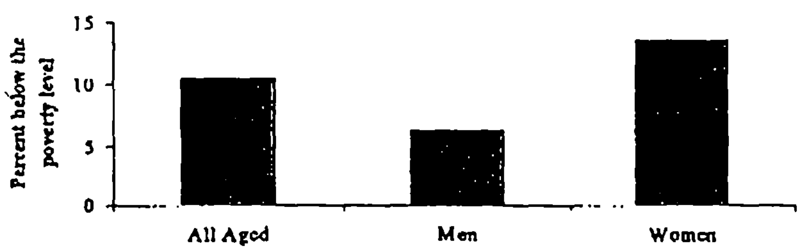
Why Social Security Privatization Would Hurt Women

Alicia H. Munnell
Peter F. Drucker Chair in Management Sciences
munnell@bc.edu

Boston College, Carroll School of Management
Phone: (617) 552-1934
Fax: (617) 552-1750

Proposals to replace some or all of the existing Social Security program with a new system of personal retirement accounts would undermine the financial security of older women. Poverty among women over 65 is already twice as severe as among men over 65 (Chart 1). The current Social Security program recognizes this problem, and its benefit structure compensates for two important characteristics of women: They are likely to have earned less than men, and they are likely to live longer. Privatization proposals currently being considered make no provision for these differences, and thus would make the poverty problem for women even worse.

Chart 1. Poverty Status of Persons 65 Years and Older by Sex, 1995

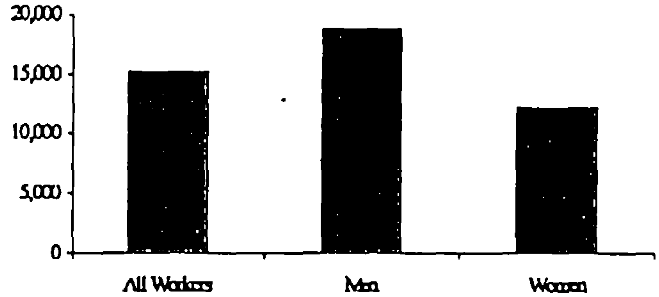


Source: U.S. House of Representatives, Committee on Ways and Means, *1998 Green Book*, May 19, 1998, Table A-6

Although the percentage of working-age women who hold jobs is much higher now than when Social Security was new (60 percent today versus 28 percent in 1940), their careers continue to be different. Women tend to spend fewer years in the workforce than men, since they interrupt their careers to care for young children or elderly parents. For the same reasons, women are also more likely to work at part-time rather than full-time jobs. And even when they work full time, women are likely to be paid less than men. As a result, median earnings for women are far below those for men (Chart 2).

A system relying even in part on personal savings accounts would perpetuate these differences into retirement. Unless special provisions were enacted, a woman's overall retirement benefit would depend on her contributions into her personal account and the earnings on those contributions. Because of lower earnings and less time in the labor force, these contributions and earnings would, on average, produce very low retirement benefits.

Chart 2. Median Earnings of Workers Covered by Social Security, 1994



Source: From the Social Security Administration website, online version of Soci Security Bulletin, *Annual Statistical Supplement, 1997*, Table 4.B6, see: http://www.ssa.gov/statistics/supp97/pdf/t4b6.pdf (as of September 8, 1998).

Although Social Security's benefit rules are gender-neutral, they are particularly helpful for women. First, the progressive benefit formula provides proportionately higher benefits for low earners than for high earners. Second, for the woman who spends her career taking care of her family, Social Security provides a retirement benefit equal to 50 percent of her spouse's benefit. Third, for the homemaker who becomes divorced after at least 10 years of marriage, Social Security provides a retirement benefit based on her former spouse's benefits. Fourth, for the older woman whose husband dies, Social Security provides widow's benefits equal to 100 percent of her husband's benefits. Fifth, if a younger widow's children are getting survivors' benefits, she also receives benefits while she is caring for them and not working.

Even with more women in the labor force, these family benefits remain important. In 1996 the majority (63 percent) of woman beneficiaries aged 62 and older were receiving wives' or widows' benefits; 37 percent had no earnings history and were entitled only as a wife or widow; and 26 percent had a higher benefit as a wife or widow than as an earner.

In addition to providing benefits to compensate for lower lifetime earnings, Social Security has two features that compensate for the fact that women live longer than men. Life expectancy at age 65 is currently 19.2 years for women compared to 15.6 years for men (Table 1). Because Social Security pays benefits for life, it supports women who outlive their spouses. And because benefits are adjusted annually for changes in the cost of living, their buying power is protected against being eroded by inflation — a protection that increases in importance with every passing year. Without such protection, even a modest 3 percent inflation rate cuts the purchasing power of a $100 benefit to $74 after 10 years and to $55 after 20 years.

Table 1. Life Expectancy at Age 65, for Individuals Reaching 65 in Selected Years, 1997-2025

	Life Expectancy (in Years)	
Year	Male	Female
1997	**15.6**	**19.2**
2005	16.0	19.5
2015	16.4	19.8
2025	16.8	20.2

Source: *1998 Green Book*, Table 1-53

With personal retirement accounts, on the other hand, benefits are not automatically converted to a lifetime annuity or protected against being diminished by inflation. If individuals receive their money in a lump sum, they risk exhausting their assets before they die — a risk that is compounded by the absence of inflation protection. In theory, annuity and inflation protection could be purchased separately, but private annuities are very expensive to purchase and inflation-adjusted annuities are nonexistent in the United States.

In short, the present Social Security system offers a range of protections — progressive benefits formula, dependents' benefits, lifetime benefits, and inflation adjustments — that are of great importance to women and are not duplicated by any of the proposals to privatize the system. These are established rights, promised by law. Women should be very reluctant to give them up for an untried system that relies on individual investments for even part of their basic retirement income.

ALICIA H. MUNNELL

Privatization plans hit women hardest

ELEANOR MILL ILLUSTRATION

Proposals to replace some or all of the existing Social Security program with a new system of personal retirement accounts would undermine the financial security of older women.

Poverty among American women over 65 is already twice as severe as among men over 66. The current Social Security program recognizes this problem, and its benefits structure compensates for two important characteristics of women: They are likely to have earned less than men, and they are likely to live longer. Most privatization proposals make no provision for these differences and would thus make the poverty problem even worse.

Although the percentage of working-age women who hold jobs is much higher now than when Social Security was new (60 percent today versus 28 percent in 1940), their careers continue to be different. Women tend to spend fewer years in the work force than men, since they interrupt their careers to care for young children or elderly parents. For the same reason, women are also more likely to work at part-time rather than full-time jobs. And even when they work full-time, women are likely to be paid less than men.

A system relying even in part on personal savings accounts would perpetuate these differences into retirement. Unless special provisions were enacted, a woman's overall retirement benefit would depend on her contributions into her personal account and the earnings on those contributions. Because of lower earnings and less time in the labor force, these contributions and earnings would, on average, produce very low retirement benefits.

Although Social Security's benefit rules are gender-neutral, they are particularly helpful for women because:

■ The progressive benefit formula provides proportionately higher benefits for low earners than for high earners.

■ For the woman who spends her career taking care of her family, Social Security provides a retirement benefit equal to 60 percent of her spouse's benefit.

■ For the homemaker who becomes divorced after at least 10 years of marriage, Social Security provides a retirement benefit based on her former spouse's benefits.

■ For the older woman whose husband dies, Social Security provides widow's benefits equal to 100 percent of her husband's benefits.

Social Security compensates for extra costs of women.

■ If children are getting survivors' benefits, younger widows also receive benefits based on their husbands' earnings while they are caring for the children and not working.

Even with more women in the labor force, these family benefits remain important. In 1996 the majority (63 percent) of women beneficiaries aged 62 and older were receiving wives' or widows' benefits; 37 percent had no earnings history and were entitled only as a wife or widow, and 26 percent had a higher benefit as a wife or widow than as an earner.

In addition to providing benefits to compensate for lower lifetime earnings, Social Security has two features that compensate for the fact that women live longer than men. Life expectancy at age 66 is currently 19.2 years for women compared with 16.7 years for men. Because Social Security pays benefits for life, it supports women who outlive their spouses. And because benefits are adjusted annually for changes in the cost of living, their buying power is protected against being eroded by inflation – a protection that increases in importance with every passing year.

By contrast, personal retirement account benefits are not automatically converted to a lifetime annuity or protected against being diminished by inflation. If individuals receive their money in a lump sum, they risk exhausting their assets before they die – a risk that is compounded by the absence of inflation protection. In theory, annuity and inflation protection could be purchased separately, but private annuities are very expensive to purchase, and inflation-adjusted annuities are virtually nonexistent in the United States.

In short, the present Social Security system offers a range of protections – progressive benefits formula, dependents' benefits, lifetime benefits, and inflation adjustments – that are of great importance to women and are not duplicated by any of the proposals to privatize the system. These are established rights, promised by law. Women should be very reluctant to give them up for an untried system that relies on individual investments for even part of their basic retirement income.

Alicia H. Munnell is a professor at Boston College's Carroll School of Management. She is a former member of President Clinton's Council of Economic Advisers.

Equities for Social Security: Does It Make Sense?
by Alicia H. Munnell*

Two proposals for expanding Social Security investments to include equities -- one through government-managed individual accounts and the other directly through the trust funds -- elicit very different responses. In fact, the two approaches are remarkably similar. They should raise the same issues. If one distrusts the government and fears that politics will affect investment decisions, neither option should be acceptable. If one trusts the government to set up appropriate mechanisms, then the choice should be direct trust fund investment since it will, by maintaining the commitment to a defined benefit plan, produce the best retirement system done the road.

Investing in equities is not necessary to restore long-run balance to the Social Security program; the projected deficit is small enough that conventional fixes could do the job. But the higher expected return on equity investment does reduce the need for tax increases or benefit cuts and improves the rate of return on Social Security contributions. Thus, many have gravitated towards equity investment as one component of a package to bring the Social Security system into long-term financial balance.

Early in the debate, three alternative approaches were on the table. The most extreme was individually managed private accounts similar to IRAs. The IRA approach has been all but eliminated from consideration because of the extremely high administrative costs associated with setting up 150 million individual accounts. These costs have exceed 20 percent of accumulations in Chile and the United Kingdom, countries that have introduced a system of individual accounts, and could be even higher in the U.S. given the small size of the average account.

The remaining candidates are government-managed individual accounts and direct trust fund investment. A system of government-managed individual accounts would work very much like the existing Thrift Saving Plan, which Congress set up a dozen years ago as part of the pension plan for federal employees. The federal government would deposit a worker's contributions in an individual account and, following the worker's preferences, allocate the money among a designated series of index equity funds, bond funds, and fixed-income investments. In the case of direct trust fund investment, the government would invest a portion of payroll tax receipts in an appropriate broad market index, such as the Russell 3000 or the Wilshire 5000.

Those who fundamentally do not trust the government should find neither option appealing. Opponents of investing in equities through the trust funds contend that the government might use its equity holdings to directly influence corporate decisions and might also invest on the basis of social rather than risk and return considerations. For example, the current controversy over tobacco litigation might create pressure to take tobacco holdings out of the index. But note that a system of government-administered

---

* The author is the Peter F. Drucker Professor of Management Sciences at Boston College Carroll School of Management. Prior to that she was a Member of President Clinton's Council of Economic Advisers and Assistant Secretary of the Treasury for Economic Policy.

individual accounts also requires the government to designate a series of index equity funds for investment. Hence, questions about which stocks to include in the indexes, and how shares are to be voted are just as much issues for the government-administered individual accounts are as for the centrally managed approach. No one wants the government in the business of picking stocks and voting proxies. Anyone who believes that the government will not be able to structure arrangements to avoid this type of activity should oppose any equity investment for Social Security.

Those who do trust the government to design a structure to insulate investments from politics -- through establishing an independent advisory board, picking a broad-based index, and delegating voting rights to pension fund managers -- should favor the approach that will produce the best retirement system for future generations.

Using that criterion, the economics argue strongly for direct trust fund investment and against government-managed individual accounts. Individual accounts would more than double the cost of the current Social Security system, and they would make retirement income unpredictable. Another weakness of such plans is that, although proponents argue against early withdrawals, the law would be changed over time to allow individuals access to these funds before retirement, so that retirees and their families would end up with inadequate retirement income. Individual accounts also would undermine the provisions in the Social Security program that protect low-income workers and women.

In contrast, accumulating reserves in the Social Security trust funds and investing part of those reserves in equities offers many of the advantages of individual accounts without the risks and costs. It ensures predictable retirement incomes, and it keeps transaction and reporting costs to a minimum, producing higher net returns on equity investments than individual accounts. Those who oppose trust fund investing because they fear the government will not be able to insulate investment decisions from politics should question why they are sanguine about government-managed individual accounts.

Social Security Found to Save Third of Elderly From Poverty

WASHINGTON, April 8 (AP) — Social Security benefits keep about a third of the nation's elderly from slipping into poverty and significantly help narrow the income disparities between women and men in old age, a study released today shows.

"Social Security cuts about in half the gap in poverty rates between elderly women and elderly men," said Robert Greenstein, executive director of the Center for Budget and Policy Priorities.

The center is skeptical of proposals to remake the Social Security system to allow private investment and generally supports keeping the current system intact.

Over all, the study found that without income from Social Security, 47.6 percent of elderly Americans, or 15.3 million people, would have been poor in 1997. Social Security cut that poverty rate by to 11.9 percent, or 3.8 million senior citizens.

The monthly checks mean that 35.7 percent of people ages 65 and older who would live in poverty have incomes that place them above the poverty line.

Without monthly Social Security checks, 52.6 percent of women 65 and older would be poor, compared with 40.8 percent of men — a gap of 11.8 percentage points, the study found. But with Social Security, 14.7 percent of elderly women were poor, compared with 8.2 percent of men — cutting the gap between the sexes to 6.5 percentage points.

Women who are not married when they are elderly do not benefit as much, Mr. Greenstein said. Even with Social Security benefits, the poverty rate among elderly widows is 20.3 percent, and for single and divorced women it is 27 percent.

The nonprofit research center used 1997 census data to measure the effect of Social Security on lifting elderly Americans' incomes above the Federal poverty level.

Elderly individuals were considered to be poor in 1997 if they had income below $7,698 a year; the level for elderly couples was below $9,712.

Women get a particularly good deal from Social Security, the study found. Although women pay 38 percent of all Social Security payroll taxes, they get 53 percent of benefits.

In part, that is because women live longer than men, and Social Security benefits rise each year to keep up with inflation. Also, women make up the bulk of those who collect the special Social Security benefits that spouses, widows and widowers are entitled to receive even if they never worked themselves.

Social Security generally provides bigger retirement checks to people who earned more during their working lives, and men tend to earn more than women. But the program somewhat mitigates that by taking into account a higher percentage of low-wage workers' earnings when calculating their retirement benefits, and that helps women.

The study also found that black and Hispanic Americans draw a larger percentage of their old-age income from Social Security than whites. Elderly blacks get on average 43.4 percent of their income from the retirement program, compared with 41.4 percent for Hispanic Americans and 35.8 percent for whites.

The New York Times

FRIDAY, APRIL 9, 1999

High in the Polls and Close to Home, Bush Navigates by the Center Line

By RICHARD L. BERKE

AUSTIN, Tex. — Ask Gov. George W. Bush of Texas, the early favorite for the Republican Presidential nomination, about the prickliest issues of the day, and his carefully wrapped responses are those of the ultimate Rorschach politician: voters can see what they want to see.

In comments that should please gay rights advocates, Mr. Bush said in a recent interview here that no one should be disqualified from an ambassadorship or other Presidential appointment because he or she is a homosexual. But he also appealed to opponents of gay rights, saying that homosexuals should not be foster parents, and that there should not be a specific reference to them in hate crime legislation.

He also takes a play-to-both-sides position on abortion. Unlike some of his rivals, Mr. Bush refused to say whether he would insist on a running mate who opposed abortion. "It's too early to determine," he said.

Though he described himself as "pro life," Mr. Bush appealed to voters who are less adamantly opposed to abortion by saying the country was not ready to embrace a constitutional amendment banning all abortions.

At first, Mr. Bush preferred not to wade into the most nettlesome issue of the day, the crisis in Yugoslavia. He refused to say whether President Clinton's policies had been sound. Again and again, he stuck to the same line, "He'd better have a clear exit strategy."

[But stung by criticism, including an editorial in the reliably conservative Wall Street Journal that attacked his statements as "so vague and tepid as to be almost Clintonian," Mr. Bush has expanded on his views a bit. At a news conference in Austin on Thursday, he suggested he could be open to ground troops, saying, "I worry about whether or not the bombing campaign is being done with ferocity." He said it "should be a military decision as to whether or not troops are needed."]

In a striking contrast to his opponents who are scurrying across the country trying to gain traction by articulating their stands, Mr. Bush is staying put in the Texas Capitol, sitting on his overwhelming lead in the polls, and saying as little as possible. When he does address issues, as he did in the interview, Mr. Bush skates between the left and the right, calibrating his answers to avoid offending anyone.

Mr. Bush's reticence may make political sense: given his dominance in the race, the Governor would risk alienating supporters if he began taking hard positions. With several opponents ready to pounce on Mr. Bush, whom they view as the biggest obstacle to their reaching the White House, the last thing he wants is to give them more ammunition.

The danger in Mr. Bush's strategy is that his detractors have begun to portray him as not prepared to run for national office. On abortion, for instance, he has been attacked for his comments both by liberal groups on the left and by conservative candidates on the right.

"It's a strategy of rational ambiguity," said David C. King, a professor of public policy at Harvard University. "You try and hide your true positions to increase the number of people who will identify with you. He's doing it early in the campaign to increase the amount of money he gets."

As the campaign progresses, Mr. King said, Mr. Bush will need to appeal to conservative primary voters by "moving slightly to the right."

Sitting with his feet perched on his desk at the Capitol here, Mr. Bush said he was resigned to the assaults. "I guess it's what happens when you're the front runner," he said.

A G.O.P favorite fine-tunes 'rational ambiguity.'

Bristling at the notion that he is an empty vessel, the Governor said: "I state what I believe. I've got a record. I've actually served in office. And I've signed or vetoed bills. I did a lot of speeches. And some people will like it and some people won't."

There were issues he had to figure out for himself, Mr. Bush said, insisting that he was not hiding but waiting until June, after the Texas Legislature adjourns, to begin campaigning.

"I'm certainly not underestimating the task," he said. "It's going to be a lot of work, not only physically, but I haven't the Federal issues like a lot of the other candidates have. I'm coming from the outside. So I've got a lot of work to do."

Mr. Bush's comments on homosexuals offer a prime example of how he is trying to be acceptable to the broad Republican electorate. The drive to block President Clinton's nomination of James C. Hormel, a philanthropist, as Ambassador to Luxembourg, has been a cause célèbre among conservatives, many of whom cited Mr. Hormel's homosexuality. Mr. Bush would not comment on Mr. Hormel specifically, saying, "I don't know the background."

But when asked whether an ambassador should be disqualified on the basis of sexual orientation, Mr. Bush said, "As a general statement, if someone can do a job, and a job that he's qualified for, that person, that person ought to be allowed to do his job."

The Governor said he would not exclude homosexuals from other posts, "as long as they can do a good job, as long as their political agenda was the same as mine."

Still, many gay voters may be put off by other positions, including his opposition to their being foster parents or adopting children. "I look at each person based upon their heart and soul," Mr. Bush said. "I think it's much different than gay adoption. I strongly believe that what's best for children is a married man or a married woman as their parents. That has nothing to do with whether or not I don't respect somebody."

Charles Francis, a gay Republican consultant who is an old friend of the Governor, said Mr. Bush's comments on appointments should make him acceptable to homosexuals because they present "a balanced picture" and show that "there's not an intolerant bone in the man's body."

Another example of Mr. Bush's skirting ideological perils is his refusal to say whether he would insist on an abortion foe as a running mate. By withholding a position, he can stave off defections from abortion opponents while still leaving the impression among abortion rights advocates that he might pick one of their own as a running mate.

Dismissing groups on both sides of the abortion issue who have faulted his position, Mr. Bush said: "Abortion's a very emotional issue. People have got strong feelings about it. So I'm not surprised people are attacking me on it."

Asked to respond to conservatives like Gary Bauer, a rival for the nomination who questions Mr. Bush's commitment to oppose abortion, he said, "Those of us who run for office are used to political hyperbole."

Mr. Bauer said there was "something wrong if people with diametrically opposing viewpoints on an issue meet with a Presidential candidate" and both groups come out "believing that the candidate is on their side."

On a variety of other issues, Mr. Bush ambles down the middle of the road. He opposes racial quotas, for example, but supports other efforts to open doors for minorities. He calls his approach "affirmative access."

And Mr. Bush has advocated voluntary school prayer before high school football games. Yet he is careful to say that the choice should be left to the students. "Why do I think prayer is important?" he asked. "I believe there's an almighty loving God, and I think if students so choose to do so, it's an important principle."

Mr. Bush said he recently had "a very frank discussion" with Pat Robertson, the founder of the Christian Coalition, as part of his concerted effort to woo all factions of his party. Mr. Bush said he talked about "my heart, what my beliefs are."

How important would he consider Mr. Robertson's endorsement? "I want everybody to support me," Mr. Bush said.

The New York Times

FRIDAY, APRIL 9, 1999

Shirley

NACW
National Association of Commissions for Women

NATIONAL ASSOCIATION OF COMMISSIONS FOR WOMEN

8630 Fenton Street
Suite 934
Silver Spring, MD 20910-3803
(301) 585-8101
(800) 338-9267
Fax (301) 585-3445
Website: www.nacw.org

Testimony Before the House Ways and Means Committee

Subcommittee on Social Security

Diana Zuckerman, Ph.D.

National Association of Commissions for Women

February 3, 1999

Women depend on the Social Security system, and that program has been a life-saving safety net for many women, especially widows. We all agree that any changes made to Social Security need to consider how it will affect all our nation's citizens. The proposals that are being debated vary a great deal in their likely impact on women. As Director of the Social Security Project of the National Association of Commissions for Women, I welcome the opportunity to provide this testimony. The goal of this new Social Security Project is to make sure that policy makers and the American public are aware of the likely benefits and risks that various proposals would mean for American women.

The National Association of Commissions for Women is a non-profit, non-partisan membership organization composed of regional, state, country, and local commissions created by government, to improve the status of women. NACW works with legislators, commissions, women leaders, and corporate executives on a wide range of issues that are important to women. We are committed to safeguarding Social Security because it is a major source of economic security for millions of women all over the country.

Social Security benefits treat women and men the same way, but many provisions tend to benefit women more than men, or vice versa. For example, any married individual has a choice of whether to receive benefits based on their own lifetime earnings or half their retired spouses' benefits, but choosing half the spouses' benefit helps more women than men, since men earn more.

Social Security is more than a retirement program -- it is a social insurance program that keeps millions of Americans out of poverty. That social insurance is essential for women. Although their Social Security benefits tend to be lower, women depend on Social Security more than men because women are much less likely to receive employer-provided benefits. Even when women receive private pensions they average only half the dollars received by men. Unfortunately, many of the proposals that are being seriously considered would put the lowest earners at greatest risk, and many of those lowest earners are women.

Proposals to privatize Social Security vary, but the basic plan is that most of the money that is currently set aside from each individual's paycheck for Social Security would instead go into an account for that individual, and the funds would be invested in stocks, bonds, or other private investments. Funds to pay for a safety net for society's most vulnerable, and the enormous costs of transitioning from the current "pay as you go" system to private accounts, would either result in higher taxes or cuts in some Social Security benefits. These proposed cuts would have very different impacts on women and men.

- **Raising the retirement age** would affect more women than men, since women live longer. In addition, women tend to marry men who are older than they are, and many women retire when their husbands stop working, in order to spend time with or take care of them. Under current law, the retirement age will gradually increase from 65, stopping at 67 for those born in 1960 or later. Several proposals would raise the retirement age to 67 even sooner, and would continue to increase it to age 70. Reduced benefits for early retirement would also be delayed.

- **Calculating benefits on 38 years of employment rather than 35 years** would decrease benefits for everyone, but women who spent several years out of the work force as "stay at home mothers" or to care for aging parents would be harmed more. The Social Security Administration estimates that only 30% of women who are retired in 2021 will have worked 38 years, compared to 60% of men. And, more of those women's years will be based on part-time salaries, because even today less than half of women between 25-44 years old are employed full-time.

- **Raising the "cap" so that high earners pay taxes on more of their earnings** would harm men more than women. This past year, workers and their employers paid Social Security taxes on the first $68,400 of an annual salary; since few women earn more than that, substantially raising the cap would have little impact on women.

- **Lifetime benefits tend to benefit women more than men since women live an average of 7 years longer than men.** Private accounts might run out of money while some long-lived individuals are still alive. If the individual buys private annuities in the insurance market, women will probably receive smaller payments because of their greater life expectancy. Moreover, the payments would not be indexed for inflation, which is more of a problem for those who live the longest.

- **Lowering the annual cost of living index** would have little impact for the first few years, but the cumulative impact over many years would mean substantial benefit cuts for retirees who live the longest. The longest living retirees tend to be women, and since women are more likely to live alone than men, these cuts will create more of a hardship for them.

- **Many proposals would reduce guaranteed benefits that provide a safety net for our lowest earners**. The lowest earners tend to be women, so they would be hurt more if the safety net was reduced. This could be a particular problem for divorced women, and the number of divorced retirees is skyrocketing because divorce is much more common than it used to be.

- **Many proposals would reduce benefits for the disabled.** Disabled workers and disabled children and adults who never worked are eligible for benefits; relatives who care for the disabled are usually women.

The National Association of Commissions for Women urges Congress to carefully consider how these changes would harm our nation's elderly women, many of whom are already living in poverty or near poverty. One strategy would be to tinker with the changes so that they would harm fewer women or harm women less – for example, by averaging fewer years of earnings for women who spend some years as full-time mothers. However, tinkering with the changes to make them less harmful to women would also result in less savings to the Social Security system, and other changes would therefore be needed to provide greater savings. For that reason, preserving the Social Security safety net and using money from the budget surplus to help save Social Security is a strategy that helps protect women. Any plans that focus primarily on increasing the rate of return on a proportion of earnings or on money set aside in voluntary savings will benefit low earners less – and that means women will benefit less.

Members of the National Association of Commissions for Women will be speaking up on this issue all over the country, and will be contacting their representatives in Congress in the weeks and months ahead. Commissioners appreciate your interest in Social Security as a program of particular importance to women, and will keep you informed of the concerns of women in your districts and communities. Our president, Patricia Hendel, looks forward to working with all of you as various proposals are considered. As Director of the Social Security Project, I also welcome the opportunity to work with you and will be available to provide you with information about our efforts, our concerns, and our analyses of how specific proposals would affect women in your district.

If you have any questions about our Social Security Project, please contact Diana Zuckerman at 301 652-0674 or dianamz@aol.com.

