRECT SPENDING						
Spending Under Current Law						
Old-Age, Survivors, and Disability Insurance (OASDI)	387,451	404,075	422,855	442,719	463,820	486,589
Supplemental Security Income	28,179	29,625	31,258	33,005	34,826	36,766
Medicare ^a	191,815	205,707	219,269	227,239	247,888	265,755
Medicaid	107,484	116,578	124,841	134,927	146,073	159,094
IRS spending	95	102	104	106	108	110
Other Health and Human Services	0	0	0	0	0	0
Total	715,024	756,087	798,327	837,996	892,715	948,314
Proposed Changes						
Old-Age, Survivors, and Disability Insurance (OASDI)	0	7	15	26	32	29
Supplemental Security Income	0	-1	-6	-7	-7	-11
Medicare ^a	0	12	35	55	75	106
Medicaid	0	16	18	21	24	27
IRS spending	0	0	0	0	0	3
Other Health and Human Services	0	16	57	82	83	84
Total	0	50	119	177	207	238
On-Budget	0	43	104	151	175	209
Off-Budget (OASDI)	0	7	15	26	32	29
Proposed Spending Under S. 331						
Old-Age, Survivors, and Disability Insurance (OASDI)	387,451	404,082	422,870	442,745	463,852	486,618
Supplemental Security Income	28,179	29,624	31,252	32,998	34,819	36,755
Medicare ^a	191,815	205,719	219,304	227,294	247,963	265,861
Medicaid	107,484	116,594	124,859	134,948	146,097	159,121
IRS spending	95	102	104	106	108	113
Other Health and Human Services	0	16	57	82	83	84
Total	715,024	756,137	798,446	838,173	892,922	948,552
REVENUES						
Proposed Changes						
On-Budget	0	73	53	143	641	594
Off-Budget (OASDI)	0	2	7	9	9	9
Total	0	75	60	152	650	603
DEFICIT (-) OR SURPLUS						
Proposed Changes						
On-Budget	0	30	-51	-8	466	385
Off-Budget (OASDI)	0	-5	-7	-17	-23	-20
Total	0	25	-58	-25	443	365

Note: Components may not sum to totals due to rounding.

a. Medicare consists of outlays of the Hospital Insurance and Supplementary Medical Insurance trust funds, less premiums.

Both DI and SSI recipients are evaluated at the time of award for their potential to go back to work. Sketchy data suggest that a minority are referred to VR providers, chiefly State agencies, and only a minority of those referred are served. If the beneficiary successfully completes nine months of employment at SGA, the VR

provider is reimbursed by the Social Security Administration (SSA). In 1996, SSA began recruiting alternate providers under the Referral System for Vocational Rehabilitation Providers (RSVP) program. Candidates for this program must first be referred to and rejected by the State VR agencies, and the alternate providers face the same reimbursement system (that is, a single payment after nine months of substantial work). Thus, VR for DI and SSI recipients remains fundamentally a State program.

In both the DI and SSI programs, recipients are reviewed periodically to verify that they are still disabled. These Continuing Disability Reviews (CDRs) are scheduled according to the recipient's perceived likelihood of improvement. If medical improvement is deemed possible, the cycle calls for a review every three years. (Those beneficiaries thought likely to improve are reviewed more often, and those unlikely to improve less often.) If the CDR results in a finding that the beneficiary is no longer disabled, cash and medical benefits stop. A CDR can also be triggered by a report of earnings.

Expanded Availability of Health Care Services (Title I)

Title I of S. 331 would increase Federal spending by about \$0.7 billion over the 2000–2004 period and by about \$2 billion over the 2000–2009 period through policies that would expand the availability of health care services. It would expand existing State options for covering the working disabled under Medicaid and would extend Medicare coverage for DI recipients who return to work. Title I would also provide States with grants to develop infrastructure to assist the working disabled and establish demonstration projects for States to provide Medicaid benefits to workers with severe impairments who are likely to become disabled.

State Option to Eliminate Income, Resource, and Asset Limitations for Medicaid Buy In. Section 101 of S. 331 would amend Medicaid law to allow States the option to raise certain income, asset, and resource limitations for workers with disabilities who buy into Medicaid. This policy, combined with the incentives created by grants and demonstration projects (discussed below), would induce some States to expand Medicaid to include the working disabled and would marginally increase enrollment in those States that would otherwise have expanded Medicaid to include this group, resulting in an increase in spending of about \$100 million over five years (see Table 2).

Table 2. Estimated Direct Spending and Revenue Effects of S. 331, By Provision

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title I										
State Option to Eliminate Income, Resource and Asset Limitations for Medicaid Buy-in										
Medicaid	15	16	18	20	22	24	26	29	32	35
State Option to Continue Medicaid Buy-in for Participants Whose DI or SSI Benefits Are Terminated After a CDR										
Medicaid	1	2	3	4	5	6	8	9	11	13
Extension of Medicare with No HI Premium for Former DI Beneficiaries Who Exhaust Their Current-Law EPE										
Medicare	10	29	48	68	95	125	163	195	234	294
Grants to States to Provide Infrastructure to Support Working Individuals with Disabilities										
HHS outlays	6	7	7	8	9	10	11	12	13	14
Demonstration Project for States Covering Workers with Potentially Severe Disabilities										
HHS outlays	10	50	75	75	75	15	0	0	0	0
Title II										
Establishment of the Ticket to Work and Self-Sufficiency Program										
Disability Insurance	1	2	3	5	-3	-18	-48	-77	-33	-37
Medicare	a	a	a	a	1	1	1	-3	-14	-31
Supplemental Security Income	a	1	1	2	-1	-6	-16	-30	-10	-11
Subtotal (effect on outlays)	1	3	4	7	-3	-23	-63	-110	-57	-79
Bar on Work CDRs for Certain DI Beneficiaries With Earnings										
Disability Insurance	5	15	20	20	20	25	25	25	25	25
Medicare	2	6	7	7	8	8	9	10	10	11
Subtotal (effect on outlays)	7	21	27	27	28	33	34	35	35	36
Expedited Reinstatement of DI Benefits Within 60 Months of Termination										
Disability Insurance	0	1	1	1	2	3	3	4	5	6
Medicare	0	a	a	a	1	1	1	2	2	3
Subtotal (effect on outlays)	0	1	1	1	3	4	4	6	7	9
Title III										
Permanent Extension of DI Demonstration Project Authority										
Disability Insurance	3	5	5	5	5	5	5	5	5	5
\$1-for-\$2 Demonstration Projects										
Contractor Costs (DI)	0	a	4	5	6	6	4	4	4	4
DI Benefit Costs	0	0	3	8	13	18	19	18	18	18
Medicare Costs	0	0	0	0	2	4	7	9	9	9
Subtotal (effect on outlays)	0	a	7	13	20	28	29	31	31	31

