24. INCOME SECURITY

Table 24–1. FEDERAL RESOURCES IN SUPPORT OF INCOME SECURITY

(In millions of dollars)

Function 600	1997 Actual	Estimate					
		1998	1999	2000	2001	2002	2003
Spending:							
Discretionary Budget Authority	22,687	31,933	32,984	36,721	37,750	39,012	40,318
Mandatory Outlays:							
Existing law	191,445	198,446	210,002	219,733	227,561	233,748	243,064
Proposed legislation	....	100	1,516	1,843	2,269	2,554	2,706
Credit Activity:							
Direct loan disbursements	71	62	33	11	....	....	....
Guaranteed loans	11	31	72	144	145	71	40
Tax Expenditures:							
Existing law	101,350	103,950	103,690	105,570	106,475	107,645	109,095
Proposed legislation	....	42	130	250	267	256	273

The Federal Government provides about $245 billion a year in cash or in-kind benefits to individuals through income security programs, including about $130 billion for programs of the "social safety net." Since the 1930s, these safety net programs, plus Social Security, Medicare, and Medicaid, have grown enough in size and coverage so that even in the worst economic times, most Americans can count on some form of minimum support to prevent complete destitution. The combined effects of these programs represent one of the most significant changes in national social policy in this century, improving the lives of millions of lower-income families.

The remaining $115 billion for income security programs include general retirement and disability insurance (excluding Social Security, which is described in Chapter 25), Federal employee retirement and disability programs, and housing assistance.

Major Programs

The largest means-tested income security programs discussed in this chapter are Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and the Earned Income Tax Credit (EITC). The various kinds of low-income housing assistance are discussed in Chapter 18, "Commerce and Housing Credit." These programs, along with unemployment compensation (which is not means-tested), form the backbone of cash and in-kind "safety net" assistance in the Income Security function.

Food Stamps: Food Stamps help most low-income people get a more nutritious diet. The program reaches more people than any other means-tested income security program; in an average month in 1997, 22.9 million people, or 9.5 million households, received benefits and that year, the program provided total benefits of $20 billion. Food Stamps is the only Nation-wide, low-income assistance program available to essentially all financially-needy households that does not impose non-financial criteria, such as whether households include children or elderly persons. (The new welfare law limits the number of months that childless, able-bodied individuals can receive benefits while unemployed.) The average monthly, per-person Food Stamp benefit was about $71 in 1997.

- In 1999, the program will provide an average projected benefit of $76 to 21.6 million persons a month.

Child Nutrition Programs: The National School Lunch and Breakfast Programs provide free or low-cost nutritious meals to children in participating schools.

- In 1999, the programs will serve an estimated 27 million lunches daily.

Supplemental Security Income: SSI provides benefits to the needy aged, blind, and disabled adults and children. In 1997, 6.3 million individuals received $26.2 billion in benefits. Eligibility rules and payment standards are uniform across the Nation. Average monthly benefit payments range from $234 for aged adults to $450 for blind and disabled children. Most States supplement the SSI benefit.

- In 1999, SSI will serve an estimated 6.3 million respondents, costing $28 billion in benefits.

Temporary Assistance for Needy Families: In the 1996 welfare reform law, the President and Congress enacted TANF as the successor to the 60-year-old Aid to Families with Dependent Children (AFDC) program. TANF, on which the Federal Government will spend about $16.5 billion in 1999, is designed to meet the President's goal of dramatically changing the focus of welfare—from a system focused on determining eligibility to one that helps recipients move from welfare to work. TANF grants give States broad flexibility to determine eligibility for assistance and the kind of cash, in-kind, and work-related assistance they provide.

- States cannot yet project the number of persons who will receive TANF assistance in 1999.

Earned Income Tax Credit: The EITC, a refundable tax credit for low-income working families, has two broad goals: (1) to encourage families to move from welfare to work by making work pay; and (2) to reward work so parents who work full-time do not have to raise their children in poverty. In 1997, the EITC provided $27.9 billion of credits, including spending on tax refunds and lower tax receipts for non-refunded portions of the credit. For every dollar that low-income workers earn—up to certain limits—they receive between seven and 40 cents as a tax credit. In 1997, the EITC provided an average credit of nearly $1,470 to nearly 19 million workers and their families.

- In 1999, an estimated 19 million households will receive an average credit of $1,500.

Unemployment Compensation: Unemployment compensation provides benefits, which are taxable, to individuals who are temporarily out of work and whose employer has previously paid payroll taxes to the program. The State payroll taxes finance the basic benefits out of a dedicated trust fund. States set benefit levels and eligibility criteria, which are not means-tested. Regular benefits are typically available for up to 26 weeks of unemployment. In 1997, about 7.6 million persons claimed unemployment benefits that averaged $185 weekly.

- In 1999, an estimated 8.3 million persons will receive an average benefit of $199 a week.

