

# On Welfare Reform

## *From Assistance to Employment (FATE)*

### Answer THE COL!

- The FATE program will reduce the cost of all federal welfare programs by 26%, saving around \$174 billion a year and reduces cost of unemployment to the states by around \$54 billion. See *Table 1. Summary revenue and expense for COL FATE program* for details.
- If households and individuals living in poverty choose to enter and complete the program, THE COL would eliminate poverty in the United States!
- FATE works to reduce the obstacles to work by increasing funding for physical rehabilitation, mental health support, substance abuse, employment training and retraining WHILE SIMULTANEOUSLY TYING INCOME SUPPORT TO SUCCESSFUL PARTICIPATION IN A BACK TO WORK PROGRAM.
- THE COL also increase the incentive to work by raising minimum wage to \$11.82 dollars per hour plus a by state “add on” wage to account for cost of living differences.
- THE COL reduce waste and fraud by unifying existing programs into one program, FATE, and increasing funding for administrative compliance monitoring.
- FATE reforms the disability system, reducing claims 36%, saving \$50 billion annually in payments and guaranteeing minimum wage equivalent payments for participants under the age of 50.

### What is the Purpose of Welfare Programs?

President Johnson, in his signing statement, of the Economic Opportunity Act in 1964 set the following goals for welfare.

- “Today . . . a great nation is able to make . . . a commitment to eradicate poverty among its people.
- For the . . . men and women . . . who are out of work, this program will . . . put them into work training programs . . . with remedial education, with job training, with retraining, with health and employment counseling, with neighborhood improvement.”<sup>1</sup>

In summary, the “War on Poverty” intended to end poverty in America by providing income assistance, life skill education, and job training.

The President also made the following promise.

- “We are not content to accept the endless growth of relief rolls or welfare rolls. . . . Our American answer to poverty is not to make the poor more secure in their poverty but to reach down and to help them lift themselves out of the ruts of poverty and move with the large majority along the high road of hope and prosperity.”<sup>2</sup>

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<sup>1</sup> Lyndon B. Johnson, *Remarks Upon Signing the Economic Opportunity Act, August 20, 1964*

<sup>2</sup> *Ibid.*

## What is Wrong with the Current Welfare System?

- The current system has failed to eliminate poverty nor are most dole payments tied to programs to help individuals out of poverty. The poverty rate remains high and most of the federal assistance actually flows to the near poor, not the impoverished.
- The current welfare system is highly disjointed with over 17 programs administered by 7 departments or agencies.<sup>3</sup>
- Much of the income assistance provided is not tied to a back to work program and some is even considered mandatory spending with automatic annual increases.
- While the overall health of Americans has improved since the 1970s, the percentage of the citizenry receiving disability payments has steadily and dramatically increased.
- The government provides little incentive to work for those living near poverty. The average annual dole currently is \$13,980. An individual working full-time at minimum wage earns \$14,087. The worker only receives an extra \$2 dollars a week!

## How Does THE COL Plan Work?

### The importance of a single welfare program

Currently, the federal government administers around 17 large separate income-based assistance programs costing nearly \$600 billion annually.<sup>4</sup> Multiple programs requires excessive overhead and allows individuals to draw multiple assistance checks. Further, multiple programs have various income standards, many of which are unmonitored and / or grant assistance to those above the poverty threshold.

FATE unifies all income-based assistance programs into a single program driven by a “Back to Work” protocol for most participants. Potential program participants pass through a series of decision-based protocols designed to place them in the proper skills acquisition or support program that will return them to work, ultimately removing them from income assistance.<sup>5</sup> As long as citizens are in program compliance, they will receive income assistance in the form of cash placed on a debit card. Each head of household or individual can spend the money based on individual need.<sup>6</sup>

THE COL believe that income assistance should be given only to those living at or below 110% of the poverty threshold. After all, isn't that the purpose of welfare? The cost to lift all Americans out of poverty is approximately \$236 billion annually, far less than the \$600 billion we currently spend. See *Table 6. Depth of poverty and funds required to lift all out of poverty* for details.<sup>7</sup>

### The importance of a “Back to Work” approach

The absolute best way to exit poverty and to stay out of poverty is a good paying job. As of publication date, there are 5.9 million unfilled job positions in America.<sup>8</sup> Approximately 66% of those jobs require a

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<sup>3</sup> *Table 2. Summary of 2015 cost of national welfare* for details.

