



# Welfare's Failure and *the Solution*

Presentation

by

Gary D. Alexander

Secretary of Public Welfare  
Commonwealth of Pennsylvania

**The American Enterprise Institute**

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- The Welfare Problem
  - Chaos
  - No Transparency
  - The Welfare Cliff
  
  - The President's Healthcare Tax makes each of these problems worse.

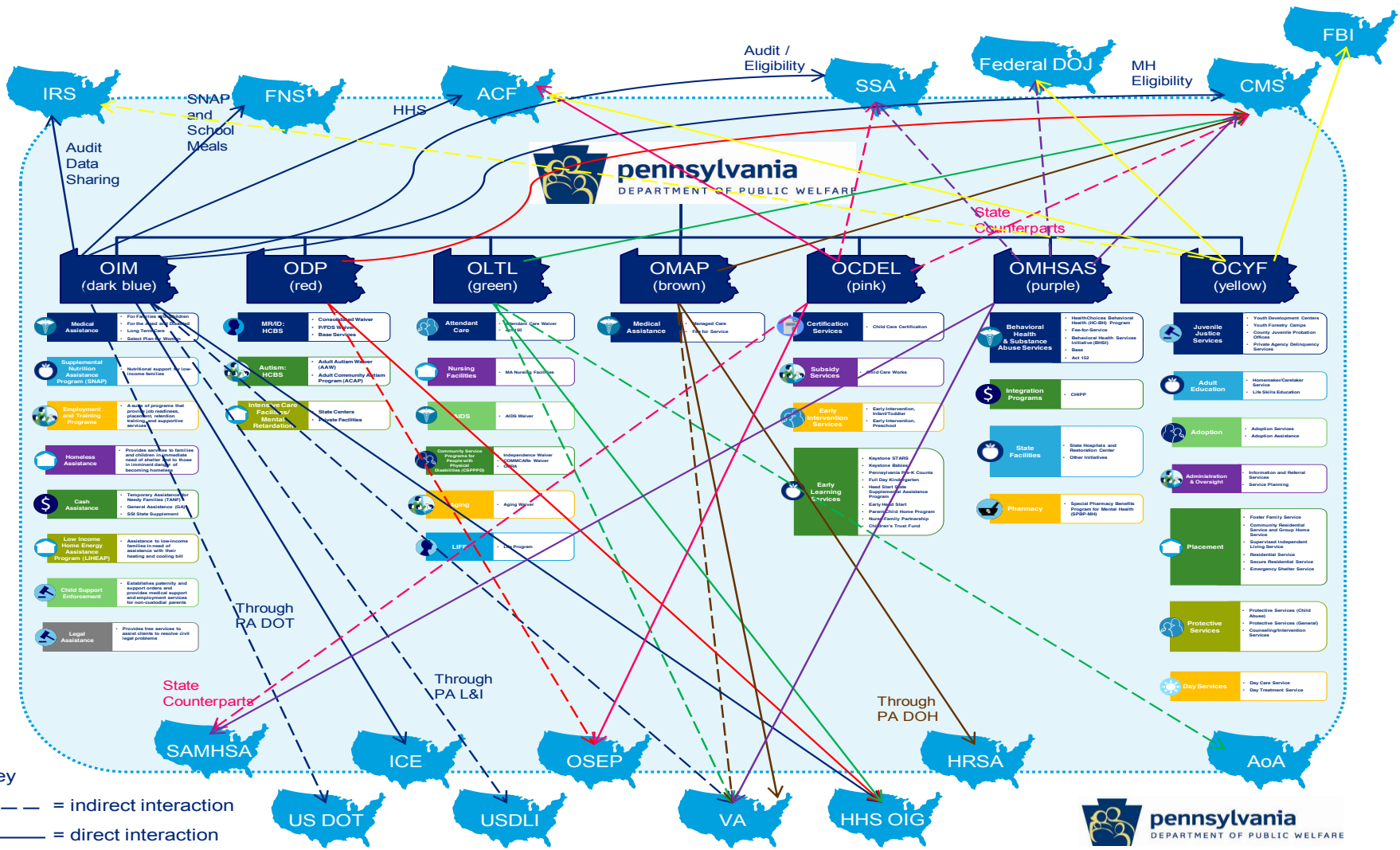
“The U.S. welfare system would be an unlikely model for anyone designing a welfare system from scratch. The dozens of programs that make up the ‘system’ have different (sometimes competing) goals, inconsistent rules, and over-lapping groups of beneficiaries.”

## **-Concise Encyclopedia on Economics**

Introductory sentences on the topic of “welfare” by Thomas MaCurdy and Jeffrey M. Jones. Thomas MaCurdy is the Dean Witter Senior fellow at the Hoover Institution and a professor of economics at Stanford University. He is a member of standing committees that advise the CBO, the U.S. Bureau of Labor Statistics, and the U.S. Census. Jeffrey M. Jones is a research fellow at the Hoover Institution. He was previously executive director of Promised Land Employment Service.

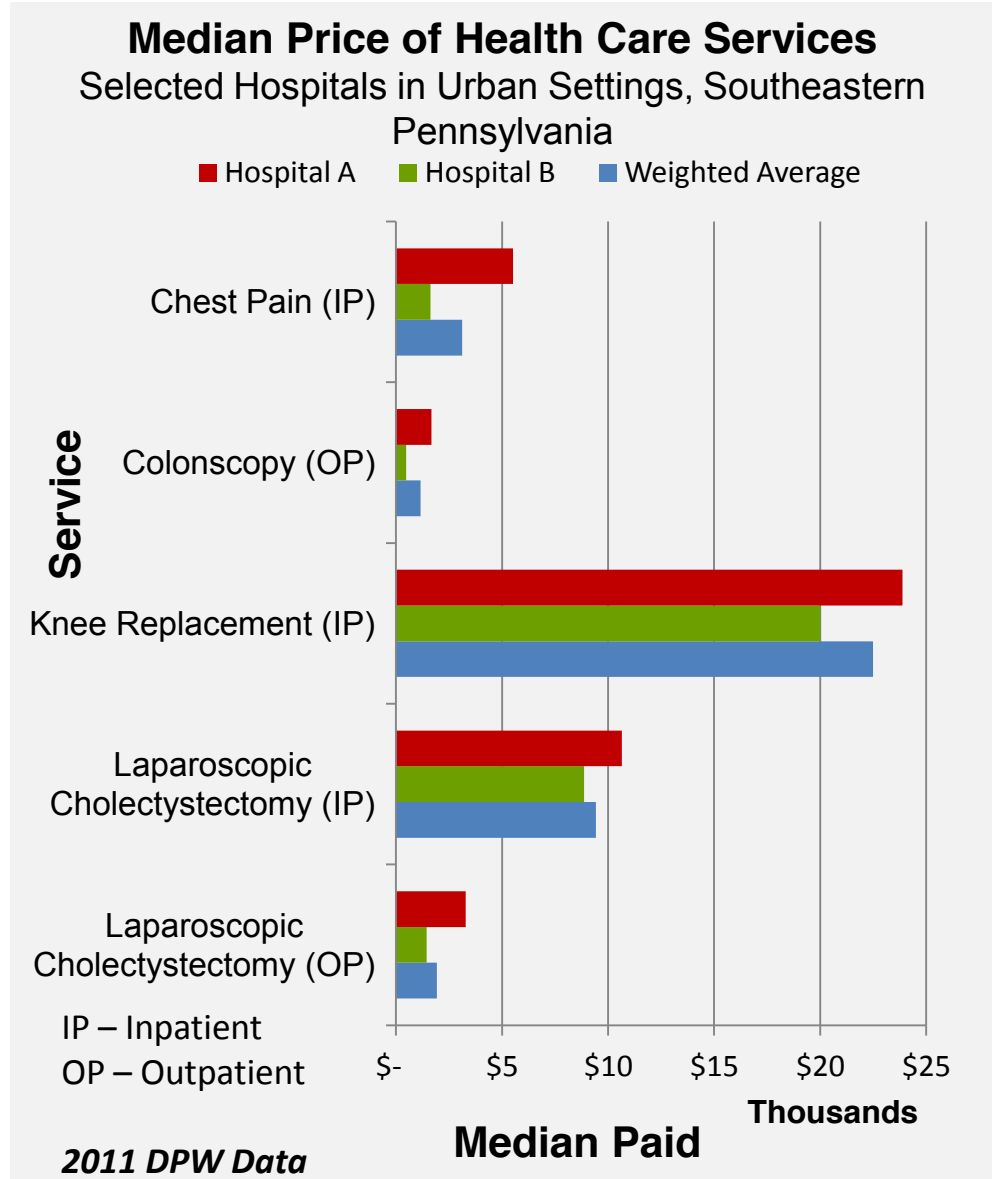
# Chaos in the Federal-State Relationship

