14. INCOME SECURITY

Table 14–1. Federal Resources in Support of Income Security
(Dollar amounts in millions)

Function 600	1993 Actual	2001 Estimate	Percent Change: 1993–2001
Spending:			
Discretionary budget authority	31,918	39,546	24%
Mandatory outlays	175,949	213,012	21%
Credit Activity:			
Direct loan disbursements	85	20	–76%
Guaranteed loans	....	83	NA
Tax expenditures	74,150	131,900	78%

NA = Not applicable.

Declining Number of Families in Poverty

A good indicator of the Nation's state of income security is the poverty rate. Since passage of the Clinton-Gore Administration's economic plan in 1993, the poverty rate has declined from 15.1 percent in 1993 to 11.8 percent in 1999, a rate lower than any other year in the 1980s or 1990s. Furthermore, poverty among those aged 65 or older in 1999 was at an all-time low of 9.7 percent; and poverty among children in families declined from 22 percent in 1993, a height last seen in the mid-1960s, to 16.3 percent in 1999, lower than any other level in the 1980s or 1990s. Also noteworthy is that the 1999 poverty rate of black children, while still a high 32.7 percent, was the lowest level ever measured.

These improvements have been driven by an historic economic recovery and landmark legislation designed to move families from welfare to work by making work pay and providing support to low-income working families. As evidence of this legislation's success, less than five percent of families with children did not work in 1999, compared to nine percent in 1993. Furthermore, the poverty rate among working families with children declined from 12.6 percent in 1993 to 11 percent in 1999.

Earned Income Tax Credit: The decline in poverty among working families tells only part of the story. As the growing economy increased employment opportunity, expansions to the Earned Income Tax Credit (EITC) in 1993 were making work pay. The Administration's 1993 expansion increased benefits significantly for those with two or more children, and allowed workers who live with their children at least half of the tax year to claim a credit. As a result of these expansions, credits paid through the EITC program increased from $15.5 billion in 1993 to nearly $31 billion in 1999, and the number of families receiving assistance from the program increased by a quarter, from 15 million to 19 million.

The EITC also has been effective in attracting more workers to the labor market. One study estimates that the EITC alone was responsible for 34 percent of the increase in annual employment of single mothers from 1992 to 1996.

Ending Welfare as We Know It

Even before the 1996 welfare reform legislation, many States were well on their way to changing their welfare programs to jobs programs. By granting Federal waivers, the Administration allowed 43 States—more than all previous Administrations combined—to require work, time-limit assistance, improve child support enforcement, and/or encourage parental responsibility. The vast majority of States have chosen to build on their welfare demonstration projects approved by the Administration in their implementation of welfare reform.

In 1996, the President signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), a bipartisan welfare plan that has dramatically changed the Nation's welfare system. The law replaced the Aid to Families with Dependent Children program with the Temporary Assistance for Needy Families (TANF) program, which provides $16.7 billion annually in block grants to the States. The law contains strong work requirements, time limits on assistance, performance bonuses to reward States for moving welfare recipients into jobs and reducing out-of-wedlock births, State maintenance-of-effort requirements, comprehensive child support enforcement, and supports for families moving from welfare to work including increased funding for child care. State strategies are making a difference in the success of welfare reform, specifically in job placement, child care, and transportation.

Cash Assistance: Since January 1993, the welfare rolls have fallen by nearly 60 percent—from 14.1 million to 5.8 million—resulting in the fewest number of people on welfare since 1968. The percent of Americans on welfare is now at 2.1 percent, the lowest level since 1963. In August 1999, the Council of Economic Advisers (CEA) reported that the single most important factor contributing to this historic decline is the implementation of welfare reform. Of the caseload reduction from 1996 to 1998, the CEA estimated that approximately one-third was due to Federal and State policy changes resulting from welfare reform and about 10 percent was due to the strong economy.

