

## 23. INCOME SECURITY

**Table 23-1. Federal Resources in Support of Income Security**  
(In millions of dollars)

| Function 600                       | 1999<br>Actual | Estimate |         |         |         |         |         |
|------------------------------------|----------------|----------|---------|---------|---------|---------|---------|
|                                    |                | 2000     | 2001    | 2002    | 2003    | 2004    | 2005    |
| <b>Spending:</b>                   |                |          |         |         |         |         |         |
| Discretionary Budget Authority ... | 32,741         | 29,844   | 41,332  | 41,332  | 41,825  | 42,864  | 43,804  |
| Mandatory Outlays:                 |                |          |         |         |         |         |         |
| Existing law .....                 | 197,753        | 207,357  | 217,157 | 229,744 | 240,925 | 251,069 | 263,282 |
| Proposed legislation .....         |                | 2,190    | -1,603  | 899     | 1,474   | 3,046   | 3,148   |
| <b>Credit Activity:</b>            |                |          |         |         |         |         |         |
| Direct loan disbursements .....    | 17             | 14       | 20      | N/A     | N/A     | N/A     | N/A     |
| Guaranteed loans .....             | 17             | 95       | 83      | N/A     | N/A     | N/A     | N/A     |
| <b>Tax Expenditures:</b>           |                |          |         |         |         |         |         |
| Existing law .....                 | 140,290        | 147,665  | 153,085 | 159,305 | 165,585 | 172,115 | 178,850 |
| Proposed legislation .....         |                | 5        | 2,648   | 4,605   | 7,876   | 10,363  | 16,389  |

N/A = Not available.

The Federal Government provides about \$257 billion a year in cash or in-kind benefits to individuals through income security programs, including those generally defined as part of the “social safety net.” Since the 1930s, these safety net programs, plus Social Security, Medicare, Medicaid, and housing assistance (each discussed in other chapters in this Section), 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 destitution.

The income security programs also include retirement and disability insurance (excluding Social Security, which is described in Chapter 24), Federal activity related to private pensions, and Federal employee retirement and disability programs.

### Major Public Benefit Programs

The largest means-tested income security programs 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 17, “Commerce and Housing Cred-

it.” 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.

The major income security programs are managed by four agencies that broadly interact with the American people and businesses. These agencies are the Food and Nutrition Service, the Administration on Children and Families, the Social Security Administration, and the Internal Revenue Service.

### Nutrition Assistance

Federal nutrition assistance programs are managed by the Department of Agriculture’s Food and Nutrition Service (FNS). The largest of these programs is the Food Stamp Program. In addition, FNS administers the Special Supplemental Nutrition Program for Women, Infants, and Children, and the National School Lunch and School Breakfast Programs.

*Food Stamps:* Food Stamps help most low-income people get a more nutritious diet. In an average month in 1999, 18.2 million people, or 7.7 million households, received

benefits and in that year, the program provided total benefits of \$15.8 billion.

- In 2001, the program will provide an average projected benefit of \$77 to 18.6 million persons each month. 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 1996 welfare law limits the eligibility of non-citizens, as well as the number of months that childless, able-bodied individuals can receive benefits while unemployed.)
- In 2001, FNS will expand the number of States using Electronic Benefits Transfer to issue 82 percent of Food Stamp benefits, compared to 69 percent in 1999, improving the delivery of benefits, and increasing the ability to track benefits redemption as a fraud prevention tool.

*Special Supplemental Nutrition Program for Women, Infants, and Children (WIC):* WIC provides vouchers for nutritious supplemental food packages, nutrition education and counseling, and health and immunization referrals to low-income women, infants, and children. The program reached an average of over 7.3 million people each month in 1999. Funding in 2000 is sufficient to serve 7.4 million women, infants, and children monthly, and the budget proposes \$4.1 billion to serve 7.5 million people by the end of 2001, fulfilling the President's goal of full participation in WIC. Results of the National Partnership for Reinventing Government's first Government-wide customer satisfaction survey show that WIC was one of the top-scoring Government programs, receiving especially high scores for the eligibility determination process.

