OUT OF CONTROL

How Welfare Spending is Driving the Budget Crisis

COMMONWEALTH FOUNDATION

225 State Street, Suite 302 | Harrisburg, PA 17101
717.671.1901 phone | 717.671.1905 fax
CommonwealthFoundation.org

The Commonwealth Foundation transforms free-market ideas into public policies so *all* Pennsylvanians can flourish.

GUARANTEE OF QUALITY SCHOLARSHIP

The Board of Directors and Staff of the Commonwealth Foundation is dedicated to providing the highest quality and most dependable research on public policy issues in the Keystone State. To this end, the Commonwealth Foundation guarantees that all statements of fact presented in our publications are verifiable, and information attributed to other sources is accurately represented.

Committed to providing Pennsylvanians with reliable information, the Commonwealth Foundation welcomes critical review of its work. If the accuracy of our research is questioned and brought to the Foundation's attention with supporting evidence in writing, the Foundation will respond. If an error exists, the Commonwealth Foundation will issue an errata sheet that will accompany all subsequent distributions of the publication, which constitutes the complete and final remedy under this guarantee.

For additional information or questions email the Commonwealth Foundation at info@commonwealthfoundation.org. or by calling 717.671.1901

Out of Control: How Welfare Spending is Driving the Budget Crisis

May 2015

Erik Randolph

Executive Summary

Governor Tom Wolf's budget rhetoric boasts of higher taxation for public education. However, the largest proposed spending increase next year is found not in the Department of Education, but in the Department of Human Services (DHS). In fact, the Department of Human Services spends more than twice as much as the Department of Education when all funds are considered.

Governor Wolf is facing a budget situation more serious than any of his predecessors. His proposal includes an additional $691 million in the General Fund for DHS, bringing the department's total to $11.9 billion. This increase accounts for nearly 89 percent of the total increase in the General Fund for all state agencies, absorbing 38.5 percent of the General Fund and 44.5 percent of all funds.

Wolf has proposed increasing tax revenue to maintain all-time high spending levels. Yet spending on human services programs has been increasing at a rapid pace, even after adjusting for inflation. If the historic pattern holds, it will be only a matter of time before Pennsylvania lawmakers will need to decide between shifting resources to human services programs and raising more taxes. It is imperative, therefore, to consider alternatives to higher welfare spending.

Unfortunately, the proposed expansion of DHS programs poses far more than a fiscal problem. Governor Wolf's proposal follows a long pattern of increased welfare spending that has proven ineffective at lifting Pennsylvanians out of poverty.

To create a welfare system that better utilizes limited state resources to prioritize the needy and promote a pathway out of poverty, policymakers and administrators must establish clear guidelines that define the most needy, ensure appropriate and flexible benefits, rules that promote work and independence, and a pathway out of poverty.

Specifically, lawmakers should consider the following recommendations:

- **More Options for Medical Assistance:** No other government program will squeeze future budgets more than Medical Assistance. Therefore, it would make good fiscal sense for members of the General Assembly to challenge Governor Wolf's legal authority to undertake expansion. Second, the General Assembly may consider legislation directing DHS to pursue further Medicaid reforms with the federal government.
- **Improve Work Options for Individuals with Intellectual Disabilities:** Consider additional ways to promote employment in Office of Developmental Programs, utilize cost sharing and tighten rules on reimbursements.
- **Encourage Private Long-Term Care:** Explore reforms to mitigate the expected surge in taxpayer-financed long-term care, including tax credits to encourage the purchase of private long-term care insurance and tightening income and asset eligibility limits, such as Medicaid's home equity exclusion of more than $500,000.
- **Recover Support for Child Care:** Require single-parents that utilize the Child Care Works Subsidy Program to seek child support.
- **Improve Program Eligibility Tools:** Use effective eligibility tools, such as asset tests and work requirements, to prioritize benefits for the needy while encouraging independence.

Introduction

Governor Tom Wolf's budget rhetoric boasts higher taxation for education. However, the largest proposed spending increase next year is found not in the Department of Education, but in the Department of Human Services (DHS). The governor's proposed expansion of DHS programs follows a long pattern of expanding the size and scope of welfare programs. Unfortunately, increased welfare spending has proven ineffective at lifting Pennsylvanians out of poverty. DHS spending should be reformed and reprioritized in order to provide a pathway out of poverty for welfare beneficiaries. If Pennsylvania hopes to escape annual budget crises, the pattern of rapidly growing DHS spending must change.

DHS Budget Overview

The Department of Human Services, formerly the Department of Public Welfare (DPW), spends more money than any other state agency. In fact, DHS spends more than twice as much as the Department of Education when all funds are considered.[1]

Within the General Fund, the Department of Education (including the State System of Higher Education) will spend slightly more than DHS this year. Under Governor Wolf's budget proposal, however, DHS will account for the highest expenditures in the General Fund. Together these two agencies **will spend more than three out of every four dollars in the General Fund**.