Employment: At President Clinton's insistence, the 1996 welfare reform legislation included both rewards and penalties to encourage States to place people in jobs. According to reports filed by 46 States, more than 1.2 million welfare recipients nationwide went to work in just the one-year period between October 1998 and September 1999. Retention rates also were promising: 78 percent of those who got jobs were still working three months later. States also reported an average earnings increase of 31 percent for former welfare recipients, from $2,027 in the first quarter of employment to $2,647 in the third quarter.

The first three years of data on work activity since welfare reform also show that all States met the law's work participation requirements for overall work activity levels. Nationally, 38 percent of all welfare recipients were working or in work-related activities in 1999. The data also show that nationwide, the percentage of welfare recipients working has increased to nearly five times the level it was when the President took office, rising from seven percent in 1992 to an all-time high of 33 percent in 1999. The vast majority of working recipients are in paid employment, with the remainder involved in community service or subsidized employment.

Welfare-to-Work Grants: Because of the President's leadership, the 1997 Balanced Budget Act included $3 billion over 1998 and 1999 for Welfare-to-Work grants to help States and local communities move long-term welfare recipients and certain noncustodial parents into lasting, unsubsidized jobs. Funds can be used for job creation, job placement and job retention efforts, including wage subsidies to private employers and other critical post-employment support services. The Department of Labor provides oversight, but most of the dollars are placed through local business-led boards into the hands of those who are on the front lines of the welfare reform effort. For 1998 and 1999, the Administration awarded 190 competitive grants that support innovative local strategies to help noncustodial parents and individuals with limited English proficiency, disabilities, substance abuse problems, or a history of domestic violence get and keep employment. This program also is discussed in Chapter 11, "Education, Training, Employment, and Social Services."

Welfare Recipient Hiring: The Welfare-to-Work Tax Credit, enacted in the Taxpayer Relief Act of 1997, offers employers a tax credit equal to 35 percent of the first $10,000 in wages in the first year of employment, and 50 percent of the first $10,000 in wages in the second year for a total credit of up to

$8,500 for each welfare recipient hired and retained. This credit complements the Work Opportunity Tax Credit, which offers a credit of up to $2,400 for the first year of wages for eight groups of job seekers. From 1997 to 2000, employers were eligible to claim these tax credits for over 1.4 million newly-employed welfare recipients and other disadvantaged individuals. Both credits are currently available through December 2001. These credits also are discussed in Chapter 11.

In addition, at the President's urging, the Welfare to Work Partnership was launched in May 1997 to lead the national business effort to hire people from the welfare rolls. The Partnership began with 105 participating businesses, and has now grown to more than 20,000 businesses of all sizes and industries. Since 1997, these businesses have hired an estimated 1.1 million welfare recipients, surpassing the challenge the President set in May 1998. In addition, the Small Business Administration is addressing the unique and vital role of small businesses that employ over half of the private work force, by helping small businesses throughout the country connect with job training organizations and job-ready welfare recipients. Federal agencies also have played a role and have hired nearly 50,000 welfare recipients.

Teen Pregnancy Prevention: Significant components of the President's comprehensive effort to reduce teen pregnancy became law when the President signed the welfare reform legislation. PRWORA requires unmarried minor parents to stay in school and live at home or in a supervised setting; encourages "second chance homes" to provide teen parents with the skills and support they need; and provides $50 million a year for five years in new funding for State abstinence education activities. Data show that teen birth rates have declined nationwide by 20 percent from 1991 to 1999, and are now at the lowest rate on record since tracking began 60 years ago. These improvements are seen among younger and older teens, married and unmarried teens, all States and all ethnic and racial groups.

Rewards for High Performing States: The 1996 welfare reform legislation included $200 million annually for awards to States that perform especially well in achieving the goals of TANF and $100 million for States that reduce out-of-wedlock births. In December 1999, the President announced that 27 States were awarded the first high performance bonuses to reward superior results or improvement in moving people from welfare to work. A year later, 28 States received the second round of awards. Each year, the $200 million in bonuses went to the top 10 States with the best records in each of four categories related to moving parents on welfare into jobs and their success in the work force.