Continued

Table 2. Continued

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Title IV										
Provisions Affecting Prisoners										
Payments to Prison Officials (OASDI)	2	7	8	9	9	10	10	10	10	10
Payments to Prison Officials (SSI)	a	1	1	1	1	1	1	1	1	1
Savings in Benefits (OASDI)	-3	-15	-18	-20	-23	-25	-25	-25	-25	-25
Savings in Benefits (SSI)	-2	-7	-8	-9	-11	-11	-11	-11	-11	-11
Subtotal (effect on outlays)	-3	-15	-17	-20	-24	-25	-25	-25	-25	-25
Open Season for Clergy to Enroll in Social Security										
Off-Budget (OASDI) Revenues	2	7	9	9	9	10	10	10	10	11
On-Budget (HI) Revenues	1	2	2	2	2	2	2	2	2	2
Other On-Budget Revenues	a	-1	-1	-1	-1	-1	-1	-1	-1	-1
OASDI Benefits	a	a	a	a	a	a	1	1	1	1
Subtotal (effect on total surplus)	3	8	10	10	10	10	10	10	11	11
Title V										
Modification to Foreign Tax Credit Carryback and Carryover Periods										
Revenues	0	0	94	596	533	496	464	431	295	na
Repeal of Non-accrual Experience Method for Service Providers										
Revenues	72	52	48	44	10	12	14	16	18	na
Extension of IRS User Fees										
Revenues	0	0	0	0	50	53	56	0	0	0
Outlays	0	0	0	0	3	3	3	0	0	0
Subtotal (effect on total surplus)	0	0	0	0	47	50	53	0	0	0
Total										
Outlays										
On-Budget	43	104	151	175	209	181	202	222	277	327
Off-Budget	7	15	26	32	29	25	-7	-35	9	6
Total	50	119	177	207	238	206	195	187	287	334
Revenues										
On-Budget	73	53	143	641	594	562	535	448	314	na
Off-Budget	2	7	9	9	9	10	10	10	10	11
Total	75	60	152	650	603	572	545	458	324	na
Deficit (-) or Surplus (+)										
On-Budget	30	-51	-8	466	385	381	333	226	37	na
Off-Budget	-5	-7	-17	-23	-20	-15	17	45	1	4
Total	25	-58	-25	443	365	366	350	271	38	na
Notes: Components may not sum to totals due to rounding.										
na= not available.										
OASDI= Old-Age, Survivors, and Disability Insurance, DI=Disability Insurance, SSI=Supplemental Security Income, CDR=Continuing Disability Review, EPE=extended period of eligibility, HI=Hospital Insurance (Medicare Part A), HHS=Department of Health and Human Services, IRS=Internal Revenue Service										
a. Less than \$500,000.										

Under current law, States have the option of extending Medicaid coverage to certain workers with disabilities with incomes under 250 percent of poverty. This option was created in the Balanced Budget Act of 1997 and to date, only one State has an approved State plan amendment to implement it. Based on discussions with State officials, CBO assumes that States with one-quarter of eligible people will develop small expansion programs under this option

over the next few years. Some of those States are likely to use current authority under the Medicaid program to disregard some income of people applying under this option, thus effectively enrolling persons with incomes slightly higher than 250 percent of poverty. Other States may develop income cut-offs at or below that level. Based on figures from SSA of the number of people who graduate from the 1619(b) program due to earnings, CBO calculates that about 1,000 working disabled will be enrolled in Medicaid on an average annual basis under current law.

Under S. 331, CBO assumes that about half of the States adopting the current law option would revise their plans to raise certain income, asset and resource limitations beyond the 250 percent limit. Taking up the option would allow those States access to incentive grants and demonstration funds made available under the bill and would relieve States of administering complex eligibility determinations in instances where States would otherwise have disregarded income. A possible effect of S. 331 in those States would be that more people would seek out the benefit if States made higher income limits explicit. As a result, there would be a small increase in the number of people enrolled under that option.

CBO also assumes that several additional States would exercise the option to buy-in the working disabled under S. 331 to gain access to incentive grants and demonstration funds made available under the bill. In total, CBO assumes that States with half the potential eligibles would pursue the option under S. 331, increasing Medicaid enrollment by about 2,500 people on an average annual basis.

The estimated Federal share of Medicaid benefits for the working disabled population is about \$6,500 per capita in fiscal year 2000 and about \$9,000 per capita in 2004. States would incur administrative costs for expanding the program to include the working disabled population. Beneficiaries would also pay cost-sharing amounting to an estimated 5 percent of the total cost of the benefits. The resulting net increase in Federal spending attributable to this policy would be about \$100 million over five years and \$250 million over 10 years.

CBO's estimate takes into account a range of assumptions about State participation and about the eligibility limits that States would establish. Based on discussions with State officials developing or implementing policies in this area, CBO assumes that States would be likely to proceed cautiously, so as to limit financial exposure. If several large States were to participate in this program, new program enrollment could potentially be twice CBO's estimate; conversely, fewer participating States would decrease the estimate. If all States were to take up the option and have no ability to restrict or limit the benefits to all qualified working disabled people meeting the Federal definition of disability regardless of any income, assets and resources, Federal costs could be substantially higher than the estimate. At the same time, States could maintain current limits or set eligibility limits to target a narrow subset of eligibles, thus resulting in a smaller increase in costs.

