14. INCOME SECURITY

Table 14–1. Federal Resources in Support of Income Security
(In millions of dollars)

Function 600	2000 Actual	Estimate					
		2001	2002	2003	2004	2005	2006
Spending:							
Discretionary Budget Authority ...	31,553	39,483	42,805	45,057	46,683	48,313	49,571
Mandatory Outlays:							
Existing law	206,481	217,157	228,526	237,028	246,267	258,199	265,456
Proposed legislation	....	....	273	895	1,047	1,166	1,280
Credit Activity:							
Direct loan disbursements	17	20	12	....	....	....	....
Guaranteed loans	19	33	59	74	73	73	73
Tax Expenditures:							
Existing law	147,604	153,372	159,053	165,675	172,346	179,058	187,685

The Federal Government provides over $271 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), have grown enough in size and coverage so that even in difficult 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 15), 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 8, "Commerce and Housing Credit." These programs, along with unemployment compensation (which is not means-tested), are the primary "safety net" assistance programs 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 (FNS), the Administration on Children and Families (ACF), the Social Security Administration (SSA), and the Internal Revenue Service (IRS).

Nutrition Assistance: Federal nutrition assistance programs are managed by the Department of Agriculture's 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: In an average month in 2000, 17.2 million people, or 7.3 million households, received benefits—and in that year, the program provided total benefits of $15.0 billion. Food Stamp enrollment has steadily declined since peaking at 28 million people in 1994, due in part to the strength of the economy and declining welfare caseloads associated with welfare reform. However, studies also show that enrollment has dropped among eligible individuals, including working families. Total Federal program spending was $18.3 billion in 2000.

- In 2002, the program will provide an average projected benefit of $78 to 18.4 million persons each month.
- In 2002, FNS plans to expand the number of States using Electronic Benefits Transfer to issue 89 percent of Food Stamp benefits, compared to 75 percent in 2000, improving the delivery of benefits, and increasing the ability to track benefits redemption as a fraud prevention tool.
- In 2000, FNS estimates that benefit overpayments will represent 6.78 percent of all benefits issued. FNS will work with States to reduce this rate to 6.58 percent of all payments in 2002. A challenge for States is reducing error among the higher number of working families whose fluctuating income increases the likelihood of errors in the level of benefits.

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 nearly 7.2 million people each month in 2000. Participation in 2001 is projected to exceed 7.2 million women, infants, and children monthly, and the budget proposes $4.1 billion, an increase of $94 million, to serve 7.25 million people monthly in 2002.

- Only 34 percent of women participating in WIC were breastfeeding in 1996. In 2002, together with State public health agencies, FNS will strive to increase the incidence of breast-feeding among WIC mothers to 46 percent.

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

- In 2002, the programs will serve an estimated 28.0 million children on a daily basis. In school year 1998–1999, the average percent of calories from saturated fat in school lunches was 12 percent, above the recommended level of 10 percent, and only one in seven schools met the 10 percent level. By 2005, FNS aims to reduce the average percent of calories from saturated fat to 10 percent.

Income Assistance to Aged, Blind, and Individuals with Disabilities: The SSI program, administered by SSA, provides benefits to needy aged, blind, and disabled adults and children. In 2000, 6.3 million individuals received $30.8 billion in Federal SSI benefit payments. In 2002, an estimated 6.4 million individuals will receive a total of $31.5 billion in Federal SSI benefits. Federal eligibility rules and payment standards are uniform across the Nation. In 2000, average monthly benefit payments ranged from $254 for aged adults to $445 for blind and disabled children. Most States supplement the SSI benefit.

The SSI program has been vulnerable to payment inaccuracy and abuse. For example, studies by SSA indicate that overpayments, as a percent of total SSI outlays, were 5.5 percent in 2000. A major aspect of the President's vision for Government reform is to reduce erroneous payments.