January 22, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: **Brenda Costello**
SUBJECT: **Briefings for Saturday, January 23**

Women in Social Security Conference
-Briefing
-Bios
-Women and Social Security
-Recent articles
-ADSS pamphlet (HRC only)

Remarks
-Social Security Conference (to be forwarded)

January 22, 1999

SATELLITE TELECONFERNCE ON SOCIAL SECURITY AND WOMEN

Date:	**Saturday, January 23, 1999**
Time:	**11:30 am - 12:30 pm**
Location:	**PV Studios, Washington, D.C.**
From:	**Nicole Rabner**

I. PURPOSE

To participate in the *Americans Discuss Social Security* Satellite Teleconference on Social Security and Women.

II. BACKGROUND

Americans Discuss Social Security

As you know, *Americans Discuss Social Security* (ADSS) is a two-year, nonpartisan effort funded by the Pew Charitable Trust to educate and engage Americans on Social Security. ADSS has launched public engagement activities involving over 30,000 citizens, commissions public opinion surveys, operates an interactive web site, and develops public education material to help citizens understand this complicated issue. ADSS has sponsored citizen forums around the country, using satellite and Internet inter-active technology to foster discussion and debate. ADDS, as you know, sponsored the Social Security forums in which the President participated in the fall.

ADSS issued a report of "citizen voices" from its March 1998 teleconference. It found that its participants expressed broad support for the social insurance aspects of the Social Security program, particularly the provision of disability and survivor benefits. Nine out of ten cities participating in the ADSS teleconfernece identified "maintaining the safety net" as a top priority.

Teleconference and Format

This teleconference, entitled "What Every Woman Should Know About Social Security," will focus on how the current Social Security system works for elderly women and how proposed reforms could affect women. It is ADSS's first event to focus exclusively on women.

You will serve as the forum's Chair, in effect acting as the keynote speaker and setting the tone for the conference. The 4-hour forum will run as follows: first, a brief video will be shown that includes ordinary women talking about their concerns that Social Security will not be there for them when they retire. Following the video, Carolyn Lukensmeyer, the Executive Director of ADSS, will make a 2-minute opening statement. Rebecca Rimmel, President of the Pew Charitable Trust, will also make a 2-minute welcoming statement and then introduce you. You will speak for roughly ten minutes and depart. Carolyn Lukensmeyer will excuse you when you leave.

Following your departure, there will be a brief video shown on the history of Social Security. Then, Rep. Jennifer Dunn will speak followed by two panelists: (1) Jane Ross, a Deputy at the Social Security Administration, and (2) Cindy Hounsel, Executive Director of Women's Institute for a Secure Retirement. Moderated by *Newsweek* columnist Jane Bryant Quinn, the latter two speakers will then take questions by telephone from the satellite audience on the importance to women of Social Security today. In the satellite convenings around the country, the audiences gathered will be working in groups on this issue. Following this working session, another panel will convene to make brief presentations and take questions from on the potential impact of reform on women. This panel will consist of: (1) Heidi Hartmann, Institute for Women's Policy Research; (2) Gene Sterly, the Urban Institute; (3) Ann Rappaport, American Academy of Actuaries; and (4) Ann Collins, formerly of the Social Security Advisory Committee. The audience in the satellite convenings will continue to work at their sites and then report back via satellite to the Washington session. Several Democratic House members will be participating in the convenings in their districts.

Audience

There are ten official teleconference cites, where formal programs and workshops will be held. These are: (1) Alburquerque, New Mexico; (2) Cleveland, Ohio; (3) Milwaukee, Wisconsin; (4) Portland, Maine; (5) Oklahoma City, Oklahoma; (6) Atlanta, Georgia; (7) Los Angelos, California; (8) New Orleans, Louisiana; (9) Portland, Oregon; and (10) San Antonio, Texas. In addition, several community forums, organized by the local chapers of the League of Women Voters, several universities and community colleges, and church groups will downlink the event. Finally, 31 cable stations around the country will broadcast the event live, and 25 cable stations will tape the event for later broadcasting.

III. PARTICIPANTS

Meet and Greet

Carolyn Lukensmeyer, Executive Director, Americans' Discuss Social Security
Rebecca Rimmel, President, Pew Charitable Trusts
Congresswoman Jennifer Dunn (R-WA)
Jane Ross, Deputy Administrator for Policy, Social Security Administration
Cindy Hounsell, Executive Director, Women's Institute for a Secure Retirement
Heidi Hartmann, Econimist, Ph.D, Institute for Women's Policy Research
Jane Bryant Quinn, *Newsweek* columnist and forum moderator
Anna Rappaport, William Mercer, Inc.
Eugene Steuerle, The Urban Institute
Leanne Abdnor, Executive Director, Alliance for Worker Retirement Security

Program Participants
The First Lady
Rebecca Rimmel (RYE-MULL), President Pew Charitable Trust
Carolyn Lukensmeyer, Executive Director, Americans Discuss Social Security
Jane Bryant Quinn, *Newsweek* columnist and forum moderator

IV. SEQUENCE OF EVENTS

- Carolyn Lukensmeyer makes welcoming remarks and introduces Rebecca Rimel, President, Pew Charitable Trusts.
- Rebecca Rimel makes brief remarks and introduces the First Lady.
- The First Lady makes remarks.
- Carolyn Lukensmeyer makes closing remarks and the First Lady departs.

NOTE: A video will be shown as the First Lady departs.

V. PRESS PLAN

Pool spray at the top of studio event; open press via television.

VI. REMARKS

Provided by Christy Macy.

CAROLYN J. LUKENSMEYER

Carolyn Lukensmeyer, Executive Director, *Americans Discuss Social Security*, is the Founder and former Executive Director (1995-97) of *AmericaSpeaks*, a not-for-profit seeking to link authentic citizen voices with governance through the identification and creation of new governance mechanisms and the design of citizen engagement processes which integrate face-to-face deliberation and electronic technology. She holds a Ph.D. in Organizational Development from Case Western Reserve University and has twenty-five years experience in both public and private organizations.

Dr. Lukensmeyer served as Consultant to the White House Office of the Chief of Staff from November 1993 through June 1994, directing a management audit of White House decision-making and operations. Previously, she was Deputy Project Director for Management of the National Performance Review (NPR), Vice President Gore's reinventing government task force, where she brought the project in on time and under budget and received the Distinguished Service Award from the Federal Managers Association for Outstanding Leadership in Support of Excellence in Public Service.

From 1986 to 1991 Dr. Lukensmeyer served as Chief of Staff to Governor Richard Celeste of Ohio. She was the first woman to serve as Ohio's Chief of Staff and, at the time of her appointment, the only Chief of Staff recruited from the professional management field. Lukensmeyer led the modernization of Ohio's state bureaucracy with innovative approaches to systems design, professional development, human resources and crisis management, and strategies for problem solving and communications.

Dr. Lukensmeyer is President of Lukensmeyer Associates, Inc., an organization consulting firm founded in 1974. She established an international reputation in the field of Organizational Development and Management Consulting. Clients have ranged in size from 20 to more than 350,000 employees, representing public and private sectors from five continents.

Rebecca W. Rimel
President & Chief Executive Officer

Rebecca joined the Trusts' staff in 1983 following an exemplary career in health care, specifically in nursing. She rose from program manager for health to the Trusts' executive director in 1988. She became president and chief executive officer in 1994.

Prior to joining the Trusts, Rebecca served at the University of Virginia Medical Center, first as a nurse/nurse practitioner and later as head nurse in the emergency department and assistant professor of neurosurgery, the first nurse to hold a faculty position in the university's medical school. She has authored or coauthored numerous scientific articles relating to head injury and is active on many boards including the Council on Foundations and Thomas Jefferson Memorial Foundation (Monticello).

She received a B.S. degree, with distinction, from the University of Virginia and an M.B.A. from James Madison University. In 1982, Rebecca was awarded a Kellogg National Fellowship, an enrichment program for emerging leaders.

As chief executive officer, Rebecca leads the Trusts' grantmaking and administrative activities and is the principal liaison with grantees and the broader public—including the media, government officials, the civic community and other foundations.

WH Document

SOCIAL SECURITY AND WOMEN

STRENGTHENING SOCIAL SECURITY IS PARTICULARLY IMPORTANT FOR WOMEN:

- **Most Social Security Recipients Are Women.** Women represent 60 percent of all aged Social Security recipients. Women are 72 percent of all beneficiaries age 85 and above.

- **Elderly Unmarried Women Get More Than Half Their Income from Social Security.** Unmarried women -- including widows -- age 65 and over get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security.

- **Without Social Security, the Poverty Rate Among Elderly Women Would Be Over 50 Percent.** The poverty rate among elderly women is 13.6 percent. Without Social Security it would be 53.1 percent. (For men the rate is 6.8 percent, without Social Security it would be 40.8 percent).

- **Poverty Rates Among Unmarried Elderly Women Remain High.** While the overall elderly poverty rate has fallen by two-thirds from 35.2 percent in 1959 to 10.5 percent in 1997, poverty rates among unmarried women remain high -- 18.7 percent for widows and 19.9 percent for divorced women.

THE CURRENT SOCIAL SECURITY SYSTEM HAS IMPORTANT FEATURES THAT PROTECT WOMEN:

- **Social Security Provides an Inflation-Protected Benefit That Lasts as Long as You Live.** Because women tend to live longer than men (life expectancy at age 65 is 19.2 years for women and 15.7 years for men), they are in greater danger of outliving their other sources of retirement income, but it is impossible to outlive your Social Security benefit.

- **The Progressive Benefit Formula Provides a Higher Replacement Rate for Workers with Lower Earnings.** Since women tend to have lower earnings than men, they receive benefits that are a higher fraction of their lifetime earnings.

- **Social Security Provides Extra Benefits to Spouses with Low Lifetime Earnings.** Women are more likely than men to take time out of the labor force for child rearing, and on average have lower earnings when they work than men do. This means that the Social Security benefit they are entitled to based on their own earnings history can be small. But Social Security provides a spousal benefit that helps many women, even if they did not work at all. A spouse receives the larger of the benefit she is entitled to based on her own earnings, and one-half of the benefit received by her husband.

- **Social Security Provides Benefits for Widows.** Social Security pays an aged widow a benefit based on either her earnings or the earnings of her deceased spouse, which ever is higher. And Social Security provides benefits to parents of children under 16 if the other parent is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as parents.

- **Social Security Provides Benefits to Parents.** Social Security provides benefits to spouses of any age who care for children under 16 if the worker is retired, becomes disabled or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

HOW SOME SOCIAL SECURITY REFORM OPTIONS IMPACT WOMEN

Increasing the Number of Computation Years

- Currently, Social Security benefits are calculated using a formula that averages the highest 35 years of earnings during a worker's career. If a retiree had fewer than 35 years in the workforce, the benefit formula averages in zeros for the missing years.

- Many reform proposals recommend increasing the number of computation years to 38 years. By introducing more years with zero or low earnings into the benefit formula, this change would reduce benefits by an average of 3 percent. The reduction would be smaller for workers with more than 35 years of work since they would be able to include non-zero years in the formula.

- Women are more likely to have years with low or zero earnings in the proposed additional three years. SSA actuaries estimate that for those retiring in 2020, 29 percent of women would have 38 years of covered employment compared with 57 percent of men.

- However, the SSA actuaries calculate that the average benefit reduction for women from this proposal would be only a few tenths of one percent more than that for men. Even in 2020, half of women are expected to have their benefits determined by their husband's earnings rather than by their own. Many of the other half, those receiving their own retirement benefit only, have earnings histories more similar to those of men.

Allowing Dependent Care Drop-out Years in the Benefit Formula

- Some experts have proposed that years spent out of the labor force for child-rearing or other care-giving responsibilities not be counted as zeros in the benefit formula. Either the number of years in the averaging formula could be reduced by the number of care-giving years or the zero earnings for those years could be replaced by an average level of earnings when the benefit computations are made.

Reducing the Cost-of-living Adjustment

- Each year Social Security benefits are increased to reflect increases in the Consumer Price Index (CPI). Some experts believe that the CPI overstates the rate of change in the cost of living, although the size of the overstatement is a subject of dispute.

- Some Social Security reform plans reduce the annual cost-of- living increase in Social Security benefits by 0.5 percent to account for the overstatement in the CPI.

- This proposal would produce larger benefit cuts for those who live the longest, particularly women (whose life expectancy at age 65 is almost 19 years -- over three years longer than men) because the impact of slower cost-of-living increases multiplies the longer one lives.

PROPOSAL TO INCREASE WIDOW BENEFITS TO REDUCE ELDERLY POVERTY

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** The poverty rate among Americans age 65 and over has fallen from 35.2 percent in 1959 to 10.5 percent today. However, poverty rates among unmarried (widowed, divorced, never married) women remain high.

Poverty Rates of the Population 65 and Over
By Sex and Marital Status, 1997

	Married	Divorced	Widowed	Never Married	All
Men	4.6%	15.0%	11.4%	22.8%	7.0%
Women	4.6%	22.2%	18.0%	20.0%	13.1%

- **Declines in Social Security benefits at widowhood are an important factor in explaining why the poverty rate is higher for widows than for married women.**

  -- Married couples receive benefits based on 150 percent of the benefit of the higher earner in the couple or the sum of the benefits of the two spouses, whichever is larger.

  -- Widows and widowers receive 100 percent of the benefit of the higher earner in the couple.

  -- These two rules imply that when one spouse dies, the surviving spouse receives Social Security benefits that are between 50 percent and 67 percent of the benefit the couple was receiving when both spouses were alive.

    -- For a couple in which the lower earner was receiving a spouse benefit, the Social Security benefit falls to 67 percent of the previous benefit when one spouse dies.

    -- For a couple in which both spouses were receiving benefits based solely on their own earnings, the benefit falls to a lower level -- as low as 50 percent of the previous benefit if the two spouses had identical average annual earnings.

- **President's Framework Would Lower Poverty Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 percent to 67 percent of benefits for a married couple when both members were alive. The official poverty thresholds imply that a widow needs over 75 percent of a couple's income to maintain per pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood. One way to do this would be to provide widows with the option of receiving 75 percent of the benefit the married couple received. This new widow benefit could be capped at the benefit for the average retiree, so as to target the additional resources at low-income widows.

The Washington Post
Friday, January 22, 1999

Archer Signals Willingness to Deal on Social Security

By George Hager
Washington Post Staff Writer

House Republicans sent a conciliatory signal to the White House on Social Security yesterday when House Ways and Means Committee Chairman Bill Archer (R-Tex.) said he would agree to President Clinton's proposal to reserve 62 percent of budget surpluses over the next 15 years while negotiators try to come up with a plan to fix Social Security.

"We will accept the president's offer," said Archer, "and work together within that framework." Archer's panel will take the congressional lead in piecing together Social Security overhaul legislation this year.

Archer's commitment came a day after Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) signaled a similar willingness on the part of Senate Republicans to set aside some 60 percent of forthcoming surpluses to help extend the life of the Social Security trust funds, which are projected to go broke after 2032.

In his Tuesday night State of the Union address, Clinton called on Congress to reserve 62 percent of forthcoming surpluses for Social Security, and to invest up to a quarter of that money in the stock market. Together, the White House said, those two initiatives would extend the life of the trust fund to 2055.

Archer and other Republicans have rejected Clinton's proposal to invest part of the trust funds in the market, calling instead for individual investment accounts. Republicans also disagree with the White House over what to do with the other 40 percent or so of future surpluses, demanding that the money be spent largely on tax cuts, instead of devoting it to Medicare, new retirement investment accounts and spending on defense and domestic projects, as Clinton proposed.

While he moved toward the White House position, Archer did not explicitly embrace the administration proposal that Congress promise to devote to Social Security the dollar amount—$2.7 trillion over 15 years—that represents 62 percent of the administration's projections of the surpluses. That would be key if surpluses turned out to be less than forecast.

The New York Times

FRIDAY, JANUARY 22, 1999

Social Security and the Market

One day after President Clinton proposed shoring up the Social Security system by investing a portion of its assets in the stock market, Alan Greenspan stepped forward to say "Not so fast." It is not often that the notoriously circumspect chairman of the Federal Reserve Board shoots at a major new Administration plan, and his concerns were well taken. As a matter of political reality, both parties appear headed toward investment of Social Security funds in the stock market, either by the system itself or by individual participants. Forced to choose now, we prefer Mr. Clinton's approach to that of the Republicans. But Mr. Greenspan's cautionary comments should be useful in framing the debate.

As most Americans have come to understand, the Social Security system will start to run deficits in the next 15 years, when the baby boomers begin retiring. Various steps can be taken to insure its solvency over the next 75 years, including limiting benefits, extending the age of retirement and raising taxes. But in part because of the astonishing performance of the stock market in the last few years, a consensus has emerged in Congress that some of these steps might not be necessary if some of the system's trust fund, which is generating surpluses at present, is invested in stocks rather than low-yield Treasury securities, as it is now.

Republicans in Congress want to strip away part of the current Social Security tax for use in setting up individual retirement accounts. Some want the entire system supplanted by such a scheme. But individual retirement accounts, while possibly attractive to some beneficiaries, would transform the entire system from a guaranteed government benefit to something that would expose retirees to unacceptable risk. Families of modest means would see a large portion of their meager savings spent on administrative fees of fund managers. Under many of the schemes, disabled people, divorcees and widows who are now guaranteed a benefit would receive far less than they do now. If individual accounts are desirable, they need to be set up outside the Social Security system where they cannot weaken the safety net.

Mr. Greenspan was right to warn that having the Federal Government invest 15 percent of the trust fund in equities carries certain dangers. He is especially worried that Federal overseers will be subjected to political pressures in making investment decisions. But Mr. Greenspan and the Federal Reserve Board are themselves testimony to the ability of Congress to create an administrative body insulated from politics. Even though state and local pension funds have used their assets to boycott South Africa and tobacco stocks, their overarching fiduciary responsibilities have been honored and these funds have protected retirees.

Some idea that harnesses the long-term strength of the stock market will very likely end up as part of any Social Security bailout. But such a momentous proposal will require searching debate over the wisdom of government entry into private markets, and the best mechanism for doing it.

SOCIAL SECURITY
Americans Discuss Social Security

A project funded by The Pew Charitable Trusts

Citizen Voices on the Future of Social Security: What We're Learning and How We're Learning It

Summary of Findings from Americans Discuss Social Security's
10-City Teleconference, 5-City Citizen Forums and 5-City Teleconference

November 25, 1998

PLEASE NOTE: The opinions of participants in the forums and conferences which ADSS has convened do not constitute a scientific sampling of public opinion. The participants are individuals who agree to participate largely because of their interest in the subject. They spend significant periods of time listening to experts discuss the topic, talking with others at their tables and trying to arrive at a consensus on a number of issues and options. The degree of support given to issues and options is merely a "straw vote" by these specific participants and should not be presented as reflective of public opinion. ADSS has commissioned surveys which meet the accepted criteria for public opinion sampling. The results of these surveys can be found at our web site: www.americansdiscuss.org

What is Americans Discuss Social Security?

Americans Discuss Social Security (ADSS) is a two-year, non-partisan effort funded by The Pew Charitable Trusts and headquartered in Washington, DC.

ADSS aims to engage Americans from all walks of life in a nationwide conversation about the future of Social Security, and to provide a framework within which citizens can help lawmakers resolve this issue. ADSS seeks to give all Americans a voice -- a chance to be heard by their elected representatives, by policy-makers and by one another. The project grows out of a very old idea: that an informed, engaged citizenry helps lawmakers and invigorates democracies.

ADSS has launched public engagement activities involving over 30,000 citizens, commissions public opinion surveys, operates an interactive web-site, and develops public education material to help citizens understand this complicated issue. ADSS does not take a position on any issues.

What was the 10-City Teleconference?

On March 21, 1998, ADSS held a unique 10-city interactive video Teleconference called "Making Sense of Social Security." The Teleconference took place simultaneously in: Albuquerque, NM; Boise, ID; Boston, MA; Denver, CO; Detroit, MI; Lexington, KY; Minneapolis/St. Paul, MN; San Francisco, CA; Tallahassee, FL; and Winston-Salem, NC.

Seated at round tables in each city, over 1,000 citizens -- of all ages, incomes, political affiliations, ethnicities, and educational levels -- engaged in lively debate with each other, addressed one another via satellite and shared their values and views about the future of Social Security with President Clinton, Administration officials and Congressional leaders.

"Listen to us: show us that you listen." (voices in unison, Tallahassee, FL)

"Mr. President, will the spirit in which Social Security reform continues be of its original intent -- of the people, for the people and by the people? Thank you." (Jimmie Bonham, Winston-Salem, NC).

On average, across the 10 cities, 56% of participants were male and 44% female; approximately 22% were 18 to 34-years-old, 38% between 35 and 54-years-old; 18% between 55 and 64-years-old, 17% between 65 and 74-years-old and 6% over age 75. Among the participants, 32% were retired and 68% not retired; 24% earned under $30,000/year and 35% earned over $60,000/year. Participants signed-up for the Teleconference in response to media announcements, direct mail and phone outreach.

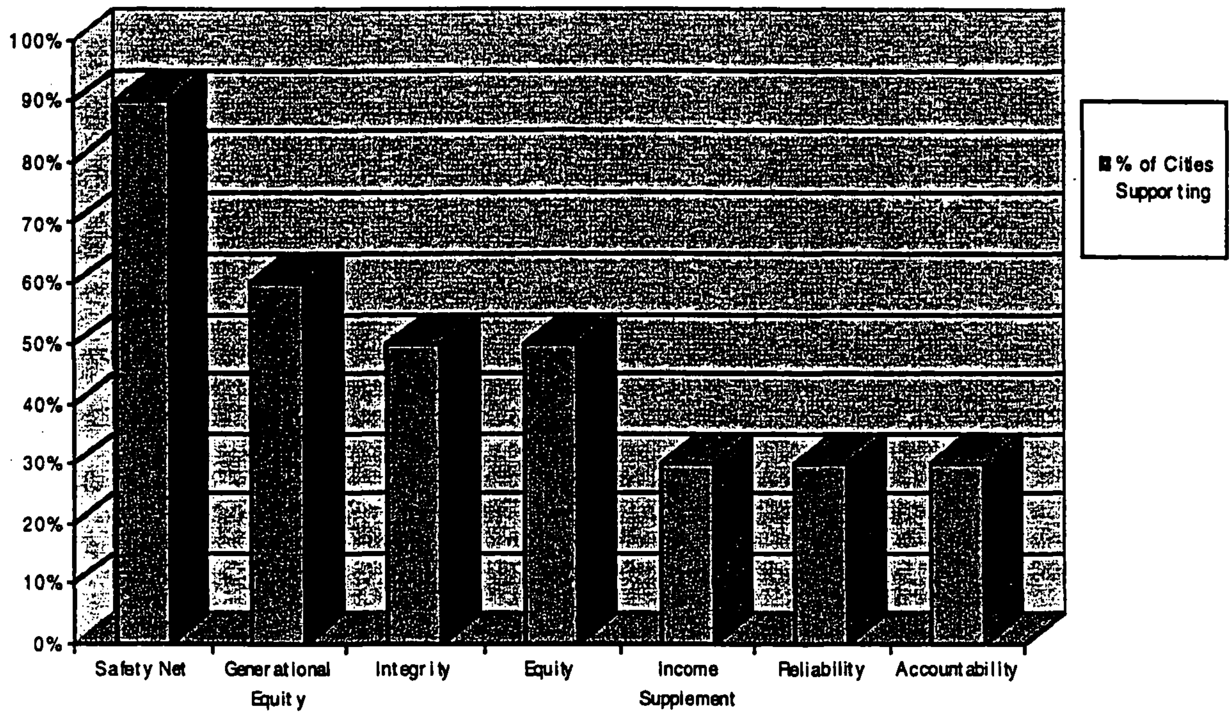
The Internet was, in effect, the 11th city in the 10-city Teleconference. More than 600 people watched the Teleconference on-line and participated in the simultaneous discussion. In addition, the ADSS web site received 6,375 hits that day.

Findings from the Teleconference:

- **Values and principles**

Participants expressed broad support for the program as a safety net -- for the social insurance aspects of the program, particularly the provision of disability and survivor benefits.

Values and Principles Expressed by Teleconference Participants



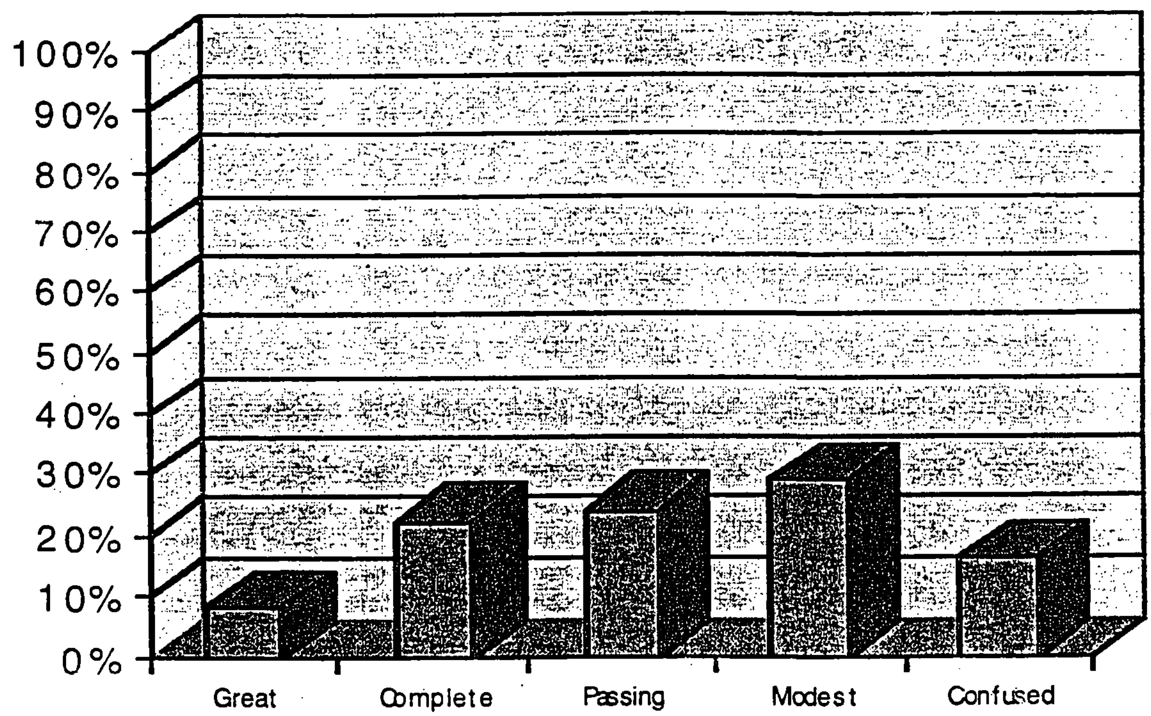
Nine out of ten cities identified "maintaining the safety net" as a top priority. Six out of ten identified "generational equity," and 5 out of 10 identified "preserving the integrity of the system and making sure it is fair and equitable."

"Mr. President, there are about 120 of us here in Boston to talk about Social Security, and the things this group most cares about are that the system maintain a universally dependable safety net and that the intergenerational social contract be maintained. We hope that you will keep these principles in mind, you and the Congress, when you consider changes to Social Security." (Bonnie Jones, Boston, MA).

- **Policy options and the need for more information:**

It is clear that the more people understand the issues, the better they will be able to assess and support specific policy options. Teleconference participants expressed a willingness to consider privatization plans along with other reform options such as raising the limit on taxable wages and increasing the retirement age. However, there is a thirst for more information – about trust fund operations, Social Security's relationship to the federal budget, and private investment, in particular. There is significant support for increased public education, especially for younger people.