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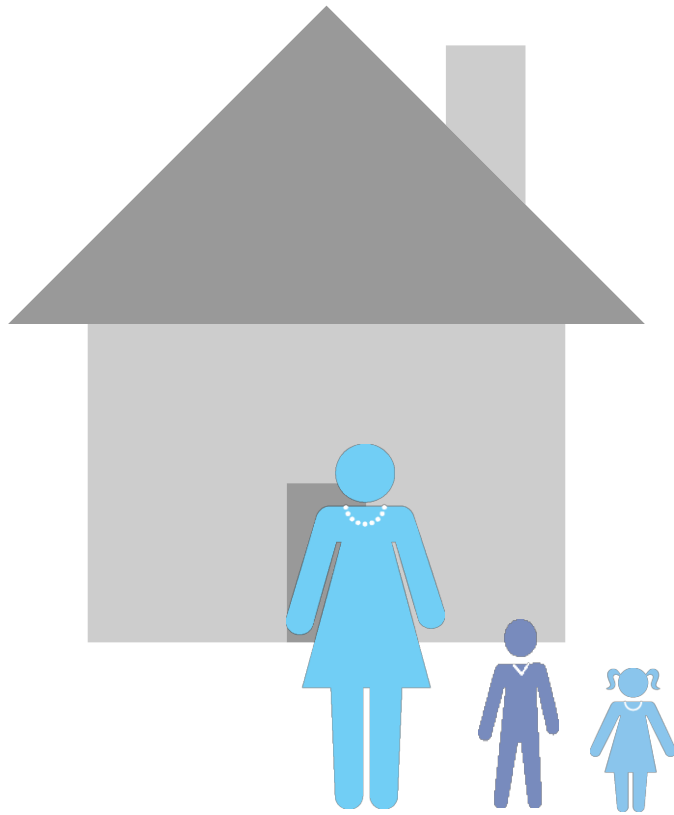


**SNAPSHOT OF WHAT A STATE HAS TO DEAL WITH FROM THE FEDERAL GOVERNMENT  
 MYRIADS OF CONFLICTING RULES AND REGULATIONS FROM A MASSIVELY DISORGANIZED BUREAUCRACY**

- Health care consumers do not know the cost of medical services or if price is associated with quality
- Health care costs vary dramatically across the Commonwealth without any apparent connection to quality or the health status of patients served
- In Philadelphia for example, a colonoscopy at one hospital is over \$3,000 and a few miles away at a surgical center it is under \$800
- Taxpayers cannot decipher the breadth of the problem



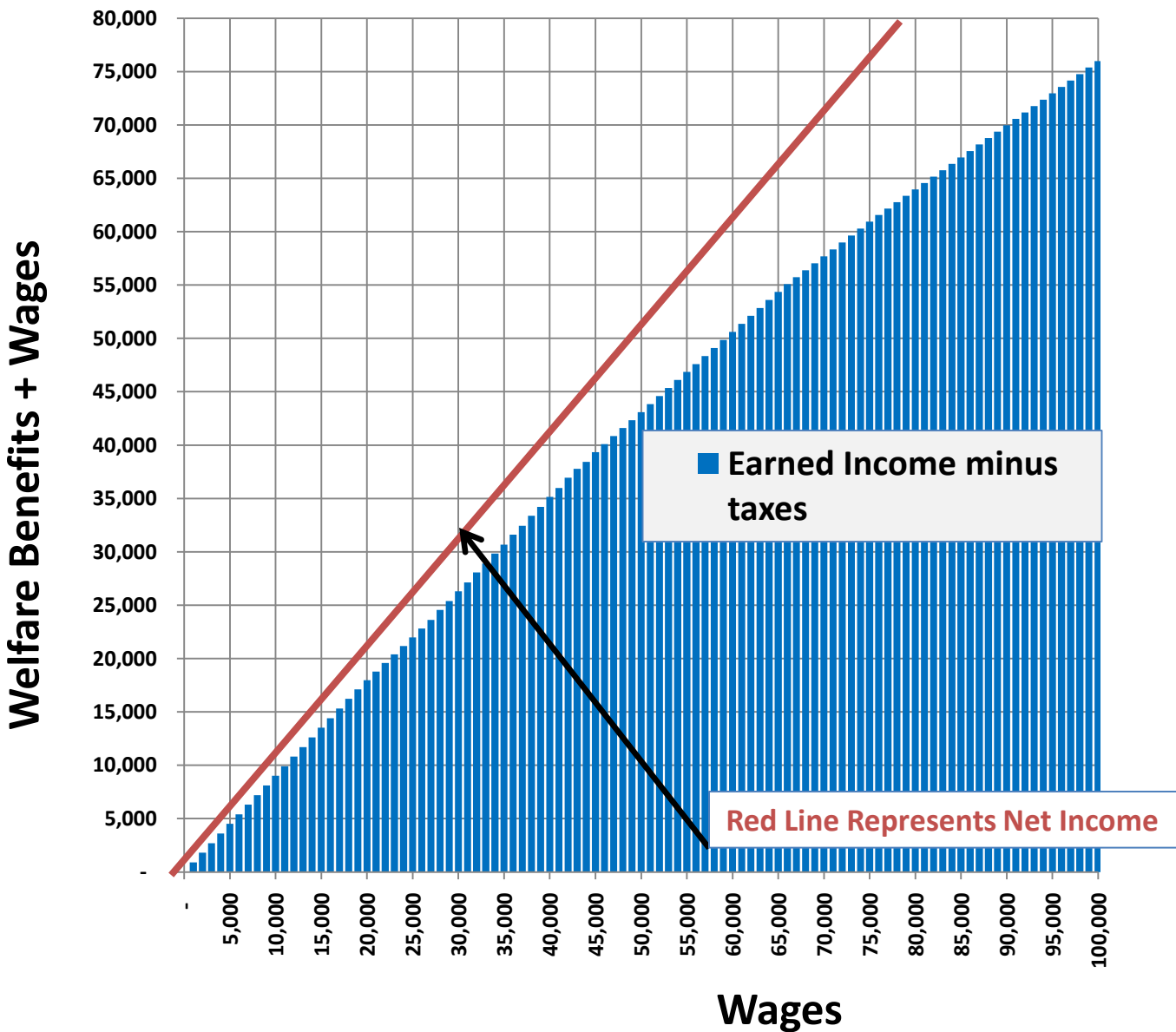
## Example Household Receiving Welfare Benefits:



- Single mom
- Two Children
- Lives in Pennsylvania
- No disabilities
- Children are 1 and 4 years old and placed in a Star 4 childcare center