By design, benefits are available to experienced workers who lose their jobs through no fault of their own. Thus, unemployment compensation does not cover all of the unemployed in any given month. In 1997, on average, the "insured unemployed" represented about 35 percent of the estimated total number of unemployed. Those who are not covered include new labor force entrants, re-entrants with no recent job experience, and those who quit their jobs voluntarily without good cause and, thus, are not eligible for benefits.

Other important income security programs include the Special Supplemental Nutrition Program for Women, Infants, and Children (known as WIC); child care assistance; refugee assistance; and low-income home energy assistance.

Recent Changes in Income Security Caseloads

Due largely to a strong economy and significant changes to Federal welfare and Food Stamp programs, the caseload in each has continued to fall in the past year. Most detailed analyses have attributed these caseload reductions to the strong economy and new efforts to move people from welfare to work. Indeed, welfare caseloads, which fell by a record 1.9 million in the President's first three-and-a-half years in office, dropped by more than two million in the year after he signed the new welfare reform law. The law created TANF, repealed AFDC, increased child care payments, and created a new time-limited work-oriented public assistance program. States must now require and reward work, impose time limits, and demand personal responsibility.

In addition, the welfare reform law also limited Food Stamp benefits for able-bodied childless adults to three months of assistance in a 36-month period. The 1997 Balanced Budget Agreement provided funds to provide qualifying work slots to individuals facing the time limits, but only enough to serve a portion of affected individuals. The welfare reform law banned most legal immigrants from receiving Food Stamps. The budget would restore these benefits for families with children, and for disabled and elderly legal immigrants who entered the country before the law was signed.

Like TANF, Food Stamp caseloads have continued to fall. In September 1997, the Food Stamp program recorded its 41st straight month of declining enrollment, reflecting a longstanding trend: Food Stamp enrollments rise and fall with the poverty rate. At its peak in March 1993, Food Stamps served 27.4 million participants a month, or one in every 10 Americans. By September 1997, participation had fallen to 20.9 million, or one in every 13 Americans.

Due also to the economy and low unemployment, the unemployment insurance (UI) caseload has fallen significantly. Between 1993 and 1997, the average weekly number of individuals claiming UI benefits declined from 4.4 million to 2.4 million.

While caseloads have fallen in various safety net programs, the Administration has continued to target resources at infants and children. WIC, for example, reaches nearly 7.5 million persons a year, providing nutrition assistance, nutrition education and counseling, and health and immunization referrals. WIC funding increases since 1993 have enabled participation to grow by nearly 30 percent. The budget proposes $4.1 billion to serve 7.5 million through 1999, fulfilling the President's goal of full participation in WIC.

Effects of Income Security Programs

What effect do safety net programs have on poverty, and to what extent do they target assistance to the poor? Chapter 25, "Social Security," explores the impact of Social Security alone on the income and poverty of the elderly. This chapter looks at the cumulative impact across the major programs.

For purposes of this discussion, "means-tested benefits" include AFDC, SSI, certain veterans pensions, Food Stamps, child nutrition meals subsidies, rental assistance, and State-funded general assistance. Medicare and Medicaid greatly help eligible families who need medical services during the year, but experts do not agree about how much additional income Medicare or Medicaid coverage represents to the covered. Consequently, these benefits are not included in the analysis that follows. "Social insurance programs" include Social Security, railroad retirement, veterans compensation, unemployment compensation, Pell Grants, and workers' compensation. The definition of income for this discussion (cash and in-kind benefits), and the notion of pre- and post-Government transfers, do not match the Census Bureau's definitions for developing official poverty statistics. Census counts income from cash alone, including Government transfers.

Effectiveness in Reducing Poverty: Based on special tabulations from the March 1997 Current Population Survey (CPS), 57.5 million people were poor in 1996 before accounting for the effect of Government programs. After accounting for Government transfer programs, the number of poor fell to 30.3 million, a drop of 47 percent.

After large declines in poverty in 1994 and 1995, 1997 CPS data suggests that the poverty rate did not fall significantly in 1996. Some experts were surprised, given large declines in the unemployment rate, increases in real weekly wages of production and nonsupervisory employees, and a higher minimum wage that took effect in October. But, while the overall poverty rate did not fall, the strong economy lowered the pretransfer poverty rate and has enabled more people to leave welfare for work. Thus, fewer individuals have had to rely on safety net programs to pull themselves out of poverty.

Efficiency in Reducing Poverty: The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. "Efficiency" in reducing poverty is defined as the percentage of Government benefits of a particular type (e.g., social insurance programs) that help cut the poverty gap. For example, if $1 out of every $2 in Category A helps cut the poverty gap, the "efficiency" of Category A is 50 percent.

Before counting Government benefits, the poverty gap was $194.5 billion in 1995. Benefits from Government programs cut it by $135 billion, or 69 percent. Of the $135 billion cut, social insurance programs accounted for $90 billion, means-tested benefits for $43 billion, and Federal tax provisions for $2 billion.