State Option to Continue Medicaid Buy-In for Participants Whose DI or SSI Benefits are Terminated After a CDR. Section 101 would also provide States the option to continue Medicaid coverage for

persons enrolled under the buy-in option for the working disabled if those persons lose SSI or DI due to medical improvement, as established at a regularly scheduled CDR, yet still have conditions that qualify as a “severe medically determinable impairment.” Under current law, an estimated 5 percent of the buy-in population will have medical improvements each year that will result in the loss of their disability status, and thus eligibility for the Medicaid buy-in. Continuing coverage for those people would raise Federal Medicaid spending by \$15 million over five years and \$60 million over 10 years, assuming that most States choosing the Medicaid buy-in option would take up this option. If all States took up this option, Federal Medicaid costs would be \$20 million over five years and \$80 million over 10 years.

Extension of Medicare with No HI Premium to Former DI Beneficiaries Who Exhaust Their Current Law EPE. Section 102 of S. 331 would allow graduates of the EPE in the next 10 years to continue to receive Medicare benefits indefinitely without having to pay any Part A premium. The Federal cost of this provision is estimated at \$10 million in 2000 and about \$250 million over five years.

About 15,000 people start an EPE each year, and about 6,000 finish one. The bill would provide Medicare coverage to people who otherwise would have lost it at the end of the EPE. CBO estimates that an extra 27,000 people would continue to be eligible for Medicare in 2004, the fifth year of the provision, growing to 60,000 in 2009. CBO assumes that the per capita cost for those beneficiaries is about one-half the cost of the average disabled beneficiary, reflecting the likelihood that they are somewhat healthier than other disabled beneficiaries, and the possibility that some beneficiaries would gain employer-sponsored insurance and rely on Medicare as a secondary payor.

Grants to States to Provide Infrastructure to Support Working Individuals with Disabilities. To States that choose at least the first of the two Medicaid buy-in options, section 103 of the bill would make available grants to develop and establish State capacity for providing items and services to workers with disabilities. The bill would appropriate \$20 million in 2000, \$25 million in 2001, \$30 million in 2002, \$35 million in 2003, and \$40 million in 2004. The amount would be indexed to the consumer price index (CPI-U) through 2010. Each State’s grant would be limited in each year to 15 percent of the estimated total Federal and State spending on the more costly of the two State options in the bill. Based on CBO’s estimate of the State option to expand the Medicaid buy-in, the limitation would hold spending levels to about \$10 million annually; five-year costs would be \$40 million and 10-year costs would be \$100 million. Funds not allocated would remain available for allocation to States in future years. Funds allocated to States would be available until expended.

Demonstration Project for States Covering Workers with Potentially Severe Disabilities. Under section 104 of S. 331, States electing the first option under section 101 would also be eligible for grants to pay for demonstration projects that provide Medicaid to working persons with physical or mental impairments who could potentially become blind or disabled without Medicaid benefits.

Those people would be ineligible for Medicaid benefits under current law because they do not have conditions that meet the DI or SSI definition of disability. The bill would appropriate \$70 million in 2000, \$73 million in 2001, \$77 million in 2002, and \$80 million in 2003. Funds would remain available until expended, except that no payment could be made by the Federal Government after fiscal year 2005. CBO estimates that the costs of the provision would total \$300 million over the 2000–2004 period.

TICKET TO WORK AND SELF-SUFFICIENCY PROGRAM AND RELATED PROVISIONS (TITLE II)

Ticket to Work and Self-Sufficiency Program. Title II would temporarily change the way that VR services are provided to recipients of DI and SSI benefits. The budgetary effects of the proposed tickets program comprise several components, which are detailed in Table 3.

Table 3. Estimated Effects on Outlays of the Ticket to Work and Self-Sufficiency Program

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
DI Beneficiaries										
Payments to Program Manager	1	2	1	2	3	3	1	a	0	0
Milestone Payments to Providers	0	a	1	6	14	22	26	11	a	a
Incentive Payments to Providers	0	a	a	3	15	33	59	81	62	49
Partial Repeal of Current VR System	0	a	a	-4	-13	-22	-33	-50	a	a
Benefits Avoided	0	a	a	-5	-25	-59	-104	-122	-98	-89
Extra Benefits Paid	0	a	1	2	3	5	5	3	3	3
Subtotal, DI	1	2	3	5	-3	-18	-48	-77	-33	-37
Medicare Savings ^a	0	0	a	a	1	1	1	-3	-14	-31
Total	1	2	3	5	-2	-16	-46	-79	-47	-68
SSI Beneficiaries										
Payments to Program Manager	a	1	a	1	1	1	a	a	a	a
Milestone Payments to Providers	0	a	1	3	7	11	13	6	a	a
Incentive Payments to Providers	0	a	a	1	4	9	15	21	16	13
Partial Repeal of Current VR System	0	a	a	-2	-6	-11	-17	-25	a	a
Benefits Avoided	0	a	a	-1	-7	-16	-27	-32	-26	-23
Extra Benefits Paid	0	0	0	0	0	0	0	0	0	0
Subtotal, SSI	a	1	1	2	-1	-6	-16	-30	-10	-11
Medicaid Savings	c	c	c	c	c	c	c	c	c	c
Total	a	1	1	2	-1	-6	-16	-30	-10	-11

Notes: Components may not sum to totals due to rounding.

DI = Disability Insurance, SSI = Supplemental Security Income.

a. Less than \$500,000.

b. These amounts are the Medicare savings that would occur under current law. Title I of the bill would extend Medicare for these beneficiaries.

c. CBO assumes that nearly all of the vocational rehabilitation recipients who leave the SSI rolls would continue to get Medicaid coverage through the 1619(b) program.

The current VR program serves a fraction of DI and SSI recipients. Approximately 10 percent to 15 percent of new DI and SSI recipients are referred to State VR agencies; although SSA does not track what happens to them next, scattered clues suggest that about 10 percent of those referred are accepted. Recently, SSA has made approximately 650,000 DI awards a year; therefore, around 7,000 to 8,000 probably received VR services. SSA pays about 6,000 claims per year for VR services provided to DI recipients. SSA also pays about 6,000 claims for VR services to SSI recipients. Since about 3,000 claims are for people who collect benefits under both programs, total claims reimbursed are about 9,000 a year.