- In 2000, FNS, together with State public health agencies, will increase the incidence of breast-feeding among WIC mothers to 42 percent, compared to 34 percent in 1996.

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

- In 2001, the programs will serve an estimated 27.8 million lunches daily. By 2005, FNS aims to reduce the average percent of calories from saturated fat in school lunches to 10 percent, down from 15 percent in 1993.

### ***Income Assistance to Aged, Blind, and Disabled Individuals***

The SSI program, administered by the Social Security Administration (SSA), provides benefits to needy aged, blind, and disabled adults and children. In 1999, 6.3 million individuals received \$28.1 billion in benefits. In 2001, an estimated 6.4 million individuals will receive a total of \$30.5 billion in SSI benefits. Eligibility rules and payment standards are uniform across the Nation. In 1999, average monthly benefit payments ranged from \$247 for aged adults to \$444 for blind and disabled children. Most States supplement the SSI benefit.

- In 2001, SSA will process 66 percent of initial SSI claims by individuals over age 65 within 14 days of the filing date. In 1999, almost 63 percent of these claims met this goal, a substantial increase from 54 percent in 1998. In future years, the agency's goal is to continue to increase the proportion of these SSI claims processed within 14 days.
- In 2001, SSA will improve the SSI payment accuracy rate to 95.5 percent, up from 94.8 percent in 1999.

### ***Income Assistance to Families***

Major income assistance for low-income families is provided through the TANF program, administered by the Department of Health and Human Services Administration for Children and Families (ACF) and the Earned Income Tax Credit, administered by the Internal Revenue Service. In addition, ACF administers the Child Support Enforcement Program and the Child Care and Development Fund. Other income security programs run by ACF include refugee assistance and low-income home energy assistance.

*Temporary Assistance for Needy Families (TANF):* 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, for which the Federal Government allocates about \$16.8 billion each year, is designed to meet the President's goal of dramatically changing the Nation's welfare system into one that requires and rewards work in exchange for time-limited assistance. The TANF program gives States broad flexibility to set eligibility criteria and to determine the types of assistance they provide. With fewer families receiving cash assistance, States can use the flexibility in TANF to help low-income working families retain and advance in their jobs.

- The strong work focus of welfare reform and the economy enabled ACF to meet its goal of moving one million welfare recipients into new employment before its 2000 goal date. In 1997, States reported an average earnings increase of 23 percent for former welfare recipients over a period of two quarters. In 2001, ACF will work with States to increase earnings for former welfare recipients by 30 percent.
- In 2001, ACF, in coordination with the Health Care Financing Administration (HCFA), will increase the percentage of eligible individuals who remain enrolled in Medicaid or the Children's Health Insurance Program (CHIP) six months after leaving TANF.

*Individual Development Accounts (IDAs):* The budget includes \$25 million in grants for IDAs, to empower low-income individuals to save for a first home, postsecondary education, or to start a new business. ACF selected sites to administer this program in late 1999.

*Child Support Enforcement:* The Child Support Enforcement Program establishes and enforces the support obligations owed by noncustodial parents to their children. In 1998, the number of paternities established rose to nearly 1.5 billion, and child support collections have nearly doubled since the President took office, to an estimated \$15.5 billion in 1999. In 1999, the Federal Government provided \$3.0 billion to State and local governments to help them run the program. The Federal Government retained \$1.3 billion in TANF-related collections from the States, making the net cost of this

program to the Federal Government \$1.7 billion. In 2001, estimated Federal costs net of TANF collections will be \$2.2 billion.

The budget includes several proposals to increase child support collections and to direct more of these payments to low-income families. The budget proposes new measures to collect child support from parents who owe past-due support, and to bring delinquent non-custodial parents into compliance. The budget would allow States to pay all child support collected on behalf of former welfare families directly to the family, and would provide Federal matching funds for child support that States pass-through to families receiving welfare, above States' current efforts. (For a discussion of this budget's child support proposals, see Chapter 2, "Supporting Working Families.")

- In 2001, ACF will increase the child support collection rate to 71 percent, compared to 51 percent in 1998.