<sup>4</sup> *Table 3. Detail of 2015 cost of national welfare* for details.

<sup>5</sup> See *Diagram 1. The FATE Protocol Map* and *Table 9. FATE Program Qualification Decision Tree* for details.

<sup>6</sup> Children will no longer receive direct assistance. Instead, households will receive larger stipends based on the number of children (which currently is part of poverty threshold calculation).

<sup>7</sup> See *Table 8. Depth of poverty and funds required to lift all out of poverty* for details.

<sup>8</sup> Department of Labor, *Job Openings and Labor Turnover Summary*, September 7, 2016.

high school diploma or less.<sup>9</sup> We must assist program participants by providing job training when necessary, monitored job searching, and moving expenses when necessary to help return the impoverished to work.

Standard job assistance works when jobs are available. Therefore, FATE directs job assistance programs to those unemployed for long-term frictional unemployment (normal job loss during economic recovery and prosperity) and for structural unemployment (job loss due to the job itself disappearing, like phone operators).

During periods of economic recession or depression, job assistance is insufficient. The government, itself, must provide jobs to alleviate poverty. During those times, our national government currently pays large sums of money to the unemployed in extended unemployment benefits. Essentially, people receive a check and nothing more. THE COL believes that prolonged recession calls for workfare: government jobs. Why take a “New Deal” approach? The government should receive a return on its investment in the unemployed. Government projects that improve parks or roads or education not only help the unemployed but helps provide needed government services.

#### The importance of integrating assistance programs with income support

Tying employment to income assistance could work . . . but only for those who are able to work. Therefore, FATE provides an evaluation of work ability. Any near or at retirement may be exempt for a work requirement. Those who are disabled should be exempt from work (see the next section, *Disability Reform* for details on what should define *disabled*).

Three remaining groups of individuals need specialized treatment and assistance: temporarily physically disabled, substance abusers and the mentally challenged). Therefore, FATE increases assistance to recovery programs for physical disability, mental health and substance abuse. Those suffering from a temporary medical condition need physical rehabilitation and medical support. First, temporary disability should include pain related conditions, mental conditions like PTSD, and certain physical conditions. Second, mental health programs should diagnosis conditions and provide necessary medication and life skill coaching to return the individual to work.<sup>10</sup> Third, Substance abuse programs should be work-based (as the addicted can work once off drugs and alcohol) with life coaching and medical evaluation to return the individual to work.<sup>11</sup>

To return people to work, the people must be able to work. Tying income assistance to recovery programs and increasing funding for those programs offers a chance for ending poverty due to debilitating conditions and behavior.

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<sup>9</sup> U.S. Bureau of Labor Statistics, Occupational Employment Statistics survey (employment data) and Employment Projections program (occupational education-level designations), <http://www.bls.gov/careeroutlook/2014/article/education-level-and-jobs.htm>.

<sup>10</sup> “Our estimates using data from the National Household Survey of Drug Abuse (NHSDA) . . . document that psychiatric disorders, especially major depression and post-traumatic stress disorder, are more prevalent than drug and alcohol dependence among welfare recipients. About 19 percent of recipients had at least one of the four psychiatric disorders measured in the NHSDA.” (Rukmalie Jayakody, Sheldon Danziger, Kristin Seefeldt, and Harold Pollack, *Substance Abuse and Welfare Reform*, published in Connection, AcademyHealth, April, 2004)

<sup>11</sup> “8.9% of the U.S. population aged 12 or older would meet the diagnostic criteria for a drug or alcohol use disorder . . . .” (Substance Abuse and Mental Health Services Administration, 2011)

## Reforming Disability

The Social Security Administration makes two types of disability payments. First, workers who have qualified through working sufficient time (based on age) may receive Disability Insurance (DI) payments. Second, the SSA administers the Supplemental Security Income (SSI) program for Health and Human Services which is a means-tested assistance payment for the blind, elderly, and disabled. Some individuals qualify to receive both payments.