# Household Benefits and Income Chart

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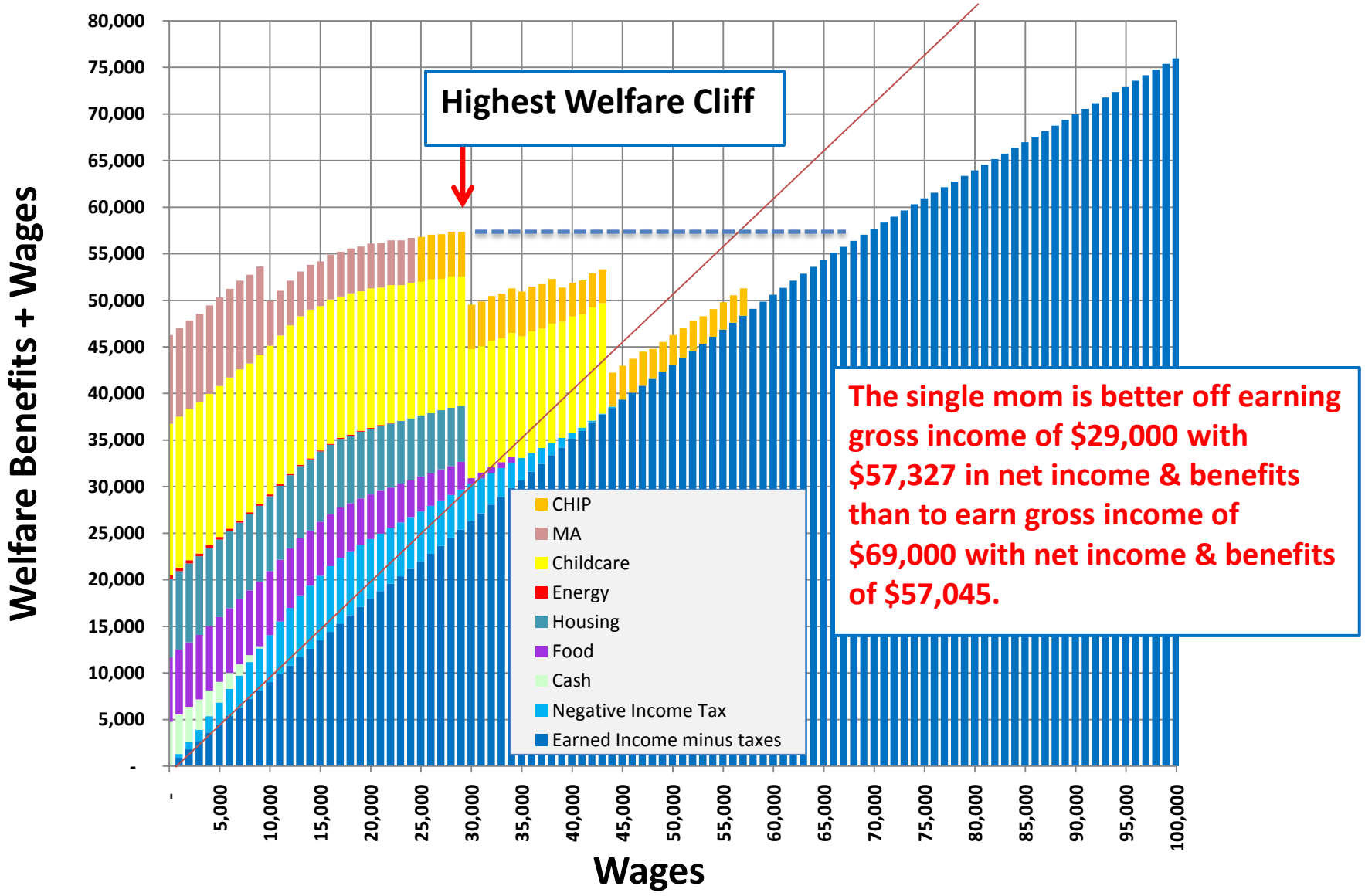


- To understand the problem, it's best to look at the family's income continuum.
- This chart depicts the family's income on a sliding scale.
- A family making about \$60,000 takes home about \$49,000.
- Despite the progressivity of the income tax, this family is always better off making more money, taking a better job.

# Household Income and Benefits Chart

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If we stack on welfare benefits, you can quickly see what happens. Welfare cliffs crop up in several spots.