*Child Care:* The Child Care and Development Fund provides grants to States for the purposes of providing low-income families with financial assistance for child care, improving the quality and availability of child care, and establishing, expanding, or conducting early childhood development programs and before- and after-school programs. Federal child care funding has more than doubled under this Administration, providing child care services in 1999 for approximately 1.75 million children from low-income working families or whose parents are moving from welfare to work.

The budget proposes a 2001 increase of \$817 million for child care subsidies as well as a new \$600 million Early Learning Fund to provide grants to communities to improve school readiness by fostering the cognitive, physical, social, and emotional development of children under five years old. For the proposed Early Learning Fund, ACF will evaluate the range of school readiness activities funded and will work with the Department of Education and the States to establish performance goals and indicators that focus on educational outcomes and quality factors, such as provider training and low child-to-staff ratios, that are associated with enhanced school readiness.

Access to high-quality, affordable child care is critical to the achievement of self-sufficiency by TANF recipients and low-income working families. Over the past year, ACF has worked with States to develop a new set of performance measures and ACF will continue to collect baseline data for the program's goals of increasing access to affordable care and improving the quality of care to promote children's development. For example, in order to increase access to affordable care, ACF aims to decrease the average percentage of family income spent on child care co-payments by families receiving Federal subsidies. In order to improve the quality of care, ACF will increase the number of facilities that are accredited by a nationally recognized early childhood development professional organization.

- In 2001, the Child Care and Development Fund, including new funds, will provide child care assistance to an estimated 300,000 additional low-income children over the 1.92 million children estimated to receive assistance in 2000.

*Child and Dependent Care Tax Credit (DCTC):* The DCTC helps approximately six million families cover their child care costs each year. Under current law, taxpayers may receive a nonrefundable tax credit for a percentage of certain child care expenses they pay in order to work. The budget proposes to increase the credit amount for middle-income families and to make the DCTC refundable beginning in 2003 so that for the first time low-income working families will be able to receive the maximum credit. In addition, this proposal would provide assistance to parents who care for their infants themselves and would simplify eligibility by eliminating the household maintenance test.

*Earned Income Tax Credit (EITC):* The EITC, a refundable tax credit for low-income workers, 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 1999, the EITC provided \$30.5 billion in credits for low-income tax filers, including spending on both tax refunds and reduced tax receipts. For every dollar that low-income workers

earn—up to certain limits—they receive between seven and 40 cents as a tax credit. In 1999, the EITC provided an average credit of nearly \$1,600 to 19 million workers and their families. In 2001, an estimated 19 million families will receive an average credit of \$1,680.

This budget includes a 10-year, \$23.6 billion proposal to expand the EITC to provide tax relief for 6.8 million working families by increasing the credit received by larger families, providing marriage penalty relief, and reducing marginal tax rates. This proposal would increase the maximum credit for families with three or more children by approximately \$500 in order to help roughly 2.1 million low- and moderate-income families. Approximately 5.4 million families with two or more children would also benefit from a slower phaseout rate, so parents could keep more of what they earn even as their earnings increase. The proposal would also provide marriage penalty relief for two-earner couples in the form of an average credit increase of \$250. In addition, the proposal would simplify the rules for counting non-taxable earned income. (For a more detailed description of the proposal, see Chapter 2, "Supporting Working Families.")

### ***Unemployment Compensation***

Unemployment Compensation, overseen by the Department of Labor's Employment and Training Administration, provides benefits to individuals who are temporarily out of work through no fault of their own 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; benefits are not means-tested and are taxable. Regular benefits are typically available for up to 26 weeks of unemployment. In 1999, about 7.2 million persons claimed unemployment benefits that averaged \$202 weekly. In 2001, an estimated 7.8 million persons will receive an average benefit of \$219 a week.

- In 2001, DOL's goal is that all States will meet the Secretary's standard for promptness in paying worker claims by providing 92 percent of initial intrastate payments

and 81 percent of interstate payments within 14 days in States with a waiting period and within 21 days in States without a waiting period. In 1999, 90 percent of States met the intrastate standard and 78 percent met the interstate standard.

### Effects of Income Security Programs

Federal safety net programs have a major effect on reducing poverty. Chapter 24, "Social Security," explores the impact of Social Security alone on the income and poverty of the elderly. This section looks at the cumulative impact across the major programs.