Education and Human Services in the Budget in millions					
	Department of Education	Percent of Total State Budget	Department of Human Services	Percent of Total State Budget	Total State Budget
FY 2014-15 Available					
General Fund	$11,563,865	39.7%	$11,217,068	38.5%	$29,107,064
Federal Funds	$2,354,811	9.5%	$17,701,974	71.2%	$24,870,187
Other State Funds	$1,066,375	5.8%	$3,212,956	17.6%	$18,231,020
All Funds	$14,985,051	20.8%	$32,131,998	44.5%	$72,208,271
FY 2015-16 Budget Proposal					
General Fund	$11,211,119	37.5%	$11,907,895	39.8%	$29,884,351
Federal Funds	$2,358,730	8.5%	$20,854,979	74.8%	$27,896,400
Other State Funds	$2,592,315	12.4%	$3,247,126	15.6%	$20,832,885
All Funds	$16,162,164	20.6%	$36,010,000	45.8%	$78,613,636

Source: Governor's FY 2015-16 Executive Budget[2]

Governor Wolf's proposal includes an additional $691 million in the General Fund for DHS, bringing the department's total to $11.9 billion. This increase accounts for nearly 89 percent of the total increase in the General Fund for all state agencies. When all funds are considered, DHS's budget will grow 12.1 percent, or $3.9 billion, bringing the total to more than $36 billion. At $20.5 billion, medical assistance comprises the majority of DHS spending, followed by long-term living ($5.8 billion), developmental programs ($3.5 billion), and income maintenance ($2 billion).

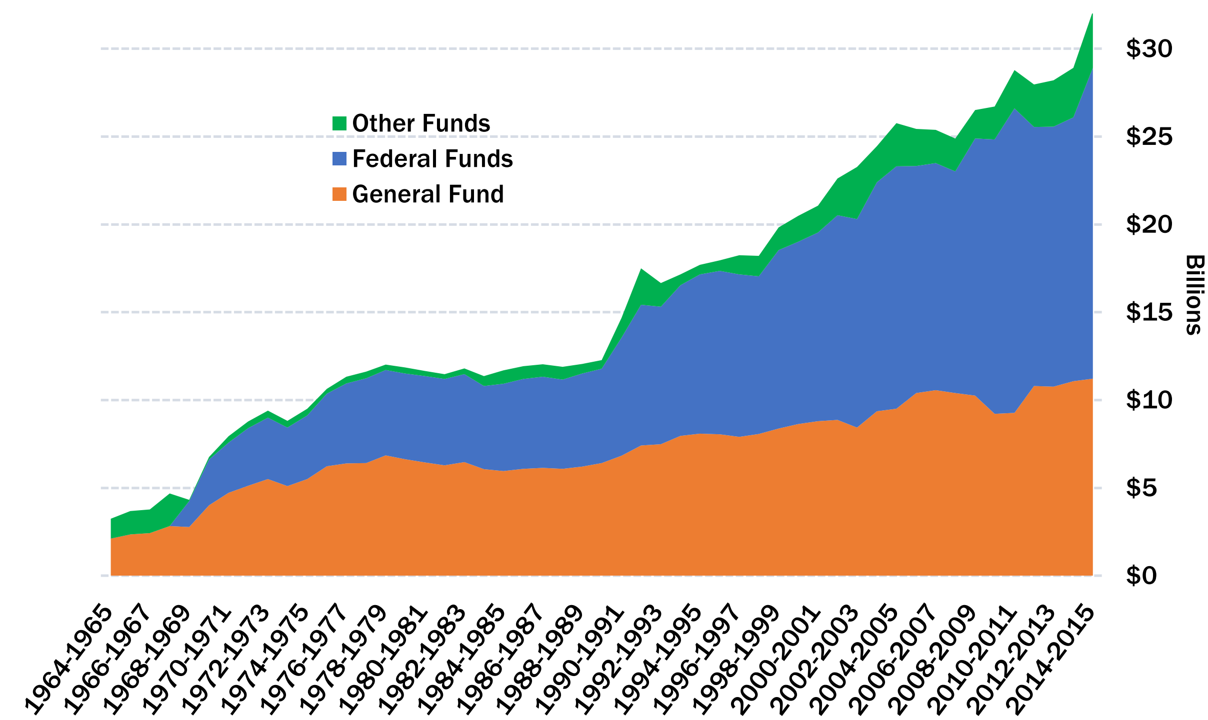
[1] The $32.1 billion DHS budget for FY 2014-15 does not include an estimated $2.6 billion spent on food stamp benefits, which is also administered by DHS. The Department of Education budget includes PASSHE, community college and state-related university appropriations.

[2] All figures come from the Governor's Executive Budget and include shifts from the General Fund to other funds.

Poverty Unchanged Despite Rapid Growth of Welfare Spending

Spending on human services programs has been increasing at a rapid pace, even after adjusting for inflation.[3] Over the past fifty years, the agency's budget grew ten-fold, and it has more than doubled since FY 1990-91.