Some DI and SSI recipients return to work without the help of VR agencies. Research suggests that only 10 percent to 20 percent of DI recipients ever work after they start collecting benefits, and only 2 percent to 3 percent eventually have benefits withheld because of earnings. In contrast, SSA reimburses claims for VR services for about 1 percent of recipients. Thus, for each VR success, one or two other DI recipients go back to work and are suspended from the rolls without VR.

S. 331 would revamp the VR system by permitting nearly any recipient who desires VR to receive it, by allowing clients to choose from a variety of providers in addition to State VR agencies, and by stretching out reimbursements to providers for up to five years, contingent on their clients' sustained absence from the rolls.

Under S. 331, SSA would issue tickets to DI and SSI beneficiaries that they could assign to approved VR providers, whether State, private for-profit, or nonprofit. The bill would grant wide latitude to SSA in deciding the terms and conditions of the tickets; SSA tentatively plans to issue tickets to new beneficiaries at the time of award, unless they are deemed likely to recover, and to current beneficiaries after a CDR. By accepting a ticket, providers—labeled “networks” in the bill—would agree to supply services, such as training, assistive technology, physical therapy, or placement. A program manager, selected by SSA, would aid in recruiting providers and handling the nuts-and-bolts administration of the program.

Providers could choose between two forms of reimbursement from SSA. One system would be based solely on outcomes; the provider would receive 40 percent of the average DI or SSI benefit for up to five years, so long as the client stayed off the rolls. Some providers fear, though, that they would experience acute cash-flow problems under such a system. To address that concern, the bill also offers a blended system, dubbed the “milestones-outcome” system. Under that system, SSA would make some payments earlier, but would trim subsequent payments to ensure that the overall cost (calculated on a net present value basis) did not exceed the cost of a pure outcomes system.

The new program would be phased in gradually but last only five years. S. 331 calls for it to start in selected areas a year after enactment, and to operate nationwide 3 years after that. The last tickets would be issued five years after the start of implementation. Because the program would then end unless reauthorized, potential providers may hesitate to enlarge their capacity to serve DI and SSI clients.

CBO estimates that about 7 percent of newly-awarded beneficiaries would seek VR services if they were readily available, versus only about 1 percent who receive them under current law. Both the Transitional Employment Demonstration (TED, a demonstration conducted in the mid-1980s and confined to mentally retarded recipients) and Project Network (a demonstration begun in 1992 and open to both DI and SSI beneficiaries) suggested that about 5 percent of beneficiaries would enroll in VR if given the chance. CBO judged that the level of interest ultimately would slightly exceed 5 percent for two reasons. First, intake under Project Network developed bottlenecks, which may have discouraged some potential participants. Second, Project Network barred any recipients who were employed or self-employed from enrolling; no such bar would be in place under S. 331, however, and those recipients would probably be interested in receiving services and would be attractive to providers.

Research suggests that getting VR raises the propensity to work, and thus the chances for an earnings-related suspension. But raw figures can easily exaggerate the effectiveness of VR. The handful of beneficiaries who would sign up for VR are probably the most motivated, and many would have worked anyway. In fact, CBO assumes that one effect of S. 331 would be to enable providers to be reimbursed for providing services for many people who would have worked anyway.

These expected effects can be illustrated by following the experiences of one hypothetical cohort of 650,000 new DI beneficiaries. Under current law, about 7,800 might be served under the State VR programs; 6,100 of them would eventually generate a reimbursement by SSA and would be suspended for at least a month. Another 8,300 would be suspended due to earnings, for at least one month, without any reimbursement to VR. Thus, total suspensions would be about 14,400, or about 2 percent of the cohort, under current law. CBO estimates that, if those beneficiaries could freely enroll in VR using a "ticket," about 7 percent or 47,000 would get VR services. Most of those VR clients would work, and many (about 13,400) would be suspended for at least one month, an increase of 7,300 in VR-reimbursed cases. However, CBO estimates that about 5,900 of these workers would have gone back to work unaided. Thus, for this cohort, net suspensions would be about 1,400 higher.

In estimating S. 331, CBO adjusted those hypothetical figures for its caseload projections and timing factors. First, CBO projects that the volume of disabled-worker awards gradually climbs from 625,000 in 1999 to about 780,000 in 2005. That increase reflects the aging of the baby-boom generation into its high-disability years and the scheduled increases in Social Security's normal retirement age. Second, CBO assumed that some extra rehabilitations would occur among the nearly 5 million people now on the DI rolls, not just among new awards, although current beneficiaries are generally poorer candidates for VR than new applicants with more recent work experience. Third, CBO adjusted the numbers for the gradual phase-in of the new system. Under the bill's schedule, assuming enactment by September 1999, the first services would be rendered at a handful of sites in fiscal year 2001. If those clients engaged in trial work in 2002, the first extra suspensions would

occur in 2003. The last tickets would be issued in 2005, and the last extra suspensions would occur in 2007.

Specifically, CBO estimates that the number of net additional suspensions in DI—that is, suspensions that would not occur in the absence of the new program—would equal 500 in 2003, 2,200 in 2004, and an average of 4,600 annually between 2005 and 2007. Gross suspensions that involve reimbursement to a VR provider would climb gradually from 6,000 to 8,000 a year under current law, but would be markedly higher—about 15,000 in 2007, almost double the current-law estimate—under the proposal. And the number of suspensions involving no reimbursement to VR would fall.

CBO also had to make assumptions about recidivism. Many studies have documented that DI recipients who leave the rolls often return. It is not clear whether recipients of VR services are more or less likely to return to the rolls than others; some evidence suggests that the extra boost provided by VR fades over time. Because S. 331 proposes to pay providers for up to five years, but only if the recipient stays off the rolls, assumptions about recidivism are critical. Based on a variety of sources, CBO assumes that recipients suspended from the rolls have about a two-thirds chance of still being suspended one year later, about a one-half chance three years later (when, technically, their DI entitlement is terminated), and a 40 percent chance after five years.