Teleconference Participants' Assessment of Their Own Understanding of the Issues



What were the 5-City Citizen Forums?

ADSS conducted Citizen Forums in five cities. In each city, 400-600 people engaged in an informed discussion and challenged each other about the future of Social Security. The Forums had several goals: 1) developing a statement of key values that the participants agreed to be the foundation of the Social Security program in the future; 2) understanding which policy options participants favor and what kind of information they need in order to make more considered choices; and 3) gathering participants' ideas and concerns about Social Security, so these messages could be shared with lawmakers. Forums were held in: Austin, TX (April 18); Buffalo, NY (April 25); Seattle, WA (May 2); Des Moines, IA (May 9) and Phoenix, AZ (May 30).

The Forums combined state-of-the-art interactive technology with one of the great traditions of American democracy: face-to-face discussion and debate. As they talked with each other across round tables, participants also used wireless keypads and laptop computers to register their ideas. Common themes were projected onto large screens for further discussion and large group voting. Comments and quotes were taken from an on-line Internet "chat" happening simultaneously. The combination of discussion and technology allowed for a highly interactive session in which all participants could respond individually to questions, and at strategic moments, see what the entire group is thinking.

The primary goal of the Citizen Forums was to ensure that every participant felt heard, had a chance to hear others and was able to participate in in-depth discussion. Other goals included giving people a sense that they made a significant and positive contribution to the national debate; and sparking their interest in continuing the conversation.

"I hope that Congress acts with the same deliberation that our table acted with...there were a lot of ideas but everyone was very serious about what they were doing...it was good to exchange ideas and see people from small businesses, retired educators, we even had a young person in our group...I caught a sense of urgency from everyone that we've got to fix something." (Pio DeCano, 58, Tacoma, WA).

On average, across the five cities, 52% of participants were male and 48% female; approximately 16% were 18 to 34-years-old, 34% between 35 and 54-years-old; 19% between 55 and 64-years-old, 20% between 65 and 74-years-old and 11% over age 75. Among the participants, 36% were retired, 60% not retired and 4% disabled; 32% earned under approximately $30,000/year, 27% earned between $30,000 and $50,000 annually and 41% earned over approximately $50,000/year. As with the Teleconference, participants signed-up for the Citizen Forums in response to media announcements, direct mail and phone outreach.

Findings from the city forums:

- **Values and principles**

Participants in the five cities said they believe that maintaining the safety net should be the most important value underlying Social Security reform.

"I was very surprised to see how many people still have this extremely strong value of a safety net...I thought there was a lot more selfishness directed toward a change in the system and I think it's not so." (Harvey Grad, 49, Seattle, WA.)

Citizens also agreed that high priority should be given to dignity and independence for seniors; caring for the disabled, survivors and orphans; keeping Social Security dollars in the system and maintaining its financial stability and solvency; and ensuring intergenerational equity.

"Hopefully my voice will be heard and we can ensure that people who have physical and developmental disabilities will continue getting benefits and we won't get lost in the shuffle." (Tammy Lynn, Phoenix, AZ)

"I'm glad the young people are here today. That's the ones we're all really fighting for." (Arlene Marr, 80, Winter Heights, IA).

"Everyone I've met here -- all the seniors -- have been more concerned not about themselves, but about their children and their grandchildren, to make sure Social Security is around for them." (Harvey Young, 22, Buffalo, NY).

- **Policy options and the need for more information**

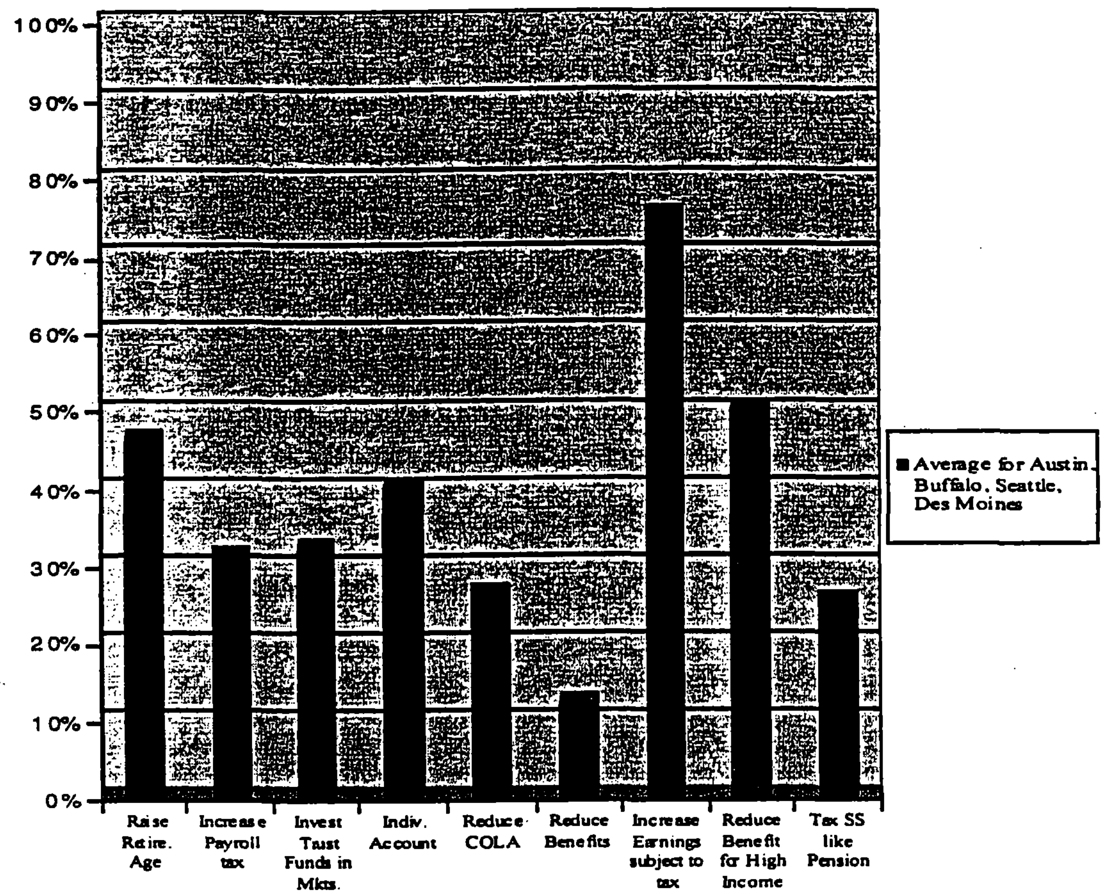
Once participants had an opportunity to explore their own values and hear what their fellow citizens are thinking, nine policy options (derived from a review of current legislative proposals)were offered for consideration. The nine options were: are raising the retirement age; increasing the payroll tax, investment of trust fund assets in the private markets, establishing individual accounts, reducing cost of living adjustments, reducing benefits, raising the amount of earnings subject to the payroll tax, reducing benefits for those whose incomes exceed a certain threshold, and taxing Social Security like a pension.

As was demonstrated in the Teleconference, citizens still need a great deal of information about Social Security in order to make fully considered choices about policy directions. In Des Moines, for example, 43% of participants said they have only a modest understanding or are confused about the issues. Questions remain about use of the trust fund, the implications of privatization, the relationship between Social Security and the rest of the budget, among other subjects.

Given participants' own assessment of their understanding of the issues, it is clear that the options selected at this stage must be considered preliminary choices. However, there was an identifiable coalescing around certain ideas. For example, in the first four cities, citizens gave the most support to raising the taxable earnings cap (an average of 75% of participants across the four cities supported this option) and reducing benefits for those whose income exceeds a certain threshold (average of 50% supporting). Several options had modest support: raising the retirement age (46% supporting), privatization strategies (between 32% and 40% supporting) and increasing payroll taxes (31% supporting). The least-supported option across all four cities was to reduce benefits (an average of 12% of participants supported this option). The other two options that received little support were to reduce the COLA (average of 26% supporting) and to tax benefits like a pension (25% supporting).

In Phoenix, participants were asked to choose options in a slightly different way. Given the alternatives of increasing payroll taxes or reducing benefits, 23% chose the former, 9%the latter, 15% "half of each" and 54% said they needed more information (this could also be interpreted as rejecting the three other choices available). In a similarly posed question, 29% preferred increasing the retirement age, 8% favored reducing the cost-of-living adjustment (COLA), 21% chose half of each while 42% indicated they needed more information. In another set of options, 64% preferred increasing the taxable wage base, currently $68,400, 8% chose reducing the COLA, another 8% selected half of each, and 20% said they needed more information. Privatization options were presented to participants. A quarter preferred privatization as part of the current system, another quarter preferred it as an addition to the current system, 13% want to replace the current system with privatization, while 29% were not in favor of any privatization (8% said they needed more information).

Preliminary Support for Policy Options (In the first four cities)



What Was the 5-City Teleconference?

On October 10, ADSS conducted citizen forums in five cities: Bismarck, North Dakota; Casper, Wyoming; Helena, Montana; Lincoln, Nebraska and Rapid City, South Dakota. The forums began as separate events; later in the sessions, the five cities were linked by two-way satellite television with each other and with a studio in Washington, D.C. The Washington studio itself was linked to another studio in the Capitol, to enable Members of Congress from the respective states to participate.

Approximately 530 individuals participated at the five sites. Thirty percent were between the ages of 35 to 54, 23 percent between 65 and 74. Slightly more than half, 52 percent, were female, 53 percent in the workforce, and 5 percent disabled. Forty-eight percent identified themselves as Democrats and 29 percent as Republicans. Thirty percent had incomes between $25,000 and $50,000; 31 percent, between $50,000 and $100,000.

Maintaining the safety net was the most popular response to the question of what values should guide policymakers as they consider the future of Social Security. Dignity for recipients and reliability of the program were close seconds.

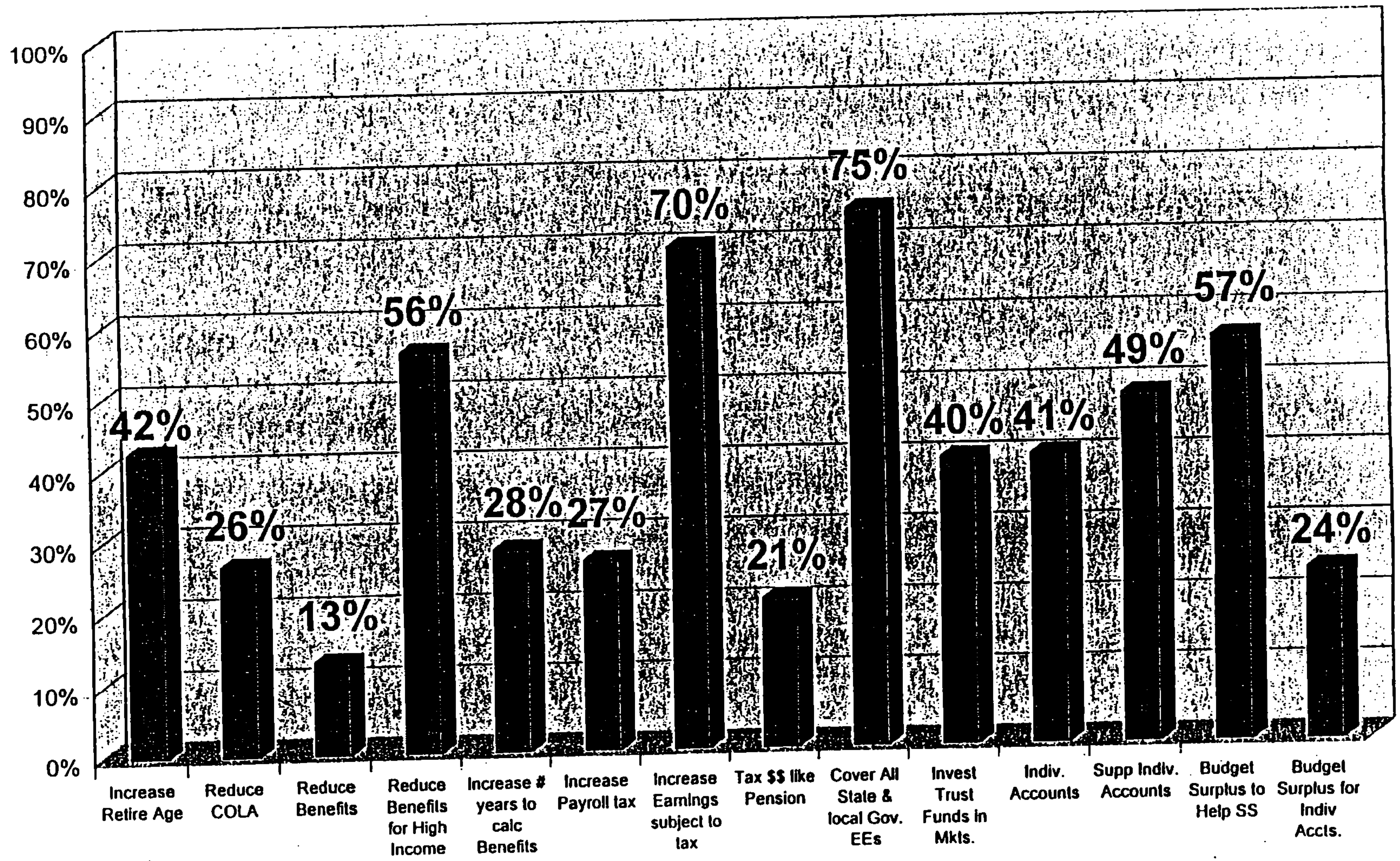
Participants were presented with 14 separate policy options that have been mentioned in the course of debate over Social Security reform. Three-quarters of the participants favored the idea of including all new state and local government employees in the program, while 70 percent supported raising the amount of earnings subject to the payroll tax. Using the federal budget surplus to help Social Security indirectly received the support of 57 percent; reducing benefits for high-income beneficiaries was favored by 56 percent.

Supplementing Social Security with individual accounts appealed to 49 percent while 41 percent favored putting some of the current payroll contribution into individual retirement accounts. Forty percent favor investing the trust funds in the markets.

Increasing the age of eligibility for full benefits drew 42 percent support. Other options, such as reducing the cost-of-living allowance, increasing the payroll tax, taxing Social Security benefits the same way private pensions are taxed, increasing the number of working years to calculate benefits and using the budget surplus for individual accounts, all drew between 20 to 30 percent support. The least popular option, reducing benefits across the board, was favored by just 13 percent.

At a later stage in the sessions, participants were asked to craft their own package of options for solving Social Security's future financial problems (each option carried an indicator of how much it would close the funding "gap"). Raising or eliminating the cap on taxable earnings was included in 81 percent of the packages in the five cities. Covering all new state and local government employees under Social Security turned up in 63 percent of the participants' solutions. Thirty-seven percent of the packages included accelerating the increase in the full-benefits age to 67, 68 or 70. Just over a quarter (26.1 percent) of the plans included reducing benefits for higher income beneficiaries, while just under a quarter (23 percent) would have some portion of the trust funds invested in the stock market. Using the federal budget surplus to help Social Security indirectly was part of 21 percent of the packages; 18 percent included individual accounts, either as part of, or as a supplement to, Social Security.

Preliminary Support for Policy Options (5 City Teleconference)



Research-in-Brief

Social Security Reform and Women: A Factsheet

Social Security is very important for women.
Sixty percent of Social Security beneficiaries are women and Social Security is the major source of retirement income for a majority of these women. Women are heavily reliant on Social Security benefits because of wage and employment discrimination and different patterns of labor force participation. Despite changes in women's workforce participation, these patterns have persisted.

- *Most women do not receive employer-provided pensions.* Only 30 percent of women receive these pension benefits compared to 48 percent of men.[1] This is especially problematic for women of color, who are less likely to have employer-provided pension plans than either white men, white women, or non-white men.

- *Women earn less than men.* Women who work full-time earn less than men who are employed full-time. The average woman college graduate earns little more than the average male high school graduate. Women earn 74 cents for every dollar men earn.

- *Women are less likely to work full-time.* Seventy-four percent of men between the ages of 25-44 were employed full-time for all of 1996, compared to 49 percent of women in that age group.[2]

- *Women are more likely to spend time out of the paid labor force.* Twenty-one percent of women between the ages of 25-44 were not employed in 1996 compared to only 7 percent of men.[3] Many of these women are mothers of young children.

- *Women are more likely to live alone in their retirement years.* Women spend more retirment years living alone, receiving just one Social Security benefit, either their own or a spousal benefit. Retired men are more likely to be married; couples are usually more financially secure because they receive two Social Security benefits, for the husband and wife.

Institute for Women's Policy Research ♦ 1400 20th Street N.W. ♦ Suite 104 ♦ Washington, D.C. ♦ 20036 ♦ (202) 785-5100

The Social Security benefits that women receive are *guaranteed for life.*
Unlike private individual accounts, Social Security benefits are safe, reliable, and guaranteed for life. This protection is especially important for women because of their longer life span.

- *Social Security benefits protect against inflation.* The cost-of-living increases built into Social Security provide an important anti-poverty protection for women. Private investments do not protect against inflation or devalued investments.

- *Women live an average of 7 years longer than men.* Private accounts place women in danger of outliving their accumulated funds. Under private accounts, women could live their most vulnerable years in extreme poverty.

Proposals for Social Security reform must maintain safeguards for women.
Research conducted by the Institute for Women's Policy Research, the General Accounting Office, and others indicate:

- Proposals that reduce guaranteed benefits to make way for individual accounts would disproportionately hurt women--making women more vulnerable to the risk of private investments and poverty if expected returns are not realized.

- Proposals that raise the retirement age to 70 would tend to hurt women who are unable to work while they care for their aging parents, family members, or their retired spouses.

- Widows, divorcees, and women who have never been married--women who tend to have the lowest Social Security benefits today--would receive even lower benefits under many of the proposed changes.

Notes:

1 Pension statistics do not include Social Security benefits. Statistics are from the Department of Labor, Current Population Survey, Sepetember 1994.

2 Based on IWPR calculations from the Current Population Survey for 1996, U.S. Bureau of the Census.

3 Ibid.

---

*The **Institute for Women's Policy Research** (IWPR) is an independent, non-profit, scientific research organization founded in 1987 to meet the need for women-centered, policy-oriented research. This Research-In-Brief is based in part on the IWPR report,* The Impact of Social Security Reform on Women, *by Lois Shaw, Diana Zuckerman, and Heidi Hartmann. This factsheet was updated in November 1998. For information on IWPR membership, call 202/785-5100, fax 202/833-4362, or visit our web site at http://www.iwpr.org.*

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a publication.

Publications have not been scanned in their entirety for the purpose of digitization. To see the full publication please search online or visit the Clinton Presidential Library's Research Room.

The Impact of Social Security Reform on Women

Lois Shaw

Diana Zuckerman

Heidi Hartmann

Institute for Women's Policy Research

NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

1126 16th Street, NW, Washington, DC 20036
Tel: (202) 331-7343, Fax: (202) 331-7406

Women and Social Security - Statement and Checklist

KEEP THE HEART IN SOCIAL SECURITY

Social Security is a woman's issue. Since its inception in 1935, Social Security has often been the only income source keeping women from living out their days in poverty. Today while women's lives have changed, they are still over-represented in the lowest wage jobs and earn only 74 percent of what men earn. Women leave the labor force for an average of 15 percent of their working careers, primarily to fulfill responsibilities as caregivers to their children, spouses, or elderly family members. And, in addition, they live an average of seven years longer than their male counterparts.

Social Security has worked for women because it is a program where every worker pays in, and every retired worker receives a benefit she can count on every month for her entire life, with the added comfort of knowing that benefit will be increased regularly to meet inflation.

Women also greatly benefit because lower earning workers receive a larger proportion of their earnings in benefits than those who earn more. In addition, many women also receive spousal and survivor benefits based on their husband's (or former husband's) earnings record. These benefits protect many retired wives, widows, and divorced women from poverty. Retired workers' minor children also receive benefits.

The Social Security system also provides life and disability insurance that protects workers and their families. Disabled workers receive benefits and children (and the parent who takes care of them) receive benefits when a working parent dies prematurely or becomes disabled before retirement. Two out of five of today's 20 year olds will face premature death or disability before reaching retirement age.

Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts would significantly damage women's retirement income. The returns on individual accounts would be dependent on the risks of volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits, widow's benefits or benefits for divorced spouses—all of which are special features of the current Social Security system. Since Social Security provides the core of women's retirement income, without the guarantees of a shared insurance pool, cost-of-living increases, and spousal and lifetime benefits, many women could easily outlive their assets.

We believe that women must play a significant role in shaping Social Security for future generations. All proposals to address the future solvency of the Social Security Trust Fund must be viewed through the eyes of women and assessed for their impact on women, the majority of Social Security recipients. Remaining inadequacies for women in the current system also must be addressed. If we strengthen the Social Security system so that it works well for women, we will have a system that works well for all Americans.

WOMEN'S CHECKLIST ON SOCIAL SECURITY REFORM

KEEP THE HEART IN SOCIAL SECURITY

Social Security is the heart of our nation's social insurance program, providing universal coverage for workers and their families through the pooling of resources that guarantees benefits to all. Check each reform proposal to see if it meets the women's check test.

DOES THE REFORM PROPOSAL . . .

♥ **CONTINUE TO HELP THOSE WITH LOWER LIFE-TIME EARNINGS, WHO ARE DISPROPORTIONATELY WOMEN?**

Social Security's benefit formula is structured so that the lowest paid workers receive benefits that replace a higher proportion of their pre-retirement earnings than higher-wage workers. Many of the lowest paid workers also have no pensions from their jobs. Any reform must retain this feature benefitting lower-paid workers.

♥ **MAINTAIN FULL COST OF LIVING ADJUSTMENTS?**

Social Security's annual cost-of-living increase (COLA), which is indexed to inflation, is a crucial protection against the erosion of benefits. Because women live longer than men, on average, and rely more on Social Security since they often lack other sources of retirement income, this provision is particularly important to women. Even when employment-based pension income is available, it is rarely inflation-protected.

♥ **PROTECT AND STRENGTHEN BENEFITS FOR WIVES, WIDOWS, AND DIVORCED WOMEN?**

Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation-protected, life-time benefits for the wives of retired workers, widows, and many divorced women, many of whom did not work enough at high enough wages to earn adequate benefits on their own accounts. (Similarly low-earning men married to higher-earning women also have these protections; however, while 63 percent of female Social Security beneficiaries aged 65 and over receive benefits based on their husbands' earning records, only 1.2 percent of male Social Security beneficiaries aged 65 and over receive benefits based on their wives' earning records.)

♥ **PRESERVE DISABILITY AND SURVIVOR BENEFITS?**

Social Security provides benefits to 3 million children and the remaining care-taking parent in the event of the premature death or disability of either working parent. Spouses of disabled workers and the widows (or widowers) of workers who died prematurely also receive guaranteed life-time retirement benefits. Two out of five of today's 20 year olds will face premature death or disability before reaching retirement age.

♥ **PROTECT THE MOST DISADVANTAGED WORKERS FROM "ACROSS-THE-BOARD" BENEFIT CUTS?**

Some proposed "across-the-board" benefit cuts such as raising the retirement age or the number of years of work history used in calculating benefits would disproportionately hurt those with the most physically demanding or stressful jobs who cannot work more years, as well as those who have low life-time earnings, including many women (because they move in and out of the labor force to provide family care), minorities, temporary, seasonal and part-time workers, agricultural workers, and the chronically under and unemployed. These workers are also unlikely to have other employer-provided retirement benefits.

♥ **ENSURE THAT WOMEN'S GUARANTEED BENEFITS ARE NOT REDUCED BY INDIVIDUAL ACCOUNT PLANS THAT ARE SUBJECT TO THE UNCERTAINTIES OF THE STOCK MARKET?**

Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits (including benefits to widows and divorced women), would reduce the retirement income of many women. Without the guarantees of a shared insurance pool, cost-of-living increases, and spousal and lifetime benefits, many women could easily outlive their assets.

♥ **ADDRESS THE CARE-GIVING AND LABOR FORCE EXPERIENCES OF WOMEN?**

The Social Security system is based on marriage and work patterns that have changed. Currently, the benefit formula, which generally helps those with low life-time earnings, also favors those with 35 years of labor force participation, years which many women lack because of family care-giving. Moreover, the effects of sex-based wage discrimination during their working years are not fully offset by the more generous treatment low earners receive. Such issues as divorce, taking time out of the workforce for caregiving, the differences in current benefits between one and two-earner couples, and the inadequacies in benefits for surviving spouses must be considered at the same time that solutions to strengthening the financial soundness of the system are being sought.

♥ **FURTHER REDUCE THE NUMBER OF ELDERLY WOMEN LIVING IN POVERTY?**

Social Security has helped reduce poverty rates for the elderly, from 35 percent in 1959 to less than 11 percent in 1996. In 1995, the poverty rate for all women over the age of 65 was 13.6 percent while the poverty rate among women aged 65 or older who lived alone was 23.6 percent. Without Social Security, the poverty rate for women over 65 would have been an astonishing 52.9 percent. Nevertheless unmarried women still suffer disproportionately; single, divorced, and widowed women aged 65 or older have a poverty rate of 22 percent, compared with 15 percent for unmarried men and 5 percent for women and men in married couples.

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a publication.

Publications have not been scanned in their entirety for the purpose of digitization. To see the full publication please search online or visit the Clinton Presidential Library's Research Room.

Shirley

Social Security

Why Action Should Be Taken Soon

Social Security Advisory Board
July 1998

CENTER ON BUDGET
AND POLICY PRIORITIES

December 15, 1998

SOCIAL SECURITY PLANS THAT REDUCE SOCIAL SECURITY RETIREMENT BENEFITS SUBSTANTIALLY ARE LIKELY TO CUT DISABILITY AND SURVIVORS BENEFITS AS WELL

by Kathy Larin and Robert Greenstein

The Social Security debate now underway has focused primarily on retirement benefits. Much less attention has been paid to how various changes being proposed in the Social Security benefit structure would affect disability and survivors benefits. To assess any Social Security reform plan fully, however, the impact on disability and survivors benefits should be carefully scrutinized.

This issue is particularly important because Social Security reform proposals that entail large reductions in Social Security retirement benefits generally contain substantial reductions in disability and/or survivors benefits as well. This is a result of the Social Security benefit structure, which uses a common benefit structure to determine monthly benefit levels for retirement, survivors and disability benefits alike.

Various proposals now emerging would shift a portion of Social Security payroll tax revenues from the Social Security trust funds to private individual accounts. Under a number of these proposals, beneficiaries would be guaranteed a "defined benefit" from the Social Security trust fund, as under current law, and receive supplemental income from their individual accounts. Such proposals generally entail quite large reductions in Social Security benefits — those benefits must be cut enough to close the current long-term shortfall in Social Security's finances and then reduced further to make up for the loss of the revenues being diverted from the trust funds to individual accounts. For example, diverting two percentage points of the payroll tax to private accounts, as some proposals do, would nearly double the size of the long-term Social Security shortfall and thus substantially deepen the Social Security benefit reductions required to restore long-term solvency to the system. As a result, proposals that shift revenue from the Social Security trust funds to private accounts generally entail large reductions not only in Social Security retirement benefits, but also in Social Security disability and survivors benefits.