For purposes of this discussion, Government benefits includes both means-tested and social insurance benefits. Means-tested benefits include TANF, 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 to value Medicare or Medicaid coverage as additional income to beneficiaries. Consequently, those benefits are not included in the analysis that follows. Social insurance benefits 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.

*Reducing Numbers of People in Poverty:* Based on special tabulations from the March 1999 Current Population Survey (CPS), 54.5 million people were poor in 1998 before accounting for the effect of Government programs. After accounting for Government transfer programs and taxes, the number of poor fell to 28.4 million, a drop of nearly 50 percent.

*Reducing the Poverty Gap:* The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. Before counting Government benefits, the poverty gap was \$200 billion in 1998.

Benefits from Government programs cut it by \$134 billion, or 67 percent.

### Employee Retirement Benefits

*Railroad Retirement Benefits:* The Railroad Retirement Board administers retirement, survivor, unemployment and sickness insurance benefits for qualified railroad workers and their families. In 1999, about \$8.2 billion in retirement-survivor benefits were paid to about 748,000 individuals, while about \$95 million in unemployment and sickness benefits, net of current-year recoveries, were paid to some 33,800 individuals. At the end of 1999, the average monthly benefit paid to a retired employee was \$1,344; the maximum biweekly rate for unemployment and sickness benefits was \$460.

Rail employment is not covered under the Social Security program, though some beneficiaries may have other employment that makes them eligible for benefits under the Social Security Old Age, Survivor and Disability Insurance programs. While the railroad retirement system has remained separate from the Social Security program, the two systems are similarly structured and closely coordinated with regard to earnings credits, benefit payments, and taxes. (For a discussion of the Social Security program, see Chapter 24, "Social Security.")

*Federal Employee Retirement Benefits:* The Civil Service Retirement and Disability Program provides a defined benefit pension for 1.9 million Federal civilian employees and 800,000 U.S. Postal Service employees. In 1999, the program paid \$44 billion in benefits to 1.7 million retirees and 630,000 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. The budget proposes to repeal the higher employee retirement contributions required by the Balanced Budget Act of 1997, and again proposes to allow Federal employees to participate immediately in, and to roll over private sector accounts into, the TSP.

- From 1993 to 1999, customer service and satisfaction with the retirement program have improved significantly. For example,

average processing times have been cut from nine days to three days for interim annuity payments, from 51 days to 32 days for CSRS final annuity payments, and from 31 days to 14 days for CSRS survivor annuity payments. Annuitant satisfaction with various services has improved from the 70 to 80 percent range to nearly 90 percent or greater. The goal is to maintain or improve each of these performance goals in 2001.

*Private Pensions:* The Department of Labor's Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly \$4.3 trillion in pension assets. Private pension plans currently list more than 91 million participants, including both workers and retirees. Also at the Department of Labor, the Pension Benefit Guaranty Corporation (PBGC) protects the pension benefits of about 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, and has protected the benefits of more than two million people since its inception eight years ago. The budget proposes a new, simplified defined benefit plan for small businesses that PBGC will insure. The budget also proposes an initiative whereby PWBA will intercede to protect pension benefits for employees whose employers file for bankruptcy. In 2001:

- PWBA will recover more benefits through customer assistance—an estimated \$54

million compared to \$15 million in 1995. Also, PWBA will more speedily process the exemptions that allow certain financial transactions that are needed by pension plans, reducing the time taken to 200 days, a 17-percent improvement from the 1999 average of 242 days.

- PBGC will more quickly complete setting dollar levels for benefits in the pension plans it takes over. These benefits must be calculated differently for different former employees. (Retirees receive an estimated amount until the process is complete.) The time taken for final calculation will drop to between three and four years, down from an average of six years in 1997.

*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 traditional individual retirement accounts (IRAs) receive beneficial tax treatment in the year 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 to these retirement accounts. For the newer Roth IRA accounts, contributions are made from after-tax earnings, with no tax deduction. However, account earnings are free from tax when the account is used in retirement. All the pension and retirement-saving tax incentives amount to \$115 billion in 2001—decidedly the largest set of preferences in the income tax system.