Total annual payments in 2015 reached \$203 billion: \$147 billion for DI and \$56 billion for SSI. Disability payments were 1.1% of Gross Domestic Product in 2015. In 1983, DI and SSI equaled \$27.7 billion or .83% of GDP. In 1974 (before SSI), DI payments equaled \$6.9 billion or .45% of GDP.

Why have costs and the number of program recipients risen so dramatically?

- 1) Social Security Amendments of 1972 added Medicare benefits to disability recipients remaining on the rolls for longer than 24 months. Now, given the cost of rising health care, a strong incentive exists to not return to work in order to keep medical benefits.<sup>12</sup>
- 2) The passage of the Social Security Disability Benefits Reform Act (SSDBRA) of 1984, repealing the cost saving programs of the Social Security Disability Amendments of 1980. "While SSDI enrollment and cost growth had slowed during the early 1980s, by the late-1980s enrollment and costs were rising again and have continued to rise rapidly and nonstop since then."<sup>13</sup>
- 3) The 1996 Personal Responsibility and Work Opportunity Reconciliation Act reduced the Aid to Families with Dependent Children (AFDC) rolls, moving them to Temporary Assistance to Needy Families (TANF). As a result, the number of previous AFDC and TANF recipients declined, many applied for and received SSI or Disability Insurance.<sup>14</sup> THE COL should receive cost reductions from this increase by combining the various programs, ending the double-dip issue.
- 4) Lack of funding for administrative monitoring
  - a) "Before 1972, SSA reviewed 70 percent of the state allowances . . . . However, SSA did not have the resources to maintain this process and reduced the proportion of allowances it reviewed to 5 percent during the early 1970s. The agency also reduced the percentage of continuing disability reviews from 10 percent of beneficiaries to 5 percent . . . . This reduction contributed to a decline in recoveries from 30 per thousand in 1967 to 15 per thousand in 1976. Another factor was the increased tendency of denied applicants to appeal the decision . . . [and] the number of awards made at the reconsideration and hearing levels more than doubled."<sup>15</sup>

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<sup>12</sup> Only a health care reform program can reduce this incentive. See *The COL Health Care Reform Plan* for details.

<sup>13</sup> Tad DeHaven, *The Rising Cost of Social Security Disability Insurance*, Policy Analysis, No. 733, August, 6, 2013.

<sup>14</sup> David C. Stapleton, David C. Wittenburg, Michael E. Fishman, and Gina A. Livermore, *Transitions from AFDC to SSI Before Welfare Reform*, <https://www.ssa.gov/policy/docs/ssb/v64n1/v64n1p84.pdf>.

<sup>15</sup> Legislative History of the Social Security Disability Insurance Program, <https://www.ssa.gov/legislation/DI%20legislative%20history.pdf>.

- b) The loosening of standards and the lack of monitoring as a result of the SSDBRA, not demographic changes, are the primary reason for the increase in program participants and the cost of disability payments.<sup>16</sup>
- 5) During economic downturns with high cyclical unemployment, many citizens turn to disability as a means of welfare support. Combining all welfare programs into a single program will eliminate this fluctuation in disability rolls.

FATE saves \$51 billion annually through two major reforms: repeal of the Social Security Disability Benefits Reform Act of 1984<sup>17</sup> and mean-testing of disability insurance payments for all individuals below the age of 50.<sup>18</sup> Repeal of the SSDBRA will return to a medical, fact-based system for determination, and means testing recipients will reduce large payments to individuals well above the poverty line.<sup>19</sup> THE COL, however, disagrees with the SSI principal of simply lifting individuals out of poverty who are disabled. Disability is not the fault of an individual and they do deserve a minimally sufficient standard of living. Therefore, COL add to the current payments, raising them to a “fair share” equivalent of a living minimum wage.<sup>20</sup>

### The importance of monitoring recipients

As shown above, the importance of providing sufficient administrative monitoring to a program is vital to the success of the program: to both providing the needed assistance AND to stopping unneeded and fraudulent payments. In addition, FATE provides a new, unique way to monitor life skills and program expenditures – a debit card. FATE should develop a “big data” analysis program for program participants that provides results to administrators. Caseloads can then be tailored to the individual.