Substantial reductions in disability and survivors benefits pose a particular problem. Although the income from individual accounts may make up for the loss of a substantial portion or all of lost Social Security *retirement* benefits for some individuals, depending on how the stock market performs, the individual's investment decisions, and other factors, income from individual accounts can *not* make up for much of the loss of Social Security disability benefits by workers who become disabled well before retirement age or for the loss of survivors benefits by the spouses and dependents of workers who die well before retirement age. The individual accounts of such workers will not have accumulated sufficient assets to make up for the reduction in disability and survivors benefits.

Aggravating this problem and sharpening the impact of the loss of Social Security disability and survivors benefits is the fact that such benefits often involve multiple benefit payments — they entail payments to dependents as well as to the disabled worker or the surviving spouse of a deceased worker. That a death or disabling accident can trigger Social Security benefit payments to *a number* of individuals rather than just to *one* beneficiary makes it even more difficult for the income from a single individual account to compensate for reductions in disability and survivors benefits.

Legislation Based on the NCRP Plan As An Example

To illustrate this problem, we examine legislation introduced by Senators Judd Gregg and John Breaux and Reps. Jim Kolbe and Charles Stenholm (S. 2313 and H.R. 4824). This legislation is based on a Social Security proposal unveiled this spring by the National Commission on Retirement Policy, a panel of Members of Congress and private citizens.[1] Other plans entailing reductions in Social Security retirement benefits also would affect disability and survivors benefits to various degrees, as the box on page ___ explains.

In issuing its plan, the National Commission on Retirement Policy expressed its intention to protect disability benefits from cuts. Subsequent statements by proponents of this legislation also reflect that intent. For example, at the town hall meeting held to discuss Social Security reform in Albuquerque on July 27, 1998, Rep. Kolbe stated, "...our proposal does not touch the disability or the survivors....we keep [disability] intact; it's exactly as it will be."[2]

---

[1] This House bill was originally introduced as H.R. 4256 and then re-introduced as H.R. 4824 to reflect technical corrections and correct some drafting errors in the first bill. S. 2313 was introduced at the same time as H.R. 4256 and does not include these corrections. This analysis assumes the same changes will be made to the Senate bill. The bill numbers for both the House and Senate bills will change when the bills are reintroduced during the next session of Congress.

[2] Social Security has two trust funds, the Old Age and Survivors Insurance trust fund, which funds retirement and survivor benefits, and the Disability Insurance trust fund, which funds disability benefits. Both trust funds are projected to become insolvent in coming decades. Because the two trust funds are essentially fungible, Social Security solvency can be restored by making changes that make the overall system solvent and adjusting accordingly the share of Social Security revenues placed in each trust fund. To restore solvency, it is not necessary to reduce disability benefits by some particular amount or percentage. To the degree that disability benefits are shielded, somewhat larger changes likely would be needed in retirement benefits.

But in drafting the legislation based on this plan, the sponsors of S. 2313 and H.R. 4824 found that despite their strong desire not to cut disability benefits, it was not feasible to institute the large reductions in Social Security retirement benefits their plan entailed without making substantial reductions in disability and survivors benefits as well.[3] The only way the NCRP legislation could have made its reductions in Social Security retirement benefits without substantially reducing disability benefits at the same time would have been through measures that would introduce severe inequities and perverse incentives into the Social Security benefit structure.

The NCRP does contain a mitigating provision — it establishes a minimum benefit that would largely or fully shield from these benefit reductions those disabled workers who earned well-below-average wages during their work-years and were employed for most or all of their adult lives before becoming disabled. This provision also would shield survivors of deceased workers who earned very low wages and were employed most of their adult lives, as well as retirees who earned very low wages during their work years. Due to this provision, some retirees, disabled individuals, and survivors of deceased individuals who earned very low wages before retiring, becoming disabled, or dying actually would receive larger Social Security benefits than under current law.

For disabled workers and survivors who would *not* be affected by the minimum benefit provision, however — a group constituting the majority of beneficiaries of disability and survivor benefits — the benefit cuts would be large. For example, when the legislation took full effect, the Social Security disability benefits provided to an individual who had earned average wages before becoming disabled would be reduced nearly 20 percent, as compared to current law.

---

[3] In theory, the legislation based on the NCRP plan could have left disability and survivors benefits largely untouched. This could have been accomplished by replacing the plan's changes in the Social Security basic benefit formula and in the annual Social Security cost-of-living adjustment with much steeper increases in the age at which workers can retire and receive full Social Security benefits. Raising the age at which beneficiaries can retire and receive full benefits does not affect disability benefit levels or benefits for survivors of workers who die before reaching retirement.

In practice, however, such a change would hold little attraction. The NCRP plan already contains a larger increase in the age at which beneficiaries can retire and receive full benefits than any other major Social Security plan put forward. Of the three rival Social Security plans advanced by members of the 1994-1996 Social Security Advisory Council, the plan that went farthest in raising the age at which individuals can retire and receive full benefits would increase this age from 65 today (and, under current law, 67 starting in 2022) to age 70 by 2083. By contrast, the NCRP plan would raise the age to 70 *by 2029* and to approximately 72½ by 2075. The NCRP also would raise the age at which *early* retirees can begin to receive reduced Social Security benefits from 62 to 65 by 2029 and to approximately 67½ by 2075. Replacing those provisions of the NCRP plan that would result in substantial reductions in disability and survivors benefits with provisions requiring still greater increases in the retirement age would entail raising the age at which workers may retire and receive full benefits to levels significantly higher than those the NCRP plan already proposes.

The legislation includes a provision calling for an expert panel to study and make recommendations concerning possible future changes that could ease the reductions in disability benefits the legislation contains. This panel, however, would face the same dilemmas that led the sponsors of S. 2313 and H.R. 4824 reluctantly to include substantial disability benefit reductions in their bills, since there is no easy solution that eluded the legislation's framers. Moreover, the legislation specifies that any recommendations the panel might make to ease the legislation's disability benefit cuts after the legislation had been enacted would have to be accompanied by recommendations for offsetting reductions elsewhere in the Social Security Disability Insurance program so that disability insurance costs did not rise above the levels to which the legislation had reduced them.

Background or Disability and Survivors Benefits

The Social Security system provides benefits not only to retirees but also to the survivors of workers who die before reaching age 62 and to workers who become disabled before 62 and their dependents.

- Workers who become disabled before they reach retirement, as well as members of these workers' families, are eligible for benefits under the disability insurance program that is part of Social Security.[4]
- Survivors benefits are available to the children of workers who have died before reaching retirement and the spouses of such deceased workers if the spouses are caring for dependent children, are over 60, or are disabled themselves. Survivors benefits also go to spouses and minor children of workers who die after retiring.

In December 1996, disabled workers and their families comprised more than six million people, or nearly 14 percent of all Social Security beneficiaries. An additional 7.4 million beneficiaries, nearly 17 percent of all Social Security beneficiaries, were survivors and their families. Together, these two components of Social Security account for nearly one-third of Social Security beneficiaries — 13 million to 14 million people.

How Disability and Survivors Benefits are Determined

The level of disability or survivors benefits that beneficiaries receive is determined under the same benefit formula as is used to calculate Social Security

[4] To receive Social Security disability benefits, disabled workers must have worked one quarter for each year between the year they turned 21 and the year they become disabled, with a minimum of six quarters of work. They also must have worked 20 of the 40 quarters before becoming disabled if they become disabled after age 31 and half of the quarters between the time they turn 21 and the time they become disabled if they become disabled before turning 31.

retirement benefits. The benefit formula starts with the calculation of a covered worker's "average indexed monthly earnings"; these are the worker's average wages over his or her work career. Wages for each year from the past are indexed by national wage growth to account for wage inflation between the year the worker earned those wages and the year that falls two years before the time the worker becomes eligible for benefits.

For *retirees,* the highest 35 years of wages are indexed in this manner, averaged and divided by 12 to obtain the worker's "average indexed monthly earnings" (known as the worker's AIME). For the *disabled* and *survivors,* a worker's average indexed monthly earnings are calculated using wages for the years between the time the worker turned 21 and the time the worker became disabled or died. For most Social Security beneficiaries, up to five of the years in which the worker had the lowest earnings are disregarded in these calculations.[5]

The worker's average indexed monthly earnings are then used to determine what is known as the worker's "primary insurance amount" or PIA. A worker's monthly Social Security benefit is based on his or her PIA. Specifically, for workers who retire at age 65, for disabled beneficiaries, and for the survivors of workers who die before reaching retirement, the monthly Social Security benefit they receive when they begin drawing benefits *equals* their PIA, rounded down to the next lowest dollar.

The calculation of the primary insurance amount, which determines the monthly benefit, is done in the same fashion *regardless of whether the beneficiary is a retiree, disabled, or a survivor.*[6]

- For a retiree, a disabled worker, or a survivor of a deceased worker who becomes eligible for Social Security benefits in 1998, the PIA — and hence

[5] For survivors, the lowest five years of wages (known as "drop-out years") are disregarded in the calculation of the AIME unless the worker died before working seven full years, in which case all but the two highest wage years are disregarded in the calculation. For the disabled, depending on the age of the worker at the time of disability and the number of years worked, up to five years in which the worker earned the lowest wages are disregarded in the computation of the AIME. (As an example, if a worker who worked since age 21 becomes disabled at 31, the highest eight years of wages are indexed and averaged to determine the worker's AIME, while the two years with the lowest wages are disregarded.) By omitting from the AIME calculation the years in which the worker earned the least, the Social Security benefit structure ensures that workers who were either unemployed for brief periods or left the labor force for a few years to provide child care, attend college, or for other reasons are not penalized.

[6] A disabled worker's benefit is equal to 100 percent of the worker's PIA rounded down to the next dollar. Each dependent of the disabled worker is eligible to receive an additional benefit equal to 50 percent of the worker's PIA. Widows and widowers of deceased workers and minor or disabled children of deceased workers are eligible for a survivor's benefit based on a portion of the deceased worker's PIA. The combined benefits of all beneficiaries in a family (except divorced spouses) cannot exceed a maximum level, or cap.

Table 1
Determination of a Worker's Monthly Benefit Under Current Law, for a Worker Becoming Eligible for Benefits in 1998[7]

Formula using worker's Average Indexed Monthly Earnings (AIME)	Worker with AIME of $972 (Low earner)	Worker with AIME of $2,162 (Average earner)	Worker with AIME of $5,225 (Maximum earner)
90% of first $477	$429.30	$429.30	$429.30
32% of AIME between $477 and $2,875	$158.40	$539.20	$767.36
15% of AIME over $2875			$352.50
Primary Insurance Amount (PIA)	$587.70	$968.50	$1,549.16
Benefit Level[8]	$587.00	$968.00	$1,549.00

[7] Table 1 shows monthly benefit calculations for workers with low earnings, workers with average earnings, and workers with "maximum" earnings. The low earner— the worker with an AIME of $972— has an AIME equal to 45 percent of the average earnings level. The "maximum" earner— the earner with an AIME of $5,225 — has an AIME equal to the maximum earnings subject to the Social Security payroll tax. The earnings levels shown here for low earners and maximum earners are the levels the Social Security Administration uses for illustrative purposes.

[8] The benefit level equals the primary insurance amount rounded down to the next dollar.

the monthly Social Security benefit after rounding to the next lowest dollar — equals 90 percent of the worker's average indexed monthly earnings after rounding to the next lowest dollar *if* the worker's AIME does not exceed $477 a month.

- If the worker's AIME falls between $477 and $2,875 a month, the PIA (and, after rounding down, the monthly Social Security benefit) equals 90 percent of the first $477 of the worker's average indexed monthly earnings, plus 32 percent of the worker's average indexed monthly earnings above $477.
- For workers with AIMEs exceeding $2,875, the PIA (and the monthly Social Security benefit after rounding) equals 90 percent of the first $477 in average indexed monthly earnings, plus 32 percent of the next $2,398 of those earnings (the amount between $477 and $2,875), plus 15 percent of the worker's AIME in excess of $2,875.

Table 1 shows the monthly benefit calculations for three workers with different levels of average indexed monthly earnings. The "low earner" is an earner with an

AIME equal to 45 percent of the average earnings level. A "low earner" retiring in 1998 would have average annual pre-retirement earnings of about $12,250. An average earner retiring this year would have average annual pre-retirement earnings of just under $26,000. A maximum earner is one whose average pre-retirement earnings equal the maximum amount of earnings subject to the Social Security payroll tax. Earnings above this level are neither subject to the payroll tax nor used to calculate an individual's Social Security benefit level.

Provisions of the NCRP Legislation that Affect Disability and Survivors Benefits

Most of the remainder of this paper uses the legislation based on the NCRP proposal, the legislation Senators Gregg and Breaux and Reps. Kolbe and Stenholm have introduced, to illustrate how changes in disability and survivors benefits can be intertwined with changes in Social Security retirement benefits. The major provisions of this legislation that relate to Social Security benefit levels are listed in Table 2. Some of these provisions affect only the retirement portion of Social Security, but others impact disability and survivors benefits as well.

Table 2

Major Social Security Benefit Provisions of H.R. 4824 and S. 2313

Provisions	Effect on Disability and Survivors Benefits
Change the formula for calculating the primary insurance amount	Reduces benefits for most beneficiaries, with a reduction of 18.5 percent for a worker earning average wages before becoming disabled or dying
Minimum benefit provision	Protects the benefits of survivors and disabled workers with low earnings and strong labor force attachment
Modify cost-of-living adjustments so they rise more slowly than the current CPI does	Affects benefits of all beneficiaries, including the disabled and survivors
Reduce the number of "drop-out years" and lengthen the wage averaging period	Reduces survivors benefits
Raise the retirement age	Primarily affects retirement benefits and the benefits of survivors of retired workers
Include state and local employees	No effect

Table 3
Benefit Calculations Under NCRP Legislation and Current Law

Under current law, the monthly benefit equals:	Under H.R. 4824 and S. 2313, when fully phased in, the monthly benefit equals:
90% of first $477 in average indexed monthly earnings, plus	Same
32% of AIME between $477 and $2,875, plus	21.36% of AIME in this bracket, plus
15% of AIME above $2,875	10.01% of AIME in this bracket

Change in Benefit Determination Formula

One of the major provisions of this legislation would alter the way in which retirement, disability, and survivors benefits are calculated. The legislation calls for changing the computation of a worker's monthly benefit by reducing, by the year 2023, the 32 percent bracket in the formula for computing a worker's primary insurance amount to 21.36 percent, and reducing the 15 percent bracket to 10.01 percent. Thus, an individual's monthly benefit would be calculated by taking 90 percent of the first $477 of the worker's AIME (in 1998 dollars), the same percentage as under current law, but 21.36 percent of the worker's AIME between $477 and $2,875 instead of 32 percent of this amount, and 10.01 percent of the worker's AIME over $2,875 instead of 15 percent of that amount. The proposed change is shown in Table 3.

For very low-wage earners — those with average indexed monthly earnings of $477 or less — these changes would have no impact. In fact, very low-wage workers who work most or all years between turning 21 and becoming eligible for benefits would likely receive an increased benefit as a result of the legislation's minimum benefit provision, discussed below in more detail. But for beneficiaries with modestly below-average, average or above-average earnings, as well as for most beneficiaries who earned very low wages but were not employed each year between the time they turned 21 and the time they became eligible for benefits, this change would reduce the monthly Social Security benefit. Because this change in the benefit formula would affect the computation of disability and survivors benefits as well as retirement benefits, it would reduce disability and survivors benefits along with retirement benefits.

For many workers, the impact of this change on disability and survivors benefits would be substantial. An analysis by the Social Security Administration's Chief Actuary shows that this change in the monthly benefit formula would reduce benefits to a disabled Social Security beneficiary who earned average wages, which equal

Table 4

Determination of the Monthly Benefit for an Average-wage Worker Who Becomes Disabled Under H.R. 4824 and S. 2313, When Fully Implemented

Formula Using Worker's Average Indexed Monthly Earnings (AIME)	Average-Wage Worker
90% of first $477	$429.30
21.36% of AIME between $477 and $2,875 (worker's AIME is $2,162)	$359.92
10.01% of AIME over $2,875	$0
Monthly benefit under H.R. 4824 and S. 2313	$789.00
Monthly benefit under current law (see Appendix Table 1)	$968.00
Reduction in monthly benefit	-$179.00
Percentage benefit reduction	-18.5 %

$27,894 in 1998, by 18.5 percent when the formula change was phased in fully.[9] (See Table 4.)

Survivors also would face reduced benefits. Under current law, for example, a 60-year-old surviving widow of an average-wage worker is eligible for a monthly benefit of $692. If H.R. 4824 and S. 2313 were law and fully in effect, such a widow would receive a monthly benefit of $564. This, too, is a reduction of 18.5 percent.

The percentage reduction in benefits would be smaller than 18.5 percent for workers with below-average wages. (And as noted, some very-low wage workers would be shielded entirely from this benefit reduction or receive a benefit increase due to the legislation's minimum benefit provision.) The benefit reduction would be greater than 18.5 percent for those who had earned above-average wages.

Because the primary insurance amount is calculated in the same manner for all Social Security beneficiaries, these percentage reductions in benefits would be the same regardless of whether the beneficiary is a retiree, a disabled worker or a survivor. The dependents of disabled workers and the families of survivors also would be affected, since their Social Security benefits equal a specified percentage of the worker's PIA. A reduction of a given percentage in a worker's PIA would cause the benefits for these dependents to be cut by the same percentage.

---

[9] Social Security Administration, "Impact on Low Earners of Proposals to Address Long-Range Social Security Solvency" unpublished report, 1998.

Proponents of partial privatization plans often argue that reducing the basic guaranteed benefit payable to retirees through the Social Security retirement system will not necessarily reduce retirees' total incomes, because the retirees also will secure retirement income from the savings in their individual accounts. Income from these accounts could offset reductions in Social Security benefits; some beneficiaries would likely come out ahead and others behind, depending on how their investments performed, the costs and fees charged on the accounts, and a number of other factors.[9]

For the disabled and survivors of workers who die before retirement, however, individual accounts generally would fail to bridge the gap between current benefit levels and the benefits available under partial privatization legislation such as

Adults Who Have Been Disabled Since Childhood Would be Affected Most Adversely

One group for whom private accounts are least likely to compensate for the difference between current Social Security benefit levels and the reduced Social Security benefits available under partial privatization plans such as H.R. 4824 and S. 2313 consists of adults who have been disabled since childhood and who become eligible for Social Security when their parents retire, die, or themselves become disabled. "Disabled adult children," as these individuals are known, are eligible for a Social Security benefit equal to a specified percentage of their parent's primary insurance amount.

Both their parents and these disabled adult children would receive lower Social Security benefits under proposals such as H.R. 4824 and S. 2313 than under current law, because of the changes these bills make in determining a beneficiary's primary insurance amount. The parents of these disabled adult children also would accumulate private accounts to supplement their reduced Social Security retirement benefits. (The disabled adult children themselves will have little or no earnings and thus no significant private accounts of their own.) But while the amounts in the parents' private accounts might be sufficient to make up for a substantial portion or all of the reductions in the parents' Social Security benefits, it is unlikely these accounts would make up for the reduction in the benefits of the disabled adult children as well.

As a result, hardship could ensue. Consider, for example, what would occur after the parents of disabled adult children died. By the time of their deaths, many such parents would have largely or entirely depleted their private accounts. That would leave little or no savings to supplement the reduced Social Security benefits upon which their disabled adult children would have to depend for the rest of their lives.

[9] See Kilolo Kijakazi and Robert Greenstein, "How Would Various Social Security Reform Plans Affect Social Security Benefits: An Analysis of the Congressional Research Service Report," Center on Budget and Policy Priorities, September 9, 1998; Peter Diamond, "The Future of Social Security for this Generation and the Next: Proposals Regarding Personal Accounts," Testimony before the Subcommittee on Social Security of the House Committee on Ways and Means, June 18, 1998; and testimony of Henry Aaron before the Senate Committee on the Budget, July 23, 1998.

H.R. 4824 and S. 2313. Workers who become disabled or die at a young age will not have accumulated much in their individual accounts, as they will not have contributed to these accounts for that many years. For many of these individuals and their families, the change that H.R. 4824 and S. 2313 would make in the calculation of the monthly benefit would result in a significant reduction in monthly income compared to what they would receive under current law.[10]

Change in Cost-of-Living Adjustments

These estimates of the percentage amounts by which disability and survivors benefits would fall due to the changes H.R. 4824 and S. 2313 would make in computing the primary insurance amounts do not reflect the full extent of the reductions in disability and survivors benefits that would occur under these bills. Additional benefit reductions would result from other changes the bills would make in determining benefit levels, such as changes in the Social Security cost-of-living adjustment.

Under current law, Social Security benefits rise each year by the percentage increase in the Consumer Price Index. H.R. 4824 and S. 2313 would change this; they would adjust Social Security benefits not by the CPI but by a new "Social Security Consumer Price Index" that the legislation would create. The Social Security CPI would equal the regular CPI *minus* an estimate of the amount of "substitution bias" remaining in the regular CPI.

Substitution bias can occur when consumers substitute lower-cost items for higher-cost items as prices change. For example, if the price of beef increases more than the price of chicken, consumers will tend to purchase less beef and more chicken. Because the CPI measures the change in prices of a fixed "market basket" of goods and services, it assumes the quantities of beef and chicken a typical consumer buys do not change each year. The CPI is adjusted once every 10 years for such changes in purchasing patterns, but this process does not capture changes in purchasing patterns on a year-to-year basis within the 10-year intervals. As a result, the index may overstate inflation to some degree.

H.R. 4824 and S. 2313 would require the Bureau of Labor Statistics, the agency that calculates the CPI, to publish annually the amount by which the CPI has been reduced to correct for substitution bias. BLS also would be required to publish an estimate of the amount of substitution bias remaining in the CPI. Under the legislation, the Social Security CPI would equal the CPI (including whatever corrections the BLS has made in it) minus any substitution bias BLS estimates to remain.

---

[10] Workers who become disabled only shortly before reaching retirement age would have accumulated more in their individual accounts and thus would receive more income from these accounts.

The legislation also contains a related requirement — that in calculating the Social Security CPI, the CPI must be reduced *no less than 0.5 percentage points* to compensate for substitution bias, regardless of BLS' estimate of how much substitution bias remains. In April 1998, BLS announced improvements in the CPI that will reduce substitution bias in the index by 0.2 percentage points when the improvements are incorporated in the index in 1999. BLS plans to make additional changes in 2002 that are expected to reduce substitution bias an additional 0.15 percentage points, for a total reduction of 0.35 percentage points.[11] BLS is not planning any further changes to adjust for substitution bias; it estimates the adjustments now in process will resolve the substitution bias problem. In the absence of further changes, however, the Social Security CPI that the NCRP legislation establishes would be set approximately 0.15 percentage points below the CPI, as corrected by BLS, to secure the minimum 0.5 percentage point reduction for substitution bias the legislation requires.[12]

Over time, the effect of such a downward adjustment each year in the cost-of-living adjustment would be to erode the value of Social Security benefits relative to current law. These benefit reductions would tend to be largest for workers who become disabled well before reaching retirement age, since these beneficiaries typically receive benefits for a greater number of years than retirees do.

The provision's impact on a disabled worker who becomes eligible for Social Security at a relatively young age can be seen with an example. Consider a worker with average indexed monthly earnings of $2,083 (equivalent to average annual earnings of $25,000 in 1998 dollars) who becomes disabled at age 30. Under current law, the worker's benefit is $943 a month when he or she begins to draw it. When fully in effect, the provision of H.R. 4824 and S. 2313 that would change the formula for calculating a worker's primary insurance amount would reduce this benefit to $772 a month, an 18 percent reduction. Now assume that inflation as measured by the CPI

---

[11] Technically, the substitution bias correction scheduled for 2002 cannot be made in the CPI itself because the data needed to make this correction are not available in a manner that allows them to be reflected in the monthly CPI data. As a result, BLS plans to introduce a second cost-of-living index in 2002 that essentially is the CPI as modified to reflect this substitution-bias correction.

[12] A commission charged with evaluating the CPI and chaired by Michael Boskin concluded in 1996 that the CPI was overstated by approximately 1.1 percentage points per year, with substitution bias accounting for 0.4 percentage points of the total. BLS now estimates that substitution bias causes the index to be overstated by 0.35 percentage points. The change to the CPI scheduled for 1999 will eliminate 0.2 percentage points of this bias, and the introduction of a new cost-of-living index in 2002 will eliminate an additional 0.15 percentage points of bias.

BLS periodically reevaluates and makes changes to the CPI. It is unlikely, however, that the BLS will make corrections for substitution bias that total 0.5 percentage points any time soon. As a result, under H.R. 4824 and S. 2313, the annual Social Security cost-of-living adjustments would be smaller than the CPI, which would result in Social Security benefit reductions compared to current law.

Table 5

Potential Impact of Cost-of-Living and PIA Changes in H.R. 4824 and S. 2313 on Disability and Survivors Benefits

Worker with AIME of $2,083 ($25,000 per year) who becomes disabled at age 30		
	Current Law	**H.R. 4824 and S. 2313**
Benefit at age 30	$943	$772
Average annual cost-of-living adjustment	2.5 %	2.35%
Benefit at age 60	$1,978	$1,550

averages 2.5 percent per year for the next 30 years and BLS does not introduce additional changes to the CPI to reduce substitution bias, beyond the 0.35 percentage point reductions already scheduled. Under the legislation, the worker's benefit would be raised an average of 2.35 percent per year to compensate for inflation rather than 2.5 percent, because the Social Security cost-of-living adjustment would equal the regular CPI minus 0.15 percentage points. By age 60, this would reduce the worker's benefit an additional four percent, bringing the total reduction in Social Security disability benefits paid at age 60 to 22 percent, compared to the benefit payable under current law. Instead of receiving a disability benefit of $1,978 per month at age 60 as under current law, the disabled worker would receive $1,550. (See Table 5.)

Another Change Affecting Survivors Benefits

H.R. 4824 and S. 2313 include another provision that would lower the Social Security benefits of many survivors, although it would not affect the disabled. Under current law, the five years of a beneficiary's lowest earnings are omitted from the calculation of the beneficiary's average indexed monthly earnings. (In Social Security parlance, these are termed "drop-out years.") Under H.R. 4824 and S. 2313, by contrast, the five lowest years of earnings would be counted rather than dropped when computing retirement and survivors benefits. No similar change would be make in computing disability benefits.[11]

[11] Currently, when figuring retirement benefits, the amounts a worker has earned in his or her 35 highest earnings years are indexed, added, and divided by 420 (which equals 35 years times 12 months) to determine the worker's average indexed monthly earnings. Under H.R. 4824 and S. 2313, *all* of a worker's earnings years would be totaled and then divided by 480 (which equals 40 years times 12 months).

For one group of retirees and survivors of retirees, this change could *raise* average indexed monthly earnings and hence Social Security benefits. These are retired workers, and survivors of retired

(continued...)

