Federal "Waivers" from Law and Regulation Should Be Used To Build Rigorous Evidence About How To Reduce Entitlement Spending

Used with great success in 1980s/90s welfare reform, waivers could be deployed government-wide to identify major cost-saving reforms

The solution to the nation's long-term deficit problem is generally portrayed as a choice between sharp budget cuts and major tax increases. Given the magnitude of the problem, some hard choices are unavoidable. Largely overlooked, however, are clear examples, from welfare and health care policy, where rigorous randomized trials have identified program reforms that produced major savings while simultaneously improving people's lives. This paper thus proposes a government-wide initiative to build a sizable body of such proven, cost-saving reforms over the next decade, using a policy tool deployed with remarkable success in 1980s/90s welfare reform: "waiver-evaluations." Under this approach, Congress would (i) charge the federal agencies to waive certain provisions of law and regulation to allow states to innovate in their delivery of federal entitlement programs, with the goal of reducing cost and increasing effectiveness; and (ii) require that such innovations be rigorously evaluated to determine which of them really work.

THE OPPORTUNITY:

Rigorous randomized studies have the ability to identify program reforms that increase the effectiveness of social spending while reducing its cost. Examples include:

- **Certain work-focused welfare reform strategies: shown to increase employment and earnings 20-50%, and produce net government savings of $1,700-$6,000 per person.** In the 1980s and 1990s, government, foundations, and leading researchers sponsored or carried out a large number of randomized evaluations of state and local welfare reforms. Three major reform efforts – two in California, one in Oregon – were found especially effective. Focused on moving welfare recipients quickly into the workforce through short-term job-search assistance and training (as opposed to longer-term remedial education), the initiatives produced gains in participants' employment and earnings of 20-50%. Remarkably, they also produced net savings to the government, in reduced welfare and food stamps, of $1,700 to $6,000 per person.[1]

  These findings helped build political consensus for the strong work requirements in the 1996 welfare reform act, and shape many of the work-first state-level reforms that followed. The scientific rigor of the findings was critical to their policy impact.[2]

- **Prospective payment of Medicare home health agencies: shown to reduce Medicare expenditures by 20% with no adverse effects on patient health.** In 1995, federal officials launched a randomized trial to test prospective payment of Medicare home health agencies – i.e., paying such agencies an up-front lump sum per patient – against the usual cost-reimbursement approach. The study found that prospective payment reduced costs to Medicare by 20% over three years, compared to cost reimbursement, with no adverse effects on patient health.[3] This finding helped shape Medicare's nationwide implementation of prospective payment for home health agencies in 2000, producing large cost savings in this $15 billion program.[4]

- **Transitional Care Model (TCM) for elderly hospital patients: shown to reduce unnecessary rehospitalizations by 30-50% and net healthcare costs by $4,000 per patient.** TCM is a nurse-led hospital discharge and home follow-up program for chronically-ill older adults. It is designed to address a major problem in the U.S. healthcare system: more than one-third of older patients discharged from U.S. hospitals each year are rehospitalized within 90 days, generating major costs to Medicare.[5] TCM has been shown in two randomized trials to reduce rehospitalizations by 30-50% and net healthcare costs by $4,000 per patient, without any adverse effects on patient health or quality of life.[6] These results suggest that successful national replication of this model could generate Medicare savings of about $10 billion per year – without cutting anyone's benefits.

- **Reemployment and Eligibility Assessments, an innovation in the Unemployment Insurance (UI) system: shown to produce UI savings and increase UI claimants' earnings as much as 18%.** In 2009, the Department of Labor launched a four-state randomized trial of the Reemployment and Eligibility Assessment (REA) program for UI claimants.[7] The program includes a mandatory in-person review of the claimant's eligibility for UI, and personalized job-search and other reemployment assistance. Over a 12-18 month period, the study found: (i) $180 in net government savings per claimant from reduced UI payments; (ii) especially large savings in Nevada – $604 per claimant – possibly due to distinctive features of Nevada's REA program that could be replicated elsewhere; and (iii) an increase in job earnings of $2,600 (18%) per claimant in Nevada – the one site that obtained a reliable estimate of the effect on earnings.[8]

  These results suggest that nationwide implementation of REA for all eligible UI claimants could produce $1.5 billion in net government savings per year,[9] while increasing workers' earnings. If the larger Nevada effects could be reproduced nationally, the savings might be as high as $5 billion per year,[10] and the increase in workers' earnings could be substantial.

THE CHALLENGE:

To identify enough reforms to produce sizable entitlement savings requires strategic trial-and-error – i.e., rigorously testing many promising approaches to identify the subset that are effective.