Inflation Adjusted DHS (DPW) Budget Growth

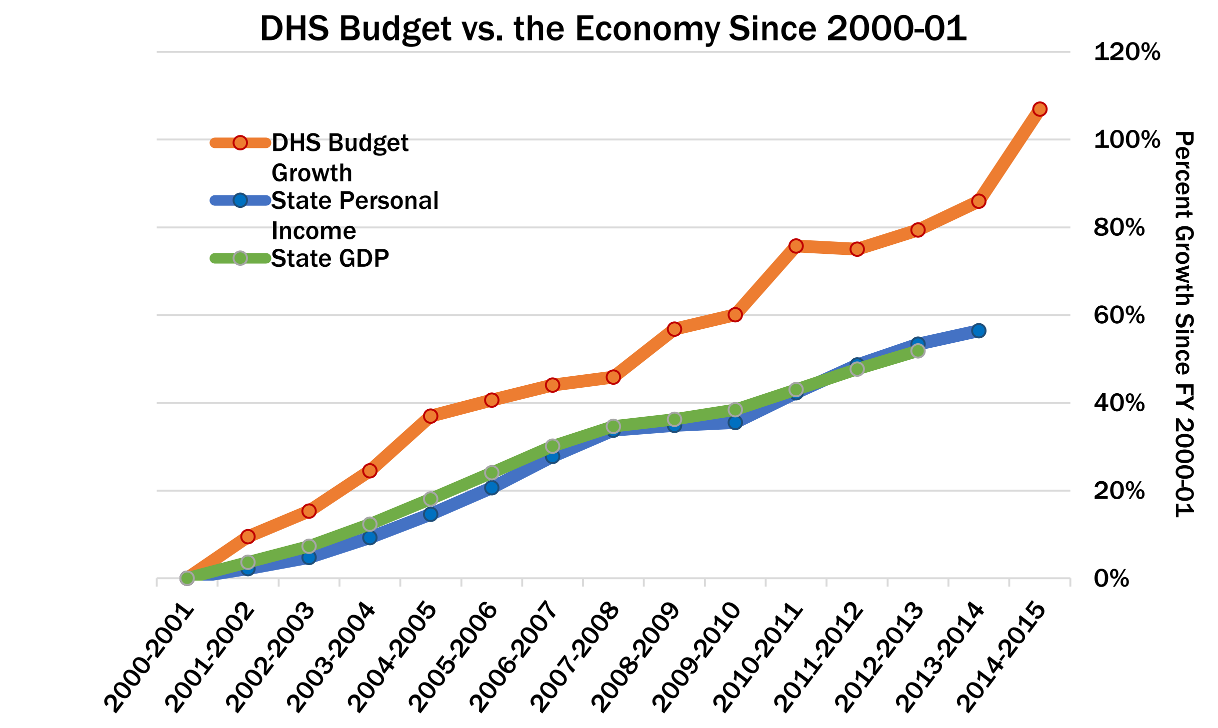


Source: Pennsylvania Executive Budget Books

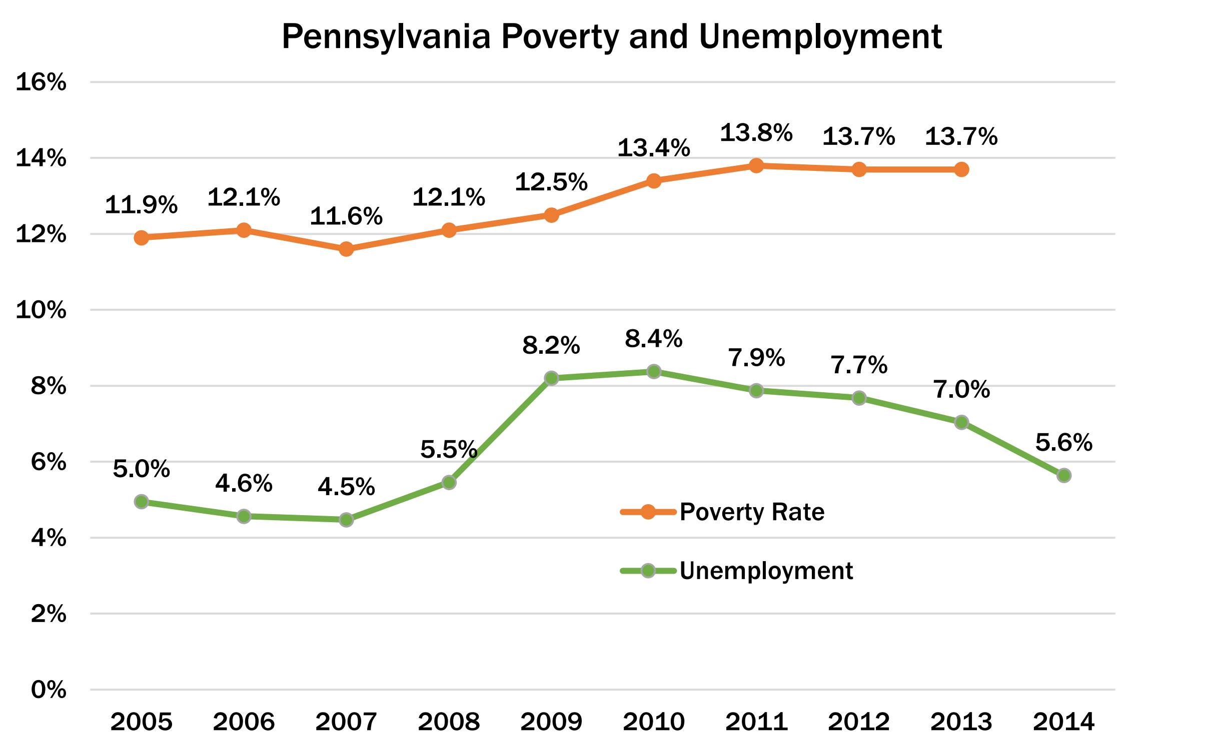
As a result, DHS continues to consume larger portions of the state budget, requiring more tax dollars and squeezing out other state priorities. The DHS budget has grown nearly twice as fast as state GDP and state personal income since fiscal year 2000-01. This trend has persisted regardless of the party in power.