Most workers do not have the same earnings each year of their working lives; they have low earnings when they are young and higher earnings when they are older. More than 60 percent of workers take at least one year out to raise children, attend school, or for some other reason, and have zero earnings for one or more years. The provision of current law disregarding the five lowest earning years helps these workers. Including rather than disregarding these five years, as H.R. 4824 and S. 2313 would do, would lower average indexed monthly earnings — and hence monthly Social Security benefits — for many retirees and survivors of deceased workers.

Other proposals to reform Social Security that either reduce the number of drop-out years or average the highest 38 years of earnings when computing retirement benefits, rather than the highest 35 years as under current law, also would lower workers' AIMEs and reduce their benefits. For example, the Social Security plan that Robert Ball has developed would calculate the AIME for retirees using their highest 38 years of earnings. This provision of the Ball plan would reduce benefits modestly for most retirees and most survivors of workers who died after reaching retirement age. Because the Ball plan does not reduce the number of drop-out years, however, this aspect of it should not affect the benefits of the disabled or of survivors of workers who die before reaching retirement age (with the exception of some individuals who become disabled very close to retirement age and some survivors of workers who die very close to retirement age).[13]

Minimum Benefit Provision

Although the majority of disabled and survivor beneficiaries would receive reduced benefits under H.R. 4824 and S. 2313, not all beneficiaries would face cuts. Workers with very low earnings and strong labor force attachment would be protected by a provision in the legislation that provides a guaranteed minimum benefit. This

---

[11] (...continued)
workers, who began working and earning significant wages before age 21 and who worked most or all of the year in nearly every year until they retired. For these workers, more than 40 years of earnings would be totaled when figuring their AIME, but these total earnings would be divided by 40 years times 12 months, rather than by the actual number of years the individual had worked times 12 months. For some of these workers, this would result in a higher AIME, and hence higher benefits, than under current law. The majority of beneficiaries of Social Security retirement and survivors benefits, however, would not benefit from this change and would face lower benefits as a result of inclusion of their lowest-earning years in the benefit computation.

[13] In addition to the provisions of H.R. 4824 and S. 2313 discussed here, provisions of these bills and of various other Social Security plans that would raise the age at which full Social Security benefits are paid could affect the benefits of some individuals who become unable to work shortly before reaching that age but are not sufficiently disabled at that point to meet the rather stringent Social Security disability test.

How Other Social Security Plans Would Affect Disability and Survivors Benefits

Other Social Security plans that have been proposed also would affect disability and survivors benefits, although they generally would do so to a lesser degree than H.R. 4824 and S. 2313. For example, the plan introduced by Senators Daniel Patrick Moynihan and Bob Kerrey makes considerably larger reductions in the Social Security cost-of-living adjustment than do H.R. 4824 and S. 2313. Under the Moynihan-Kerrey plan, Social Security benefits would be adjusted each year by the CPI minus one full percentage point. Since disabled beneficiaries and the survivors of workers who die well before retirement age often receive benefits for a longer number of years than retirees do, this reduction in the cost-of-living adjustment would reduce their benefits substantially.

At the same time, the Moynihan-Kerrey plan does *not* contain the change in the basic Social Security benefit formula (i.e., the changes in how the primary insurance amount is calculated) that H.R. 4824 and S. 2313 include. As a result, the*overall* reduction in disability and survivors benefits is smaller under the Moynihan-Kerrey plan than under H.R. 4824 and S. 2313. The Moynihan-Kerrey plan does not need as large Social Security benefit reductions as H.R. 4824 and S. 2313 do because, over time, it diverts much less payroll tax revenue from the Social Security trust funds to individual accounts than H.R. 4824 and S. 2313.

A third plan, fashioned by former Social Security Commissioner Robert Ball, would result in small effects on disability and survivor benefits. The Ball plan modestly lowers the cost-of-living adjustment by requiring the Bureau of Labor Statistics to update every three years, rather than every 10 years, the market basket of goods and services on which the CPI is based. The expected impact of this aspect of the Ball plan on the Social Security cost-of-living adjustment would about the same as the expected impact of the cost-of-living provision of H.R. 4824 and S. 2313. The Ball plan contains no other provisions that have substantial effects on disability or survivors benefits. (The Ball plan contains much smaller Social Security benefit reductions than the Moynihan-Kerrey or NCRP proposals both because it does not divert any trust fund revenues to individual accounts and because it closes a little more than half of the 75-year Social Security financing gap by investing up to half of Social Security reserves in the equities markets and securing higher returns for the Social Security trust funds through this mechanism.)

Another plan that could affect disability and survivors benefits is a plan that Senator Phil Gramm has developed but not yet formally introduced. The Office of the Chief Actuary of the Social Security Administration has analyzed the Gramm plan, which is derived from a proposal by Harvard economist Martin Feldstein. The actuaries found that the revenue the Gramm plan allocates for Social Security disability benefits and benefits for survivors of workers who die before reaching retirement age would be insufficient. The amount that the plan allocates for these benefits is only about two-thirds of the amount the actuaries estimate would be needed to finance these benefits.[12] The consequences of this shortfall are unclear, but the shortfall would appear to place disability and survivors benefits at some risk unless a future Congress were willing to redirect some of the resources going into individual accounts back to the Social Security trust funds or to raise Social Security payroll taxes, the Social Security disability insurance program would face a financial cruch that could lead to significant reductions in it.

[12] Memorandum from Stephen C. Goss, Deputy Chief Actuary, Social Security Administration, "Considerations in Evaluating the 'Social Security Preservation Act' Proposed by Senator Phil Gramm," April 27, 1998.

provision would protect some retired, disabled and survivor beneficiaries from part or all of the benefit reductions they otherwise would face under this legislation.

Under this provision, workers who become eligible for Social Security benefits after working a minimum of *two* quarters each year between the year in which they turn 21 and the year they become disabled or die are guaranteed a minimum Social Security benefit equal to at least 60 percent of the 1996 poverty line for a single individual, adjusted for inflation. In 1998, this would equal a monthly benefit of $400. A worker who has worked *four* quarters each year between turning 21 and the year he or she becomes disabled or dies would be guaranteed a minimum benefit equal to 100 percent of the 1996 poverty line for a single individual, as adjusted for inflation. [14] (The 1996 poverty line for a single individual would be adjusted by the Social Security CPI each year through 2009, and by average wage growth in years after that, to determine the poverty line figure used in computing a beneficiary's minimum benefit. [15])

This provision would have a substantial impact on the benefits available to workers who earned very low wages and had strong labor force attachment. If the provision were in effect today, a worker who earned low wages before becoming disabled and who qualified for a minimum benefit equal to 100 percent of the poverty line would be guaranteed a minimum benefit of $666 a month in 1998. This equals the monthly benefit level that a worker who has earned an average of $14,600 per year before becoming disabled would receive under current law.

As a result, workers who worked four quarters each year between age 21 and the onset of their disability and who earned average wages of less than $14,600 would

[14] The minimum benefit provision also applies to retirees. Retirees would be eligible for a minimum benefit equal to 60 percent of the poverty line if they had worked at least 20 years and to a minimum benefit equal to 100 percent of the poverty line if they had worked at least 40 years. For retirees, the disabled, and survivors alike, once the benefit level of an individual receiving the minimum benefit has initially been set, the benefit would be adjusted for inflation in subsequent years by the Social Security CPI, just as all other Social Security benefits would be.

[15] Between enactment of the legislation and 2009, the minimum benefit would equal modestly less than 60 percent to 100 percent of the poverty line, due to use of the Social Security CPI rather than the regular CPI to adjust the 1996 poverty line for a single individual. The Census Bureau adjusts the poverty line each year in accordance with the regular CPI; the Social Security CPI would rise more slowly than the regular CPI. After 2009, the poverty line figure used to calculate the minimum benefit would be adjusted by average wage growth, rather than by the Social Security CPI. Average wages are expected to rise somewhat faster than the regular CPI since they generally have done so in the past. This means that the minimum benefit eventually would be set somewhat higher than 60 percent to 100 percent of the poverty line.

receive higher benefits than under current law.[16] The same would be true for survivors of deceased workers who had a strong labor force attachment and earned average wages of less than $14,600.[17]

This provision would not benefit low earners with substantial periods out of the labor market before becoming disabled or dying, such as some women who lose some years of employment due to child-rearing or some individuals who experience a prolonged period of unemployment due to an economic downturn and become disabled or die fairly soon thereafter.

Finding a Solution: No Easy Answers

In theory, the disability and survivors benefits of most disabled and survivor beneficiaries (including those not shielded by the proposed minimum benefit) could largely be protected from benefit cuts when Social Security retirement benefits are reduced. This could be done by exempting the calculation of survivors and disability benefits from the various changes in the formulas used to calculate Social Security retirement benefits.

In practice, however, using different formulas to calculate Social Security disability and survivors benefits from the formula used to calculate retiree benefits would lead to a highly inequitable distribution of benefits. Under current law, benefits are directly related to a worker's past wages. Most workers who do not collect Social Security until retirement receive a higher monthly benefit than do disabled and survivor beneficiaries, since workers who do not collect benefits until retirement have spent more years in the labor market and typically have seen their earnings rise over time. This would no longer be true if disability and survivors benefits were held harmless while retirement benefits were reduced substantially. If that occurred, a disabled beneficiary could receive substantially higher benefits than a retiree.

For example, if changes are made to the calculation of retirement benefits but disability and survivors benefits continue to be calculated as under current law, a worker who becomes disabled at age 61 would retire with unreduced Social Security

---

[16] Under Social Security law, a worker does not have to work every quarter of the year to receive credit for four quarters of work for the year. A worker who earns $700 in a year is credited with one quarter of work. A worker who earns at least $2,800 in the year is credited with four quarters for that year. These earnings levels are indexed for inflation.

[17] The minimum benefit provision of the NCRP plan also flattens Social Security benefits across the lower part of the wage scale. Workers who had enough quarters of work to receive the minimum benefit and whose average indexed earnings over their work careers were between $2,760 and $19,000 on an annual basis (measured in 1998 dollars) would all receive the same Social Security benefit level.

Implications of Individual Account Plans for the Financing of Benefits for Disabled Workers

The benefits of disabled workers are financed through the Social Security Disability Insurance (DI) trust fund only until workers reach the age of 65. At that point, although the workers' benefit levels remain unchanged, their benefits are financed through Social Security's other trust fund, the Old Age and Survivors Insurance (OASI) trust fund. Any Social Security reform plan that replaces some portion of Social Security retirement benefits with private accounts must take this into consideration, as the Social Security benefits of disabled workers who reach retirement age will still have to be financed through the OASI trust fund. Such a plan must provide adequate resources for the OASI trust fund to fulfill this task. This matter is of particular importance because the individual accounts of workers who become disabled well before retirement age will not have accumulated sufficient funds to provide much supplemental income.

benefits while also having accumulated a significant individual account from which to draw supplementary income. Meanwhile, a worker with a similar earnings history who retired at age 65 could have a similar-size individual account but sharply reduced Social Security retirement benefits. The two beneficiaries would have very different total benefit packages, even though both left the labor market within a few years of each other. Such an inequitable structure could prompt a significant number of individuals to leave work earlier and attempt to claim disability benefits.

At the same time, if the disability benefit calculation is *not* held harmless while benefit changes such as those in H.R. 4824 and S. 2313 are made, a worker who becomes disabled at a relatively young age would not have much of an individual account to draw upon and could face sharply reduced overall benefits.

In short, changing the calculation of Social Security retirement benefits in the manner that H.R. 4824 and S.2313 do either would result in large reductions in Social Security benefits — and overall income — for many disabled beneficiaries and survivors or would introduce substantial new inequities into the Social Security system.

The drafters of the legislation based on the NCRP plan recognized these complexities. They included a provision in their bills that would allow for later changes to be made in the disability insurance program. Under this provision, the Social Security Board of Trustees, in consultation with the National Council on Disability, would be required to submit to Congress and the President recommendations for statutory adjustments in the disability insurance program by May 31, 2001. H.R. 4824 and S. 2313 state that these recommendations may address such issues as the adequacy of benefits, the relationship of disability benefits to retirement benefits, and the process for determining initial eligibility and continued eligibility for the disability program. If the President approved the recommendations, the President would submit them to Congress for consideration. The bill specifies procedures for resolving differences between the President and the Board if the President does not approve the Board's recommendations. It also requires that the recommendations be provided to Congress within a specified period of time if the Board and the President continue to disagree.

While this provision establishes a mechanism for consideration of possible changes in disability benefits, the fact remains that the disability benefits these bills would write into law would represent substantial reductions from the benefits that current law provides. It would take enactment of subsequent legislation to reverse these reductions.

Moreover, any recommendations to improve disability benefits submitted through this process would have to be made "...without reducing the balance ratio of the Federal Disability Insurance Trust Fund." This means the total cost of the Social Security Disability Insurance program could not increase. Any increases in restorations in Social Security disability benefits for some beneficiaries would have to be matched by offsetting reductions in Social Security disability benefits for other beneficiaries.

In addition, the Social Security trustees and other individuals who would be charged with considering and making recommendations regarding possible changes in disability benefits would face the same dilemma that the authors of H.R. 4824 and S. 2313 confronted; were it possible to shield disability benefits from the large cuts H.R. 4824 and S. 2313 make without introducing serious inequities and perverse incentives into the Social Security system, the authors of these bills would have done so. As the original NCRP report indicated, it was NCRP's goal to avoid such reductions in disability benefits. For these reasons, the provision of H.R. 4824 and S. 2313 calling for the submission of recommendations regarding disability benefits cannot be regarded as a safety clause that would ensure cuts in disability benefits are restored.

Finally, this provision would apply only to disability benefits. The legislation does not contain a similar provision establishing a mechanism for developing recommendations to ease the reductions in Social Security benefits provided to survivors of workers who have died before retiring.

Conclusion

Under the Social Security benefit structure, the formulas used to determine disability and survivors benefits are intertwined with the formula for determining retirement benefits. If Social Security retirement benefits are reduced substantially, as they generally would be under plans that shift a portion of payroll tax revenues from the Social Security trust funds to individual accounts, disability and survivors benefits are likely to be reduced substantially as well.

The legislation based on the proposal developed by the National Commission on Retirement Policy illustrates this problem. Commission members intended and desired that disability benefits not be reduced as a result of their plan. But despite their efforts and intentions, they were unable to fashion their plan in a manner that would avert substantial reductions in the basic monthly benefits on which many disabled workers and survivors of deceased workers depend.

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a publication.

Publications have not been scanned in their entirety for the purpose of digitization. To see the full publication please search online or visit the Clinton Presidential Library's Research Room.

December 15, 1998

THE FELDSTEIN SOCIAL SECURITY PLAN

by Robert Greenstein, Wendell Primus, and Kilolo Kijakazi

Introduction and Overview

Increasing attention is being paid to a Social Security proposal developed by Martin Feldstein, a Harvard economist and former chairman of the Council of Economic Advisers under President Reagan. The Feldstein plan is generally presented as a painless way to restore Social Security solvency without any reductions in the level of benefits the current benefit structure promises, with no tax increases, and, in fact, with almost all retirees receiving *greater* retirement income than under current law. When something appears too good to be true, it usually is. This adage holds for the Feldstein proposal.

While proponents of the plan claim it would restore long-term Social Security solvency with no pain, analyses of the plan — including analyses by the Congressional Budget Office and the Office of the Chief Actuary at the Social Security Administration — show otherwise. The Social Security system faces insolvency because the system has promised more in benefits than it will collect in revenues. The Feldstein plan promises *more* in retirement benefits than current law would provide but collects no more revenue to cover the added costs. The Feldstein plan would devote much of the surplus projected in the unified budget to finance the increases the plan would provide in retirement benefits. These surpluses, however, are uncertain in magnitude, are not expected to last for more than about two decades, and have other claims on them. When the surpluses wane, major new financing would have to be found. That would entail cutting other parts of the federal government heavily, imposing large tax increases, or borrowing substantial sums and swelling the already-large budget deficits that CBO forecasts will return when the baby boom generation has retired. The Social Security actuaries project that in the absence of budget cuts or tax increases to pay for the plan, *the Feldstein proposal would reduce budget surpluses and then increase deficits by $6.4 trillion over the next 25 years.*[1]

The Feldstein plan essentially poses as a "free lunch" entailing no tough choices. This appearance, however, is deceptive. The plan leaves a gaping hole in financing that future Congresses would have to address. The plan is reminiscent in this respect of the

[1] Memorandum from Stephen C. Goss, Deputy Chief Actuary, Social Security Administration, "Long-Range OASDI Financial Effects of Clawback Proposal for Privatized Individual Accounts - INFORMATION," December 3, 1998.

DO NOT CIRCULATE

December 3, 1998

SOCIAL SECURITY ISSUES FACING THE ADMINISTRATION

The most important domestic policy debate of the next two years is the debate over Social Security. The decisions made will have profound effects on American life for decades to come.

Democrats are rightly proud of Social Security and their role in creating, expanding, and defending it. While many government endeavors yield mixed results and fall short of expectations, Social Security has been a spectacular success.

- The latest Census data show that without Social Security, 48 percent of elderly Americans would have been below the poverty line in 1997; Social Security alone lowered their poverty rate from 48 percent to 12 percent.

- Nine of every 10 elderly people lifted from poverty by government programs are lifted out by Social Security. Nearly two-thirds of Americans of all ages lifted from poverty by government programs are lifted out by Social Security. In other words, Social Security reduces poverty among the general population nearly twice as much as all other government programs combined.

Social Security is the elderly's main income source. Two-thirds of the elderly rely on it for more than half of their income. Elderly African Americans rely on Social Security for 76 percent of their income. Elderly Hispanics receive 87 percent of their income from it.

Social Security also is critical for disabled workers and their families and for the families of workers who die before retirement. Nearly one of every three Social Security beneficiaries receives disability or survivors benefits. This includes large number of children of workers who have become disabled or died before reaching retirement.

Social Security now faces a long-term financing problem. Although it can pay full benefits until 2032, it can pay only 70 percent to 75 percent of benefits (rather than 100 percent) after that.

There is little question among experts that this long-term imbalance can be closed without radical program changes. The imbalance can be closed without severe benefit cuts or large tax increases and without converting part of Social Security to individual accounts. Experts such as Robert Reischauer and Henry Aaron of Brookings, as well as former Social Security commissioner Robert Ball, have designed plans to restore long-term balance without deep benefit cuts or tax increases and without converting part of Social Security to private accounts. Rep. Earl Pomeroy plans to introduce legislation based on the Ball plan in January, possibly with House Democratic leadership backing. Given the enormous success of Social Security, those who wish to make more radical changes in it bear a large burden in demonstrating why such changes ought to be made.

The Question of Individual Accounts

The most critical question is whether to replace part of Social Security with individual accounts. (Some proposals, including the Ball plan and the forthcoming Pomeroy bill, offer voluntary individual accounts *on top of* the Social Security structure but do not replace part of Social Security with individual accounts.) Proposals that replace part of Social Security with individual accounts have several troubling consequences.

Effects of these Proposals on Social Security Benefits

The Social Security trustees estimate that Social Security's funding shortfall equals 2.19 percent of taxable payroll over the next 75 years. Proposals such as the Reischauer/Aaron plan and the Ball plan would shrink this shortfall by slightly more than half by investing a portion of Social Security trust fund reserves in financial markets so these reserves can earn a higher rate of return. Such a step leaves a need for modest benefit and revenue adjustments equaling about *one percent* of taxable payroll over the next 75 years.

Compare this to the depth of the reductions in Social Security benefits required under one of the most painstakingly designed partial privatization proposals — a bill developed by a private panel known as the National Commission on Retirement Policy (NCRP) and introduced by Senators Gregg and Breaux and Reps. Kolbe and Stenholm, all of whom served on the panel. The proposal shifts two percentage points of the Social Security payroll tax from the Social Security trust funds to individual accounts. By removing these payroll tax revenues from the trust funds, the plan deepens the shortfall in the trust funds from 2.19 percent of payroll to about *four percent* of payroll. As a result, the plan necessitates steep reductions in Social Security benefits to close this financing gap (reductions several times deeper than those required under the type of plan that Reischauer and Aaron, and Ball, have fashioned).

According to estimates by the Social Security actuaries, an average wage-earner who retires in 2025 would face a 33 percent Social Security benefit reduction under the NCRP plan, compared to the Social Security benefits the retiree would receive under current law. An average wage-earner retiring in 2070 would face a 48 percent Social Security benefit cut. The NCRP plan includes a wide array of benefit cuts.

- It would raise the "normal retirement age" — now 65 and scheduled to rise to 67 by 2022 — to 70 by 2029 and 72½ by 2075. The *early* Social Security retirement age — the age at which individuals can retire and begin drawing reduced Social Security benefits — would rise from 62 today to 65 by 2029 and 67½ by 2075.

- The plan would cut Social Security disability benefits nearly 20 percent for an average wage-earner who becomes disabled and for survivors of average wage-earners who die before retirement. These reductions are particularly serious since people who die or become disabled at a relatively young age will not have had time to accumulate much in their individual accounts.

- The plan would reduce Social Security spousal benefits one-third. It also would set the annual cost-of-living adjustment below the CPI.

To be sure, beneficiaries would receive income from their individual accounts to supplement their Social Security benefits. For some beneficiaries, this might offset the Social Security benefit reductions. But that would not be the case for other beneficiaries.

How much a beneficiary would receive from his or her individual account would be uncertain. While Social Security provides a "defined" — or guaranteed — benefit, individual accounts are "defined contribution" plans in which the income the accounts generate is *not* guaranteed and is subject to market risk. How much income an individual would receive from an account would depend on how the markets performed and how lucky or wise the individual was in his or her investments, as well as on what portion of the account was consumed by administrative and management fees.

Of note here is work by Gary Burtless of Brookings. He examined what would have happened to average male wage-earners of different ages who established individual accounts, contributed the same percentage of their earnings to these accounts, and made identical investments in indexed funds. He found that an individual reaching retirement age and converting his or her account to an annuity in 1975 — a year when the market was down — would have received a monthly annuity for the rest of his or her life *less than two-fifths as large* as the monthly annuity check an individual who reached retirement age and retired six years earlier, in 1969, would have received. Similarly, a retired worker who feared the market would keep falling and converted a retirement account invested in equities to an annuity or a savings account on August 31, 1998 would have lost 21 percent of his or her retirement income from the account, compared to the income the worker would have received if he or she had converted the account to an annuity just six weeks earlier. Steps can be taken to lessen the effects of market swings such as these on income from individual accounts, but the fact remains that under individual accounts, those who retire and convert their accounts to annuities during bear markets will have significantly less to live on than those fortunate enough to do so during bull markets.

A related concern is the potential for millions of Americans who are not sophisticated in investing to make unwise investment choices. SEC chair Arthur Levitt recently wrote that "more than half of all Americans do not know the difference between a stock and a bond; only 12 percent know the difference between a load and no-load mutual fund; only 16 percent say they have a clear understanding of what an Individual Retirement Account is...." Levitt raised strong concerns about converting part of Social Security to individual accounts when public knowledge of investment basics is so limited.

Effects on Women

Individual accounts also raise other questions. For example, under Social Security, a divorced woman can receive Social Security spousal benefits if she was married at least 10 years, is 62 or over, and has not remarried. After her ex-spouse dies, she and her minor children by the ex-spouse can receive survivor benefits. The amounts she receives do *not* reduce the benefits the ex-spouse himself, and his current spouse if he has remarried, can receive. By contrast, an individual account would not grow larger to cover more beneficiaries in the event of divorce, death, or disability; *there would be no more money to go around.* Any amounts taken from an individual account — for instance for a divorced spouse — would reduce the amount remaining in the account for other beneficiaries. This poses risks for divorced women.

Individual accounts also pose risks for women who spend a number of years out of the labor force raising children or performing unpaid work in a school, church, hospital, or other setting. Social Security pays a spousal benefit to lower-earning spouses who would not otherwise receive a significant benefit based on their own earnings records. But an individual account does not enlarge to pay spousal benefits; it is limited to what the contributions to the account from a worker's earnings will support.

Widows could face substantial risks as well. Suppose workers are not required to convert their individual accounts to annuities when they retire; some workers could spend most or all of the funds in their accounts by the time they die, with little remaining in the accounts for spouses who outlive them. To address this problem, workers could be *required* to purchase annuities. But such a requirement could be hard to sustain politically over time. Can workers who retire during a bear market really be required to annuitize? How about workers who are terminally ill when they retire?

By contrast, Social Security benefits never run out before a widow dies. In addition, Social Security benefits are fully indexed for inflation no matter how long one lives; this is a feature that few private annuities now offer. If Social Security is partially replaced by private annuities that do not provide automatic inflation protection, the consequences could be severe for widows who live to a very old age and have little or no income other than Social Security. Even if inflation were just 2.5 percent per year, the value of an unidexed annuity would fall *43 percent* between the time a worker retired at age 62 and the time he or she reached age 85.

Finally, individual accounts pose dangers for low-wage workers. The benefits that Social Security provides to a low-wage worker equal a much higher percentage of such a worker's pre-retirement earnings than the benefits that Social Security pays to a high-wage worker equal of that worker's earnings. Individual accounts generally provide no such redistribution to low-wage workers, or, for that matter, to widows, divorced women, low-earning spouses, disabled workers, or children who are the dependents of disabled or deceased workers.

Administrative Complexities and Costs

Another problem with individual accounts is that they could be difficult to administer, especially for small businesses. A new report from the respected Employee Benefit Research Institute (EBRI) cautions that establishing and administering individual accounts for 148 million American workers "could be the largest undertaking in the history of the U.S. financial market, and no system to date has the capacity to administer such a system." EBRI also warned that individual accounts cannot be administered like 401(k) plans, with contributions made each pay period through payroll deductions, without adding significant employer burdens, especially on the small-business sector.

Moreover, substantial sums in the individual accounts would be consumed by administrative costs and hence would not be available to provide retirement income. Annual fees on stock mutual funds now average 1.2 percent; a one percent annual charge on an individual account (the amount the Social Security Advisory Council estimated it would cost to administer privately managed accounts) would consume approximately 20 percent of the funds in the account over a 40-year work career. While there are ways to reduce administrative costs significantly by having a federal entity administer the accounts and limiting investment choices, the costs will remain substantial, reducing the retirement income the accounts generate. In addition, when a retiree converts the amount in his or her retirement account to an annuity, the company selling the annuity typically takes about another 15 percent to 20 percent of the account to cover its costs, risks, and profits. In combination, administrative costs and annuitization costs would consume a significant portion of the funds in these accounts. Finally, there is a potential for significant fraud and sales practice abuse at the expense of account-holders, as has occurred in Great Britain. This is a matter about which SEC chairman Levitt has recently spoken forcefully.

Another Approach to Individual Accounts: the Feldstein Plan

The biggest political obstacle facing proposals that seek to divert a portion of payroll tax revenue to individual accounts, such as the NCRP plan, is the deep cuts in Social Security benefits these plans entail. Martin Feldstein has developed an alternative approach that seeks to replace part of Social Security with private accounts without engendering these political problems.

The Feldstein approach, which is attracting growing interest, is extremely clever. It also, however, is in conflict with basic principles for which this Administration has stood since its first hours — principles of long-term fiscal responsibility, protecting children and future generations, and avoiding policies that further widen gaps between rich and poor.