Rigorous evaluations, by measuring programs' true effect on objectively important outcomes such as workforce earnings, health and healthcare costs, and use of public assistance, are able to distinguish those that produce sizable effects from those that do not. Such studies have identified some reforms that are truly effective – such as those described above – but these are exceptions that have emerged from testing a much larger pool. Most interventions, when rigorously-evaluated, are found to produce weak or no effects compared to services-as-usual – a pattern that occurs not just in social spending but in other fields such as medicine and business.[11]

As an illustrative example, the federal government's Medicare Coordinated Care Demonstration – a large randomized trial of 15 different strategies to reduce Medicare costs of chronically-ill patients by coordinating care among their many physicians – found that none of the 15 strategies produced the expected savings. On average, they actually increased Medicare costs by 11%.[12] This finding overturned earlier, more preliminary studies, which had suggested large potential savings – in some cases, 25% or more.[13] This is a typical pattern across diverse policy areas: promising preliminary evidence is often not confirmed in more definitive studies, underscoring the need for rigorous testing of many different approaches.

THE SOLUTION:

U.S welfare policy in the 1980s and 1990s shows how waivers can greatly expand the number of rigorously-evaluated strategies and identify the subset that work.

Specifically, in the years leading up to the 1996 welfare reform act – through both Republican and Democratic Administrations – OMB and HHS had in place a waiver-evaluation policy, as follows:

- **HHS waived certain provisions of law and regulation to allow states to test new welfare reform strategies, but only if the states agreed to evaluate their reforms in rigorous randomized studies.**

- **This policy resulted in more than 20 large-scale randomized trials that tested a diverse set of reforms, helping to build the influential body of welfare-to-work evidence discussed above.** The reforms that were tested include, for example, mandatory job search and employment activities (e.g., Vermont); employment subsidies for welfare recipients who left welfare for full-time work (e.g., New York, Minnesota); time limits on welfare (e.g., Florida, Connecticut); "family cap" policies designed to discourage additional births among women on welfare (e.g., Arkansas, New Jersey); and various combinations of the above reforms.[14]

THE SPECIFIC PROPOSAL:

We recommend that Congress charge the federal agencies, working with OMB, to make maximum use of federal "waivers" from law and regulation, to –

1. **Stimulate a robust array of state/local program innovations, aimed at (a) producing budget savings while improving program effectiveness, or (b) improving participant outcomes without added cost;**

– and –

2. **Require rigorous evaluations to determine which of these innovations really work.**

For some programs, this would require legislation to expand the program's waiver authority and/or tie that authority to a requirement for rigorous evaluations wherever feasible. Other programs already have sufficient authority, and Congress could encourage or direct them to use it more widely and strategically to stimulate state/local innovation and evidence-building. We would be pleased to work with Congressional officials, if helpful, to explore how the waiver-evaluation concept might be operationalized across various programs.

THE ULTIMATE GOAL:

To build a sizable body of proven, cost-saving strategies that aggregate to major long-term spending reductions, without loss of quality or benefit to the American people.

References

[1] These are 2012 dollars. Examples include: (i) the Riverside Greater Avenues for Independence (GAIN) Program (Stephen Freedman, Daniel Friedlander, Winston Lin, and Amanda Schweder, *The GAIN Evaluation: Five-Year Impacts on Employment, Earnings, and AFDC Receipt*, Working Paper 96.1, MDRC, July 1996; James Riccio, Daniel Friedlander, and Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program*, MDRC, September 1994); (ii) Los Angeles Jobs-First GAIN (Stephen Freedman, Jean Tansey Knab, Lisa A. Gennetian, and David Navarro, *The Los Angeles Jobs-First GAIN Evaluation: Final Report on a Work First Program in a Major Urban Center*, MDRC, June 2000); and (iii) Portland Job Opportunities and Basic Skills (JOBS) Training Program (Susan Scrivener, Gayle Hamilton, Mary Farrell, Stephen Freedman, Daniel Friedlander, Marisa Mitchell, Jodi Nudelman, Christine Schwartz, *National Evaluation of Welfare-to-Work Strategies: Implementation, Participation Patterns, Costs, and Two-Year Impacts of the Portland (Oregon) Welfare-to-Work Program, MDRC*, May 1998; Gayle Hamilton, Stephen Freedman, Lisa Gennetian, Charles Michalpoulos, Johanna Walter, Diana Adams-Ciardullo, Anna Gassman-Pines, Sharon McGroder, Martha Zaslow, Jennifer Brooks, Surjeet Ahluwalia, Electra Small, and Bryan Ricchetti, *National Evaluation of Welfare-to-Work Strategies: How Effective Are Different Welfare-to-Work Approaches? Five-Year Adult and Child Impacts for Eleven Programs, MDRC and Child Trends*, December 2001).