Effects of the Tickets Program in DI. The budgetary consequences of S. 331, from the standpoint of the DI program, would consist of seven effects:

- *Payments to the program manager.* SSA would hire a program manager to coordinate issuance of tickets, the recruitment of providers, and other tasks. Based on a similar arrangement in the RSVP program, CBO assumes that payments to the program manager would amount to just a few million dollars a year.
- *Milestone payments to providers.* As explained earlier, the bill would give providers a choice between a pure outcome-based system (in which providers would get periodic payments only during the period of suspension) and a blended outcome-milestone system (in which they could get some money earlier). CBO assumes that most providers would opt for the blended system, which CBO assumes to consist of a \$500 payment after several months of work and a \$1,000 bonus on the date of suspension. Placements would be considerably easier for providers to achieve than suspensions. The first milestone payments would be made in 2002 but would be very small. They would peak at \$26 million in 2006: an estimated \$15 million for 30,000 gross placements, mostly from ticketholders served in 2005, and another \$11 million for 11,000 suspensions, mostly from ticketholders served in 2004 (and who spent 2005 in trial work).
- *Incentive payments to providers.* The incentive payments would occur over a period of up to five years if the beneficiary remained off the rolls. Therefore, they would continue throughout CBO's 10-year horizon even though the last tickets would be issued in 2005. In the pure outcomes system, incentive pay-

ments would be 40 percent of average benefits. CBO assumes that most providers would opt for the blended payment system, under which—in return for getting some earlier milestone payments—they would accept incentive payments of 30 percent. Again, outlays would be very small in the early years. Incentive payments would peak at \$81 million in 2007. That is the year in which the last batch of VR clients, who got their tickets in 2005, would be suspended (under the assumption that they got services in 2005 and engaged in trial work in 2006). By 2007, gross suspensions of ticketholders over the preceding five years are assumed to be about 35,000. Some of those would have returned to the rolls, but 25,000 would remain suspended. Incentive payments would equal 25,000 times 30 percent of the previous year's average DI benefit (about \$900 a month), or \$81 million. By 2009, under CBO's assumptions about recidivism, only 17,000 of those 25,000 would still be off the rolls, and the 2,000 who were first suspended in 2003 and 2004 would no longer be in the five-year period for incentive payments. Thus, incentive payments in that year would be \$49 million.

- *Partial repeal of current VR system.* CBO assumes that, under current law, the DI trust fund would reimburse about 6,000 claims for VR services at present (at an average cost of about \$11,000) and about 7,300 in 2007 (at an average cost of about \$14,000). The new program would partially displace the current system for five years. Specifically, if tickets were issued in 2001 through 2005, they would partially divert clients who would otherwise have generated reimbursements to VR providers (at the end of trial work) in 2003 through 2007. In 2007, \$50 million in reduced payments would result.

S. 331 would grant State VR agencies the option of remaining in the current reimbursement system—that is, charging SSA for the full amount of costs incurred after the client has worked for nine months. Because the new program would expire after five years, many State agencies might choose not to undergo the disruption of a switch.

- *Benefits avoided.* The various payments to providers discussed above all depend on the number of gross rehabilitations. The savings in DI benefits, in contrast, depend on the number of net or extra rehabilitations. That distinction is important: when providers serve clients who would have worked and eventually been suspended anyway, they do not generate savings in DI benefits. Over the 2003–2007 period, CBO estimates that there would be a total of 35,000 gross rehabilitations of ticket holders, of which only 17,000 would represent extra rehabilitations. Under CBO's assumptions about recidivism, about 11,000 of those 17,000 would still be off the rolls in 2007; at an average benefit of about \$900, \$122 million in benefit savings would result. That year marks the peak savings, because no more tickets would be issued after 2005. By 2009, the 11,000 would have shrunk further to 8,000, and \$89 million in benefit savings would be realized.
- *Extra benefits paid.* Some people might file for DI benefits in order to get VR services. They may even be encouraged to do

so by prospective providers (for example, by an insurance company that helps to run their employer's private disability or workers' compensation coverage). For those induced filers, the entire benefit cost (for any time they spend on the rolls) and the VR cost (if they do eventually get suspended) would be a net cost to the DI program.

To some extent, SSA could minimize this problem by setting the terms and conditions under which it would issue tickets—for example, by denying them to beneficiaries who are expected to recover medically. But some such filers might still seep through. CBO assumes that a few hundred such filers would be attracted to DI during the five years of the tickets program, and some would remain on the rolls, leading to extra benefit costs of up to \$5 million annually.

- *Resulting Medicare savings.* DI recipients who return to work continue to receive Medicare coverage for three years after their suspension from DI. By leading to the rehabilitation and suspension of more DI recipients, the Ticket to Work and Self Sufficiency Act would generate some savings in Medicare. DI beneficiaries who are capable of working are probably healthier than other beneficiaries, and their per capita Medicare cost therefore less than average.

Under CBO's assumption that the first services would be rendered in 2001 and the first resulting suspensions in 2003, small Medicare savings would begin in 2006. By 2009, 13,000 extra suspensions are assumed to have occurred over the 2003–2006 period (the group for whom the three-year EPE would have expired); 5,700 would still be off the rolls; and \$35 million in Medicare savings would result.

Although these Medicare savings would result if the Ticket to Work and Self-Sufficiency Act were enacted in isolation, elsewhere S. 331 proposes to give continued Medicare coverage to all beneficiaries who complete an EPE. Therefore, these Medicare savings would be rendered moot by the cost (shown in Title I) of that proposal.

Small costs—estimated by CBO to be between \$1 million and \$4 million a year—would result from the induced filers who remain on DI long enough (two years) to qualify for Medicare.

On balance, over the 1999–2003 period, CBO estimates a small net cost in the DI program from the proposed tickets, mainly because there would be few extra rehabilitations but there would be some startup costs and small payments to induced filers. Later, CBO foresees small net savings, chiefly because the DI benefit savings from extra suspensions slightly outweigh the costs of paying for VR services rendered by an expanded pool of providers.

Effects of the Tickets Program in SSI. S. 331 would also bring SSI participants into the new tickets to work program. CBO estimated the effects on the SSI program in a manner similar to its estimates for DI. There are a few notable differences.

The number of SSI recipients affected by the bill is generally estimated to be only half as many as in DI. Under current law, SSA pays for about 9,000 rehabilitations a year—6,000 in DI and 6,000 in SSI, of which 3,000 are concurrent. Under the bill, services rendered by providers to concurrent beneficiaries would essentially be

compensated under the DI rules. Thus, to avoid double-counting concurrent beneficiaries, CBO generally assumed only half as many cases in its SSI estimates as in the analogous DI estimates.