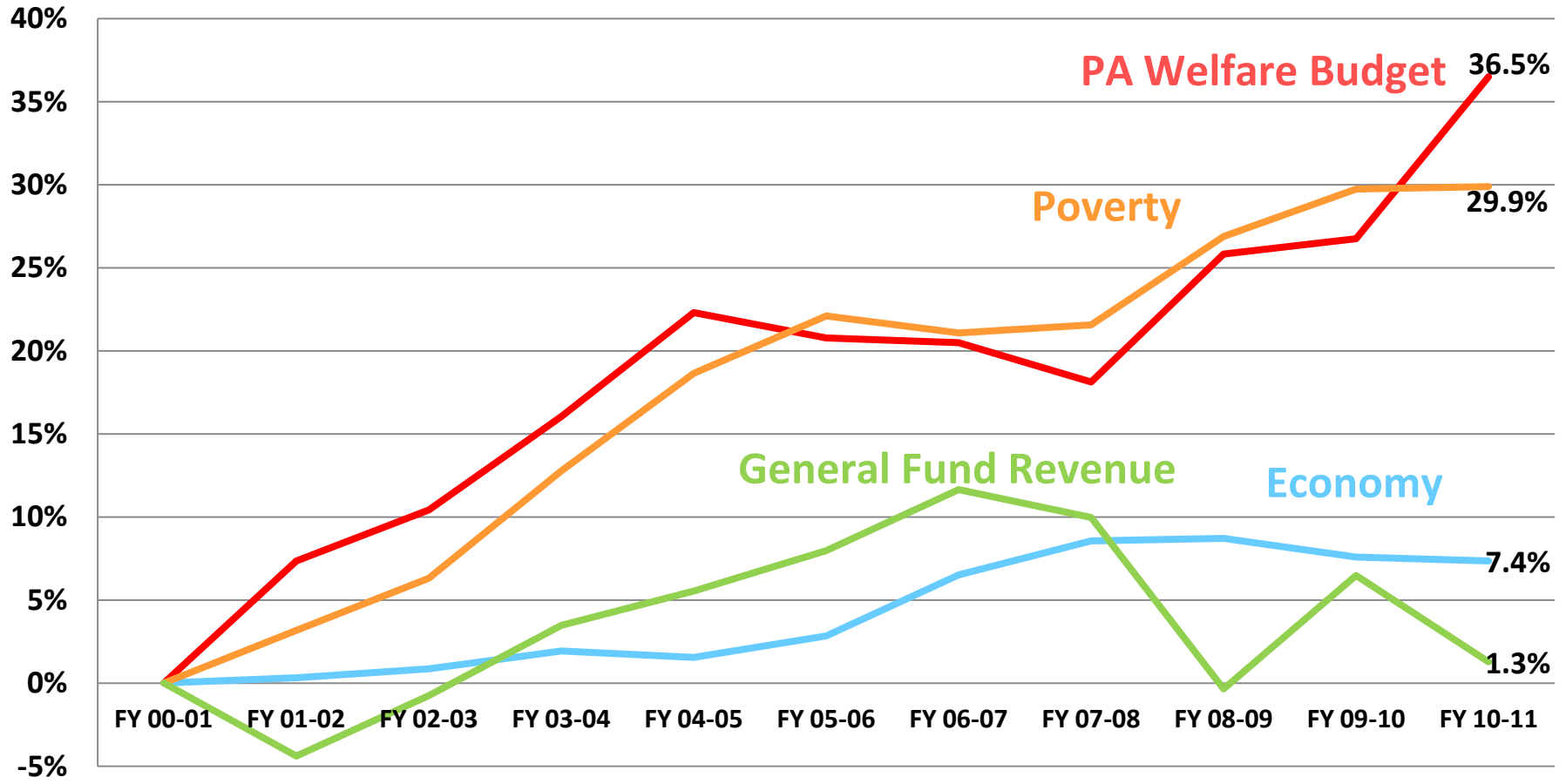


**Result: Out of control welfare spending.**

# Pennsylvania Growth Trends



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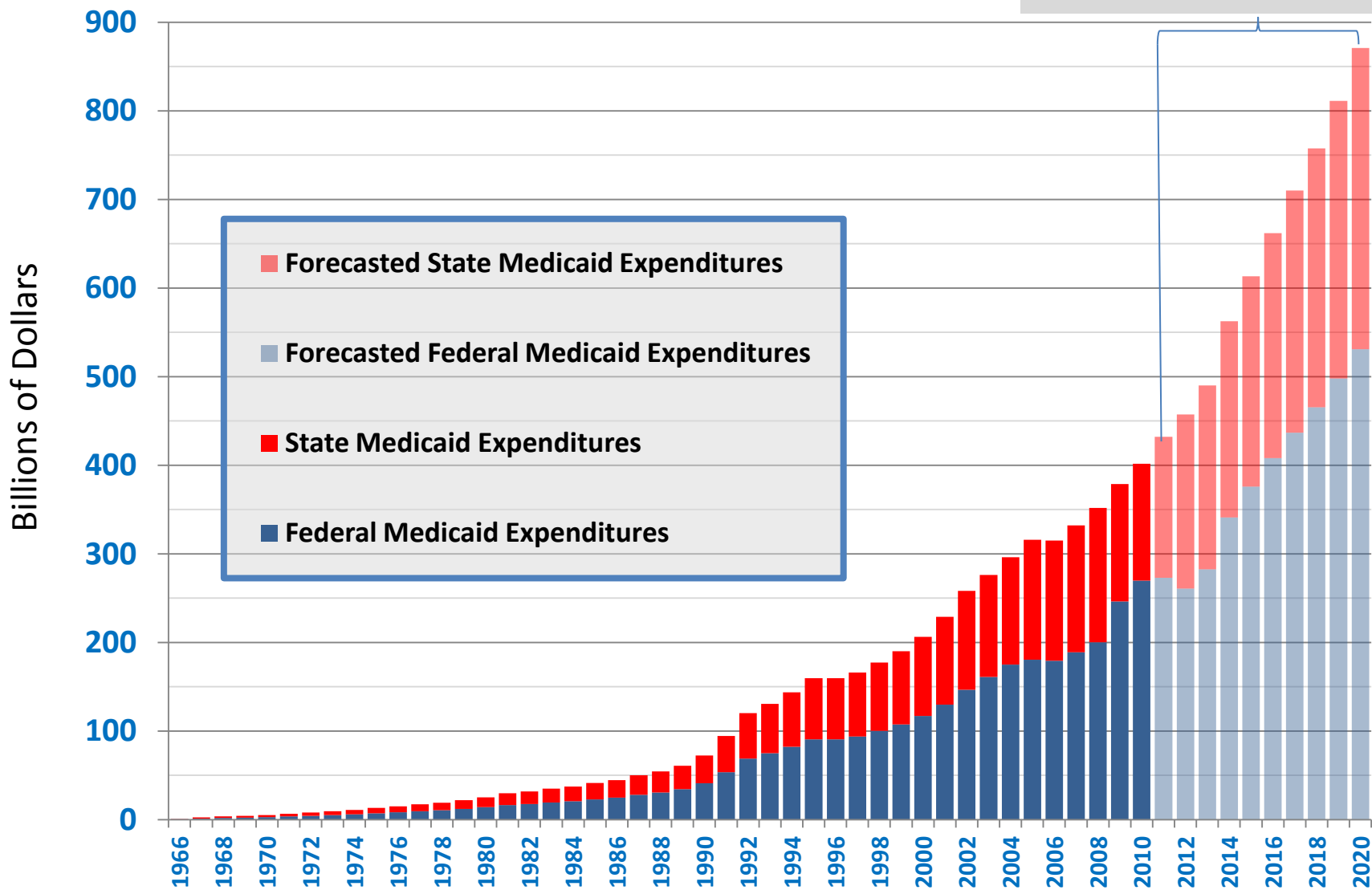


- Adjusted for Inflation using the Consumer Price Index for the regional area of Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD.
- Poverty Growth is the accumulated population growth since 2000 of those persons in poverty as defined by the Census Bureau.
- Economic Growth as indicated by State Personal Income as measured by the U.S. Bureau of Economic Analysis, and adjusted for inflation..
- **PA's Welfare budget GROWTH NOT adjusted for inflation stands at close to 80% over the past decade.**
- **Even after adjusting PA's Welfare growth for inflation, it still far outpaces poverty growth.**

# U.S. Medicaid Expenditures

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**Official Forecast of the U.S. Department of Health and**