[2] Ron Haskins, "What Works Is Work: Welfare Reform and Poverty Reduction," *Northwestern Journal of Law and Social Policy*, vol. 4, no. 1, 2009, pp. 29-60. Ron Haskins, in *Rigorous Evidence: The Key To Progress Against Crime and Substance Abuse? Lessons From Welfare, Medicine, and Other Fields*, Proceedings of a National Policy Forum Sponsored by the U.S. Department of Justice and Coalition for Evidence-Based Policy, June 14, 2004, pp. 30-36. Judith M. Gueron, "Building Evidence: What It Takes and What It Yields," *Research on Social Work Practice*, vol. 17, no. 1, January 2007, pp. 134-142.

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[4] U.S. General Accounting Office, *Medicare Home Health Care: Prospective Payment System Will Need Refinement as Data Become Available*, GAO/HEHS-00-9, April 2000.

[5] Stephen Jencks, Mark Williams, and Eric Coleman, "Rehospitalization Among Patients in Medicare Fee-For-Service Program," *New England Journal of Medicine*, 2009, vol. 360, no. 14, pp. 1418–1428. K. Levitt, L. Weir, E. Strangest, K. Ryan, and A. Eli Hauser, *HCUP Facts and Figures: Statistics on Hospital-based Care in the United States*, 2007. Rockville, MD: Agency for Healthcare Research and Quality, 2009.

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[7] Eileen Poe Yamagata, Jacob Benus, Nicholas Bill, Hugh Carrington, Marios Michaelides, and Ted Shen, *Impact of the Reemployment and Eligibility Assessment Initiative*, Impaq International, June 2011. Marios Michaelides, Eileen Poe-Yamagata, Jacob Benus, and Dharmendra Tirumalasetti, *Impact of the Reemployment Eligibility Initiative In Nevada*, Impaq International, January 2012.

[8] The study measured the program's effect on job earnings in the Florida site, and found that it produced a statistically-significant $476 increase in earnings per claimant over a 12-month follow-up period, roughly offsetting claimants' loss in UI benefits. However, this was a regression-adjusted effect on earnings; the unadjusted effect was near zero and not statistically significant. Because the effect differed under these two different estimation approaches, we believe the positive findings for earnings in Florida are best viewed as tentative, and need corroboration in future studies before being accepted as valid.

[9] The $1.5 billion in net savings is calculated by multiplying the savings per claimant ($180) by the number of claimants potentially eligible for REA nationwide. We estimate that there are 7.8 million such claimants in the United States, based on (i) Department of Labor data showing a total of 19.4 million UI claims filed in 2012, and (ii) the study's finding that, on average, about 40% of UI claimants met the REA eligibility requirements in the states participating in the study. A per-claimant savings of $180 multiplied by 7.8 million claimants totals roughly $1.5 billion.

[10] Because of the initial positive findings in Nevada, the researchers conducted a longer-term follow-up, which found that the program produced $672 in per-person net savings during the 20-26 months after random assignment. We estimated national savings of $5 billion by multiplying $672 (in per-person net savings) by 7.8 million (the number of claimants nationwide that we estimate are eligible for REA, as described in the previous endnote).

[11] The percent of rigorous evaluations that find positive versus weak or no effects is summarized, along with relevant citations, in *A Different Way Forward in the War on Poverty, Based on Credible Evidence About "What Works,"* testimony of Jon Baron before the House Budget Committee, July 2013, p. 3, linked here.

[12] Deborah Peikes, Arnold Chen, Jennifer Schore, and Randall Brown, "Effects of Care Coordination on Hospitalization, Quality of Care, and Health Care Expenditures Among Medicare Beneficiaries: 15 Randomized Trials," *JAMA*, vol. 301, no. 6, February 11, 2009, pp. 603-618.

[13] Arnold Chen, Randall Brown, Nancy Archibald, Sherry Aliotta, and Peter Fox, *Best Practices in Coordinated Care*, prepared for the Health Care Financing Administration by Mathematica Policy Research, Inc., March 22, 2000.

[14] Carol Harvey, Michael J. Camasso and Radha Jagannathan, "Evaluating Welfare Reform Waivers Under Section 1115," Journal of Economic Perspectives, vol. 14, no. 4, Fall 2000, pp. 165–188.