Under the Feldstein plan, individual accounts would be established and initially financed by the budget surplus. When workers retired, their Social Security benefits would be reduced $3 for each $4 in retirement income they received from their individual accounts. As a result, all beneficiaries appear to come out ahead. In addition, the reduction in the amount of Social Security benefits that would be paid out would close Social Security's long-term imbalance, according to Feldstein's projections, and do so without any cuts in the Social Security benefit structure or any tax increases.

When something appears too good to be true, it usually is. This adage holds for the Feldstein plan.

- Although proponents of the plan present it as a "free lunch" that would restore Social Security solvency with no pain, analyses of the plan — including analyses by the Congressional Budget Office and the Office of the Chief Actuary at the Social Security Administration — show otherwise. Despite the fact that Social Security benefits under current law are projected to exceed payroll tax revenues, the Feldstein plan would *increase* government-funded retirement benefits to higher levels without providing any offsetting increase in government revenues to cover the added costs. The plan would consume the lion's share of the budget surpluses while they last, including surpluses projected in the non-Social Security budget, thereby squeezing new resources for other needs such as education, environmental protection, expanding health care coverage, or shoring up Medicare. When budget surpluses wane, securing the needed financing for the individual accounts would entail cutting back other parts of the federal government substantially, imposing hefty tax increases, or borrowing large sums and swelling the already-large budget deficits that CBO forecasts will return when the baby-boom generation retires in large numbers.

  In this respect, the Feldstein plan is reminiscent of the feature of the first Reagan budget that David Stockman called a "magic asterisk." It leaves a big financing hole that future Congresses would have to address at some later date if a sea of red ink is to be avoided.

- Not only would the Feldstein plan necessitate substantial cutbacks in other parts of the budget or large tax increases if it is to be paid for, but the increase in retirement benefits the plan provides would be inequitably distributed. *Retirement income would rise much more, both in dollar terms and percentage terms, for those elderly already most well-off than for those with modest* *incomes.* Cutting other government benefits or raising taxes to finance increases in retirement benefits disproportionately for the affluent elderly is a formula for exacerbating disparities in income in the United States, which already are at their widest point since the end of World War II.

- Of particular concern, the Social Security component of the Feldstein plan is likely to prove politically unsustainable over the long term. As noted, the plan reduces Social Security benefits $3 for each $4 in income from an individual account; as a result, many middle- and upper-income retirees eventually would receive most or all of their retirement income from their private accounts and little or none from Social Security benefits. Yet they still would be required to pay substantial payroll taxes to the Social Security trust fund. This almost certainly would erode the broad-based support that Social Security enjoys. A Social Security system that collects significant payroll taxes from everyone, but provides the bulk of its benefits to retirees who earned below-average wages during their working years and their spouses and survivors is not likely to endure. The private accounts will appear a much better deal than Social Security. The Feldstein plan thus contains the seeds of its own transformation to a fuller privatization of Social Security.

Investing a Portion of Social Security Reserves in Equities

The principal argument in favor of individual accounts is that such an approach would secure a higher rate of return. The higher rate of return can be secured, however, without exposing individuals to the risks that individual accounts pose and without risking the ultimate unraveling of the social insurance functions that Social Security provides. This can be done by diversifying the investment of Social Security reserves and investing a portion of the reserves in index funds in the equities markets, as former CBO director (and now Brookings senior fellow) Bob Reischauer has proposed with his Brookings colleague Henry Aaron.

As Reischauer and Aaron explain, investing a portion of the reserves in equities markets actually would secure a higher rate of return than individual accounts. Assume that individual accounts, on average, secure the average rate of return in the market. If a portion of Social Security reserves are invested in broad index funds, they, too, should earn the average rate of return. The return on the individual accounts, however, would be reduced by the sizeable administrative costs of managing 148 million such accounts. By comparison, the administrative costs involved in managing trust fund investments in the equities market would be very small. Because the administrative costs would be much lower, investing a portion of trust fund reserves in equities markets would yield a higher *net* rate of return than individual accounts, while protecting beneficiaries from the risks they would have to bear individually under a system of individual accounts.

Is Social Security Politically Sustainable Over Time if Combined with Private Accounts?

Plans that replace part of Social Security with individual accounts risk destabilizing Social Security over time. Under these plans, retired workers generally would receive substantially lower Social Security benefits that under current law; a portion of their Social Security benefit would be replaced with income from an individual account. Yet the workers would still pay substantial payroll taxes into the Social Security trust fund; under most of these plans, the payroll tax deposited in the Social Security trust fund would be two or three percentage points lower than under current law (i.e., the combined employee and employer contribution to the trust fund would equal 9.4 percent or 10.4 percent of earnings, as compared to 12.4 percent under current law).

The average worker's payroll taxes would need to remain high because a large share of these taxes would be used both to pay Social Security benefits to workers who had already retired or worked a substantial number of years before the individual accounts were established and to provide a more adequate level of income to retirees who had earned low wages, widows, divorced women, low-earning spouses, the disabled, and the children of disabled and deceased workers. As a result, the amount a typical middle-income worker received in Social Security benefits, compared to the amount he or she paid in, would appear low. Alongside such a Social Security system would stand individual accounts from which *no* funds would be taken to pay benefits to those who had already retired or worked for many years when the accounts were set up and *no* funds would be used to finance benefits for the vulnerable groups just mentioned. As a result, many workers with above-average earnings could receive nearly as much — or more — from individual accounts into which they had paid only a few percentage points of their earnings than from Social Security into which they had paid a much larger percentage of their earnings. This would lessen the broad-based support Social Security has long enjoyed and generate strong pressure to shift more payroll contributions from Social Security to individual accounts. Over time, such pressures would likely prove irresistible.

A hybrid system that is part Social Security and part individual accounts consequently may not be politically sustainable over the long run. Nor can this problem be solved simply by having the Social Security Administration administer the individual accounts and provide beneficiaries a single monthly check combining income from Social Security with income from a retiree's individual account. Workers would receive periodic statements on their Social Security contributions and benefits as well as on their individual accounts, and many would compare the statements and conclude Social Security was a bad deal. Conservative Members of Congress, commentators, and think tanks would endlessly broadcast the message that individual accounts had proved to be a much-better deal and should replace a larger portion — or all — of Social Security, which they would portray as providing abysmally low rates of return to middle-class workers. A hybrid system thus risks leading over time to the unraveling of the social compact that Social Security provides.

Under this approach, Social Security would retain the majority of its reserves in Treasury securities. It thus would be able to ride out market downturns without having to sell off substantial holdings when stock prices are low. Under individual accounts, by contrast, individuals who retire during a bear market or are unlucky in their investments could be faced with reduced incomes for the rest of their lives.

Private pension funds and state employee pension funds virtually all diversify their investments and take advantage of the higher long-term rates of return that equities markets provide. Social Security should not be prohibited from following a similar course.

The principal arguments advanced against this approach are that there could be political interference with trust fund investment decisions and that the government would own too much of corporations. These concerns can be addressed, as Reischauer and Aaron have shown. Management of Social Security reserves could be placed in the hands of a Social Security Reserve Board modeled on the Federal Reserve Board; the Fed has successfully maintained its political independence for eight decades. Fed governors serve staggered 14-year terms and cannot be removed for political reasons; the same would be true here. In addition, the Social Security Reserve Board — like the Fed — would be financially independent of Congress and the White House, getting its revenue from small charges on the earnings of its investments. As noted, the investments would be limited to broad, passively managed index funds, and the legislation establishing the SSRB could deny it voting rights on shares the SSRB holds. Finally, a low percentage limit could be set on the proportion of the shares of any corporate entity the SSRB could hold. These safeguards would both protect the SSRB from political interference by Congress and the White House and ensure that the SSRB did not influence decisions of individual corporations.

There is, of course, the question of the political appeal of this approach — how would the public respond to it? The public would have to be persuaded. But if the President, other Administration officials, and Democratic Congressional leaders explained that this approach would substantially reduce the magnitude of the Social Security benefit reductions otherwise needed, would protect individuals from undue risk, would be managed by a distinguished entity governed by financial leaders and enjoying the independence and authority of the Fed, and would simply diversify Social Security assets in the same way that virtually all other private and public pension funds do to gain better value for American workers, the Administration should be able to rally public support for this approach as part of a larger package to save Social Security.

Political Considerations

Proposals to replace part of Social Security with individual accounts pose some political dangers for the White House. Until rather recently, groups representing core Democratic constituencies have focused largely on issues other than Social Security, but that is changing rapidly. The AFL-CIO increasingly is turning its attention to Social Security; it strongly opposes any replacement of Social Security with individual accounts. The principal civil rights, minority, elderly, and women's groups also are increasingly focusing on Social Security. A strong statement sharply criticizing proposals to replace any part of Social Security with individual accounts is scheduled for release on December 3; its growing list of signatories includes: John Sweeney and an array of union presidents; the heads of the NAACP (Kweisi Mfume and Julian Bond), the Urban League (Hugh Price), and the National Council of La Raza (Raul Yzaguirre); Jesse Jackson; Marian Wright Edelman; Rev. Joan Brown Campbell, the head of the National Council of Churches; Catholic Charities' deputy director Sharon Daly; the heads of major women's, disability, and other elderly organizations; and numerous others.

A growing array of such groups is gearing up to make Social Security one of their highest priority issues in 1999. They differ on some Social Security matters. What unites them is opposition to shifting a portion of Social Security to individual accounts. This opposition is sufficiently strong that the key groups involved are willing to accept some benefit reductions as part of a package that restores long-term balance without replacing part of Social Security with individual accounts.

How Might the Administration Proceed?

The Administration will face tough negotiations with Republican leaders on Social Security. Wherever the Administration starts, the Republicans will insist on pulling it to the right. A final agreement is virtually certain to be somewhere to the right of where the White House starts. The White House should not start out where it hopes to end up.

A useful place to *end up* could be to restore long-term solvency to Social Security through a combination of modest benefit adjustments, bringing uncovered state and local employees into the Social Security system, gradually raising by a modest amount (and over a number of years) the upper limit on the amount of wages subject to the payroll tax (but not raising the payroll tax rate), investing a portion of trust fund reserves in financial markets with appropriate safeguards, and possibly establishing individual accounts *on top of* Social Security (possibly through some surplus financing of individual accounts on a flat-dollar basis for all workers or through the establishment of such accounts on a voluntary basis with favorable tax treatment of the amounts invested in the accounts; such an approach would *not* transfer revenue from the trust funds to individual accounts or reduce Social Security benefits when income is received from individual accounts). If the Administration wanted to end up in such a place, it would need to start out without individual accounts on top and move to that position in the negotiations.

In such negotiations, it is important that the Administration negotiate from strength. To this end, the White House needs in early 1999 not only to advance its position on Social Security persuasively but also to explain to the public the dangers posed by certain other approaches, including some approaches Republican leaders may favor. The public will place much more trust in the President to look out for its interests on Social Security than in Trent Lott, Bob Livingston, Bill Archer, or Bill Roth. If the President speaks to the nation not only about the advantages of his proposals but also about the risks of certain other types of approaches — in other words, about both what he is for and what he is against and why — he will do well with public opinion and place the White House in a strong position to negotiate an agreement that is substantively and politically sound.

This opportunity could be missed, however, and the White House could find itself negotiating more from weakness than strength. Some recent White House contacts with some Republican Congressional leaders on Social Security reportedly have led some Republicans and their allies to conclude the President is so eager for a deal on Social Security that they may be able to cut a deal substantially on their terms.

Furthermore, conservative proponents of partial privatization have been taking their case to the public for months. They have been feeding fears that Social Security is in more dire shape than is the case, that the program is on the verge of collapse, and that retirement security can be provided only by beginning to replace Social Security with private accounts. The President and the White House will need to take their case to the public and explain in a respectful way the jeopardy in which some approaches could place millions of hard-working Americans. If the President makes that case this winter, he will be in a strong position to negotiate from strength and reach a good deal by summer or early fall. If the President does *not* expose the weaknesses in these other approaches, however, he will be negotiating with a weaker hand, which will make it harder to reach an agreement that does not ultimately place millions of Americans at risk and rip the Democratic Party down the middle.

This suggestion may elicit a rejoinder that such an effort by the President would anger Republicans and make it harder to secure an agreement. A deal is not needed, however, in March or April. A deal in the summer or fall should be fine. Taking this issue to the public this winter to help frame the debate on the White House's terms — and then largely curtailing public criticism of other approaches as negotiations begin — should pay dividends in terms of the negotiations' ultimate outcome. Furthermore, because such an approach would expose political vulnerabilities in some Republican positions (and subtly remind Republicans of the dangers they face in resisting the President on issues like Social Security or Medicare), it should make Republicans more eager to close a deal in 1999 so they are not politically exposed on this issue in 2000.

The Tax-cut Issue and a Social Security Deal

The point is sometimes made in some Administration circles that a Social Security deal is needed quickly because without a deal by summer, the "save Social Security first" argument may not continue to hold and a very large tax cut may not be able to be stopped. Fear of a tax cut, however, should not lead the Administration to consummate a Social Security deal before a sound agreement can be secured. Furthermore, if a Social Security deal ultimately cannot be consummated in 1999, Republicans are *not* likely to seek to pass a large, multi-hundred-billion dollar tax cut.

- Republicans will have to worry that if they push a big tax cut before Social Security is resolved, they will be seen as taking large sums from the Social Security reserve. This was somewhat of an issue in the 1998 election; if Republicans push a big tax cut without a Social Security settlement, it is likely to be more of an issue in 2000 because the public will have a heightened awareness of Social Security issues — and of Social Security's long-term financing gap — following extensive media coverage of Social Security issues in 1999. If Social Security negotiations have stalled and Democrats on Capitol Hill are arguing that Republican plans would place retirees, the disabled, women, and survivors at too-great risk, Republicans are unlikely to risk bolstering these Democratic arguments by enabling Democrats to point to an attempted large-scale Republican raid on the trust fund.

- In addition, Republicans who support converting part of Social Security to private accounts are starting to understand, as Phil Gramm has recognized for some time, that they will need most of the surplus to help cover the very large transition costs that partial privatization proposals entail — and that big tax cuts consequently would undermine their partial privatization proposals by consuming too much of the surplus.

There are signs that conservative Republicans are beginning to grasp these realities. This is reflected in the announcement on November 18 by the Members of Congress who make up the Conservative Action Team, the hard-line drivers this year for big tax cuts in the House, that they are abandoning their call for a large tax cut in 1999 financed by the surplus and will instead seek a smaller tax cut financed with spending-cut offsets. The CATS announced that their new position is that the Social Security reserve should be used solely for Social Security purposes.

To be sure, in the absence of a Social Security deal by summer or fall, a more modest tax cut — perhaps of the size of the $80 billion tax cut over five years the House passed in September — could begin to move. That would be unfortunate. But such a tax cut is small potatoes compared to the massive policy changes that a Social Security deal, and especially the partial replacement of Social Security with individual accounts, would entail. It would not be wise to reach prematurely a questionable Social Security deal that could create significant policy problems for the next 75 or 100 years — and alter the nation's most important social program in undesirable ways — to avoid a tax cut whose adverse effects are of much lesser consequence.

CENTER ON BUDGET AND POLICY PRIORITIES

To: Maria Echaveste
Ron Klain
Jack Lew
John Podesta
Bruce Reed
Gene Sperling
Larry Stein
Melanne Verveer

From: Bob Greenstein

Date: November 24, 1998

Subject: Legal immigrants, the FY 2000 budget, Hispanic and Asian voters, and the 2000 elections

In 1997 and 1998, the Administration won important victories in restoring benefits for legal immigrants that had been taken away by the welfare law. Nevertheless, substantial parts of the damage done to legal immigrants by the welfare law remain. Prior to November 3, I thought it unlikely the Administration could win more restorations in this area. Now, I think there is a strong chance you could win more here.

Since the election, newspapers have run a spate of articles discussing the pivotal role of the Hispanic vote on November 3. Republican strategists such as Ralph Reed are quoted as saying Republicans must do better with such voters, while news analyses note that anti-immigrant stands have hurt Republicans badly in California. Articles also report that 30 percent of the Hispanic electorate in California consisted of newly naturalized citizens voting for the first or second time. In fact, *USA Today* has reported that newly naturalized citizens tend to have higher turn-out than other voter groups. The articles also point out that Republicans who did well with Hispanic voters won by large margins.

This suggests that if the President's FY 2000 budget contains significant immigrant restoration proposals and the Administration pushes for them, Republicans may feel they have to give you something in this area. And if they do not and turn down your proposals, then Democrats and Vice President Gore should be able to use that to remind Hispanic and Asian voters in 2000 of the differences between the parties.

In short, this appears to be a "win-win" situation. Either further restoration will be achieved, or the rejection of Administration proposals in these areas can serve as a

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@center.cbpp.org http://www.cbpp.org

wedge issue with some key voting constituencies. I urge you to include immigrant restorations in the budget, as you have done each of the past two years.

The major constituency organizations that work on these issues are preparing a memo for the Administration on their priorities in this area; a number of these priorities were included in your FY 1998 or FY 1999 budgets. Key areas where the Administration could propose important restorations include the following:

-CH IP

- Give states the option to provide coverage under Medicaid and the child health block grant to low-income legal immigrant children who have entered the United States after August 22, 1996, the date the welfare law was signed. States now are barred from extending such coverage. This proposal was in the Administration's FY 1999 budget.

- Give states the option to provide prenatal care to legal immigrant pregnant women who have arrived after August 22, 1996. States must provide Medicaid coverage for *delivery* costs when such women give birth but are prohibited from providing Medicaid coverage for prenatal care, which can result in healthier birth outcomes. This makes little sense.

- Provide SSI eligibility to legal immigrants who enter the country after August 22, 1996 and become disabled after arriving here. Should a poor legal immigrant hit by a bus or maimed in a workplace accident be denied SSI? The Administration fought for this in 1997 but didn't win it. Let's join this fight again.

- Provide SSI for legal immigrants here on August 22, 1996 who subsequently become elderly and poor. The 1997 restoration limits SSI to those elderly legal immigrants who were both 65 or older and *on the SSI rolls* on August 22, 1996. This is too restrictive. At a minimum, we should cover those who were in the U.S. and 65 or older on August 22, 1996 but not on the SSI rolls on that date. Current rules in this area penalize elderly legal immigrants who worked as long as they could and stayed off SSI as long as they could — and consequently weren't receiving benefits on August 22, 1996 — but who since have become poor. Fixing this would simply conform the treatment of elderly legal immigrants in SSI to the food stamp treatment for elderly legal immigrants the Administration won this June.

- Extend food stamps to poor legal immigrant parents here on August 22, 1996, or at least to working poor immigrant parents. Currently, children in these families can get food stamps, but their parents can't. The result is that the family as a whole, including the children, often does not have enough to eat. The primary people who would be covered under this proposal are individuals who came here legally, are working, and are trying to raise their children on below-poverty wages.

This is an area where good policy, basic decency, and politics converge. I hope you'll include such a package in the budget.

Core Democratic voters defy predictions

USA 11/4

Some '94 defectors return to the fold

By Kathy Kiely
and Jessica Lee
USA TODAY

The Democratic Party's most reliable voters responded Tuesday to a massive get-out-the-vote drive, defying predictions that they would be too depressed by scandal to vote.

The New Deal coalition of minority activists, overwhelmingly African-American and Hispanic, and union members mounted the kind of intensive campaign usually reserved for presidential years.

Republicans struggled to maintain majorities in the Senate and House by motivating their loyalists among the religious right, fiscal conservatives and business community.

But some the angry white men who fueled the 1994 Republican revolution reverted to the Democratic camp, according to exit polls. And middle-aged voters, 44-59, turned out in greater numbers than they did in the last mid-term elections and voted more heavily Democrat.

Despite predictions that the White House sex scandal would energize Republican activists, exit polls indicated that voting participation levels by members of the religious right was down, from 17% of voters in 1994 to 13% this year.

Nationally, union and African American voter turnout held steady in the face of a sex scandal that many predicted would discourage traditional Democrats.

After a primary season in which voters stayed away from the polls in droves, some experts feared a near election boycott in the wake of President Clinton's sex-and-lies scandal. But that wasn't the case, at least not everywhere in the country.

"Turnout was very good, particularly among minorities," said Rep. Martin Frost, a Texas Democrat. "The Hispanic members of Congress and the black members were aggressively involved in turnout all year. They made a difference all over the country."

Rep. Maxine Waters, R-Calif., head of the Congressional Black Caucus, was overjoyed at the clear gains scored by black voters supporting Democrats in key races.

"It was a well-organized effort that helped capitalize on the mood among African American voters about the unfairness of Ken Starr," she said. "It became obvious they were out to get Bill Clinton. That played a role in this."

Turnout in North Carolina and Kentucky, two states with hot Senate races as well as some highly contested down-ballot contests, was "significantly up," according to Curtis Gans of the Committee for the Study of the American Electorate.

Kentucky is the state where the Congressional Black Caucus launched a get-out-the-vote bus tour aimed at Democratic voters in the closing days of the campaign.

AFL-CIO political director Steve Rosenthal said organizing among the 53,000 union members in Rep. Ted Stickland's Ohio district helped the Democratic incumbent hold onto his seat. Rosenthal said labor efforts also played a big part in the Rep. Lane Evan's successful effort to hold onto his seat.

If Sen. Harry Reid, D-Nev., ends up holding onto his seat, Rosenthal said, it will in part be due to "a huge project" the unions mounted to urge their members to take advantage of a Nevada law that allows them to vote early by mail.

Big labor mounted its most massive get-out-the-vote drive ever. The AFL-CIO sent 9.5 million pieces of mail and made 5.5 million phone calls to urge union members to get to the polls. In addition, the unions dispatched thousands of volunteers in an unprecedently large grass-roots political missionary effort.

"We have found that when we talk to union members one by one, we can make the case there's a lot at stake in the elections and union members will vote," Rosenthal said.

In much of the nation, including several states where races were going down to the wire, dismal weather was doing nothing to boost turnout.

For special-interest groups, the final days of the 1998 campaign were truly "radio" active. Groups that run the gamut from the NAACP to the Campaign for Working Families targeted their supporters via the airwaves.

"We did a lot of advertising on radio stations aimed at traditional families," said conservative presidential candidate Gary Bauer, head of Campaign for Working Families, a political action committee. "We ended up in 170 different races around the country."

By Wd Chandler AP

Big turnout: Voters mark their ballots Tuesday at the Adult Education Center in Anderson, S.C. Poll workers at the center reported an unusually high turnout for a nonpresidential-year election.

Hispanics prove pivotal

By Maria Puente
USA TODAY

USA 11/4

If early indications hold, several major candidates in the nation's political megastates are going to owe their election to a growing and increasingly sophisticated Hispanic vote.

In Texas, Hispanics helped Republican incumbent Gov. George W. Bush crush Democratic challenger Garry Mauro. Bush will easily exceed his goal of 40% of the Hispanic vote, according to exit polls. That certifies Bush as the single national Republican with the chance to win back millions of Hispanic voters turned off in 1996 by GOP rhetoric against immigrants, bilingualism and affirmative action.

"Bush is going to do better with Latino voters than any other white Republican in a statewide race ever," predicted Antonio Gonzales, president of the William Velasquez Institute, a think tank that tracks Hispanic voters in Texas and California.

In New York, Puerto Ricans and Dominican-Americans helped make the difference for Democrat Rep. Charles Schumer in the no-holds-barred brawl for the U.S. Senate against incumbent Republican Al D'Amato. Exit polls showed Schumer with overwhelming support from Hispanics.

And in California, Hispanic voters made the difference for embattled Democratic U.S. Sen. Barbara Boxer prayers in her squeaker race against Republican challenger Matt Fong, according to exit polls.

"The long-heralded potential of Latino voters is becoming an actual reality in that millions of Latinos are turning out at the polls," said Harry Pachon, head of the Tomas Rivera Policy Institute, a think tank that tracks the California Hispanic electorate, an estimated 14% of the total.

More are turning up on ballots as well. Twenty-four Hispanics ran for seats in the House, and pollsters predict as many as four more seats could be added to the Hispanic Caucus, bringing the total to 22. Nationwide, an unprecedented number of Hispanics ran for statewide offices: 20 candidates in nine states, eight in New Mexico alone. Of those, 12 are Democrats, seven are Republicans and one was in a nonpartisan race.

Only about 5% of the national electorate in 1996, Hispanic voters increasingly are making their presence felt in the nation's largest states: California, Texas, New York, Illinois and Florida.

The Hispanic vote also is maturing, meaning voters increasingly pick and choose candidates rather than vote straight party tickets. In Texas, they're likely to come out strong for Democrat John Sharp in the race for lieutenant governor against the GOP's Rick Perry.

"Hispanics are going to go for Bush in the high 40s to low 50s … but that doesn't mean they're going to give the GOP all their votes," Gonzales said. "Sharp is going to get 75%-80% on Hispanics, and that's a sign of maturity. It means they're thinking."

Another characteristic of the Hispanic vote is that millions — 30% of the total Hispanic electorate in California — are newly naturalized citizens voting for the first or second time. These voters tend to turn out in higher percentages than other voter groups.

Dems push to the end to increase black votes

By Jessica Lee
USA TODAY

USA 11/4

Democrats from President Clinton on down put laser focus on getting African-American voters to the polls. Early exit polls Tuesday showed that black voters, who are about 12% of the voting age population, were marking 10% of the ballots.

But in early returns, that 10% was looking big enough to break more than one Republican redoubt in the South.

The Democratic National Committee (DNC) spent a record $500,000 to get out the vote among African-Americans. It targeted voters in key gubernatorial and Senate races in Georgia, New York, Nevada and Missouri.

Their task was a delicate one. In some states where extensive appeals to the interests of black voters could trigger a backlash among whites, the DNC and Democratic congressional campaign acted as surrogates to make the case for Democratic victory.

In a final burst of telephone bank activity, Democrats put Clinton's recorded voice to work in thousands of phone calls in states such as California, New York, New Jersey, Ohio, Texas, Nevada and those in the Deep South.

Dora Van, an African-American who is a legal typist in Sacramento, got a call around 5:30 p.m. Monday when she got home from work. "At first I thought it was a prank," she says. "Then I realized it was his voice telling me to go out and vote. It made me feel really special, like I could do something for our country."

The Congressional Black Caucus also pushed hard. Rep. Charles Rangel, D-N.Y., raised $1.3 million for a final turnout drive.

The liberal People for the American Way's last-minute ad campaign included a radio spot by celebrated African-American author Toni Morrison that was targeted to listeners of black-owned radio stations.

Washington Post
Washington, DC
November 16, 1998

GOP Governors Look to Wield Stronger Hand in Party Affairs

By Dan Balz
Washington Post Staff Writer

Excerpted from above article...

The success of Bush in Texas and his brother Jeb, who was elected governor of Florida in his second attempt at the office, has attracted particular attention among Republicans since the midterm elections. Beyond the appeal that comes with one of the best-known names in Republican politics, the Bush brothers stressed what they call "compassionate conservatism"—in contrast to the congressional wing's harder-edged ideology.

"I think the lesson of the election is that sharp-elbowed conservatism doesn't work and what they offer is a new paradigm of compassionate conservatism," said Marshall Wittmann of the Heritage Foundation.