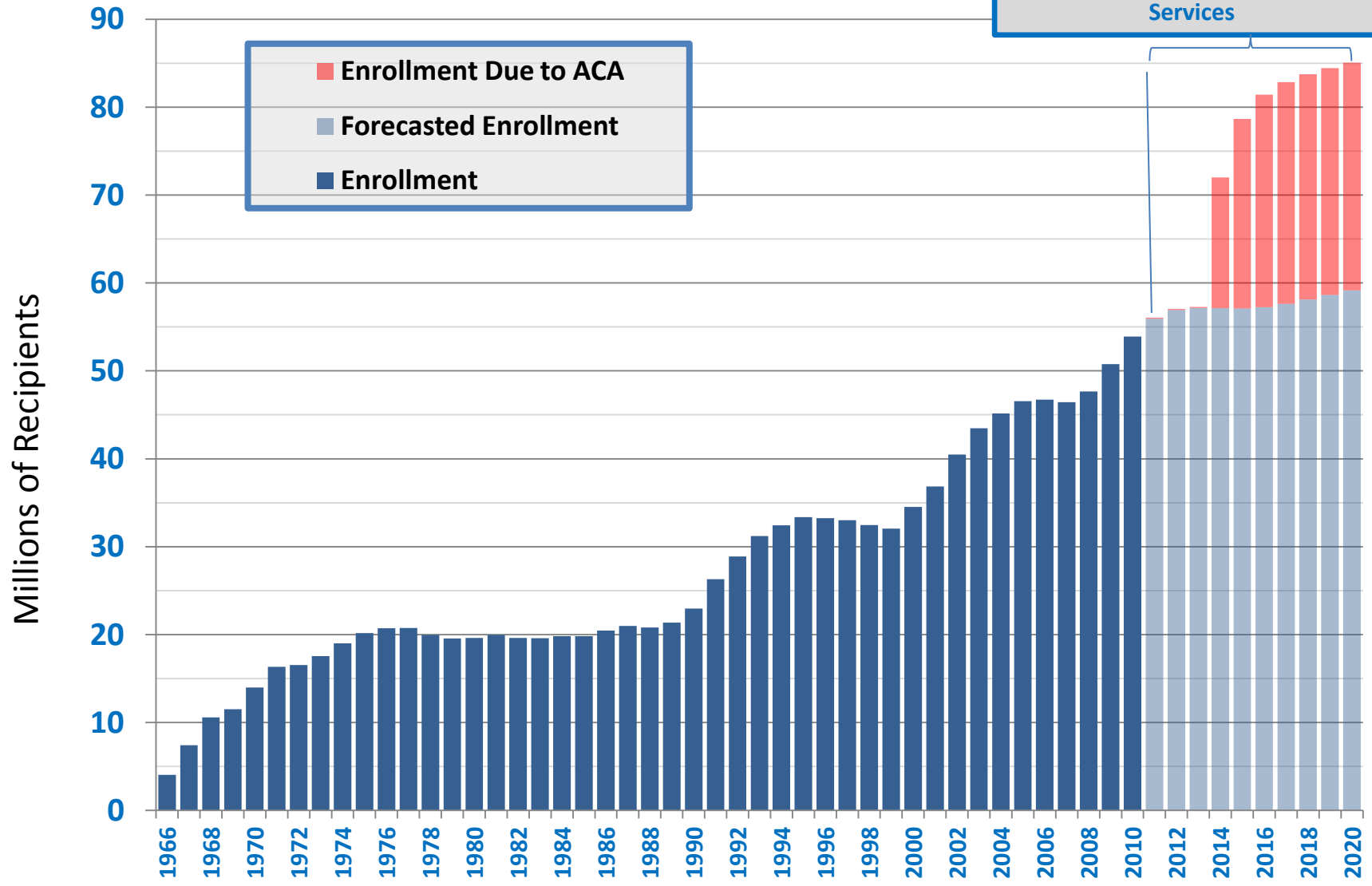


# U.S. Medicaid Enrollment



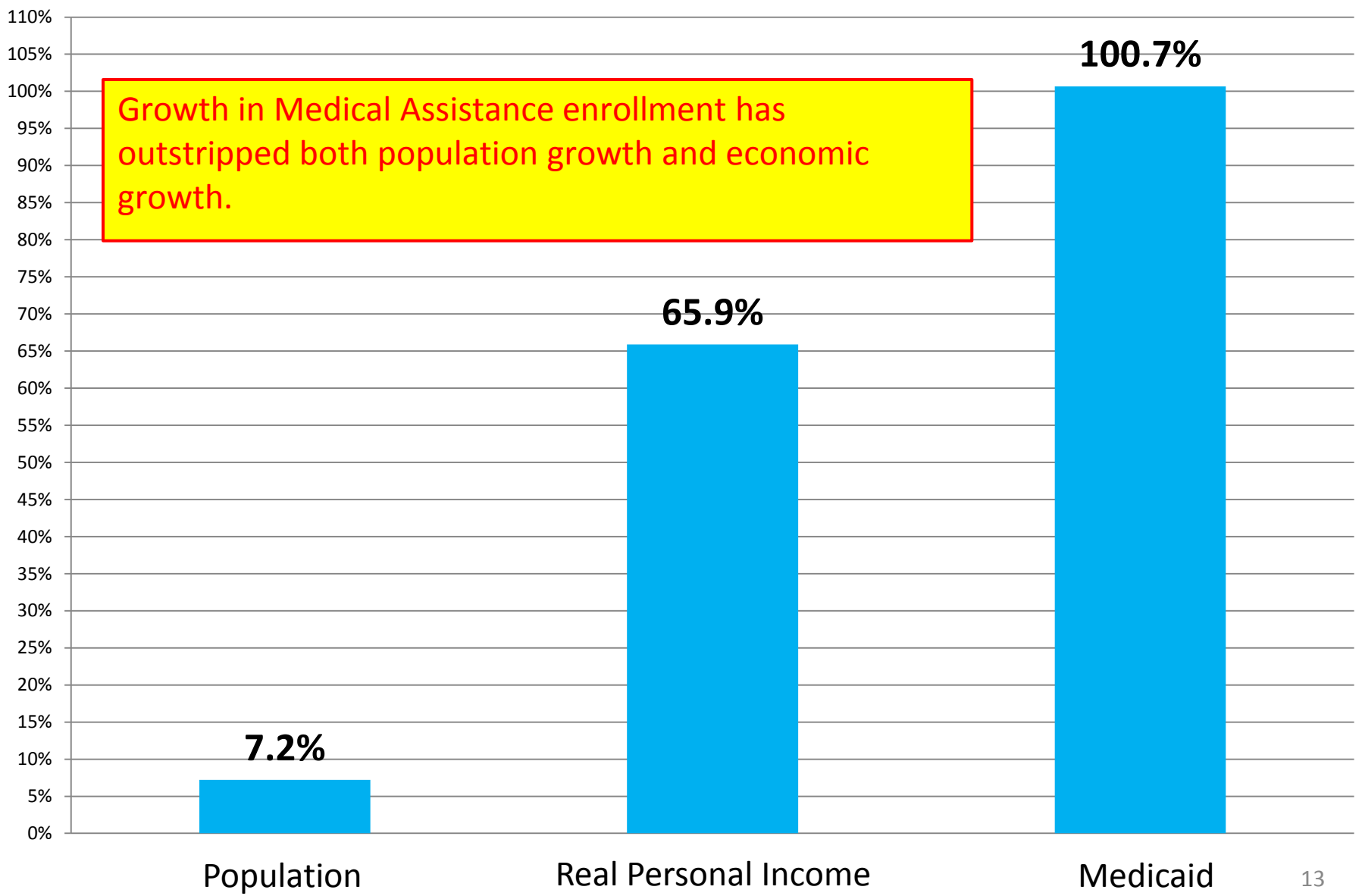
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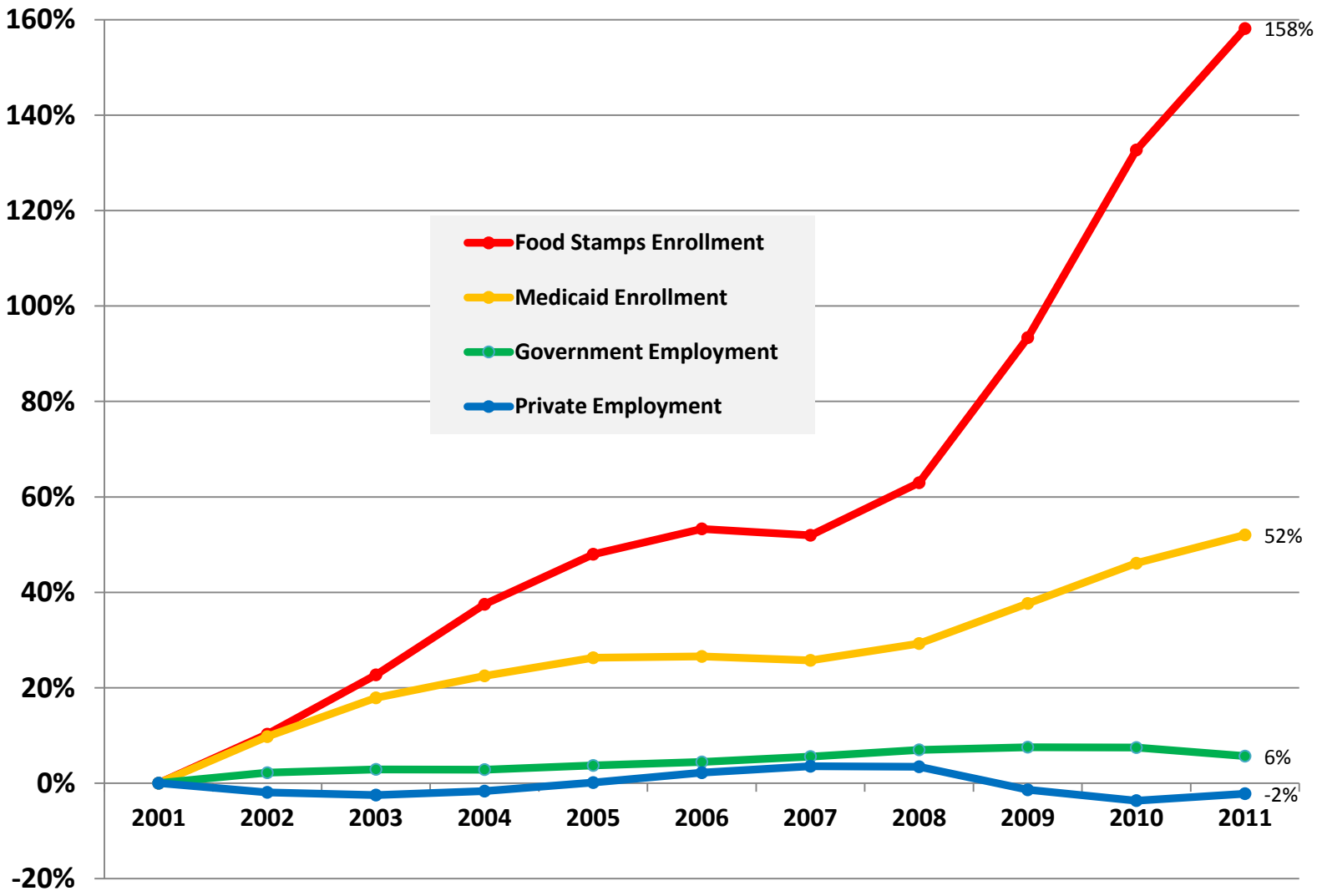
# PA: Growth in Medicaid Since 1979