All told, according to Census Bureau data, social insurance benefits totaled $338 billion in 1995. Thus, 26 percent of their funding (the $90 billion, above) helped cut the poverty gap. Means-tested benefits totaled $78 billion, according to Census data. Thus, 56 percent of the funding (the $43 billion, above) helped cut the poverty gap.

The evidence is clear: whether measured by their impact on poverty gaps, or on moving families out of poverty, income security programs largely succeed. Social insurance programs play the largest role in cutting poverty, but means-tested programs—targeted more narrowly on the poor—are more efficient.

Employee Retirement Benefits

Federal Employee Retirement Benefits: The Civil Service Retirement and Disability Program provides a defined benefit pension for 1.8 million Federal civilian employees and 800,000 U.S. Postal Service employees. In 1997, the program paid $42 billion in benefits to 1.7 million retirees and 600,000 survivors. Along with the defined benefit, employees can participate in a defined contribution plan—the Thrift Savings Plan (TSP). Employees hired since 1983 are also covered by Social Security. (For a discussion of military retirement programs, see Chapter 26, "Veterans Benefits and Services.")

Private Pensions: The Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3.5 trillion in pension assets. The Pension Benefit Guaranty Corporation (PBGC) protects the pension benefits of nearly 42 million workers and retirees who earn traditional (i.e., "defined benefit") pensions. Through its early warning program, PBGC also works with solvent companies to more fully fund their pension promises, protecting the benefits of 1.2 million people in 1996 alone. To encourage retirement savings, the President signed legislation in 1996 that establishes a new, simplified pension plan for small businesses.

In 1999, the PWBA will:

- reduce, to 12 percent, the percentage of employee benefit plan audits that do not comply with professional accounting and auditing standards, compared to 1996; and
- increase, by 2.5 percent, the number of fiduciary investigations closed in which plan assets are restored, compared to 1996.

Tax Treatment of Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits. Generally, earnings devoted to workplace pension plans and to many individual retirement accounts (IRAs) are exempt from taxes when earned and ordinarily are taxed only in retirement, when lower tax rates usually prevail. Moreover, taxpayers can defer taxes on the interest and other gains that add value of these retirement accounts, including all forms of IRAs. These tax incentives amount to $84 billion a year—one of the three largest sets of preferences in the income-tax system.

Child Support Enforcement Financing: The Federal Government has a strong interest in ensuring that the national child support system is effective. Funding of the Child Support Enforcement (CSE) program, however, remains complicated. States get Federal payments to cover administrative costs at several different matching rates. States also get Federal incentive payments, levy user fees, keep a portion of TANF-related collections, and return a portion to the Federal Government.

Federal retention of TANF-related payments is a legacy of the old AFDC program in which States and the Federal Government shared in funding AFDC and, thus, in collecting child support for AFDC recipients. With welfare reform, States have great freedom to design assistance for families with dependent children. States, however, must continue to share a portion of child support collections with the Federal Government. The need to share collections may serve as a disincentive for States to pass through the full amount of child support to families, and it creates an unintended incentive for States to serve needy families through programs funded only with State dollars. Spending on these "State-only" programs continues to count under the TANF maintenance-of-effort requirement, but child support collections on behalf of these families do not need to be shared with the Federal Government.

The Administration will hold a dialogue with the stakeholders of the child support program to look at ways to address these problems and, working with Congress, will prepare legislation. The budget takes a first step towards simplifying the child support funding structure by 1) conforming the match rate for paternity testing with the basic administrative match rate; and 2) repealing the hold harmless provision established under the welfare reform law.

Under current law, States have resources equal to about 110 percent of the amount that they spend on their State Child Support programs. The proposed changes would reduce the State windfall by less than two percent of program costs and save the Federal Government about $300 million over five years.

Finally, the Administration supports cost-neutral changes to the pending Child Support Incentives legislation, as the Department of Health and Human Services proposed in its 1997 report to Congress, mandated by the welfare reform law.

Allocation of Administrative Costs Among Welfare Programs: The budget proposes to address projected Federal cost increases in Food Stamps and Medicaid that arise from changes in the way States charge costs to the Federal Government to administer these programs as well as TANF.

Before welfare reform, States charged most common costs of the three programs to AFDC. With TANF—which consolidated cash welfare assistance and related programs and limited the amount of funds that could go for administrative purposes—many States have sought to charge fewer of their expenses to TANF and more to Food Stamps and Medicaid, which still provide open-ended matching funds for State administrative costs.

To date, HHS has not approved State requests to change their cost allocation plans in order to increase administrative reimbursements under Food Stamp and Medicaid. Neither the Administration nor Congress envisioned such cost increases—which would exceed a projected $500 million a year—in crafting welfare reform.

In 1999, the Administration plans to let States change their cost allocation plans to charge more of their common administrative costs to Food Stamps and Medicaid. But to prevent Federal costs from rising, the budget proposes Food Stamp and Medicaid changes that would cover the costs. Specifically, it would cut the matching rates for administrative costs in Food Stamps and Medicaid from 50 percent to 47 percent.