Through regulations to award future high performance bonuses, the Administration also has put in place new incentives for States to provide programs that help working families succeed and encourage the formation of two-parent families. The final regulation retains the original job entry and success in the work force measures, and adds measures for participation in Medicaid and the State Children's Health Insurance Program (SCHIP), participation in the Food Stamp program, receipt of child care subsidies by eligible families, and family formation and stability. These new measures will ensure that welfare reform will continue to move millions of families from dependence to independence by encouraging work, supporting working families to help them succeed and stay off welfare, and increasing the number of children living with married parents. A total of $140 million in bonus funds is available annually for the work measures, with $60 million available for the work support and family formation measures.

In 1999 and 2000, HHS awarded bonuses of $20 million to each of four States and the District of Columbia for achieving the Nation's largest decreases in out-of-wedlock births. These bonuses were awarded under the welfare reform law, which provided $100 million annually for up to five States with the largest reductions in the proportion of out-of-wedlock births that also show decreases in their abortion rates. Nationwide, the 1999 birth rate for unmarried women was six percent lower than its high in 1994, and three percent lower than in 1992.

Creating Comprehensive Support for Working Families

Child Care: The number of children with parents who work outside of the home is higher than ever before and child care expenses are often the second or third largest item in a low-income working family's household budget. The 1996 welfare reform law increased child care funding by $4 billion over six years to provide child care assistance to families moving off welfare and to other low-income families. The Administration also secured additional discretionary funds for subsidies and quality enhancement, which were major components of its comprehensive child care initiative to address the struggles our Nation's working parents face in finding child care they can afford, trust and rely on and that will help to prepare their children for success in school.

An important element of that initiative was to increase the availability of child care subsidies. The Child Care and Development Fund (CCDF) provides grants to States to subsidize and improve the quality of care for low- and moderate-income children. Under this Administration, Federal funding for child care subsidies has more than doubled, increasing from $1.8 billion in 1993 to an estimated $4.4 billion in 2001. In 2001, the discretionary contribution to the CCDF increased by $817 million, bringing total discretionary child care spending to $2 billion and allowing the program to serve nearly 150,000 additional children. Combined with the child care funds provided in welfare reform, the new discretionary funds will enable the program to serve over 2.1 million children monthly in 2001.

Child Support: An important component of the Administration's policies to help working families is to ensure that unmarried parents receive the support they are entitled to under the law from noncustodial parents. The 1996 welfare reform law included significant provisions to strengthen child support enforcement. Among other changes, the legislation streamlined paternity establishment procedures, provided for State and Federal registries of newly hired employees, established statewide support collection and distribution centers, and initiated tough new penalties when child support obligations are not met. In addition, in 1998, the President signed legislation enacting tougher penalties for parents who repeatedly fail to support children living in another State or who flee across State lines. Today, parents who owe child support can have their wages garnisheed, their bank accounts seized, their Federal loans denied, and their tax refunds withheld to help make up what they owe.

Since the Administration took office, child support collections have doubled from $9 billion in 1993 to $18 billion in 2000. The number of fathers taking responsibility for their children by establishing paternity rose to a record 1.5 million in 1999 (the most recent data available), nearly triple the 1993 figure of 554,000. In addition, a new program established under PRWORA has identified nearly 900,000 delinquent parents with accounts valued at $3 billion. In 2001, net Federal costs for child support will be an estimated $2.4 billion.

Child support is an important source of income for poor children. One study estimates that in 1997, child support lifted a half million children out of poverty, and that for poor children who receive child support, it represents, on average, over one-quarter of their family's income.