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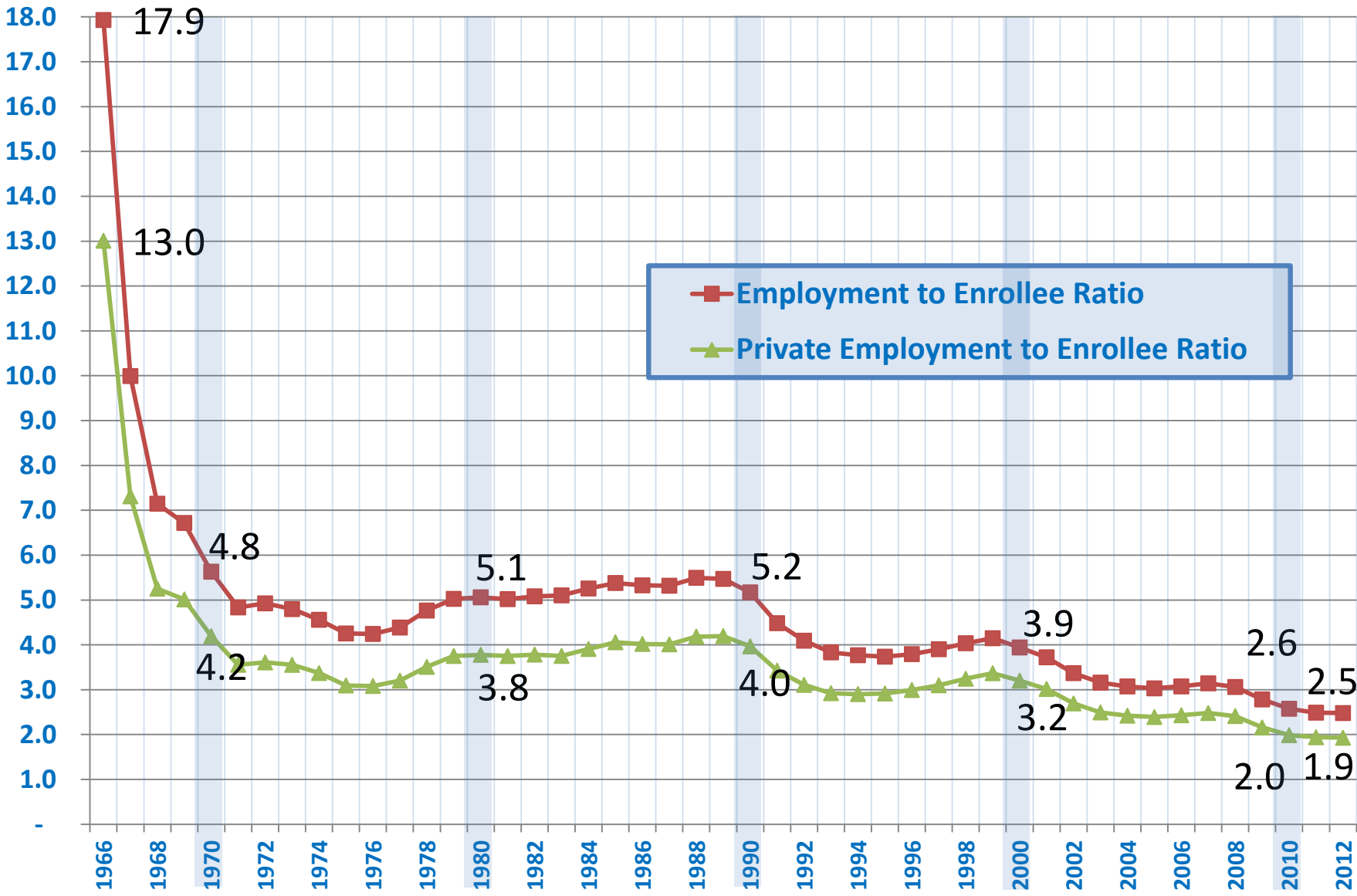
# 10 Year National Accumulative Growth

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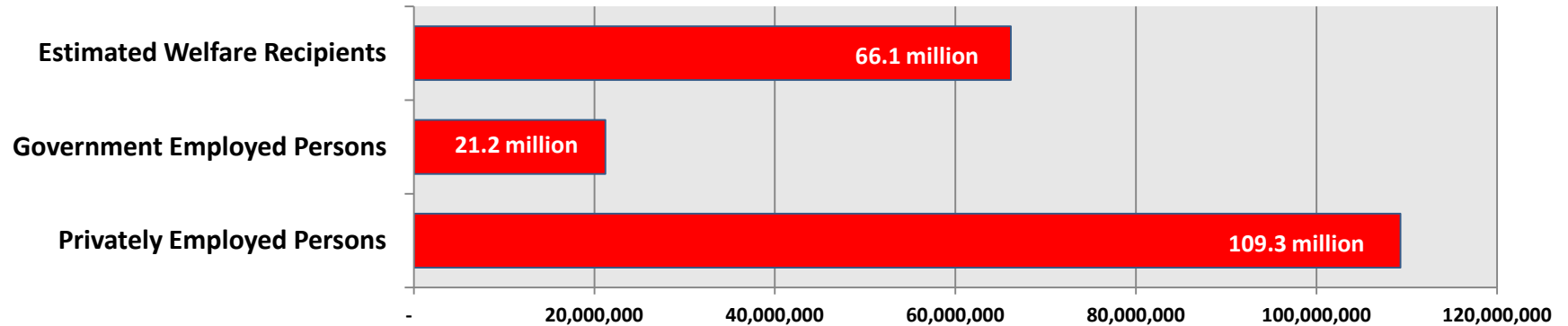


# Number of Workers per Medicaid Recipient

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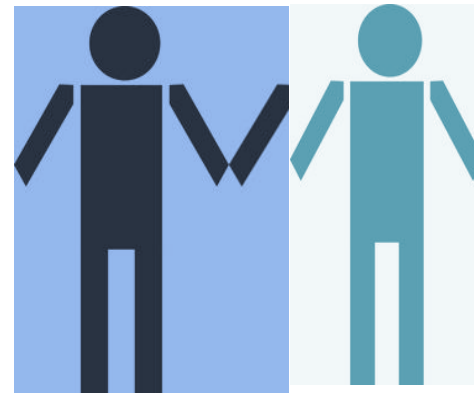
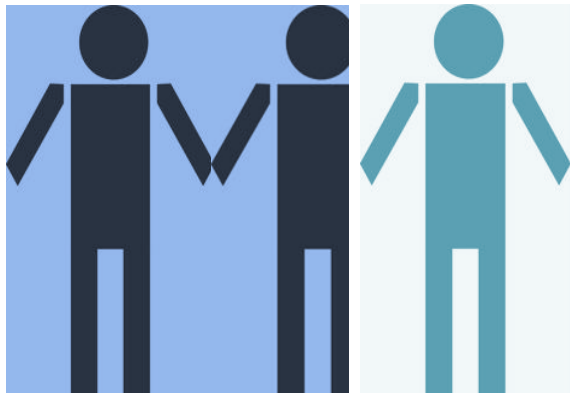


## 2011 National Data



**For every 1.65 employed persons in the private sector, 1 person receives welfare assistance.<sup>1</sup>**

**For every 1.25 employed persons in the private sector, 1 person receives welfare assistance or works for the government.<sup>1</sup>**



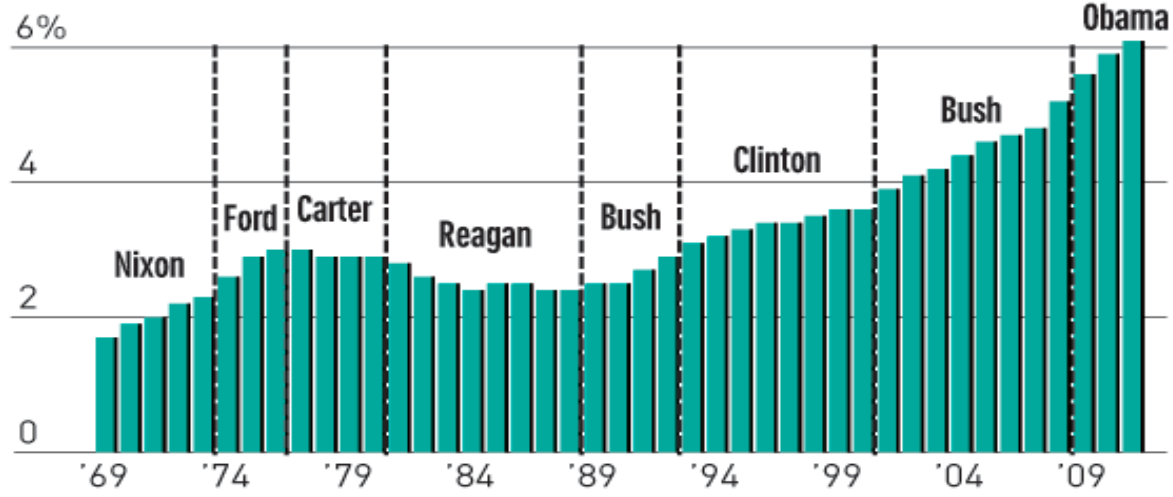
<sup>1</sup> The source for the privately employed persons and government employed persons is the U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and Wages, September 2011. The number of persons on welfare is calculated with national Medicaid and Food Stamps numbers and using a formula based Pennsylvania's experience to remove duplicate counts estimated for October 2011.