Average benefits for disabled SSI beneficiaries are also only about half as large as in the DI program—in 2003, for example, about \$425 in SSI versus \$825 in DI. Therefore, all payments under the proposed system that are pegged to the average benefit, such as the incentive payments to providers, would be smaller in SSI. In fact, that provision has aroused concern that providers would be less willing to provide services to the SSI population. CBO implicitly assumes that providers would serve this group, perhaps emphasizing cheaper services with repeated interventions if necessary.

Because SSI is limited to beneficiaries with low income and few resources, CBO assumed that there would be few induced filers. CBO also assumed that most SSI beneficiaries affected by the bill would retain Medicaid coverage through section 1619(b).

The upshot of S. 331 in the SSI program is a pattern that resembles that for DI: small early costs, giving way to small savings after 2003.

Ban on Work CDRs for Certain DI Beneficiaries With Earnings. The bill would bar so-called work CDRs if the beneficiary has been on the rolls for more than 24 months. Work CDRs are triggered by a report of earnings. Beneficiaries would still be subject to regularly scheduled periodic CDRs.

SSA conducts approximately 80,000 work CDRs a year. CBO estimates that about 1,500 people whose benefits would otherwise be terminated would benefit from this provision. Assuming that they are, on average, halfway between periodic CDRs scheduled at three-year intervals, they would get an extra 18 months of benefits. When fully effective, the provision is expected to lead to annual DI costs of about \$25 million and Medicare costs of about \$ 10 million.

Expedited Reinstatement of DI Benefits Within 60 Months of Termination. The bill would provide for expedited reinstatement of benefits for former DI recipients whose benefits were terminated because of earnings in the last 60 months. Under current law, those beneficiaries have the usual five-month waiting period waived if they seek benefits; but their application is judged no differently from one filed by someone who has never been on the rolls. S. 331 would alter that by stipulating that benefits must be awarded unless SSA can demonstrate that the applicant's medical condition has improved. S. 331 would also provide for automatic payment of up to five months of provisional benefits while the request for reinstatement is under consideration. Generally, those provisional payments would not be subject to recoupment even if the request is ultimately denied. CBO estimates that these liberalized procedures would tip the balance in up to a hundred cases each year, ultimately costing about \$6 million in DI and \$3 million in Medicare by 2009.

CBO does not estimate that either of these two provisions would lead to additional suspensions from the DI rolls as a result of earnings, because there are no firm empirical data on which to base such an assumption.

Demonstration Projects and Studies (Title III)

Permanent Extension of DI Demonstration Project Authority. SSA has had the authority to conduct certain research and demonstration projects that occasionally require waivers of provisions of title II of the Social Security Act. That waiver authority expired on June 10, 1996. This bill would extend it permanently. This extension would be the fifth since the waiver authority was enacted in 1980. This general waiver authority should not be confused with the so-called \$1-for-\$2 demonstrations in the next section; those demonstrations are costlier and longer-lasting than the modest projects that SSA would likely conduct on its own initiative.

When the waiver authority has been in effect, SSA has generally spent between \$2 million and \$4 million annually on the affected projects. CBO judges that the proposed extension would lead to extra outlays of \$3 million in 2000 and \$5 million a year thereafter.

\$1-for-\$2 Demonstration Projects. Under current law, after completing the TWP and the three-month grace period during which earnings are disregarded, a disabled worker gives up his or her entire benefit in any month that earnings exceed SGA. Both anecdotal and statistical evidence suggest that many beneficiaries balk at that, instead quitting work or holding their earnings just below the threshold. Some advocates favor, instead, cutting benefits by \$1 for every \$2 of earnings over SGA. More modestly, some favor a treatment of earnings more like the SSI program's—a cut of \$1 in benefits for every \$2 of earnings over \$85 a month.

Such proposals would probably encourage more people who are already on the DI rolls to work. Although fewer beneficiaries would be suspended (i.e., have their benefit reduced to zero), many might have their benefit substantially reduced. A major concern about such proposals, though, is that they would encourage an unknown number of people to file for benefits. Survey data suggest that there are millions of severely impaired people who are nevertheless working and not collecting DI. Filing for benefits, and working part-time, might actually improve their standards of living. That incentive would be much stronger if the DI program liberalized its treatment of earnings. The SSA Office of the Actuary in 1994 estimated that applying a \$1-for-\$2 policy for earnings above \$500 would cost \$5 billion in extra DI benefits over a five-year period and that setting the threshold at \$85 would cost \$2 billion.

S. 331 would require SSA to conduct demonstrations to test the effects of a \$1 reduction in benefits for each \$2 of earnings. It would require that SSA conduct the demonstrations on a wide enough scale, and for a long enough period, to permit valid analysis of the results. CBO assumed that, to meet those criteria, the demonstrations would have to include perhaps half a dozen small States, that the intake phase of the project would have to last three or four years to permit observation of induced filers, and that the incentives themselves would have to be promised to the beneficiaries for an indefinite period. Because the demonstrations would pose formidable issues of design and administration, CBO assumes they would not get under way until 2002. CBO also assumes that the demonstration would be conducted in areas with and without the tickets to work and self-sufficiency, to enable the effect of the incentives to be isolated from the effects of the new VR program.

Even a relatively small-scale demonstration might thereby apply to approximately 2 percent to 3 percent of the nation. Multiplying that percentage times the DI benefit costs suggested by the Actuaries' 1994 memo suggests that the demonstration would, after intake is complete, cost almost \$20 million in extra DI benefits a year. It would also lead to slightly higher Medicare costs, since the induced filers would qualify for Medicare after two years on the DI rolls. Finally, CBO assumes that running the demonstrations and collecting and analyzing data would be handled by an expert contractor, at a cost of several million dollars a year. In sum, the \$1-for-\$2 demonstration projects proposed by the bill are estimated to cost \$190 million over the 2002–2009 period.

Technical Amendments (Title IV)

Title IV contains technical corrections and clarifications to the Social Security Act. Two sections do have budgetary effects.