THE COL also provide negative incentives to program drop-outs by initiating a protocol to delay benefits for multiple failures. THE COL also suggests negative consequences for habitual legal violators.<sup>21</sup>

### On Liberty

By eliminating vouchers for housing, food, phones, heating and the like, and by eliminating program incentives like “marriage” and “no out of wedlock pregnancies” or “protein for children” and such, THE COL increase individual liberty and foster personal responsibility. Individuals will be lifted out of poverty but allowed to spend the income assistance on housing, food, utilities, and entertainment to best meet their individual circumstance. THE COL believe that it is an insult to the impoverished to insist that they spend money in a certain way or that they do not know their situation best. The government is not or should be a nanny that monitors children.

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<sup>16</sup> David Autor and Mark Duggan, *The Growth in the Social Security Disability Rolls: A Fiscal Crisis Unfolding*, August 2006.

<sup>17</sup> See Table 5. *Saving From Repealing the Social Security Disability Benefits Reform Act of 1984*.

<sup>18</sup> See Table 4. *COL Disability Reform Program Summary*.

<sup>19</sup> Anne DeCesaro and Jeffrey Hemmeter, *Characteristics of Noninstitutionalized DI and SSI Program Participants*, Social Security Administration, Research and Statistics Note No. 2015-02, September 2015.

<sup>20</sup> See Table 7. *Increase in Disability Income Assistance to Minimum Wage Equivalent* for details.

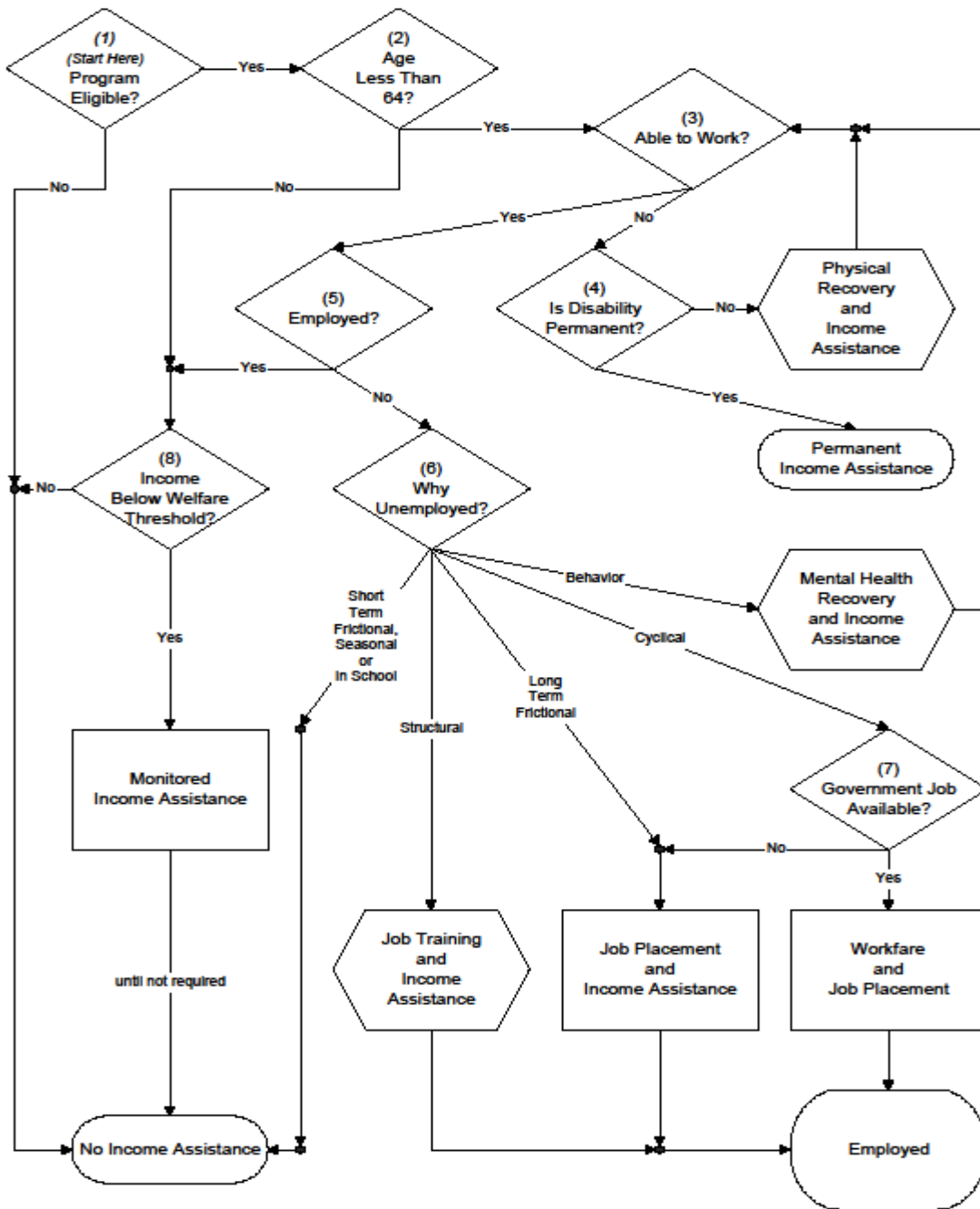
<sup>21</sup> See Table 9. *FATE Decision Tree for Program Qualification* for details.