Individual Development Accounts (IDAs): In 1992 during his campaign, the President proposed Individual Development Accounts (IDAs) as a way to empower low-income families to save for a first home, a post-secondary education, or to start a new business. The 1996 welfare reform law authorized the use of TANF grants to create IDAs. In addition, in 1998 the President signed legislation creating a five-year $125 million demonstration program. Households that are eligible for TANF, qualify for the EITC, or have incomes below 200 percent of the Federal guidelines, and have a net worth below $10,000 are eligible to participate in the demonstration. In 1999 and 2000, the Department of Health and Human Services awarded nearly $20 million to 65 grantees that will establish over 16,000 savings accounts for low-income workers. The 2001 Budget included $25 million for IDAs to create over 20,500 new accounts.

Food Stamps: As parents leave welfare for work, their continued access to nutritional assistance is a critical factor in making the transition to self-sufficiency. It is also important that States reach out to low-income working families who may be eligible for food stamps since the assistance could keep them off welfare. In 1993, the food stamp program assisted nearly 27 million individuals at a cost of $23.6 billion. Both participation and funding have declined dramatically since then due to the strong economy, the success of moving people from welfare to work, changes in eligibility rules, and other consequences of welfare reform. In 2001, food stamps is expected to serve approximately 17.5 million people at a cost of $19.6 billion.

The Administration has taken a number of actions to simplify program administration for States, make the program more workable and easier for low-income working families to navigate, provide guidance to States on what their responsibilities are and how to improve practices, and use bonuses and sanctions to hold States accountable. In 1999 and 2000 the President took executive actions to help ensure working families who need food stamps have access, including: regulations to provide for transitional food stamp benefits for 3,000 individuals leaving TANF in 2001, with 20,000 individuals receiving assistance when fully implemented; longer reporting cycles for almost 200,000 individuals in 2001, with four million individuals benefitting when fully implemented; reviews of State processes to ensure that States comply with program rules; a public education campaign; and new steps that allow States to reinvest liabilities incurred due to high payment error rates in activities that improve access. In addition, a regulatory action making it easier for some recipients to own a car and still receive food stamps followed by legislation proposed by the Administration permitting States to use more generous TANF rules for vehicles when determining food stamp eligibility, in combination, will benefit 76,000 individuals in 2001, and when fully implemented, will benefit nearly 460,000 individuals, most of whom live in working families with children.

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. During this Administration, funding has grown by over 40 percent to over $4 billion, and the program now helps nearly half of all infants. In 2000, approximately 7.2 million individuals participated in the program monthly and funding for 2001 is sufficient to support participation by just over 7.3 million people.

Income Assistance to Aged, Blind and Disabled Individuals: The Supplemental Security Income (SSI) program, administered by the Social Security Administration (SSA), provides benefits to needy aged, blind, and disabled adults and children. On average in 2000, 6.3 million individuals received Federal SSI benefits on a monthly basis. These benefits totaled $31 billion in 2000. SSI uses the same disability eligibility criteria as the Social Security Disability Insurance Program. Policies affecting both programs are discussed in Chapter 15, “Social Security.”

SSI Children: The 1996 PRWORA legislation created new eligibility criteria for children to receive SSI to ensure that only needy children with severe disabilities received benefits. Between 1990 and 1996, the number of children eligible for SSI benefits more than tripled from approximately 309,000 to more than 955,000. This growth was due, in part, to the difficulty in determining whether a child’s impairment was of comparable severity to an impairment that would disable an adult. PRWORA eliminated this somewhat broader standard, and created a new definition of childhood disability that states a child’s impairment, or combination of impairments, is considered disabling if it causes marked and severe functional limitations.

In February 1997, SSA published final interim rules that applied the new definition of disability to applicants as well as 288,000 child beneficiaries, approximately 100,000 of whom would ultimately lose coverage. To ease the transition for the families of these children, an Administration proposal was enacted to continue Medicaid coverage to children who lost their SSI benefits as a result of PRWORA. SSA has since identified ways to clarify the rules and simplify the processes. The final regulations went into effect on January 2, 2001.