Provisions Affecting Prisoners. S. 331 would tighten restrictions on the payment of Social Security benefits to prisoners. Current law sets strict limits on the payment of SSI benefits to incarcerated people and somewhat milder limits on payments of OASDI. SSI recipients who are in prison for a full month—regardless of whether they are convicted—have their benefits suspended while they are incarcerated. OASDI recipients who have been convicted of an offense carrying a maximum sentence of one year or more have their benefits suspended. Those who are convicted of lesser crimes, and those who are in jail awaiting trial, may still collect OASDI benefits. Those provisions are enforced chiefly by an exchange of computerized data between the Social Security Administration and the Federal Bureau of Prisons, State prisons, and some county jails. Those agreements are voluntary and, until recently, involved no payments to the institutions.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 changed that arrangement by directing SSA to pay institutions for reporting information that led to the identification of ineligible SSI recipients. The payment is \$400 if the institution reports information within 30 days of confinement and \$200 if the report is made 30 to 90 days after confinement. The law also exempts matching agreements between SSA and correctional institutions from certain provisions of the Privacy Act.

This bill would establish analogous arrangements for the OASDI program. It would also drop the requirement that OASDI benefits be suspended only if the maximum sentence for the offense is one year or more. (A conviction would still be required; inmates who are in jail while they await trial could continue to collect benefits.) CBO estimated the effects of this provision, like its predecessor in the welfare reform law, by analyzing data from several sources that suggest about 4 percent to 5 percent of prisoners were receiving Social Security, SSI benefits, or both before incarceration. Reports from SSA's Inspector General showed that some of those prisoners were overlooked under matching arrangements either because their institution had not signed an agreement, had not renewed it promptly, or did not submit data on schedule.

CBO estimates that, over the 2000–2009 period, the provisions would lead to payments of \$85 million to correctional institutions

out of the OASDI trust funds and benefit savings of \$205 million, for a net saving of \$120 million. CBO also expects that the broader arrangement, by doubling the pool of potential payments, would encourage more jailers to submit information accurately and promptly and would therefore lead to spillover savings in the SSI program amounting to about \$90 million over the 10-year period.

Open Season for Clergy to Enroll in Social Security. Section 1402(e) of the Internal Revenue Code allows certain clergy to exempt the self-employment income from their ministry from Social Security and Medicare taxes. Under current law, such an exemption is irrevocable.

Section 403 of S. 331 would allow clergy who have received an exemption a two-year opportunity to revoke that exemption beginning in calendar year 2000. Similar opportunities were offered in 1978 and 1987. Based on those experiences, CBO estimates that 3,500 taxpayers would choose to revoke their exemptions, and that the average new enrollee would have about \$20,000 of self-employment income. (There would be a slight decrease in income tax revenue, since a portion of payroll taxes is deductible for income tax purposes.) From 2000 through 2009, off-budget revenues would increase by \$87 million, and on-budget revenues would increase by \$10 million.

Those taxpayers who revoke their exemption will eventually receive higher Social Security benefits, but that effect will mostly occur in years beyond the 10-year estimation period. CBO estimates that outlays will increase by \$4 million in the 2000–2009 period.

Authorization for State to Permit Annual Wage Reports. S. 331 would amend the Social Security Act to allow States to permit employers of domestic workers to report on such employment annually rather than quarterly. State-maintained employment histories are used to verify eligibility for certain benefits, such as unemployment insurance, food stamps, and SSI. This change would not affect eligibility requirements. It could present an administrative burden to States that choose to allow annual reporting, because they would have to research cases manually if they suspect domestic employment. CBO expects any budgetary effects to be insignificant.

Revenues (Title V)

S. 331 would amend the tax code to modify the foreign tax credit carryback and carryforward periods. The Joint Committee on Taxation (JCT) estimates that this provision would increase governmental receipts by \$1.2 billion over the 2000–2004 period. The bill also would limit the nonaccrual experience method of accounting to amounts to be received for the performance of qualified professional services. JCT estimates that this provision would increase governmental receipts by \$0.2 billion over the 2000–2004 period.

S. 331 would extend through fiscal year 2006 the authority of the Internal Revenue Service (IRS) to charge taxpayers fees for certain rulings by the office of the chief counsel and by the office for employee plans and exempt organizations. CBO estimates that the extension of the IRS's authority to charge fees for such services, which is set to expire at the end of fiscal year 2003, would increase governmental receipts by \$159 million over fiscal years 2004

through 2006, net of income and payroll tax offsets. CBO based its estimate on recent collections data and on information from the IRS. The IRS would have the authority to retain and spend a small portion of these fees without further appropriation. CBO estimates that the extension of the fees would increase direct spending by \$9 million over fiscal years 2004 through 2006.

SPENDING SUBJECT TO APPROPRIATION

S. 331 would also create several new programs or activities to be funded out of SSA's annual appropriation (see Table 4).

Table 4. Spending Subject to Appropriation

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
With Adjustments for Inflation					
Work Incentives Advisory Panel					
Budget authority	1	1	1	2	2
Outlays	1	1	1	2	2
Work Incentives Outreach					
Budget authority	23	23	23	23	23
Outlays	2	14	23	23	23
State Grants for Work Incentives Assistance					
Budget authority	7	7	7	7	8
Outlays	3	6	7	7	7
Total					
Budget authority	31	32	32	32	32
Outlays	7	21	32	32	32
Without Adjustments for Inflation					
Work Incentives Advisory Panel					
Budget authority	1	1	1	1	1
Outlays	1	1	1	1	1
Work Incentives Outreach					
Budget authority	23	23	23	23	23
Outlays	2	14	23	23	23
State Grants for Work Incentives Assistance					
Budget authority	7	7	7	7	7
Outlays	3	6	7	7	7
Total					
Budget authority	31	31	31	31	31
Outlays	7	21	31	31	31

Note: Components may not sum to totals due to rounding.

Section 201 of S. 331 would create a Work Incentives Advisory Panel to advise the Secretaries of Health and Human Services (HHS), Labor, and Education, and the Commissioner of Social Security on work incentives for the disabled, and to advise SSA on implementation and evaluation of the Ticket to Work program. The panel would consist of 12 members appointed by the Commissioner

in consultation with the Congress. At least 5 of the members would be current or former SSI or DI recipients. S. 331 would permit the panel to hire a director and other staff and pay other necessary expenses. CBO estimates that the panel would cost between \$1 million and \$2 million a year.