Both Bushes reached out to minority voters and proved far more popular among those constituencies than most other Republicans running this year. (Arizona Sen. John McCain, who captured a majority of the Hispanic vote, is one exception.) George W. Bush won 49 percent of the Hispanic vote in Texas. Jeb Bush captured about 60 percent of the Hispanic vote in Florida. By way of contrast, Dan Lungren, the Republican gubernatorial nominee in California, won less than a fifth of the Latino vote there.

Winning minority votes, say Republican strategists, is crucial to the party's long-term aspirations. "If you look at the current demographic trends, relying exclusively on male and white voters . . . is a recipe for permanent minority status," said Ralph Reed, former executive director of the Christian Coalition.

Iouse Seats

unalterable path to taking
in 2000."

re Support

crats' turnout effort was
party's core support among
members and women. In the
al weeks, every level of the
lved in the effort, from the
the 1,000 volunteers who
Washington state to boost
llege professor and newly
ssman Brian Baird.

lysis documents their suc-
participation among union
example, jumped to 22%
13% in 1994, when the De-
e House. No complete num-
voters' turnout were avail-
cdotal evidence shows they
rence in several key races.
r example, where Democrats
pel the Republican effort to
or's office for the first time
ruction, black voter turnout
mpared with 19% in 1994.

lone by the Christian Coali-
al Democrats even managed
he Republican Party's most

f-identified religious conser-
aid they voted for a Democ-
said they voted for a Repub-
Republicans garnered 67%
the religious right, as com-

pared with the Democrats' 21%. Some of that could be attributed to the Democrats' recruitment of more conservative candidates, particularly in the South. But Mr. Gephardt argued that they were also attracted to the party's focus on issues rather than scandals.

News in the Wee Hours

Christian Coalition Director Randy Tate agreed: "Democrats had an agenda, albeit a liberal agenda. . .and some agenda will beat no agenda every time."

The full impact on the House races and the campaigns for governor couldn't be determined until the wee hours of the morning, when West Coast results came in and close races were finally determined.

Among the late gains for Democrats were two House seats in Washington, one in Wisconsin, and another in California. The Republicans managed their own offsetting wins on the West Coast, picking up two California House seats and defeating Democrat Rep. Jay Johnson in Wisconsin.

But Mr. Johnson, a former television reporter who rode Mr. Clinton's coattails in 1996 to win the heavily Republican district based around Green Bay, proved to be the only Democratic incumbent to go down in defeat. Five Republican incumbents, on the other hand, lost their seats.

Among the late returns in the governors' races was the re-election of Hawaii Gov. Ben Cayetano, an endangered Democrat hurt by a weak economy. In Nebraska and Colorado, Republicans managed two victories that helped to offset their losses in the South. Nebraska Gov. Ben Nelson will be succeeded by Lincoln Mayor Mike Johanns and Colorado's Roy Romer will be succeeded by State Treasurer Bill Owens.

iled Gov. Pete Wilson (R)
iled Gov. Zell Miller (D)
Gov. Terry Branstad (R)
iled Gov. Roy Romer (D)
limited Gov. Lawton Chiles (D)
Gov. Phil (R)
Gov. Jim Edgar (R)
iled Gov. nin Nelson (D)
iled Gov. Bob Miller (D)
ited Gov. George Voinovich (R)
ov. Arne Carlson (R)

A House Divided

Narrowest 20th century House majorities:

YEAR	MAJORITY PARTY	MARGIN
1917-19	Republicans[1]	6
1923-25	Republicans	18
1931-33	Republicans[2]	2
1943-45	Democrats	13
1953-55	Republicans	8
1997-98	Republicans	22
1998-99	Republicans	13[3]

[1] Democrats later took control of the House due to Republican deaths

[2] Democrats later took control with help from third-party members

[3] Not counting one undecided race in Oregon

Minorities Put Democrats Over Top in Key Races

By Dennis Farney
Staff Reporter of The Wall Street Journal

Minority voters were decisive in key elections Tuesday, reclaiming center stage from the "angry white males" who torpedoed Democratic hopes four years ago.

This time, it was nonwhites, especially African-Americans, particularly in the Deep South, who spearheaded a surprising Democratic resurgence. Strategists of both parties concluded that black votes made the difference in two Senate and two gubernatorial races in the South, as well as in the New York Senate race. Democratic candidates prevailed in all five.

Motivated by Threat to Clinton

"The black vote obviously was critical in the outcome of many races," White House pollster Mark Penn said. "They were energized by seeing the Republican right threaten President Clinton and all the Clinton administration stands for."

Republican pollster Eddie Mahe agreed. "We [Republicans] probably got 60% of the white vote in the South," he said. "But if you're only getting 7% or 8% of the black vote, it just makes it really, really, really difficult to move the numbers. The Democrats did an extraordinarily fine job in communicating the message, 'Those people are a threat to you,' and a threat is always the most powerful motivator."

Paradoxically, exit polls show black turnout didn't increase on a national basis; in fact, black voters accounted for an estimated 10% of the total national vote this year, down from 11% in the last off-year election of 1994. (Whites accounted for 82% of the vote this year, Hispanics 5% and Asian-Americans 1%.) But blacks gave an estimated 88% of their votes to Democrats. The black impact was especially concentrated in selective, highly competitive races.

In Alabama, for example, the victorious Democratic candidate for governor, Donald Siegelman, drew 96% of the black vote, according to exit-poll estimates. Well over 90% of the black vote in New York went to Democratic Senate candidate Charles Schumer, who ousted Republican incumbent Sen. Alfonse D'Amato. In Illinois, Democratic Sen. Carol Moseley-Braun, who is an African-American, lost re-election despite pulling an estimated 97% of the black vote. In Maryland, where incumbent Democratic Gov. Parris Glendening survived a tough GOP challenger, the black vote jumped to 20% of the total this year from only 12% in 1994, according to senior political analyst David Bositis of the Joint Center for Political and Economic Studies.

A good economy, combined with turnout appeals from President Clinton, labor unions and others, made the difference, Mr. Bositis said. A recent survey by the Joint Center found that blacks, by a 51% majority, felt better off under the Clinton economy. "Blacks still aren't making as much as whites, but the black poverty rate is at an all-time low."

Pattern Among Hispanics

Hispanics, a rapidly growing group expected to outnumber African-Americans within a decade or so, also tilted toward Democrats on Tuesday. But their vote was far less monolithic than the black vote.

In California, incumbent Democratic Senator Barbara Boxer drew an estimated 73% of the Hispanic vote in her winning re-election bid. (She and GOP challenger Matt Fong split the Asian-American vote.) In Texas, GOP Gov. George W. Bush won nearly half of the Mexican-American vote.

"The Hispanic vote is still very much up for grabs," said Frank Sharry, executive director of the National Immigration Forum, a pro-immigration group. "And while Mexican-Americans lean Democratic, they still vote by candidate and by issues." Mr. Bush reached out to them, a culturally conservative group, by stressing family issues and targeting a disproportionate amount of his campaign treasury to El Paso and other Hispanic areas.

Minority voters also seem to have longer memories. In California, GOP gubernatorial candidate Dan Lungren, who lost big to Democrat Gray Davis, was hurt by the strident anti-immigration stand taken by GOP Gov. Pete Wilson in 1994. Meanwhile, successful appeals to minorities, whether by Democrats or by Republicans such as Gov. Bush, also rested on foundations that have taken years to build.

Gov. Bush, for example, "spoke out for Hispanics" while some other prominent Republicans were bashing immigrants in the 1996 GOP presidential primaries, noted Mr. Sharry. Meanwhile, President Clinton has steadily championed issues of black concern, said Mr. Bositis of the Joint Center for Political and Economic Studies.

Asked if Mr. Clinton is indebted to black voters, Mr. Bositis replied: "If you look at the 1998 budget deal, the White House already has delivered to the black caucus."

Hopes of Some Tobacco Foes Go Up in Smoke

By a Wall Street Journal *Staff Reporter*

WASHINGTON—When the proposed national tobacco settlement was announced in June 1997, the attorneys general who negotiated it were thought to be destined for higher office.

But a bill based on the settlement died in the Senate, and some of the attorneys general most prominently associated with the antitobacco movement suffered defeats in this week's elections.

Minnesota Attorney General Hubert H. "Skip" Humphrey, a Democrat whose suit against tobacco companies grabbed headlines, lost the governor's race to Reform Party candidate and former professional wrestler Jesse "The Body" Ventura.

In Massachusetts, Democratic Attorney General Scott Harshbarger, who sued tobacco companies and helped to negotiate the proposed settlement, lost to Republican Paul Cellucci in his bid for governor. Jay Nixon, Missouri's Democratic attorney general who sued tobacco companies in 1997, lost his Senate race to incumbent Republican Christopher "Kit" Bond.

Not everyone associated with the antitobacco movement lost. California Democrat Gray Davis and Alabama Democrat Donald Siegelman, both of whom had filed private lawsuits as lieutenant governors against tobacco companies in solidarity with the attorneys general, won gubernatorial elections in their respective states.

Other attorneys general who had sued tobacco companies were re-elected.

legislative control game

te legislatures

state legislatures on Election
they control as well as the
s of government. Key gains
e, North Carolina, Washington
ok over chambers in Michigan
ne party controls both houses

	Democrat	GOP	Split
Mo.	X		
Neb.[2]			
Nev.			X
N.H.			X
N.J.[1]		X	
N.M.	X		
N.Y.			X
N.C.	X		
N.D.		X	
Ohio		X	
Okla.	X		
Ore.[3]		X	
Pa.		X	
R.I.	X		
S.C.			X
S.D.		X	
Tenn.	X		
Texas			X
Utah		X	
Vt.	X		
Va.[1]			X
Wash.	X		
W.V.	X		
Wis.			X
Wyo.		X	

isan legislature 3 Does not reflect final results

USA TODAY

draw congressional and legislative district lines after the 2000 Census.

Governors and legislatures redraw those maps every 10 years to reflect the demographic makeup of their states. That power can be used by the dominant political party to draw lines that help their candidates win election to Congress and the legislature.

Excessively partisan redistricting, however, can be challenged in court. It often is done to increase — or reduce — the influence of minority voters.

"Democrats across this country made it very clear that they want to be heard when it comes time to draw district lines," Maryland Senate President Thomas Miller says.

Going into the election, Republicans had hoped to take control of a dozen or more state legislative chambers, including both houses in several states. They gained only in Michigan and Minnesota.

By contrast, Democrats picked up majorities in Indiana, New Hampshire, North Carolina, Washington and Wisconsin. In Washington, they took over control of both houses from Republicans.

The changes at the state level, unlike those in Congress, will have an immediate impact. In Florida, Michigan and Colorado, Republicans will control the governor's office and both branches of the legislature. In California, North Carolina, Washington and Alabama, Democrats will exercise total control. One party will control both legislative houses in 24 states, up from 18 today.

This year, says Tim Storey of the National Conference of State Legislatures, "people weren't looking for a whole lot of change."

Republicans say state elections were decided on local issues, not broad national trends. As a result, they drew no lofty conclusions from the results.

"These are races that are decided at the neighborhood level," says Mike Collins, spokesman for the Republican National Committee.

The most significant state legislative results came in these states:

▶ **Indiana**, where Democrats broke a tie in the House to win a majority. That will help Democratic Gov. Frank O'Bannon combat a Republican Senate.

▶ **New Hampshire**, where Democrats took control of the Senate for the first time since 1912 and were likely to pick up about 15 seats in the Republican-run House.

▶ **North Carolina**, where Democrats took the House and padded their lead in the Senate. That will give Gov. James Hunt a unified government.

▶ **Washington**, where both houses moved into the Democratic camp for Democratic Gov. Gary Locke.

▶ **Wisconsin**, where Democrats took over the Senate and denied GOP Gov. Tommy Thompson full control of the legislature.

▶ **Michigan**, where Republicans took over the House on the coattails of GOP Gov. John Engler, who will have both houses in his camp.

▶ **Minnesota**, where Republicans took over the House. With the Senate remaining Democratic and Reform Party candidate Jesse Ventura elected governor, power will be split three ways.

Women, minorities propelled Democrats in key races

By Jessica Lee and Maria Puente
USA TODAY

USA 11/5

WASHINGTON — Nationwide, voter turnout sank to a 50-year low Tuesday, but strong local efforts to turn out women, minorities and union members helped Democrats win several key contests and frustrate Republican ambitions in congressional and gubernatorial elections.

"The turnout by eligible voters was 36.1%, the lowest since 1942," says Curtis Gans, director of the Committee for the Study of the American Electorate. Voter News Service, an association of television and wire service companies, reported a slightly higher turnout, 37% of the voting-age population.

Democrats attributed their better-than-expected showing to unabashed New Deal coalition-building on issues such as education, health care and Social Security.

Republicans acknowledged their message failed to move enough voters. House Speaker Newt Gingrich promised to spend "a fair amount of time over the next week to 10 days" trying to find out why.

One reason for the unexpected outcome, activists from both parties say, is that some conservative voters felt they were being taken for granted, and other constituencies felt wanted.

In a reversal of recent election dynamics, African-Americans and Hispanics seemed to feel needed while religious conservatives complained that the GOP gave them short shrift.

Randy Tate, director of the Christian Coalition, says "an issues vacuum in Washington, D.C." caused about one-fourth of its male membership to desert the GOP.

Overall, women turned out at about the same rate as men. But according to the nonpartisan Pew Research Center, women "gave much stronger support to Democrats than men gave to Republicans."

Although top-of-ticket Republicans did well among Hispanics in Florida and Texas, Hispanics gave lopsided support to Democrats. Their votes lifted California Democrats such as Cruz Bustamante, who was elected the state's first Latino lieutenant governor.

Also in California, Democratic Sen. Barbara Boxer beat challenger Matt Fong by 10 points. The exit polls showed she got only 47% of the white vote, but 86% of the black vote and 74% of the Hispanic vote.

But Hispanic loyalty to Democrats was not enough to make a dent in the juggernaut of votes for Republican Gov. George W. Bush in Texas.

Exit polls conducted by the Southwest Voter Registration Education Project showed Bush took 37% of the Hispanic vote, with 63% going to his Democratic challenger.

That historic high-water mark only enhances Bush's potential as a GOP presidential contender in 2000.

In New York, Democrat Charles Schumer stunned three-term Republican Sen. Al D'Amato, beating him by 14 points. He did it with 85% of the Hispanic vote and 87% of the black vote, whereas he split the white vote.

In the Deep South, black voters turned out for white Democratic candidates. "In 1994 the black vote was about 19% of the total (in the region). It was 29% this year," says David Bositis of the Joint Center for Political and Economic Studies, a think tank that studies issues of concern to African-Americans.

He says the turnout exceeded African-Americans' 27% share of the voting population, an unusually high mark. In Georgia, black voters outpolled white voters to put Democrat Roy Barnes in the governor's mansion and elect Thurbert Baker as the state's first black attorney general.

CENTER ON BUDGET
AND POLICY PRIORITIES

FISCAL YEAR 2000 BUDGET INITIATIVES TO EXPAND ACCESS TO HEALTH CARE COVERAGE

The resolution of the Social Security debate could prompt a major budget deal next year, allowing the Administration perhaps its last significant opportunity to see its health care coverage priorities enacted into law. While none of the initiatives listed below, in and of themselves, would represent a major health coverage expansion similar in scope to the child health initiative, together, these initiatives could make a substantial impact on coverage over time, particularly among children and low-income working parents.

- **Transitional Medical Assistance ("TMA")**

TMA provides time-limited Medicaid coverage to low-income households whose earnings or child support would otherwise make them ineligible for Medicaid under state Medicaid income eligibility standards. Under current law, states must provide TMA for up to 12 months for families with increased earnings and for up to four months for families with increased child support income. (The second six months of TMA for families with earnings is limited to families whose gross earnings less child care expenses are below 185 percent of the federal poverty line.)

TMA sunsets in 2001. The Administration should extend TMA and consider two other TMA changes that would promote coverage among working poor and near-poor parents (building on the Administration's recent action to eliminate the so-called 100-hour rule) while simplifying the Medicaid program for states.

1. Lift or extend the sunset. TMA is currently scheduled to sunset in 2001(the sunset date was extended in the 1996 welfare law). While it would be possible to wait another year to lift or extend the sunset, a delay will increase the five-year cost of extending this provision. Additionally, there is a much greater likelihood that there will be a budget deal this coming year than the following year; waiting another year to extend or lift the sunset could risk the loss of TMA.

When the welfare law was enacted, CBO estimated the annual cost of TMA to be $400 million.[1] This estimate, however, does not take the recent Medicaid child health expansions into account. To the extent that the children in families that

---

[1] CBO Memorandum, *Federal Budgetary Implications of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996*, December 1996, page 9.

would be covered by TMA are otherwise covered under Medicaid through these expansions, the cost of extending TMA should be lower than these earlier estimates.

2. Eliminate the TMA mandate for states that have expanded coverage to low-income working families TMA needs to be refashioned in keeping with the new relationship between welfare and Medicaid and the new opportunities available to states under current law to expand coverage more broadly to low-income working families. The change proposed here would relieve states of the obligation to provide TMA if they are otherwise providing coverage to low-income working families.

TMA was originally designed to provide coverage only to families who became ineligible for AFDC (and therefore Medicaid) as a result of earnings or child support. This was changed by the 1996 welfare law which delinked eligibility for Medicaid and cash assistance; under current law, TMA coverage is required when a family's earnings or child support would otherwise make the family ineligible for Medicaid under the new "delinked" Medicaid eligibility category.[2]

In practice, since states' income standards under the new Medicaid eligibility category typically mirror the standards adopted in their TANF programs, in most states the families that qualify for TMA continue to be families that become ineligible for welfare due to earnings. In these states, TMA still largely operates as a "welfare-to-work" initiative. Some states, however, have expanded Medicaid eligibility to a broader group of low-income families under the delinked category, an option that is available to them under the 1996 federal welfare law.

For example, Rhode Island has extended Medicaid coverage to parents with incomes up to 185 percent of the federal poverty line, and the District of Columbia has expanded coverage to parents with incomes up to 200 percent of the poverty line. (Both jurisdictions also cover the children in these families at least up to these income standards.) TMA makes little sense in RI or DC where Medicaid eligibility has been expanded to cover low-income working families — families leaving welfare for work are otherwise covered under the broader expansion. Yet under current law, when a family in RI or DC becomes ineligible for Medicaid because its earnings exceed the new expanded income standard (185 percent of the poverty line in RI and 200 percent of the poverty line in the

[2] Under section 1931 of Title XIX, Medicaid eligibility is not tied to eligibility for cash assistance under TANF. Instead, eligibility for families is based on state income and resource standards which generally can be no lower than the state's income and resource AFDC/Medicaid standards as of July 16, 1996.

District), RI and DC still must provide TMA to that family at least for six months.[3]

In order to eliminate this anomaly, the rules governing TMA could be changed to drop the TMA requirement for those states that have expanded coverage for families to at least 185 percent of the poverty line.[4] This would assure that virtually no low-income working family that would qualify for TMA under current law would lose that coverage, and it could encourage more states to provide regular, ongoing Medicaid coverage to working poor and near-poor households. Many states find it difficult to meet the TMA requirements; the elimination of the TMA requirement in states that expand coverage more broadly could make the expansion option more attractive to states. It also would reduce the cost for states that do expand Medicaid coverage more broadly, by eliminating the added costs related to TMA.

3. Eliminate reporting requirements that are burdensome to states and to families Under current law, families are required to file fairly detailed quarterly reports to maintain their eligibility for TMA. The federal provisions governing these reports are particularly prescriptive and a source of considerable irritation for states. The reports also can result in otherwise eligible families losing coverage if they are unable to make their way through the paperwork requirements. If TMA were to be extended, the reporting requirements should be dropped. States could check on TMA eligibility through regularly scheduled recertification procedures in the same manner that they otherwise assure ongoing eligibility in the Medicaid program.

- **Presumptive eligibility**

This proposal was included in the President's FY99 budget and in the McCain tobacco bill, and it is the subject of a stand-alone bill introduced last month by Senator McCain. Presumptive eligibility for children was first established as a state option under the BBA. Under the BBA provision, states may elect to allow health providers, WIC clinics, Head Start programs, and agencies that determine child care subsidies to

[3] The families in RI or DC would likely not qualify for the second six months of TMA because under current law, only families with earnings (gross earnings less child care expenses) below 185 percent of the poverty line qualify for the second six-months of TMA.

[4] While another income threshold might be picked, the 185 percent standard would assure that no family would lose coverage 12 months of coverage under this change. As noted above, the second six months of TMA is currently limited to families with gross earnings (less child care expenses) is below 185 percent of the poverty line.

preliminarily enroll children who appear to be eligible for Medicaid into the program pending a final determination of eligibility by the state Medicaid agency.

The President's FY99 proposal would have improved the BBA provision and broadened state flexibility by expanding the list of agencies and organizations that could presumptively enroll eligible children at state option. The most significant change would be to allow schools to become presumptive eligibility enrollers. The NEA and other school-related associations are eager for enactment and see the presumptive eligibility expansion as an important outreach tool. When combined with the new simplified Medicaid applications that most states are now using to enroll children, the presumptive eligibility option expansions would allow schools, child care resource and referral centers[5], and other agencies that come into regular contact with low-income uninsured children to combine their outreach strategies with actual enrollment into Medicaid.

Last year, CBO estimated that the cost of the President's proposal to expand presumptive eligibility would be $375 million over five years. In light of the slow pick-up of the current presumptive eligibility option, it is possible that CBO might lower its estimate of this proposal.

- **Allow states to cover noncustodial parents who are regularly meeting their child support obligation**

Many states and several members of Congress, including Representative Clay Shaw, are keenly interested in initiatives that expand the scope of services and benefits available to noncustodial fathers with the goal of increasing their capacity to support their children. Health care coverage could be an important component of these strategies. Yet under current Medicaid law, states do not have any legal authority (absent a waiver) to extend Medicaid coverage to even the poorest noncustodial parent.[6] States could be offered the option to provide coverage by amending the federal definition of "parent" to allow, but not require, states to cover noncustodial

[5] Under current law, agencies that determine eligibility for child care subsidies can presumptively enroll children into Medicaid. In some states, the child care resource and referral centers make the subsidy determination and therefore already can be presumptive eligibility enrollers. The President's FY99 budget proposal would assure that all child care resource and referral agencies would be permitted, at state option, to presumptively enroll children into Medicaid.

[6] Missouri recently received a federal waiver to allow the state to provide Medicaid coverage to certain noncustodial parents.

parents who are meeting their child support obligations.[7] Coverage could be provided at or below the income standard otherwise applied by that state to custodial parents.

This proposal could allow states to provide health care coverage to a group of individuals who are at high risk of being uninsured. Moreover, it could provide critical and stabilizing support to parents struggling to keep up with their child support obligations, and it could serve as an incentive to encourage other parents to comply with their obligations. While this proposal has the potential to expand health care coverage to a large number of adults, it is likely to be most attractive if packaged as a child support/noncustodial parent initiative rather than a health care coverage expansion initiative.

- **Eliminate the restrictions on the Medicaid outreach funds for states**

Last year's budget proposed to eliminate the restrictions on the outreach fund established under the 1996 welfare law to allow these funds to be used for outreach activities relating to all children, not just those whose eligibility for Medicaid is tied to the new delinked eligibility category. The proposal also would have allowed states to draw down their allotments under this fund without regard to the three-year time limit imposed by the 1996 law.

We believe this proposal is still needed to clarify the purposes for which these funds can be used and to assure that those states that have been slow to take advantage of the funds are provided an opportunity to do so. We do not believe that providing states with additional outreach funds through this provision (as was proposed in the Administration's budget last year) is a priority. It is our understanding that if there is no change in the amount of funds appropriated to this fund, CBO will not score any cost to this proposal.

- **Allow states to cover lawfully present immigrant children in Medicaid and under programs funded with Title XXI child health funds regardless of their date of entry**

This proposal was included in last year's Administration budget. It would lift the ban on coverage of nonexempt qualified children who enter the country on or after August 22, 1996 in both Medicaid and in programs funded with the child health block grant funds. Over time, the federal ban will cause an increasing number of children to lose out on health care coverage. While it will be difficult to get at least the Medicaid aspect of this proposal enacted into law, states are strongly supportive of the initiative

[7] Medicaid eligibility for custodial parents is already tied to the child support system. Custodial parents must cooperate to establish medical support (and paternity) for any child with an absent parent.

and Senator Graham has recently introduced a bill that would lift the ban in both Medicaid and in programs funded with Title XXI child health block grant funds.

Last year, CBO estimated that the cost of the Medicaid proposal was $200 million over five years. The Title XXI change would have no cost (since the cost of coverage would be absorbed within the block grant allocations).

- **Allow states to provide 12-months continuous coverage to parents as well as to their children**

One of the Medicaid initiatives enacted as part of the BBA was a provision that allowed states to cover children for 12 months regardless of changes in the family circumstances that might affect their eligibility for Medicaid. This provision promotes continuity of coverage and care and helps states to establish Medicaid enrollment policies that fit within the managed care context.

This option, however, is not available to states with respect to the parents of the children that are covered under the 12-month continuous eligibility option. To the extent that a state covers the parents as well as the children in a family, it can only extend 12-months continuous coverage to the children. Parents are subject to regular Medicaid reporting and recertification requirements. This limits the effectiveness of the current option. Families in which the parent as well as the child is covered still have to report changes that otherwise would be irrelevant under the 12-month continuous coverage option, and states still have to act on these changes, at least with respect to the parent. Moreover, state contracts with managed care providers can only guarantee coverage for the children, but not for all members of the families, enrolled with that provider.

By extending the option so that an entire family (*if* otherwise eligible) could be covered for a 12-month period, the option established under the BBA could be made more effective for children. In addition, the change would help assure that parents, if otherwise covered under a state's Medicaid program, are assured continuity of coverage and care along with their children.

CENTER ON BUDGET AND POLICY PRIORITIES

Memo

To: Michael Deich, Steve Redburn, and Ted Wartell, OMB
Cynthia Rice, Andrea Kane, DPC
Chuck Marr, Jonathan Orszag, NEC

From: Bob Greenstein, Barbara Sard and Jeff Lubell, CBPP

Date: November 13, 1998

Re: Incremental Vouchers for FY 2000

The Administration scored an important victory this year in securing 50,000 new housing vouchers to help families move from welfare to work. After four years without substantial new appropriations of incremental Section 8 assistance, these vouchers should play an important role in helping more families obtain decent, affordable housing. The vouchers also should further the objectives of welfare reform by helping families for whom the lack of stable, affordable housing is a barrier to employment.

In light of the importance of stable, affordable housing to welfare reform efforts and the severity of the affordable housing shortage, we urge the Administration to build on its success and seek additional housing vouchers for FY 2000. The new housing bill provides authorization to increase the number of outstanding housing vouchers in FY 2000 by 100,000 units over FY 1999 levels; incremental assistance at this level would contribute significantly toward addressing the affordable housing shortage and furthering the objectives of welfare reform.

The Importance of New Housing Vouchers

Housing vouchers can make an important contribution to welfare reform efforts. By stabilizing the living situations of poor families, housing vouchers can help them focus more on securing and retaining jobs. Vouchers also can be used to help families move closer to a prospective work site or to an area with better job opportunities and transportation networks. Finally, housing vouchers free up funds within the budgets of poor families for work-related expenses, such as child care, work clothes, and transportation.