More importantly, increased welfare spending appears to have little impact on unemployment or poverty. Despite rapid spending increases, Pennsylvania's poverty and unemployment rates remain largely unchanged.

[3] Inflation was adjusted using the Consumer Price Index for Philadelphia, Wilmington, Atlantic City, Pennsylvania, New Jersey, Delaware, and Maryland as published by the U.S. Bureau of Labor Statistics.



Source: PA Executive Budget Books, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis



Source: U.S. Census Bureau, American Community Survey and U.S. Bureau of Labor Statistics

Prior to leaving office, Governor Corbett's budget team identified the problem of rapidly growing welfare spending. They anticipated DHS would require another $910 million in General Fund spending for FY 2015-16.[4] Governor Wolf's plan trims that DHS increase to $691 million, but it includes temporary cost shifting to the federal government through Medicaid expansion.

Budget Situations Handed to New Governors in millions						
Governor	General Fund Only			All Funds		
	DPW/DHS Budget	Total State Budget	Percent	DPW/DHS Budget	Total State Budget	Percent
Casey	$2,870,792	$9,680,835	29.7%	$5,635,627	$17,872,480	31.5%
Ridge	$5,221,379	$15,674,655	33.3%	$11,431,340	$30,371,199	37.6%
Rendell	$6,494,124	$20,400,104	31.8%	$17,906,947	$46,075,661	38.9%
Corbett	$8,796,00	$25,074,071	35.1%	$27,285,000	$65,575,036	41.6%
Wolf	$11,217,068	$29,107,064	38.5%	$32,131,998	$72,208,271	44.5%

Source: Governor's FY 2015-16 Executive Budget

Nonetheless, Governor Wolf is facing a budget situation more serious than any of his predecessors, with DHS absorbing 38.5 percent of the General Fund and 44.5 percent of all funds. Wolf has proposed increasing tax revenue to maintain all-time high spending levels. However, if the historic pattern holds, it will be only a matter of time before Pennsylvania lawmakers will need to decide between shifting resources to human services programs and raising taxes. It is imperative, therefore, to consider alternatives to higher welfare spending.

Welfare Budgets are Complex

Most state agency budgets are driven by personnel costs, but DHS budgets also depend on difficult-to-predict swings in caseload and use of services. Most DHS programs are entitlements that require policy-related strategies to manage costs. That is, if someone fulfills the eligibility requirements for an entitlement, you generally cannot deny him the benefits. Therefore, managing human services spending involves complex policy decisions in conjunction with accurate budget calculations to account for caseload, unit costs, and utilization.

In addition, DHS abides by a mixture of federal and state regulations, rules, and policies. In fact, DHS spends more federal tax dollars than state tax dollars. For the current fiscal year, DHS will likely spend more than $20 billion in federal funds if you include approximately $2.6 billion in food stamp benefits. In contrast, DHS will spend about $14.4 billion in state tax dollars.

---

[4] Governor's Budget Office, 2014-15 Mid-Year Budget Briefing, http://www.portal.state.pa.us/portal/server.pt/document/1461867/2014-15_mid_year_briefing_pdf.

Consequently, state lawmakers face limitations when it comes to reforming programs, and DHS officials may pay little attention to state concerns. For example, DHS administers the food stamp program on behalf of the federal government. In other cases, such as Medicaid, the federal government provides matching funds to the state with strings attached.

Overpromising vs. Pathway out of Poverty

It is common to overpromise and underfund welfare benefits. Programs often begin with good intentions, but slight adjustments in eligibility or incorrect forecasts can result in significant budget overruns. Unexpected costs force the state to take drastic measures, such as moving applicants to waiting lists.

The waiting list for intellectual disability services in Pennsylvania currently stands at about 14,000. Among those individuals are more than 4,500 with emergency needs, often due to aging parents who act as the primary care giver. The waiting list for intellectual disability services has existed in Pennsylvania since the 1990s and an individual can wait decades to receive support services.[5]

Past experience demonstrates there will be political pressure to expand the safety net regardless of taxpayers' ability to fund these programs. Policymakers and administrators must establish clear guidelines that will prevent overpromising and provide a pathway to independence. These guidelines should include the following principles:

1. Clearly define the most needy.
2. Prioritize benefits for the most needy.
3. Ensure benefit levels are not only adequate, but flexible enough to meet individual needs.
4. Devise rules that will promote work and independence.
5. Ensure there is a pathway out of poverty for both the able-bodied and other beneficiaries that might be able to obtain greater autonomy.

It's critical to provide a clear pathway out of poverty for each beneficiary of a welfare program. Nearly everyone desires to improve their financial circumstances, but well-intentioned programs can trap individuals and families into a lifetime of subsistence.

The first reason for this is that not all welfare programs allow a person to transition away from benefits without enduring a significant reduction in gross income. Second, most beneficiaries receive benefits from multiple programs. Those benefits are often stacked together in an

[5] Pennsylvania Waiting List Campaign, Fact Sheet Spring 2015, http://www.pawaitinglistcampaign.org/wp-content/uploads/2012/09/Facts.jpg.