## What does the Minimum Wage Have to do with Welfare Reform?

When comparing average annual earnings at minimum wage (\$14,087) to the government dole payments (\$13,980), little incentive exists to work. Therefore, THE COL believe that any welfare reform program must include an increase to the minimum wage, making the lowest earners significantly better off than those who receive income assistance. Incentives matter.

See THE COL *On Minimum Wage* white paper for details on calculating the minimum wage and why a properly calculated minimum wage does NOT impact unemployment nor inflation.

Diagram 1. FATE Protocol Map<sup>22</sup>



<sup>22</sup> A diamond represents a decision protocol. See Table 9. FATE Decision Tree for Program Qualification for details. A rectangle represents a non-transitional program. A hexagon represents a transitional program for participant self-improvement. A curvilinear rectangle represents a terminus point or end of program participation.

## Budgeting Assumptions

Budgeting Assumptions	Number
Program Start Year	2018
GDP Growth Rate	1.02%
COL Sales Tax Offset Increase	14%
2014 Inflation	1.61%
2015 Inflation	0.12%
2016 Inflation Projection	0.82%
2017 Inflation Projection	1.54%
2018 Inflation Projection	2.37%
COL Out of Poverty Increase	10%

## Acronyms Used

Description	Acronym
Complementary Individual Retirement Account	CIRA
Children of Liberty	COL
Disability Insurance	DI
COL From Assistance to Employment Program	FATE
Gross Domestic Product	GDP
Health and Human Services	HHS
Old Age and Survivor Insurance	OASI
Social Security Disability Benefits Reform Act	SSDBRA
Supplemental Security Income	SSI
Unemployment Insurance	UI

## Key to Data Tables

Table	Description
T1	Summary revenue and expense for COL FATE program
T2	Summary of 2015 cost of national welfare
T3	Detail of 2015 cost of national welfare
T4	COL Disability Reform Program Summary
T5	Savings From Repealing the Social Security Disability Benefits Reform Act of 1984
T6	Savings From Means Testing Disability Recipients Under the Age of 50
T7	Increase in Disability Income Assistance to Minimum Wage Equivalent
T8	Depth of poverty and funds required to lift all out of poverty
T9	FATE Program Qualification Decision Tree



## Data Tables<sup>23</sup>

Table 1. Summary revenue and expense for COL FATE program

From Assistance To Employment Program (in billions)	2015 Totals	COL FATE Expense (in 2015 numbers)	Projected 2018 Totals	Projected 2019 Totals
<b>Current Welfare Expenses</b>				
Current Welfare Spending	582			
State Medicaid Transfer Reduction Offset	51			
<b>Total Revenue</b>	<b>633</b>		<b>648</b>	<b>663</b>
<b>COL FATE Expenses</b>				
Lift Out of Poverty		236	242	242
Disability		153	156	156
State Unemployment Compensation		51	52	52
Unemployment Training		47	48	20
Substance Abuse Treatment		19	19	19
<b>Total Expense</b>		<b>506</b>	<b>518</b>	<b>489</b>
		<b>Net Savings</b>	<b>129</b>	<b>174</b>
		<b>Percentage Savings</b>	<b>20%</b>	<b>26%</b>