Section 221 would establish a community-based program to disseminate information about work incentives and related issues. Grants totaling no more than \$23 million a year would be awarded competitively to community-based groups. Because this would be a brand-new program, CBO assumes that spending would be low at first, not reaching \$23 million until the third year.

Section 222 would require the Commissioner of Social Security to make grants to the protection and advocacy (P&A) system established under part C of title I of the Developmental Disabilities Act to assist disabled people to obtain vocational rehabilitation or employment. That P&A system is currently funded by the Children and Family Services Program in the Department of HHS. The bill would authorize \$7 million in 2000 and such sums as shall be necessary thereafter; CBO assumed that funding would remain at about \$7 million. Actual outlays would be \$3 million in 2000, and \$6 million to \$7 million a year thereafter.

Although they do not explicitly call for future appropriations, several other provisions of S. 331 would affect SSA's workload and thus the pressures on its annual appropriation. The Ticket to Work program (section 201) would require significant planning and oversight by SSA staff. Section 221 would direct SSA to establish a special corps of work incentive specialists to deal with questions from applicants, beneficiaries, and the community-based organizations funded under the same section. Enforcement of the tougher restrictions on prisoners in section 402 would require SSA staff time, because suspension of benefits occurs only after careful verification. Partly offsetting these extra costs, SSA would no longer be required to do work CDRs under section 211. CBO estimates that these effects on SSA's workload would, on balance, cost the agency between \$10 million and \$30 million a year in the 2000–2004 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 5. SUMMARY OF PAY-AS-YOU-GO EFFECTS OF S. 331

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	43	104	151	175	209	181	202	222	277	327
Changes in receipts	73	53	143	641	594	562	535	448	314	na

na = not available.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that S. 331 would impose two new private-sector mandates by modifying the foreign tax credit carryback and carryover periods and by limiting the use of the nonaccrual experience method of accounting. The direct costs of the new mandates would exceed the statutory threshold (\$100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 2002 through 2004 (see Table 6).

TABLE 6. ESTIMATED COST OF PRIVATE-SECTOR MANDATES

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
Cost to the Private Sector	72	52	142	640	543

Source: Joint Committee on Taxation.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Section 4 of the Unfunded Mandates Reform Act excludes from the application of that act any legislative provisions that relate to the old-age, survivors, and disability insurance programs under title II of the Social Security Act, including tax provisions in the Internal Revenue Code. CBO has determined that subtitles A and B in title II and titles III and IV of this bill fall within that exclusion.

The remainder of the bill contains no intergovernmental mandates as defined in UMRA. However, it includes optional programs for States that would result in greater State spending if they chose to participate as well as additional grants to States for specific programs.

Title I contains a number of options for States to expand their Medicaid program to cover workers with disabilities who want to buy into Medicaid and to continue Medicaid coverage for individuals who lose their eligibility for DI or SSI following a continuing disability review. CBO estimates that State costs attributable to these optional expansions during the first five years would total about \$70 million for the first option and about \$10 million for the second. States that implement the first of these Medicaid options would be eligible for grants to develop and operate programs to support working individuals with disabilities. CBO estimates that States would receive a total of about \$40 million during the first five years the program is in effect. States would also have the option of charging participants premiums or other fees to offset a portion of the costs.

Title I would also allow States to establish demonstration projects that would provide Medicaid to working individuals with physical or mental impairments who, without Medicaid, could become blind or disabled. CBO estimates that State costs attributable to this optional coverage would total \$215 million over the first five years of implementation.

IV. VOTE OF THE COMMITTEE

In compliance with section 133 of the Legislative Reorganization Act of 1946, the Committee states that S. 331, as amended by the Committee, was ordered reported favorably by a recorded vote of 11 to 1, with an additional 5 proxy votes in favor of the bill and with 1 proxy voted no.

V. REGULATORY IMPACT AND OTHER MATTERS

A. REGULATORY IMPACT

In compliance with paragraph 11(b) of Rule XXVI of the Standing Rules of the Senate, the Committee states that the legislation will not significantly regulate any individuals or businesses, will not impact on the personal privacy of individuals, and will result in no significant additional paperwork.

Title I. The regulatory impact of this title will be limited largely to the need for the Health Care Financing Administration develop regulations for the implementation of the new Medicaid options for the States. States would be free to establish their own parameters around the administration of these new Medicaid options, as specified in the legislation.

Title II-IV. The regulatory impact of Title II will limited largely to the need for the Social Security Administration and the U.S. Department of Education to develop regulations for the implementation of the new employment assistance program.

Title V. Title V of the bill provides three revenue offsets to cover the budget costs of Titles I-IV (relating to availability of certain health care services and work-related incentives):

- (1) 1-year carryback and 7-year carryforward of foreign tax credits (bill sec. 501);
- (2) limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services (bill sec. 502); and
- (3) extension of Internal Revenue Service (IRS) user fees from October 1, 2003 through September 30, 2006 (bill sec. 503).

These revenue provisions should not have any significant adverse regulatory impact on taxpayers. These provisions should not have any adverse impact on personal privacy.

B. UNFUNDED MANDATES STATEMENT

This information is provided in accordance with section 423 of the Unfunded Mandates Reform Act of 1995 (P.L. 104-4).

The Committee has reviewed the provisions of the bill as reported. In accordance with the requirements of Public Law 104-4, the Committee has determined that the following provisions of the bill contain Federal private sector mandates:

- Modification to foreign tax credit carryback and carryover periods (bill sec. 501); and
- Limitation on use of non-accrual experience method of accounting (bill sec. 502).

These provisions are estimated to increase tax revenues by \$3,195 million over fiscal years 1999-2008, which are no greater

than the aggregate estimated amounts that the private sector will be required to pay in order to comply with the Federal private sector mandates under the bill.

These provisions will not impose a Federal intergovernmental mandate on State, local or tribal governments.

C. COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the “IRS Reform Act”) requires the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Department of the Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code (the “Code”) and has widespread applicability to individuals or small businesses.

Under the authority of the Joint Committee on Taxation, its staff has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Code and that have widespread applicability to individuals or small businesses.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In the opinion of the Committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill as reported by the Committee).