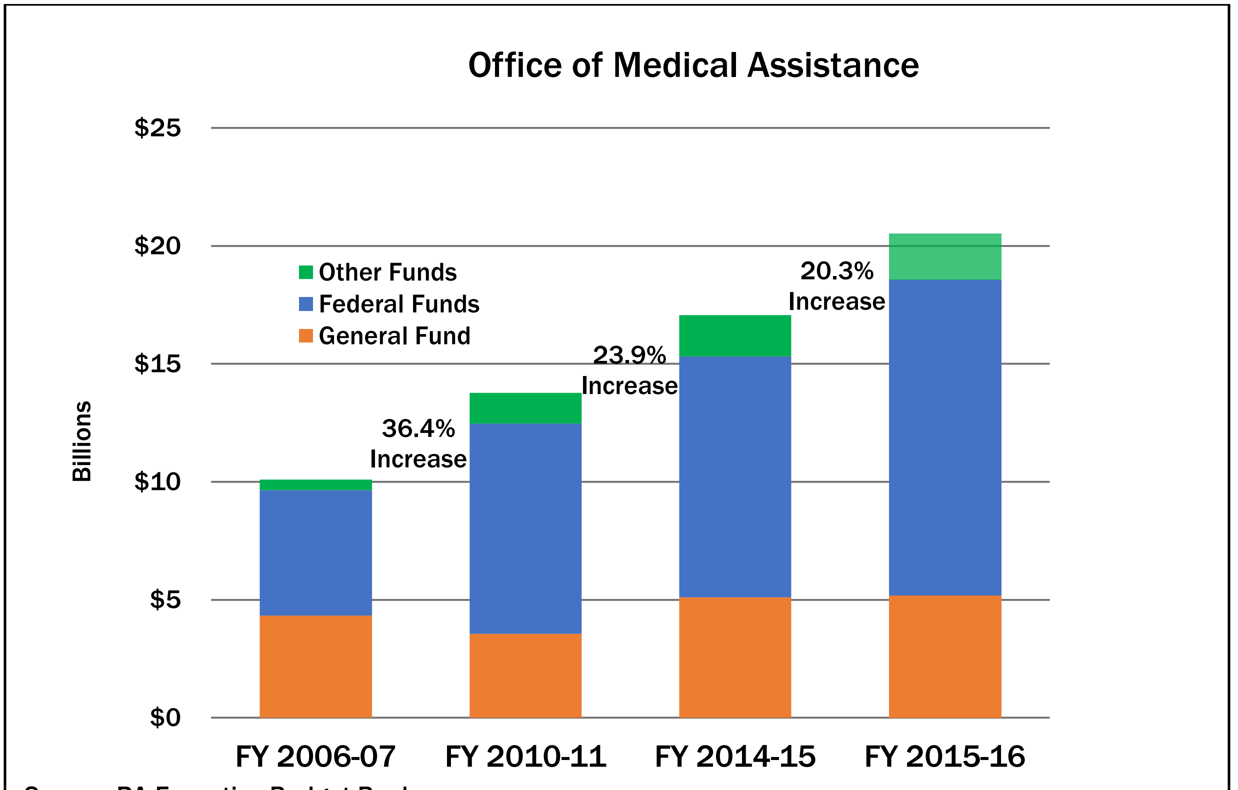
uncoordinated manner which creates steep barriers to advancement. Too often, earning additional income results in a significant loss in benefits that exceeds the value of the additional income. This phenomenon is known as the "cliff effect."

Lawmakers should take caution not to exacerbate this problem. Any changes to welfare programs need to be viewed from the perspective of reducing or eliminating the cliff effect.

Recommendations

More Options for Medical Assistance

Medical Assistance (MA) reform *must* be part of any strategy to manage the cost of welfare programs simply because of the magnitude of the program. Enrollment in MA grew 8.8 percent from 2.2 million individuals in FY 2010-11 to 2.5 million in March 2015, and the budget grew nearly 24 percent to $17.1 billion over the same period of time.[6] Enrollment will continue to grow due to Medicaid expansion under the Affordable Care Act.



Source: PA Executive Budget Books

[6] Pennsylvania Department of Human Services, Medical Assistance, Food Stamps and Cash Assistance statistics reports, http://listserv.dpw.state.pa.us/Scripts/wa.exe?A1=ind15&L=ma-food-stamps-and-cash-stats.

The Corbett administration's Healthy Pennsylvania waiver significantly increased the number of Pennsylvanians eligible for Medical Assistance by allowing coverage for all adults with incomes at 133 percent[7] of the federal poverty level (FPL)—which the administration estimated to be 600,000 individuals.[8] However, the waiver also modified Pennsylvania's existing Medicaid program to make the program more efficient, allowing the Commonwealth to establish cost-sharing rules, premiums for some beneficiaries and various incentives to encourage preventative services and healthy behaviors.[9] Governor Wolf reversed Corbett's action, phasing out Healthy Pennsylvania to implement a "traditional" Medicaid expansion, which entails a one-size-fits-all plan for every beneficiary.