- SSA expects to increase payment accuracy so that 94.7 percent of SSA outlays will be free of overpayments (based on non-medical factors of eligibility), an improvement from 94.5 percent in 2000.

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' ACF and the EITC, administered by the IRS. 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): The 1996 welfare reform law established TANF as the successor to the 60-year-old Aid to Families with Dependent Children program. TANF, for which the Federal Government allocates about $16.7 billion each year, is designed to meet the 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 budget proposes legislation to allow States to use Federal TANF funds to partially offset revenue losses from State tax credits for contributions to State-designated charities.

- States reported that more than 1.2 million parents on welfare went to work in the period between October 1, 1998, and September 30, 1999. Overall 43 percent of welfare recipients entered the work force in 1999 in comparison to 39 percent in 1998. In 1999, States reported an average earnings increase of 22 percent for former welfare recipients over a period of two quarters.
- Although in 1999 all States met overall work participation requirements, eight of 36 States that have two-parent family programs failed to meet the required two-parent work participation rate. ACF will work with States to meet two-parent work participation requirements in 2002.

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. The budget also includes a proposal to provide a tax credit to financial institutions that match private IDAs.

Child Support Enforcement: The Child Support Enforcement Program establishes and enforces the support obligations owed by noncustodial parents to their children. In 1999, the program established approximately 1.6 million paternities among children born to unwed mothers, and collected an estimated $17.9 billion in child support in 2000. In 2000, the Federal Government provided $3.2 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 $1.9 billion. In 2002, estimated Federal costs net of TANF collections will be $2.5 billion.

- In 2002, ACF plans to increase the child support collection rate to 55 percent, compared to 52 percent in 1999.

Strong child support enforcement is critical to getting fathers who have the ability to pay to support their children. However, research shows that a large portion of fathers who do not pay child support are themselves poor. And while fathers must fulfill their financial commitments, they must also fulfill their emotional commitments. The budget includes a responsible fatherhood initiative to reverse the rise in father absence, improve the job skills of low-income fathers, promote marriage among parents, and help low-income fathers establish positive relationships with their children and their children's mothers. (See Chapter 11, "Education, Training, Employment, and Social Services.")

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.

The budget creates a new $400 million After-School Certificate program within the Child Care and Development Block Grant, raising total funding to $2.2 billion. The new program would provide grants to States to assist up to 500,000 parents in obtaining after-school childcare with a high-quality education focus.

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 support access to affordable care, ACF aims to maintain 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 2002, the Child Care and Development Fund, including the new After-School Certificate program, will provide child care assistance to an estimated 2.6 million low-income children, including up to 500,000 children receiving after-school certificates through the proposed initiative.
- The Administration proposes to increase the child credit from $500 to $1,000 for each qualifying child under the age of 17, and to phase out the credit more slowly and at a higher levels of income.

Tax Expenditures

Tax expenditures related to income security total $159 billion in 2002 and $864 billion from 2002 through 2006. Most of these tax expenditures are for retirement saving. The portion of the EITC that offsets tax liabilities is counted as a tax expenditure; the portion that is refundable is counted as an outlay. Tax expenditures related to retirement savings are discussed at the end of this chapter.

Earned Income Tax Credit (EITC): 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 2001, EITC provided $30.8 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 up to certain limits—they receive between seven and 40 cents as a tax credit. In 2001, EITC provided an average credit of nearly $1,680 to 19 million workers and their families. In 2002, an estimated 19 million families will receive an average credit of $1,729.

The EITC program faces high error rates. According to a September 2000 IRS study of 1997 returns, an estimated $7.8 billion (25.6 percent) of the $30.3 billion in EITC claims made by taxpayers were erroneously paid. The budget includes $146 million in 2002 for IRS to devote to reducing EITC error rates. The majority of ongoing compliance initiatives are aimed at improving the detection and prevention of erroneous EITC claims before tax refunds are paid.