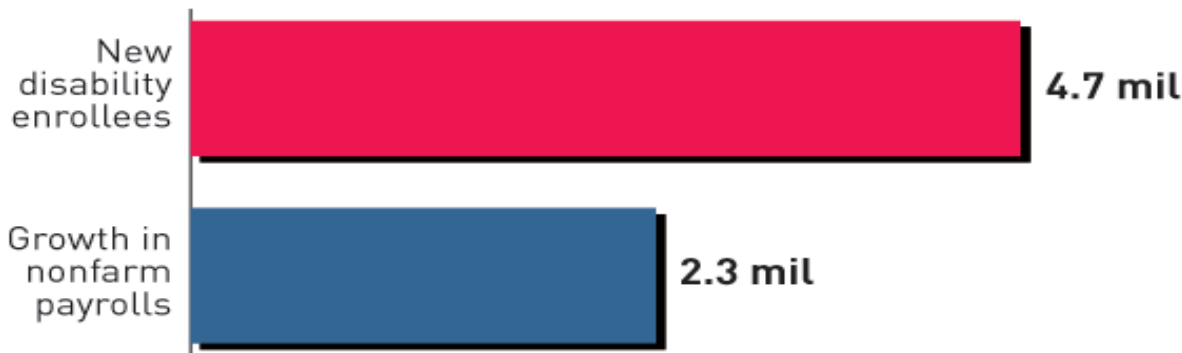
- A record 5.4 million workers and their dependents have signed up to collect federal disability checks since President Obama took office.
- Nearly 11 Million now on Social Security Disability – up 53% over the past 10 years.
- The number of new disability enrollees has climbed 19% faster than the number of jobs created during the sluggish recovery.

## Disability Ranks Reach New Highs

Ratio of workers on disability to active workers



## Disability vs. hiring since June 2009 recession end




Source: IBD calculations based on Social Security Administration and Bureau of Labor Statistics data

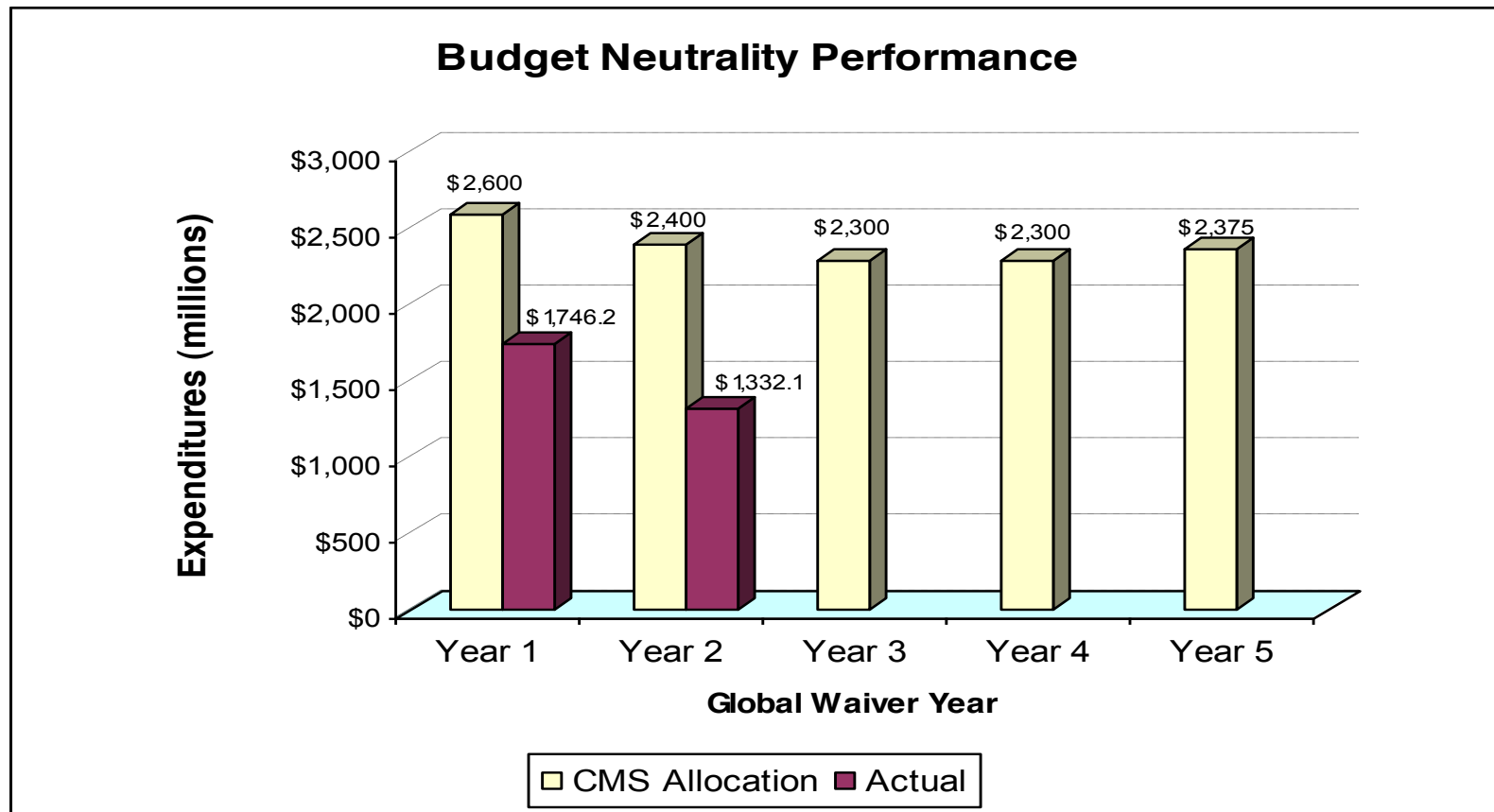


# State Based Solutions: Lessons from Rhode Island

## Rhode Island was granted an 1115 Medicaid Waiver in January of 2009

- **RI first asked feds for:** Block Grant with gain sharing based on Performance [measures]; to reinvest a portion of savings from the “grant” back into preventive health care; to waive onerous federal rules; and to align all welfare programs.  **DENIED by Washington**
- **Federal Government and RI settled on and agreed to:**
  - ✓ providing RI with a capped allotment of federal-state funds for Medicaid based on historic trends. **This was the first state ever granted an entire spending cap over an entitlement.**
  - ✓ Granting the state with **unprecedented flexibility** to change delivery systems, infuse competition, performance based programs and **change the culture** from open ended spending to cost-effective quality design and expenditure reduction.
  - ✓ Granting a new *streamlined* administrative structure where Federal Government has to answer the state within 45 days.
    - ✓ Up until the waiver, the Federal Government would often make the state wait months or years to receive an answer to a question.
  - ✓ Allowing the ability to access additional federal funds for state funded programs that delay institutionalization and are wellness and prevention focused [to further the goals of the waiver]
  - ✓ Granting the state with IT funds to create the Health reporting system for recipients
- **Obama administration revoked biggest parts of reform and agreement: *Example***
  - HSA type account for each Medicaid recipient with incentives to improve health, behavior and performance of each recipient and the goal of moving as many people off the system and into the economy as possible.