Wolf's plan requires a 20.3 percent total spending increase for MA in fiscal year 2015-16, adding $3.5 billion to the budget. This increase is far more the 8.7 percent average annual increase under Rendell or the average 5.5 percent increase under Corbett.[10] The majority of the new spending—$3.2 billion—would be from federal funds pursuant to matching funds under the Affordable Care Act. However, these matching funds will be reduced starting in 2017, and there is a considerable risk that Congress will further reduce the matching grants in future years, shifting more financial burden onto the states.[11]

There are many questions that need to be asked about Wolf's reversal, especially in light of the heavy financial obligations that come with Medicaid expansion. Healthy Pennsylvania was designed to address weaknesses with the Medicaid program, such as encouraging the use of preventive services to achieve better patient outcomes. How does the Wolf administration intend to manage costs without cost-sharing tools? Healthy Pennsylvania had a strategy to transition recipients from Medicaid into private coverage. How does the new administration plan on creating a pathway to private care? Where is Wolf's legal authority to pursue traditional expansion

---

[7] The 133 percent of FPL limit does not include the 5 percent income disregard allowable by the Affordable Care Act. In practice, Medicaid expansion applies to incomes at 138 percent of the FPL.

[8] Office of the Governor, "Governor Corbett Announces Historic Approval of New Healthy Pennsylvania Program." News Release, August 28, 2014, http://www.pa.gov/Pages/NewsDetails.aspx?agency=governors%20office&item=15963.

[9] Office of the Administrator, Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services, approval letter and supporting documents, August 28, 2014, http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Waivers/1115/downloads/pa/pa-healthy-ca.pdf.

[10] These comparisons use all funds, including variable federal matching funds.

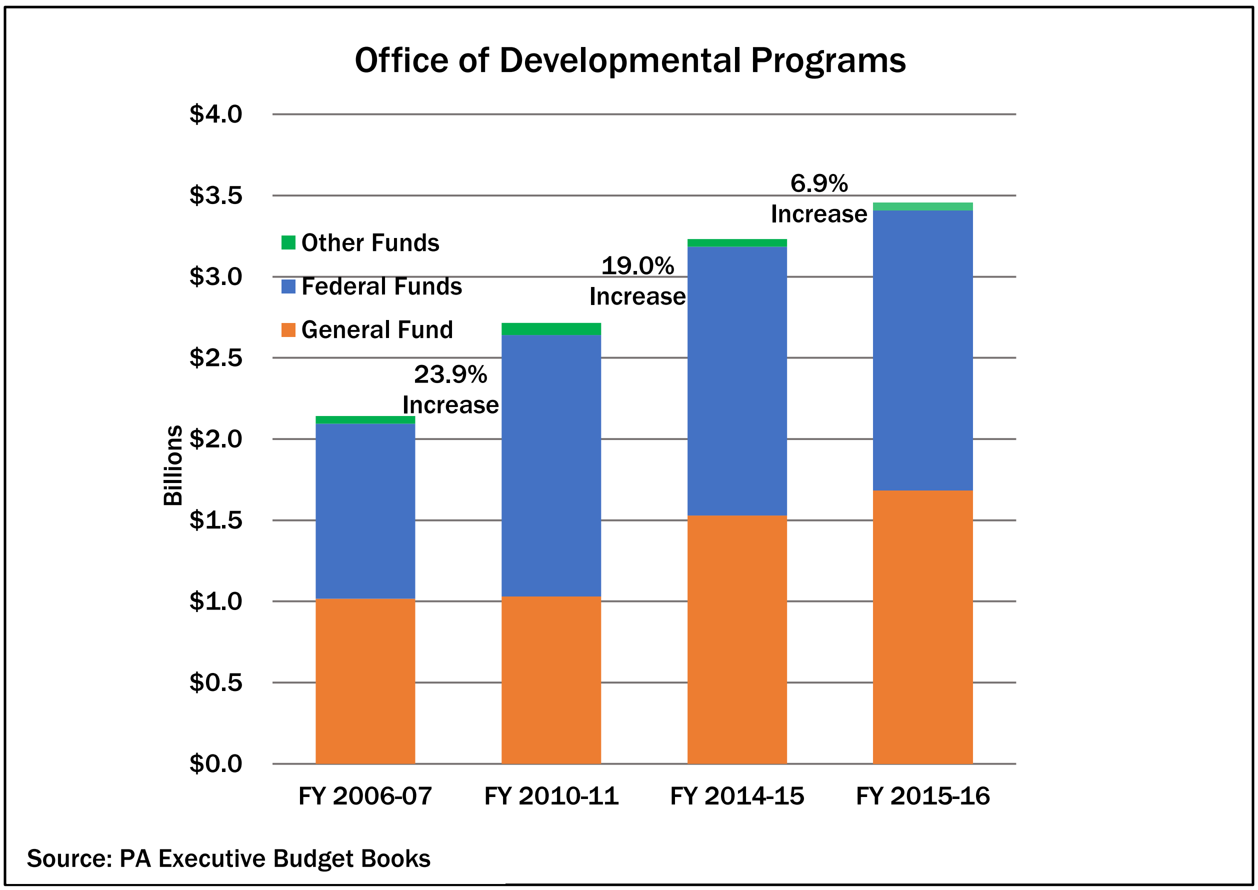
[11] U.S. Office of Management and Budget, Fiscal Year 2013: Cuts, Consolidations, and Savings, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/ccs.pdf.

without enabling legislation, especially when the Welfare Code is very specific as to what groups of individuals qualify for MA?[12]

No other government program will squeeze future budgets more than MA. Therefore, it would make good fiscal sense for members of the General Assembly to challenge Wolf's legal authority to undertake expansion. Second, the General Assembly may consider legislation directing DHS to pursue further Medicaid reforms with the federal government.