Unemployment Compensation

Unemployment Compensation, overseen by the Department of Labor's (DOL'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 2000, about 6.9 million persons claimed unemployment benefits that averaged $212 weekly. In 2002, an estimated 8.5 million persons will receive an average benefit of $232 a week. The Administration plans to examine the unemployment compensation program carefully in the coming months.

- In 2002, DOL's goal for accurate eligibility determinations is that at least 30 States meet the established criterion for high quality nonmonetary determinations of eligibility (e.g., determinations that take into account the reasons for the separation from the job). In 2000, only 23 States met the standard for determination quality.

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 2000, about $8.3 billion in retirement-survivor benefits were paid to some 724,000 individuals, while about $101 million in unemployment and sickness benefits, net of current-year recoveries, were paid to some 35,200 individuals.

The railroad retirement system includes a benefit equivalent to Social Security benefits, rail industry pension benefits, and federally subsidized windfall benefits. The benefits are financed through railroad employer contributions, railroad employee payroll deductions, payments from the Social Security trust funds, and taxpayer subsidies. Unlike other private industry pension plans, the rail industry pension program is the only private industry pension subsidized by Federal taxpayers and administered by a Federal agency. In addition, the program confronts an unfunded liability of $39.7 billion, as measured by the Employee Retirement Income Security Act standards. Any examination of the program should set as first priorities ending taxpayer subsidies to the program and ensuring the industry funds its workers' pensions.

Federal Employee Retirement Benefits: The Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) provide pension coverage for approximately 2.7 million active employees. Both systems provide a defined benefit pension. FERS employees (those hired since January 1, 1984) are also covered by Social Security and a defined contribution plan—the Thrift Savings Plan (TSP). CSRS employees may contribute to TSP but do not receive the automatic and matching agency contributions provided to FERS employees.

In 2000, the retirement program paid $45 billion in benefits to 2.4 million annuitants (retirees and survivors). Retirement claims processing accuracy and timeliness have deteriorated over the past two years, and improving performance in these areas is a high priority in 2001 and 2002.

- In 2002, the processing time for a FERS annuity claim will be reduced to 90 days, substantially lower than the estimated 185 days in 2000.

In conjunction with the effort to improve claims processing, and to produce future efficiencies and enhanced services, the budget provides a substantial increase in funding for retirement systems modernization, a multi-year information technology investment program aimed at automating much of the retirement processing function. The budget also proposes to extend the higher agency contributions to the retirement fund mandated by the Balanced Budget Act of 1997 and set to expire in 2003. The higher employee contributions required by that Act were repealed in 2001 and are unaffected by this proposal.

Private Pensions: The DOL Pension and Welfare Benefits Administration (PWBA) works to protect the roughly $4.9 trillion in pension assets. More than 95 million participants and beneficiaries are now in private pension plans. DOL's Pension Benefit Guaranty Corporation (PBGC) insures against company bankruptcy the pensions of about 43 million workers and retirees who earn defined benefit pensions.

- PWBA issues exemptions allowing certain financial transactions that pension plans need to make but would otherwise be prohibited. In 2000, processing the requests for these exemptions took an average of 294 days, which is too long, even though the figure includes many older requests. PWBA now is undertaking to process the exemptions more speedily, including working off the inventory of complex, older cases. An additional PWBA goal is to recover more lost benefits through customer assistance—increasing the dollar level of recoveries by two percent per year. PWBA expects to recover $67 million in benefits for 2002, compared to $66 million estimated for 2001.
- PBGC is working to reduce the time taken to calculate individuals' benefit levels. This process is technically difficult but often takes too long. The time taken for final benefit calculation is expected to drop to three years in 2002, down from an average of four to five years in 2000. PBGC also is working to send first benefit checks more speedily. In 1999, only 83 percent of pensioners got their first benefit checks within three months of completing their applications but PBGC's goal for 2002 is 95 percent.

Tax Treatment of Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits to both individuals and companies. 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 an estimated $120 billion in 2002—one of the largest set of preferences in the income tax system.