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. State payroll taxes finance the basic benefits paid 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. Additional benefits are often provided when unemployment is high and rising.

Spending on the unemployment compensation program varies based on economic conditions and demonstrates the Administration's success in achieving economic growth and low unemployment. In 1993, the unemployment rate was seven percent, and total spending on those benefits exceeded $36 billion. By 2000, as a result of the strong economy and the wide availability of jobs, the unemployment rate was four percent and total spending on those benefits was less than $22 billion—a decrease of almost 40 percent since 1993.

President Clinton worked to improve access to unemployment compensation to help new parents afford family leave. A Department of Labor regulation, effective in August 2000, allows States to create experimental birth and adoption unemployment compensation programs that provide partial wage replacement for parents caring for newborns and newly adopted children.

Addressing the Gaps in Welfare Reform

Restoration of Benefits for Legal Immigrants: The Administration believes that legal immigrants should have the same economic opportunity, and bear the same responsibility, as other members of society. Upon signing the 1996 PRWORA law, the President pledged to work toward reversing the cuts in benefits to legal immigrants that were unrelated to the goal of moving people from welfare to work. Since that time, the President's leadership has resulted in significant benefit restorations for immigrants.

More than half a million noncitizens would have been affected by PRWORA's Supplemental Security Income (SSI) eligibility restrictions in 2003. Legislation enacted after PRWORA restored eligibility to about three quarters of these individuals. The Balanced Budget Act of 1997 and the Noncitizens' Benefit Clarification and Other Technical Amendments Act of 1998 provided $11.5 billion over five years to restore Medicaid and SSI to 380,000 disabled and elderly legal immigrants who were living in the U.S. when the welfare law was enacted on August 22, 1996. These restorations provided critical assistance to legal immigrants who were unable to work to support themselves.

PRWORA also made most immigrants ineligible for food stamps, an important source of nutrition assistance for many working families, as well as for those unable to work. PRWORA would have denied food stamp eligibility to almost 600,000 noncitizens in 2002. Legislation enacted after PRWORA restored eligibility to approximately 30 percent of these individuals. In response to the Administration's request, the Agricultural Research, Extension, and Education Reform Act of 1998 included $818 million over five years to restore food stamp benefits to an estimated 175,000 elderly, disabled, and other needy immigrants, including 45,000 children who lawfully resided in the United States as of August 22, 1996.

These accomplishments restored important nutrition and income security protections to large categories of vulnerable noncitizens. Nevertheless, most noncitizen adults (except for refugees and certain other special categories of immigrants) are ineligible for food stamps unless and until they acquire 40 quarters of employment coverage, even if they have been in the U.S. since before enactment of PRWORA. With regard to SSI, similar restrictions apply to most noncitizens entering the U.S. after August 22, 1996. Immigrants entering the U.S. after that date also are banned from Medicaid until they have been in the United States at least five years, a provision that is expected to affect 430,000 immigrants in 2003.

Employee Retirement Benefits

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, and pay out benefits to about 2.4 million retired employees and survivors. 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 enjoyed by FERS enrollees. Since 1993, the number of annuitants (retired employees and survivors) has grown by 10 percent, from 2.2 million to 2.4 million, and the annuity payments have increased by over one-third, from $35 billion to $47 billion.

Over the past eight years, the service provided to this growing customer population has improved markedly. For example, in 1993 there was no self-servicing of customer service requests. This has increased to over 30 percent today. This improved service is being delivered more efficiently. For example, with fewer staff, processing times for annuity claims have been reduced substantially. This better and more efficient service is reflected in customer satisfaction surveys, which show an improvement from around 80 percent in 1993 to well over 90 percent today in annuitant satisfaction with the handling of service requests. Other notable accomplishments since 1993 include preserving the benefits structure during an extremely tight budgetary environment, providing through legislative action a more equitable treatment of employees placed in the wrong retirement system, and creating a greater incentive for employees to save by enabling them to contribute to the TSP immediately upon being hired.