Improve Work Options for Individuals with Intellectual Disabilities

DHS administers many programs serving persons with intellectual disabilities (ID), including a Medicaid waiver to allow spending on community services for these individuals. This Medicaid waiver should not be confused with Medical Assistance as these individuals also can receive medical benefits through the MA program.



[12] See Sections 401 and 441.1 of the Pennsylvania Welfare Code, Unconsolidated Statutes, Act of June 13, 1967, P.L. 31, No. 21, as amended.

When Corbett assumed office, ID programs were out of compliance with federal standards and lacked accountability. There was no rate structure and providers had wide latitude over billing, charging the state for whatever price they deemed appropriate. The Corbett administration implemented a rate structure and tightened reimbursement rules. While those efforts improved the situation, the administration backed away from enforcing the rate structure. They allowed settlements with certain providers and retracted some rules, limiting the effectiveness of the reforms. By the end of the Corbett administration, ID program spending increased 19 percent while the waiting list was reduced to nearly 14,000.[13]

The administration did make strides in recognizing that persons with ID—except for the most severe cases—can achieve greater independence. Connecting these individuals with work opportunities can improve their quality of life while freeing up resources to serve individuals on the waiting list.

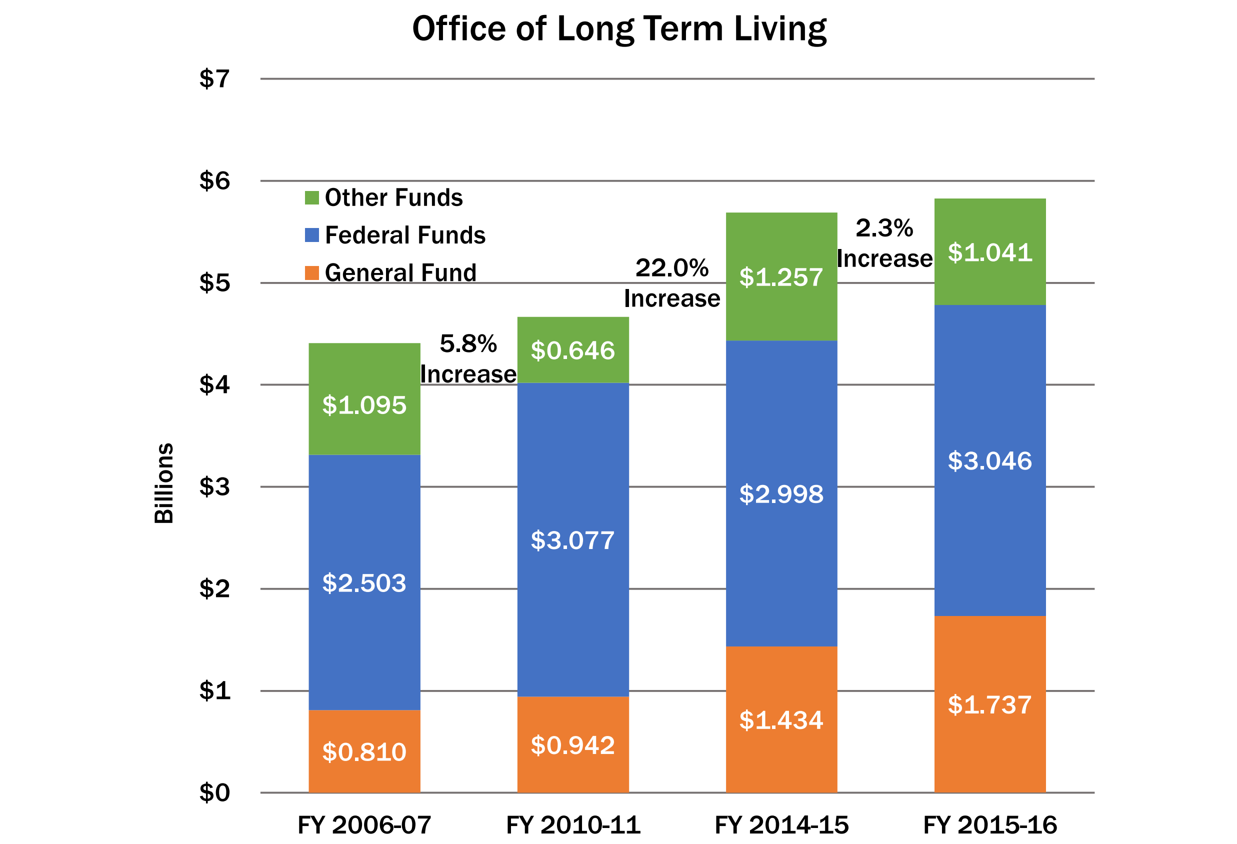
Governor Wolf plans to spend half a million dollars to help persons with intellectual disabilities find employment, which is an encouraging sign. However, the overall 6.9 percent increase for these programs is high relative to the average annual increases under the Rendell administration (5.8 percent) or the Corbett administration (4.4 percent). More importantly, Wolf's presentation is silent on managing the benefits of employment. Will the department promote cost sharing as individuals earn income to help free up resources to serve others and reduce the waiting list? How will the new administration handle the provider rate structure? What strategies will it adopt to make the department more efficient?

