24. INCOME SECURITY

Table 24–1. FEDERAL RESOURCES IN SUPPORT OF INCOME SECURITY
(In millions of dollars)

Function 600	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	27,752	26,015	32,592	36,113	38,892	40,402	41,811
Mandatory Outlays:							
Existing law	187,994	197,391	203,649	212,394	222,232	225,644	235,394
Proposed legislation	....	586	2,282	2,246	2,258	1,869	2,569
Credit Activity:							
Direct loan disbursements	93	95	73	8	....	....	....
Guaranteed loans	5	5	17	34	40	40	37
Tax Expenditures:							
Existing law	83,027	84,768	86,279	87,922	89,509	91,266	93,019
Proposed legislation	....	718	11,343	7,283	9,305	11,544	12,043

The Federal Government provides about $220 billion a year in cash or in-kind benefits to individuals through "income security" programs, including about $120 billion for programs that are part 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 $100 billion for income security supports general retirement and disability insurance programs (excluding Social Security), Federal employee retirement and disability programs, and housing assistance.

Major Programs

The largest means-tested income security programs are Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and various kinds of low-income housing assistance (discussed in other chapters)—and the Earned Income Tax Credit (EITC). 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 helps 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 1996, 25.5 million people, or 10.6 million households, received benefits and that year, the program provided total benefits of $23 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 $73 in 1996.

Supplemental Security Income: SSI provides benefits to the needy aged, blind, and disabled adults and children. In 1996, 6.5 million individuals received $24 billion in benefits. Eligibility rules and payment standards are uniform across the Nation. Average monthly benefit payments range from $256 for aged adults to $448 for blind and disabled children. Most States supplement the SSI benefit.

Temporary Assistance for Needy Families: In last year's 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 billion in 1998, is designed to meet the President's goal of dramatically changing the focus of welfare—from a system focused on benefits to one that moves recipients 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.

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 1996, the EITC provided $24.3 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 1996, the EITC provided an average credit of nearly $1,400 to over 20 million workers and their families. A two-parent family of four with one full-time worker who works at minimum wage levels and receives Food Stamps would rise above the poverty level in 1998 because of the EITC.

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 1996, about 8.5 million persons claimed unemployment benefits that totaled $23 billion.

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 1996, 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 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); school lunch, school breakfast, and other child nutrition programs; child care assistance; refugee assistance; and low-income home energy assistance.

Effects of Income Security Programs

Last year's welfare reform debate focused on means-tested income security programs. The resulting law not only replaced the program at the heart of the debate, AFDC, but also made big cuts and changes in other programs, including Food Stamps and SSI. But the basic question remains—what effect do these 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 below, "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 those covered. Consequently, we did not include these benefits 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 1996 Current Population Survey, 57.6 million people were poor in 1995 before accounting for the effect of Government programs. Of the 57.6 million, 27 percent were elderly (age 65 and above), 30 percent were children below age 18, and 43 percent were non-elderly adults (age 18–64). Census data show that after accounting for the effects of Government programs:

- The number of people in poverty fell to 30.3 million, a drop of 47 percent.
- The programs lifted 82 percent of the elderly poor out of poverty.
- The programs lifted about a third of poor children and poor non-elderly adults out of poverty.
- Social insurance programs accounted for two-thirds of individuals who were removed from poverty, including 93 percent of the elderly, 55 percent of the non-elderly adults, and 25 percent of the children.
- Means-tested benefits were responsible for 28 percent of the individuals who were removed from poverty, including close to 60 percent of poor children and over 40 percent of non-elderly adults.
- Federal tax policies, including the EITC, accounted for five percent of those removed from poverty, including close to 20 percent of the children.
- The number of people removed from poverty in 1995 reached an all-time high.

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. So, for example, if $1 out of every $2 in Category A helps cut the poverty gap, the "efficiency" of Category A would be 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 their funding (the $43 billion, above) helped cut the poverty gap. [1]

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 covers 1.9 million Federal employees and 750,000 United States Postal Service employees, and provides retirement benefits to 1.7 million retirees and 600,000 survivors. The Civil Service Retirement System (CSRS) covers employees hired before 1984. The Federal Employees Retirement System (FERS) covers employees hired since January 1, 1984. Along with the FERS defined benefit, FERS employees also participate in Social Security and the Thrift Savings Plan—a defined contribution plan to which the Government makes contributions on their behalf. The average Federal retiree receives an annual benefit of about $20,000. (Military retirement programs are discussed in Chapter 26, Veterans Benefits and Services.)

The budget proposes several changes to CSRS and FERS. First, it would delay the cost-of-living adjustment (COLA) for three months each year for 1998–2002. Second,

[1] Budget data may differ from Census data.

it would increase employee contributions by 0.25 percent of base pay on January 1, 1999, another 0.15 percent in 2000, and a final 0.10 percent in 2001, with the higher rates remaining in effect through December 31, 2002. Third, it would increase agency contributions on behalf of CSRS employees by 1.51 percent of base pay beginning on October 1, 1997, and continuing through September 30, 2002.

Private Pensions: The Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3 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.

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 $69 billion a year—one of the three largest sets of preferences in the income-tax system.