Table 2. Summary of 2015 cost of national welfare

Type	Action	2015 Projection (in billions)	Percent of Total	Available Welfare Revenue
Health	See COL Health Reform Plan	916	41%	
Retirement	See COL MIRA Plan	636	29%	
Welfare	FATE reform	367	16%	367
Disability	FATE reform	203	9%	203
Job Training	FATE reform	6	0%	6
Education	Unchanged	43	2%	
Mental Health Treatment	FATE reform	3	0%	3
State Unemployment	FATE reform	51	2%	
Federal Unemployment	FATE reform	2	0%	2
<b>Total</b>		<b>\$2,228</b>	<b>100%</b>	<b>\$582</b>

<sup>23</sup> For a full list of all tables and long range projections, see COL FATE Spreadsheet.

Table 3. Detail of 2015 cost of national welfare

Program	Description	Department	2015 Cost (in billions)	2016 Projection (in billions)
Old Age Benefits	Retirement benefits (what people tend to think of when they think "Social Security")	SSA OA	636	642
Medicaid	Health care for low-income individuals and families	Health	350	354
SMI	Supplemental Medical Insurance for the elderly	Health	287	290
Medicare	Hospital insurance for the elderly	Health	279	282
Disability Insurance	Paid to former workers who are now severely disabled	SSA SID	147	148
Survivors' Insurance	Insurance pension plan for surviving spouses and dependents of deceased workers	SSA SID	115	116
Negative Income Tax	EITC and child credit pays cash to families who pay no income tax	Tax	81	82
SNAP	Debit cards are distributed to the poor to buy food	Agriculture	76	77
SSI	Cash is paid to low-income disabled, blind or senior citizens	HHS	56	57
Housing Assistance	Various programs to support low-income housing and development	HUD	48	48
Pell Grants	Financial aid for college tuition, room and board	Education	32	32
Child Nutrition	School lunch, breakfast and after school snacks for school children	Agriculture	21	21
TANF	Temporary Assistance to Needy Families	HHS	16	16
Head Start	Preschool program	HHS	10	10
Job training	Employment services and job training for adults, youth and seniors	Labor	6	6
WIC	High protein food for pregnant women and young children	Agriculture	5	5
LIHEAP	Support for utility payments - heating and cooling	HHS	3	3
Lifeline	Phone subsidy per household	FCC	2	2
Child Care	Child care and after school programs	HHS	1	1
Unemployment	Federal unemployment compensation	Labor	2	2
SAMHSA	Substance Abuse and Mental Health Services Administration	HHS	3	4

Table 4. COL Disability Reform Program Summary

COL Disability Reform Program	Subtotals	Totals (2015 in billions)
<b>Current Expense</b>		
Disability Insurance	147	
Supplemental Security Income	56	
<b>Total Expenses</b>		203.0
<b>Savings &amp; Administration Costs<sup>24</sup></b>		
Delay receipt of DI for every month received UI	-0.2	
Reduction of DI dollar for dollar for every month of UI	-0.3	
eliminate receipt of OASI benefits during DI waiting period	-1.5	
Repeal of 1984 SSDBRA	-73.6	
Means Testing of Disability Insurance	-29.7	
Estimated Additional Verification Expense	2.0	
<b>Total Savings</b>		<u>-103.1</u>
<b>Program Cost Without Additional Income Assistance</b>		99.9
<b>"Fair Share" Expense</b>		
Increased Assistance to Minimum Wage		<u>52.7</u>
<b>Total COL Disability Program Cost</b>		152.5
<b>Total COL Disability Program Savings</b>		50.5

Table 5. Saving From Repealing the Social Security Disability Benefits Reform Act of 1984

Description	Number
Average Increase of Largely Non-Age Related Claims	14%
Previous Claim Rate (per 1000)	2.94
Claim Rate With Possible Age-Based Related Cause (per 1000)	3.35
Current Claim Rate (2003)	5.25
Net Percentage Savings	-36%
Total DI and SSI Cost (2015 in billions)	203
<b>Repeal of SSDBRA Savings (2015 in billions)</b>	<b>73.56</b>

<sup>24</sup> The \$2 billion savings come from a report by x in y.