The General Assembly should consider additional ways to promote employment in Office of Developmental Programs. In addition, DHS should be directed to measure individual progress and include tools such as cost sharing. Finally, the legislature can direct ODP to tighten its rules on reimbursements and limit the ability of DHS to enter agreements that exceed those rates.

Encourage Private Long-Term Care

Another critical component of DHS is the Office of Long Term Living, which primarily provides elderly care in nursing homes. The recipients are not exclusively from low-income households. Many beneficiaries are middle-class who spent down their assets in order to qualify for Medicaid. With Pennsylvania's aging population, spending in this area is expected to increase rapidly.

[13] Pennsylvania Waiting List Campaign, http://www.pawaitinglistcampaign.org.



Source: PA Executive Budget Books

Governor Wolf's budget presentation recognizes this budget time bomb, and he proposes the continuation of the "rebalancing" initiatives to help the elderly stay in their homes. Wolf recommends an overall 2.3 percent increase compared to average annual increases of 1.3 percent for the Rendell administration and 5.1 percent for the Corbett administration.

However, more needs to be done. Lawmakers and the administration should explore ways to mitigate impending costs, such as tax credits to encourage the purchase of private long-term care insurance and tightening income and asset eligibility limits, such as Medicaid's more than $500,000 home equity exclusion.[14]

Taxpayer financed long-term care should be a last resort for the truly needy, not an alternative to families and other private caregivers.

---

[14] Long-Term Care Handbook, Pennsylvania Department of Human Services, Section 440.42, updated January 2015, http://services.dpw.state.pa.us/oimpolicymanuals/manuals/bop/lt/index.htm.

Recover Support for Child Care

The Child Care Works Subsidy Program provides child care subsidies for families that are working or receiving job training. However, there are opportunities to make the program more efficient.

Roughly 93 percent of the recipients are single-parent households, but those recipients are not required to seek child support.[15] Contrast that policy to that of the TANF (Temporary Assistance for Needy Families) program that requires recipients to seek child support. The federal government has found the average family in poverty that receives child support can increase its income by $4,503.[16] Adopting this policy change for the child care assistance program would be a win-win situation for both participating families and the taxpayers that subsidize the program.

Improve Program Eligibility Tools

Prioritizing benefits for the needy while encouraging a pathway to independence starts with effective eligibility tools.

The Wolf administration's recent decision to remove the asset test for the food stamp program is an unfortunate example of eliminating an effective eligibility tool that existed for most of a program's history. Providing balance against the income eligibility test—which is the function of an asset test—is especially important now because Pennsylvania has not counted interest earnings as income for food stamps since April 5, 2006. This leaves the door open for individuals with significant interest income, such as adults with large trust funds or certain lottery winners, to claim food stamps. This is an area ripe for legislative action.

The legislature can also do more to combat poverty by actively promoting work as a condition of eligibility. Expanding employment is key to reducing poverty and reducing costs. DHS needs to be more proactive in finding ways to reward work and link employment with eligibility.

---

[15] Internal memo from Erik Randolph to the Secretary of Public Welfare, "Draft Finding on Economic Incentives for Subsidized Child Care," July 11, 2011. Data was generated in-house from the child care data system.

[16] Office of Child Support Enforcement, U.S. Department of Health and Human Services, "Custodial Parents Living in Poverty," Child Support Fact Sheet Series, Number 3, January 2014, https://www.acf.hhs.gov/sites/default/files/programs/css/sbtn_custodial_parents_living_in_poverty.pdf.

Enhancing eligibility tools that prioritize the neediest Pennsylvanians and those willing to work will boost the ability of Pennsylvania's safety net to reduce poverty. These tools also reduce the cost of welfare programs and the growing burden on taxpayers.

General Questions

The following questions should be asked when reviewing the DHS budget:

- What policy changes are being proposed?
- How will those policy changes impact the population that receives benefits?
- How can we know that the benefit levels are adequate, appropriate, and flexible?
- Is there any indication that DHS will be working on pathways out of poverty for those individuals who can improve their situation?
    - Will there be individual plans for each person to measure progress toward self-sufficiency?
- What policy changes are being proposed in regards to recipient responsibilities?
    - Are there copayment or cost sharing components? If so, will they be modified?
- What other details are being presented about how DHS will meet its mission in a more cost-effective manner?

Conclusion

Governor Wolf's proposal continues the historic trend of expanding the welfare state with inadequate effort to create pathways out of poverty. No agency grows more than DHS under Wolf's proposed budget. Even with the increased revenue from proposed tax increases, welfare spending will continue to squeeze out other budget priorities for years to come. More incisive questions need to be asked about how the proposed policy changes will impact the state's limited resources.

About the Author and the Commonwealth Foundation

Erik Randolph is a Senior Fellow with the Commonwealth Foundation. He had served as a special assistant for two years to Public Welfare Secretary Gary Alexander, and he was a budget analyst for nineteen years for Democratic House Committee on Appropriations Chairman Dwight Evans.

The Commonwealth Foundation is Pennsylvania's free market think tank. The Commonwealth Foundation transforms free-market ideas into public policies so all Pennsylvanians can flourish.

COMMONWEALTH
FOUNDATION

225 State Street, Suite 302 | Harrisburg, PA
717.671.1901 phone | 717.671.1905 fax
CommonwealthFoundation.org