Private Pensions: The Department of Labor's Pension Benefit Guaranty Corporation (PBGC) insures against company bankruptcy the pensions of about 42 million workers and retirees who earn defined benefit pensions. Before 1992, PBGC's books could not be audited. Worse, PBGC had for many years run an accounting deficit; that is, each year its liabilities had exceeded its assets. After well-publicized bankruptcies in the airline and steel industries, PBGC had for some years been talked of as the next savings and loan crisis.

That situation has turned around. With improved internal controls, PBGC has received "clean" audit opinions since 1993. Primarily due to the Administration's 1994 law (the Pension Protection Act) that increased PBGC revenues and also due to improved economic conditions and fewer bankruptcies, PBGC has been running annual surpluses and is predicted to end 2001 at $9 billion in the black. With its finances stabilized, PBGC is improving customer service. PBGC is working to shorten the time to calculate final benefit levels from six years in 1997 to three years in 2002. (Retirees are getting approximate pensions while PBGC is setting final benefit levels.)

Also at the Department of Labor, the Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $4 trillion in private pension assets. More than 90 million participants and beneficiaries are now in private pension plans.

PWBA is working to recover more benefits through customer assistance—an estimated $54 million for 2001 compared to $15 million in 1995. During this period PWBA corrected prohibited transactions and recovered or protected plan assets totaling more than $1 billion. At the same time, PWBA is more speedily processing the exemptions that allow certain financial transactions that are needed by pension plans, reducing the time taken to 200 days in 2001, a 17 percent improvement from the 1999 average of 242 days. PWBA has, moreover, simplified the annual report (the Form 5500) filed by companies that sponsor pensions. PWBA has also sped the processing of this data, in order to move more quickly to protect pensions and to keep participants better informed about their pension assets.

Tax Incentives for Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits to both individuals and companies. These tax benefits have been expanded and also simplified so that more companies can offer pensions. The Administration developed the new SIMPLE pensions (Savings Incentive Match Plans for Employees), which is an easy way for companies to set up 401(k)-like retirement accounts for their workers. Generally, earnings devoted to workplace pension plans and to many traditional 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 on the other gains that add value to these retirement accounts. The new Roth Individual Retirement Accounts (IRAs) however, allow contributions to be made from after-tax earnings, but account earnings are free from tax when used in retirement, which is a novel tax benefit.

President Clinton also signed into law expanded eligibility for deductible IRAs. So that more middle-income taxpayers with workplace retirement plans could open the valuable deductible IRAs, the Taxpayer Relief Act of 1997 generally doubled, over time, the income limits for participation. Previously, single taxpayers with adjusted gross incomes below $25,000 could open full deductible IRAs, with the maximum size of the IRA phasing out until the income limit of $35,000 was reached. Married taxpayers with joint returns were eligible at higher income levels, with a phase-out range of $40,000 to $50,000. Under the new law, the IRA phase-out ranges increase until the eligibility limits are $50,000 to $60,000 for single taxpayers (2005 and thereafter) and $80,000 to $100,000 for couples filing jointly (2007 and afterwards). This law also greatly expanded (to $150,000 to $160,000) the deductible IRA income limit for taxpayers not in workplace retirement plans but whose spouses are. Another law increased the maximum size of spousal IRAs for non-working spouses.

Additionally, President Clinton succeeded in making IRAs more flexible through legislation enacted in the Health Insurance and Portability and Accountability Act of 1996. That law allows the long-term unemployed to make penalty-free withdrawals from IRAs in order to pay their health insurance premiums and also for large medical expenses.

All the pension and retirement-saving tax incentives amount to an estimated $115 billion in 2001—decidedly the largest set of preferences in the income tax system—and nearly double the amount in 1993. Total tax expenditures included in this function have increased from $74 billion in 1993 to an estimated $132 billion in 2001.