Table 6. Savings from Means Testing Disability Recipients under the Age of 50

Description	Total Families	Under 100%	100% – 124%	125% – 149%	150% – 199%	200% – 299%	300% or more
Family Income Relative to Poverty Threshold	6,275,185	19.7	9.8	8.3	14	19.1	29.1
Above COL Disability Threshold (81%)					1.6	19.1	29.1
Percentage Below Age 50		46	22.4	21.6	28.9	38.4	42.6
Percentage to be Means Tested					0.4	7.3	12.4
<b>Total Means Tested Percentage Decrease</b>							<b>20.2</b>

Table 7. Increase in Disability Income Assistance to Minimum Wage Equivalent

Description	Numbers	Percent Above Poverty	Percent Increase Above Current Program	COL Disability Reform Cost (in billions)	Added Cost (in billions)
Poverty threshold (HHS) for single individual	\$11,770				
Current Average Disability Annual Payment	\$13,980	19%	0%	100	
COL "Fair Share" minimum wage yearly income	\$21,350	81%	53%	153	53

Table 8. Depth of poverty and funds required to lift all out of poverty

2014 Characteristics (numbers in thousands)	Total	Under \$1000	\$1,000 to \$2,499	\$2,500 to \$4,999	\$5,000 to \$7,499	\$7,500 to \$9,999	\$10,000 to \$12,499	\$12,500 to \$14,999	\$15,000 or more	Average Deficit / Surplus	2014 Cost to Lift to Poverty Threshold	2015 Cost to Lift to Poverty Threshold
<b>Below Poverty Threshold</b>												
All families.	9,467	593	907	1,382	1,333	957	902	855	2,537	10,137	95,966,979	96,082,139
Unrelated individuals.	13,374	1,429	2,041	2,454	1,310	1,125	5,014	0	0	6,826	91,290,924	91,400,473
<b>Above Poverty Threshold</b>												
All families.	1,627	692	935								1,164,125	1,165,522
Unrelated individuals.	2,681	1,166	1,545								1,934,875	1,937,197
<b>Subtotal (in billions)</b>											191	
<b>COL Adjustment</b>											24%	
<b>Total (in billions)</b>											236	

Table 9. FATE Decision Tree for Program Qualification

Step	Protocol Qualifiers Explanations	Answer	Action	Result
1	Program Eligible? US Citizen? Is a delay required? progressive delays for failure to complete FATE program progressive delays for continued frictional job loss	Yes No Yes	GOTO 2 Denied Denied	
2	Age Less than 64? Age greater than or equal to 64 and wants to work? Age greater than or equal to 64 and does NOT want to work? so near retirement, save cost of job training Age less than 16? Assistance no longer directed at children Assistance directed at head of household with children Children part of household poverty calculation	Yes Yes Yes Yes	GOTO 3 GOTO 3 GOTO 8 Denied	
3	Able to Work? Physically able to work? Change medical requirement to "fitness to a job"	Yes No	GOTO 5 GOTO 4	
4	Is Disability Permanent?	Yes No	QUALIFY QUALIFY	Disability Income Assistance Rehabilitation Program and Income Assistance
5	Employed? Underemployed (working less than 24 hours a week) or unemployed?	Yes No	GOTO 8 GOTO 6	
6	Why Unemployed? Short-term frictional (less than 6 weeks), seasonal or full-time student? Incentive for job search and reduces voluntary unemployment Long-term frictional? Structural, loss of job due to market changes? Cyclical, due to economic downturn?	Yes Yes Yes Yes	Denied QUALIFY QUALIFY GOTO 7	Job Placement Program and Income Assistance Job Training Program and Income Assistance
7	Government Job Available? Qualified to hold existing government job?	No Yes	QUALIFY QUALIFY	Job Placement Program and Income Assistance Job Training Program and Income Assistance

Step	Protocol Qualifiers Explanations	Answer	Action	Result
	Employ in government first – cost savings Government standby programs (New Deal style) available? No long-term unemployment benefits: income for a service	Yes	QUALIFY	Workfare Program and Job Placement Program
8	Income Below Welfare Threshold?	Yes No	QUALIFY Denied	Monitored Income Assistance