- After 2 years, Rhode Island stayed \$1.7 Billion under the federal-state cap of \$12.075 Billion.
- Projections show that by the end of the 5 year waiver period, Rhode Island will be over **\$3 Billion under the cap**. In other words, **spending was almost cut in half**.



**The Main ingredient for success → the SPENDING CAP forced CULTURE CHANGE**

- Having one waiver, **with a spending cap set below historical spending patterns and in accordance with the federal government**, allowed Rhode Island to break down silos of care and services.
- Spending cap forced the state to be financially responsible for the first time in history.
- Before the Global Waiver, *“if the State spends a dollar it can't afford, the federal government is happy to match it with dollars they don't have.”*
- *The RI Waiver changed the culture and incentives!*

The Spending Cap Changed the culture and forced the state to reform, redesign and be cost-conscious.  
Without an urgency to save, government will never be cost-effective and improve quality.



## Providence Journal

### **BREAKING NEWS**

May 10, 2012 By Randal Edgar

PROVIDENCE, R.I. -- State budget analysts said Thursday that they expect revenues for the fiscal year that ends June 30 to be \$62 million greater than predicted...They also said revenues for the coming year are now expected to be \$17.8 million greater than projected, based on trends that suggest...Medicaid and **cash assistance** programs will be \$27.8 million lower than projected this year and \$31.6 million lower next year.

## In 2011, the Lewin Group performed an *independent* study to test the RI reforms.

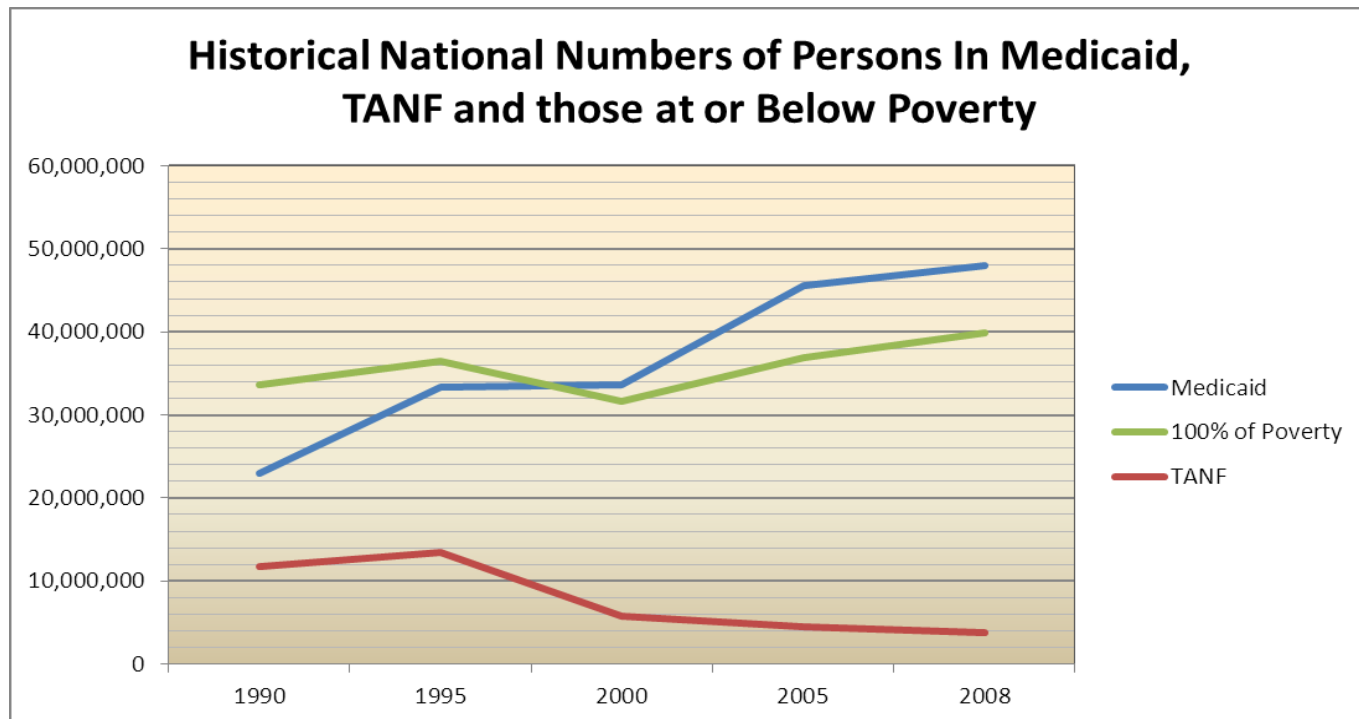
- ✓ The study found that the Ocean State's reform with a federal waiver had been "**highly effective in controlling Medicaid costs**" and improving "**access to more appropriate services.**"
- ✓ Lewin examined the state's shift to home and community-based care from nursing homes for long-term care patients. Lewin found the reform helped save \$35.7 million. \$15 million in 2010 alone.
- ✓ The Lewin study also "found evidence of lower emergency room utilization and improved access to physician services" from "care management programs" for Medicaid patients with asthma, diabetes, heart problems and mental health disorders. Emergency room care is a major driver of Medicaid costs.



- Solutions
  - Harness the Laboratories of Democracy
  - Maximize Flexibility to States
  - Forecasting Cost Savings
  - Specific Reforms



The Temporary Assistance for Needy Families (TANF) program, which allows greater flexibility among the states has seen a 68% enrollment drop from 1990 to 2008. By contrast, Medicaid, which is layered with federal rules, has seen an 110% explosion in the number of enrollees. Poverty has grown only 19% during the same time period.



- Innovation and creativity by the states will produce savings.
- With freedom from federal rules, an Initial 10% savings is very possible:
  - Pennsylvania’s Actuary has run several financial models on potential reforms for Medicaid and estimates total savings between 7% and 16%.
  - TANF resulted in 68% enrollment drop after flexibility was given to the states (see previous slide.)
- The Federal Government can attain more than \$1.5 trillion through a new federal-state partnership on welfare reform.

**Estimated ten-year savings for taxpayers by just capping Medicaid growth and allowing states to innovate and manage within the cap: *in billions of dollars***

<b>Capped Growth</b>	<b>Federal</b>	<b>States</b>	<b>Total</b>
<b>5%</b>	605.4	388.5	993.9
<b>4%</b>	771.1	495.6	1,266.7
<b>3%</b>	927.1	596.5	1,523.6
<b>2%</b>	1,074.0	691.5	1,765.5
<b>1%</b>	1,212.4	781.0	1,993.4
<b>0%</b>	1,342.7	865.3	2,208.0
<b>-1.0%</b>	1,465.4	944.7	2,410.1
<b>-1.3%</b>	<b>1,500.8</b>	967.6	2,468.4

This was the goal of the Joint Select Committee on Deficit Reduction goal achieved.

## 1. Rhode Island Global Waiver *as implemented*:

- Assumes the federal government will provide all states the same flexibility given to Rhode island as implemented with the restrictions imposed by the Obama administration.

## 2. Full Rhode Island Global Waiver:

- Assumes the federal government will provide the Rhode Island Global Waiver as stated in the terms and conditions.

*One and two above provide programmatic flexibility with a financial cap and gain sharing to the states similar to what was given to Rhode Island in its Global Waiver. No act of Congress is necessary and only involves approval from the Federal Centers for Medicare and Medicaid [CMS].*

## 3. Mega Grant:

- Assumes a New Social Compact where all social welfare program funds are combined and delivered to the states with clear performance measures and gain sharing.

**NOTE:** Projected Pennsylvania savings from super block grant: about \$129.1 billion over 10 years. Pennsylvania is roughly 4% of U.S. population and spends roughly 5% of the welfare funding. Extrapolating from above: **\$2.5 trillion to \$3.2 trillion total savings for all states and federal government.** Assuming Federal share is 52.5%, the federal government saves \$1.4 trillion to \$1.7 trillion over ten years.