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@center.cbpp.org http://www.cbpp.org HN0026

Recent Research Confirms the Likely Contribution of Housing Subsidies to Welfare Reform Efforts

Data from several recent studies suggest that residence in subsidized housing may contribute to welfare reform efforts.

- *Minnesota Family Investment Project.* A recent evaluation of Minnesota's welfare reform initiative (known as MFIP) by the Manpower Demonstration Research Corporation found that residents of public and subsidized housing benefitted more from that initiative than poor families not residing in such housing. The central features of MFIP were a substantial increase in the amount of earned income disregarded in determining the family's eligibility for, and benefit level under, the State's cash assistance program, combined with a requirement that recipients participate in work activities. The evaluation found that among long-term welfare recipients in urban counties participating in the full MFIP program, employment and earnings increases were greater for families living in public or subsidized housing than for those in private housing. MFIP participants living in public or subsidized housing also outperformed residents of private housing on an absolute basis; average earnings over 18 months among long-term welfare recipients in urban counties who received full MFIP benefits and lived in public or subsidized housing exceeded by more than 40 percent the average earnings of full-MFIP participants not residing in such housing.

- *Tenant-based Section 8 Program in California.* Analyzing data collected in four California counties (Alameda, Los Angeles, San Bernardino, and San Joaquin), researchers from UCLA found that, on average, families receiving both Aid to Families with Dependent Children (AFDC) and Section 8 tenant-based vouchers or certificates worked significantly more hours than AFDC families living in other forms of housing, including unsubsidized housing. The study concluded that the most "plausible explanation [for these results] is that Section 8 housing offers recipients residential choice and mobility that improve opportunities for employment."*

---

* Paul Ong, "Subsidized Housing and Work Among Welfare Recipients," unpublished manuscript, p.1.

Housing vouchers also can help reduce the ranks of the homeless. A study released this month by New York University found that the living situations of most homeless families with children were stabilized with affordable housing alone, without bundling the housing subsidies with supportive services. Published in the American Journal of Public Health, the study reported that 80 percent of homeless families provided housing subsidies had a "stable" living situation for a year or more; this matched the percentage of non-homeless families with housing subsidies that had stable living situations over the same time period. (See the enclosed New York Times article on this study.)

Another important social purpose that can be furthered through housing vouchers is education. Studies show that the children of families that move frequently tend to do less well in school. By enabling poor families to find and keep affordable housing, vouchers help them to stay in place, improving their children's educational prospects.[1]

Studies prepared this year by HUD, the Joint Center for Housing Studies at Harvard, and the Center on Budget and Policy Priorities all report a large unmet need for housing assistance among lower-income renters. Some 5.3 million renter households that have incomes below 50 percent of the area median income (AMI) and do not receive federal housing assistance spent more than half of their income on housing or lived in severely substandard housing in 1995. Under HUD's categorization of housing needs, these households have "worst case housing needs."

The affordable housing shortage cannot be resolved solely by increasing the proportion of families that work. About 2.4 million renter households with worst case housing needs in 1995 had earnings as their primary income source. More than half of these 2.4 million households had earnings equal to full-time, year-round work at the minimum wage.

With the decline in welfare caseloads in recent years, the number and proportion of working households with worst case housing needs is likely to have risen. Census data indicate that in 18 of the nation's 20 largest metropolitan areas, the typical hourly wage in 1995 of single working mothers who had recently received welfare — roughly $6.00 per hour, as measured in 1997 dollars — leaves a family of three below 30 percent of AMI even if the parent works full time.[2] Similarly, a national study of single mothers who were working five years after leaving welfare found that their earnings averaged just $10,315 per year, below 30 percent of the national median income in 1997 (which was $11,745 as adjusted for a family of three.)[3] According to HUD, the vast majority of households with incomes below 30 percent of AMI that do not receive federal rental assistance - and more than 60 percent of households lacking rental assistance that have incomes between 20 and 30 percent of AMI - have worst case housing needs.

---

[1] Housing vouchers also can help victims of domestic violence escape an abusive living situation.

[2] This wage figure reflects the median hourly wage in 1995 for single working mothers nationally who also received AFDC benefits at some point in 1995. It was tabulated by the Center on Budget and Policy Priorities based on data from the Census Bureau's Current Population Survey. In this comparison, full-time year-round work is defined as 40 hours of work per week for 50 weeks of the year.

[3] Daniel R. Meyer and Maria Cancian, *Life After Welfare: The Economic Well-Being of Women and Children Following an Exit from AFDC*, Institute for Research on Poverty, University of Wisconsin, Discussion Paper No. 1101-96, August, 1996, p. 20. The $10,315 figure cited here reflects the study's finding as measured in 1997 dollars. These mothers were not necessarily employed continuously throughout the five-year period, and some may have received some welfare assistance since initially leaving the rolls.

While the economy has performed well since 1995, there is reason to believe the affordable housing shortage remains acute. In the two decades prior to 1995, the gap between the number of poor renter households and the number of apartments affordable to those households steadily increased. This trend persisted even through times of economic growth. For example, the gap between the number of poor renter households and the number of apartments affordable to those households increased by one million – almost 30 percent – between 1991 and 1995.[4]

In coming years, the affordable housing shortage is likely to worsen as a by-product of the recently-enacted reform of the public housing system. To increase the mix of incomes in public housing, Congress has authorized public housing agencies (PHAs) to decrease substantially the share of newly-available public housing units reserved for poor families. If PHAs were to take full advantage of this authority, the number of newly-available public housing units provided to poor families could drop by as much as 59,000 units per year.[5] The new legislation also could lead to a reduction in the number of poor families admitted to privately-owned Section 8 projects.[6] Since some housing authorities and private owners of Section 8 housing may choose not to (or be unable to) reduce the share of poor families they serve to the full extent allowed, the actual loss of units for poor families is likely to be less than the maximum potential loss outlined here; nevertheless, we expect it to be significant. The impact should begin to be felt by FY 2000.

---

[4] While an important source of affordable housing for families with incomes between 50 and 80 percent of AMI, the low income housing tax credit generally does not produce housing that is affordable to families below 30 percent of AMI unless the family utilizes an additional federal subsidy, such as a housing voucher.

[5] Approximately 13 percent (156,000) of the 1.2 million public housing units nationwide become available each year through turnover. In recent years, PHAs have provided about 78 percent (121,680) of these units to families with incomes below 30 percent of AMI. In the new housing bill, Congress authorized PHAs to reduce to 40 percent the proportion of newly available public housing units provided to such families. If PHAs were to take full advantage of this authority and admit to public housing only the required number of families with incomes below 30 percent of AMI, the number of poor families admitted to public housing each year could fall to about 62,400 – a drop of more than 59,000 relative to current practice.

[6] There are currently about 1.4 million project-based Section 8 units. About 75 percent of the families admitted to project-based Section 8 units in recent years have had incomes below 30 percent of AMI. Under the new statute, owners may reduce to 40 percent the share of newly available units provided to such families. While this rule will most likely result in some loss of units for poor families, it is unclear how large this loss will be. Mitigating the likely loss of project-based Section 8 units for poor families is a prohibition against skipping over a lower-income family on the waiting list in favor of a higher-income family. (No parallel provision exists with respect to public housing.) On the other hand, as project-based Section 8 housing tends to be located in better neighborhoods than public housing developments, private owners of Section 8 housing projects may have somewhat better success than PHAs in attracting higher-income applicants.

The new housing bill provides authorization to increase the number of outstanding housing vouchers in FY 2000 by 100,000 units over FY 1999 levels. An additional 100,000 housing vouchers in FY 2000 would make a significant contribution toward addressing the affordable housing shortage and the challenges of public housing reform and welfare reform.

Strategies for Increasing Appropriations for Housing Vouchers

While the needs of families with children facing work requirements and time limits under welfare reform are substantial, the needs of other very-low income working families, homeless families and individuals, and others are also significant. Once the determination has been made to seek incremental housing vouchers, we view the primary consideration in designing a proposal to be the likelihood of a positive response in Congress. How Congress will respond to a proposal for incremental housing vouchers is a difficult issue to assess. The following is a brief discussion of the comparative advantages and disadvantages of different strategies.

Welfare to Work Vouchers. Given the Administration's success last year in obtaining welfare-to-work vouchers, it may wish to consider seeking more in this year's appropriations cycle. This approach benefits from the consensus around welfare reform and, if well executed, should help many families move from welfare to work and remain employed. The one possible disadvantage of this approach is the likely argument from some on Capital Hill that it would be premature to expand this program because it is too new to have a track record of success and expansion should await evaluation results on the first 50,000 such vouchers.

Should HUD's Notice of Funding Availability [NOFA] for the welfare-to-work voucher program generate more applications than HUD can fund with FY 1999 dollars, unsuccessful applicants could generate some political pressure for additional appropriations of welfare-to-work vouchers. (This is one of many good reasons to keep the number of PHAs awarded welfare-to-work vouchers in the initial round fairly small. The other – and most important – reason is to ensure that HUD funds only the best applications with the greatest chance for success.)

In the event the Administration decides to seek more welfare-to-work vouchers, we would recommend a change in the statutory authorization to expand the range of organizations that may apply to participate in the program. We describe this proposed change in the Appendix.

Ordinary Vouchers. The last new appropriation of regular vouchers was made in FY 1994. (In FY 1995, the incoming Republican Congress rescinded an appropriation of incremental vouchers.) As ordinary incremental vouchers are distributed largely by formula to a very large number of PHAs, they have the support of the housing authority trade groups. There also is some sentiment (particularly in the Senate) that if there are to be new vouchers, they should be ordinary vouchers that local PHAs can use for whatever purpose they deem appropriate.

One factor that appears to have diminished prospects for ordinary incremental vouchers in the past is the perception that they are just a drop in the bucket of an overwhelming need for affordable housing that Congress cannot meet. Some believe that vouchers targeted on a specific need or population (see below) have a better chance of success.

A new variable in the equation for FY 2000 is the recently enacted reform of public housing. One could argue that incremental vouchers with no federally designated purpose address more directly the decrease in the number of poor families provided public housing in the wake of public housing reform. Since all local PHAs now have discretion to reduce the share of newly available public housing units provided to poor families, we expect that a fairly large number of communities around the country will see a decrease in the number of poor families provided public housing and a corresponding increase in the length of time it takes a poor family to receive a housing subsidy.[7]

Targeted Vouchers. An approach that showed some promise last year was to target new vouchers on specific populations, such as homeless households or families attempting to make the transition from welfare to work. The chief benefit of this approach is that it allows Congress to identify and address a specific component of the overall need for housing subsidies. The main drawback is that it fails to attract the support of communities that do not rank the identified need high on their list of priorities.

Hybrid Approaches

There are a number of hybrid approaches that combine different attributes of the strategies discussed above.

One approach would be to provide for distribution of the vouchers by formula, but to limit their use to any of a number of Congressionally-specified purposes, such as aiding the transition of families from welfare to work, preventing or ameliorating

[7] We would *not* recommend targeting vouchers directly to those PHAs that decrease the number of poor families provided public housing. An increase in the mix of incomes in public housing may make sense in some locations and not in others. Whether to change the mix, and if so to what degree, should be decided by local decision makers within the context of the federal guidelines agreed upon in the recently enacted housing bill. Targeting vouchers on PHAs that decrease the share of public housing units provided to poor families would interfere with this process by creating a strong incentive to minimize the number of poor families provided newly available public housing units.

homelessness, helping domestic violence victims, etc. This approach has the benefit of increasing the base of support for the initiative and preserving local freedom to choose among the permissible purposes. A downside is that no one constituency might feel sufficiently invested in the proposed new vouchers.

Alternatively, the appropriations act could specify that the new vouchers could be used only to meet the needs prioritized by communities in their Consolidated Plans. These are plans that every governor and mayor of a large city is required to develop with input from the community and submit to HUD. In the past, PHAs have generally determined priorities for housing assistance in isolation from the community-wide Consolidated Plan process. The new housing law seeks to change this by requiring that PHAs consider data made available and views expressed during the Consolidated Plan process and that PHA-determined local preferences for public housing and vouchers be consistent with the needs identified in the applicable Consolidated Plan. Requiring that new vouchers be used only to meet needs prioritized in the applicable Consolidated Plan would encourage PHAs to contribute their knowledge and perspective to the state- or city-run Consolidated Plan process and to address the housing needs identified in that process, thus helping to realize one of the objectives of the new housing bill.

Providing new vouchers to address the needs identified by state and local governments may appeal to advocates of increased devolution and federalism. On the other hand, this proposal is more difficult to explain and less targeted on a specific population than welfare-to-work vouchers or homeless vouchers. Targeted vouchers may generate more enthusiasm with some policymakers than vouchers designed to meet unspecified local needs.

One could combine these two hybrid approaches by providing that PHAs may use the new vouchers for one of several Congressionally-specified purposes *or* to meet a need identified in the applicable Consolidated Plan. Such a proposal may still lack a single invested constituency, but it might bring federalism advocates on board.

In either case (or if the approaches are combined), the new vouchers should be awarded to PHAs that show both (i) a willingness to commit existing resources (*i.e.*, the subsidies that become available through ordinary turnover) to serving the identified need *and* (ii) a likely inability to meet the identified need fully with existing resources. This would encourage PHAs to devote existing resources to meeting the identified needs (as the new legislation contemplates) and ensure that vouchers are awarded only to those communities that demonstrate an unmet need for them despite local efforts.

Conclusion

By providing poor families with a stable living situation, housing vouchers can help them focus on securing and retaining employment. A stable living environment also may help the children of subsidy holders do better in school. Other important objectives that could be achieved through housing vouchers include reducing the ranks of the homeless and aiding domestic violence victims. Even with the intervention of the low-income housing tax credit, the private market cannot produce enough affordable housing to meet these goals. Indeed, the affordable housing shortage for poor families is likely to worsen as a result of public housing reform.

In our view, the operative question in formulating a strategy for new vouchers is not which need is greatest - they are all substantial - but which has the greatest likelihood of success on the Hill. As discussed above, there are pros and cons to each of the various strategies for seeking new vouchers. If it would be of use, we would be happy to participate in a discussion of the relative merits of different approaches.

APPENDIX

Proposed Change to the Statutory Authorization for Welfare-to-Work Vouchers

In the event the Administration decides to seek more welfare-to-work vouchers, we would recommend a change in the statutory authorization to expand the range of organizations that may apply to participate in the program. The FY 1999 appropriations act limited applicants to PHAs. Although there are good reasons to require PHA involvement in each welfare-to-work voucher program, we do not think PHAs need to take the lead in preparing and submitting every application.

For those areas in which the local PHA elects not to submit an application, other agencies or organizations in the community should be permitted to do so provided they obtain the PHA's agreement to administer the housing aspects of the program (directly or through a sub-contract). While in such cases an organization other than the PHA would be the applicant (or co-applicant with the PHA), HUD's contract for the Section 8 assistance would still be with the PHA.

The New York Times
ON THE WEB

November 1, 1998, Sunday
Metropolitan Desk

Study Offers New Insight On Homeless

By NICHOLE M. CHRISTIAN

After following hundreds of homeless families in New York City to determine if social disorders prolonged their situation, a new study by New York University suggests the real problem is the city's scarcity of subsidized housing.

The study, to be released Tuesday in the American Journal of Public Health, challenges a widely held view that the most effective way to end homelessness among families is by first resolving such problems as mental illness and substance abuse.

The study concluded that homeless families, when provided with subsidized housing, can remain "stable" -- which the study defines as staying in the same apartment for at least 12 months -- regardless of the problems they may be battling. The research, done between 1988 and 1993, is considered the first long-term look at how social disorders affect the families' ability to find their way out of homelessness.

"The conventional wisdom is that homeless families need to become rehabilitated before they can become housed," said Marybeth Shinn, a professor of psychology at New York University and co-author of the study. "Our findings show that if given the housing first, homeless families will become stable and remain stable." The study did not look at single homeless adults, where incidents of mental illness and substance abuse tend to be more serious and widespread.

In reaching their conclusion, N.Y.U. researchers interviewed 564 families. Half of them were homeless for the first time; the other half were randomly drawn from the city's public assistance case load and had never been homeless. Every family was interviewed twice, once in 1988 and again five years later.

Researchers found that 80 percent of the homeless families who were given a subsidized apartment were able to remain stable, despite their problems. Their rate of success in remaining housed matched that of the families who had never been homeless. One reason for the homeless families' success, researchers concluded, was that their rent was paid directly to a landlord.

The study did not address what effect the acquisition of a stable apartment had on helping the families resolve their personal problems.

"We're not saying that social services couldn't prove advantageous to these families, or that substance abuse and mental illness don't take tolls on families," said Beth C. Weitzman, an associate professor in N.Y.U.'s Robert F. Wagner Graduate School of Public Service and a co-author of the study. "But those issues are all separate and distinct from homelessness. Just because a family has problems doesn't mean they can't remain housed."

Of the homeless families who did not receive subsidized housing, only 18 percent found permanent housing, mostly by moving in with a relative or friend, the study found. Researchers linked their low success rate in part to the fact that some families left the shelter before they were deemed eligible for housing. Those who left forfeited their spot on the waiting list. During the time of the study, most families had to wait 6 to 18 months before becoming eligible.

Some veteran researchers of homelessness hailed the N.Y.U. study for trying to refocus one of the oldest debates surrounding homelessness.

"This study will inevitably be read by many people as dismissing the importance of social services," said Jim Baumohl, an associate professor of social welfare at Bryn Mawr College in Pennsylvania. "But what it's really saying is that if the goal is still to reduce shelter utilization, then we to ought to consider a strategy of rapid attachment to housing, rather than assuming homeless families can't stay housed."

Susan Wiviott, a spokeswoman for the city's Department of Homeless Services, said she had not yet seen a copy of the study. But she said the city shares the view that subsidized housing is an effective way of helping the 4,700 homeless families now living in the city's shelters.

Since the Giuliani administration took office, Ms. Wiviott said, 21,000 homeless families have moved out of shelters and into subsidized housing. But she added that in the wake of the Federal Government's recent decision to scale back national housing subsidies, New York was ill equipped to foot the bill.

"Alone, we can't afford to house everybody who needs subsidized housing. Our hope is that Washington recognizes the need to continue its contribution of Section 8 and other Federal subsidies."

The N.Y.U. study was financed through a grant from the National Institute of Mental Health.

Organizations mentioned in this article:

Related Terms:

You may print or save this article now.

New Search

SEARCH FOR: **SORT BY:** Closest Match

Search Tips

SEARCH THESE SOURCES:

- ☑ The New York Times 365-Day Archive
- ☑ Encyclopædia Britannica Online

CENTER ON BUDGET AND POLICY PRIORITIES

November 7, 1998

FOOD STAMP LEGISLATIVE PROPOSALS

Both in his 1992 campaign and in his first State of the Union address on February 17, 1993, President Clinton stated that if a family works full time throughout the year, the family should not have to live in poverty. This goal shaped the Administration's historic EITC expansion enacted in 1993. The EITC expansion was designed so that full-time year-round minimum-wage earnings plus the EITC and food stamps would bring a family of four to the poverty line.

For 1998, the poverty line for a family of four is projected to be $17,100. Combined income from full-time minimum wage work, the EITC, and food stamps also equals $17,100.

This outstanding achievement — bringing these families out of poverty — is secured, however, only if low-income working families do receive food stamp benefits. Indeed, food stamps are nearly as significant to such families as the EITC. In 1998, a family with full-time minimum wage earnings qualifies for $3,756 from the EITC and about $3,600 in food stamps. (See attached chart.)

Unfortunately, participation in food stamps by low-income working families is low and appears to be dropping. Some working poor families are barred from food stamps by archaic assets rules, especially in the vehicle area; for many such families, a modest car needed to commute to work disqualifies them from food stamp benefits. Other working poor families are eligible for food stamps but are not participating in part because of complexities and procedural and other barriers that make it harder for working than non-working families to participate in the food stamp program or that discourage them from participating.

Recent data on food stamp participation illustrate the dimensions of this problem. Between 1995 and 1997, the number of people receiving food stamps in an average month fell a stunning 4.4 million. Only a portion of this decline stems from the impact of the economy and welfare reform in raising earnings so that households are lifted out of the food stamp income range. Between 1995 and 1997, the number of people living in poverty declined 851,000. The decline in food stamp participation — 4.4 million — was five times as great. (See attached chart.)

The same pattern is found when one examines the *percentage* change in the number of poor people and the number receiving food stamps. The number of people living in poverty fell 2.3 percent between 1995 and 1997. The number receiving food stamps plunged 16.6 percent, seven times as much.

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@center.cbpp.org http://www.cbpp.org HN0026

The changes that the welfare law made in food stamp eligibility also played a role here; they removed about 1.25 million people from the food stamp rolls. (These changes principally affected immigrants and adults without children.) But the combined effect of improvements in the economy and restrictions in food stamp eligibility falls well short of explaining the large declines in food stamp participation. Harold Beebout of Mathematica testified at a recent Senate hearing that these factors may explain as little as half of the food stamp participation decline. At the hearing, both Beebout and researchers for Abt Associates testified that food stamp participation rates appear to be falling significantly.

Other data lend weight to this observation. In 1995, there were 72 food stamp participants for every 100 poor people. In 1997, there were 62 participants for every 100 poor people. A similar decline is found when one looks just at children.

These data, as well as anecdotal evidence from states, indicate that many families that would have received cash assistance under the "old regime" but now are off welfare and working for low wages are not receiving food stamps. The lack of food stamp receipt by these families can have several deleterious consequences.

1. As noted earlier, lack of food stamps causes many families earning low wages to be several thousand dollars below the poverty line rather than out of poverty. Moreover, it can cause such families, including the children in them, to fall short of receiving an adequate diet throughout the month.

2. Lack of food stamps also can undermine welfare reform goals. Families that leave welfare for work can, on a monthly basis, be worse off working than on welfare if they do not receive food stamps when they are working. In particular, if they are working part-time (such as 20 hours per week) at a low wage and not receiving food stamps, their monthly disposable income is likely to be lower than when they were on welfare. (The EITC they receive after the year is over still can make them better off by working, but the EITC does not come on a monthly basis, and many families that leave welfare for work appear not to understand they will receive an EITC after the year ends — at least not until they begin receiving the EITC.) This problem is most severe where working families mistakenly think they must go back on welfare to get Medicaid and food stamps.

For these reasons, steps need to be taken to make the food stamp program more accessible to and adequate for low-income working families. These steps fall into two categories — legislative steps and administrative steps. This memo primarily focuses on legislative steps, although it also covers several administrative steps that ought to be taken, some of which would significantly lessen the cost of one of the principal legislative measures we recommended here. We are preparing a second memo on administrative steps that can be taken.

This memo discusses seven recommendations:

1. Raising the limit on the value of vehicles that working poor households may own without being denied food stamps.

2. Restoring food stamps to working poor immigrant parents.

3. Assisting working families that incur substantial out-of-pocket child care costs.

4. Giving states a new food stamp option to align several food stamp income definitions with definitions states are required to use in Medicaid.

5. Giving states another new food stamp option to better enable them to help families making the transition from welfare to work.

6. Providing a modest upward adjustment in the maximum food stamp shelter deduction for families with children, a step that would disproportionately benefit working poor families.

7. Issuing administrative guidance that funds in Individual Development Accounts, including IDAs supported with resources other than TANF funds (such as state or foundation funds) are excluded from food stamp asset determinations.

The principal cost lies in the vehicles and immigrant proposals. The shelter deduction provision suggested here can be designed in a manner to keep its costs small. The other four proposals all should have very small cost; we expect that each of these four proposals should cost less than $50 million over five years and in some cases less than $25 million.

1. Raising the Limit on the Value of Vehicles that Working Poor Households May Own Without Being Denied Food Stamps

The Food Stamp Act of 1977 required states to count the fair market value of a car as a resource to the extent that the value exceeds $4,500. In setting this limit, the House Agriculture Committee report stated that the limit was intended to affect only households with expensive cars, not those with ordinary vehicles needed to commute or look for work.

In the 21 years since the limit was originally set, however, it has been increased only $150 — or about three percent — while the Consumer Price Index for cars has *nearly tripled.* Since the vehicle limit was set at $4,500 in 1977, the CPI-U for used cars has risen 178 percent. For the vehicle limit today to have the same real value that the $4,500 limit had in 1977, it would need to be set at $12,500.

Stated another way, the current limit equals *just 37 percent* of the 1977 limit's real value. As a result, the vehicle limit has a far more restrictive effect on working poor families today than Congress intended when it established the limit. (It may be noted that the Clinton Administration addressed this issue in its first budget, and the 1993 reconciliation law included a Clinton proposal raising and indexing the food stamp vehicle limit. The welfare law, however, repealed this provision of the 1993 reconciliation law before it had taken effect to any significant degree. As explained below, the proposal we recommend here would *not* restore the law as it stood prior to the welfare law but would take a different approach that might accomplish more and should be more politically appealing to governors and Republican Members of Congress.)

THE FOOD STAMP VEHICLE RESOURCE LIMIT HAS LOST VALUE OVER TIME

	CPI-U for Used Cars	Actual Limit	Real Value of 1977 Limit	The Limit's Decline in Real Value since 1977
1977	54.7	$4,500	$4,500	---
1984	112.5	$4,500	$9,255	51.4%
Sept. 1998	151.9	$4,650	$12,496	62.8%

By January 1984, President Reagan's Task Force on Food Assistance, while advancing very conservative proposals in other food stamp areas, warned that the food stamp assets limits had eroded significantly to inflation since 1977 and called for the vehicle limit to be increased immediately from $4,500 to $5,500. The Task Force wrote that many working households that had recently become poor due to unemployment "do not qualify for food stamps because they own too many assets such as autos.... Sometimes these assets are not readily marketable, and if the household has borrowed to purchase them they may actually be a drain on the household's resources.... Therefore, we believe these households should be given greater access to the food stamp system. Raising the limit will help accomplish this."

As the Reagan Task Force explained, the food stamp program bases eligibility determinations on a vehicle's *fair market value*, not on the equity a household has in its vehicle. A vehicle thus can disqualify a household from receiving food stamps even if the household has little equity in it and would receive little money from selling the vehicle.

This restrictive provision apparently has its sharpest effects on working poor families in rural areas. Census data show that poor rural households are somewhat more likely to own cars than poor urban households are, evidently due to the longer distances and lack of public transportation in rural areas. A significant number of rural poor households are now ineligible for food stamps due to the cars they use to commute to work.

In addition, when working households lose their jobs during a recession, the relatively low limit on the value of vehicles they may own can become a barrier preventing them from receiving food stamps. If these unemployed households sell their cars to become eligible for food stamps, they may encounter greater difficulty returning to the workforce when the recovery improves, because lack of a car can make it harder to search for a job or commute to work. Recent research has found that whether a family has a reliable car is an important factor in determining the success of its effort to make the transition from welfare to work (see Appendix A below).

Recognizing these problems, many states have substantially liberalized their policies concerning the vehicles that families may own while qualifying for cash assistance under the TANF block grant. The Urban Institute reports that in recent years, 48 states have liberalized the vehicle limits in their cash assistance programs. These TANF changes affect the food stamp program as well; families getting cash assistance from a TANF-funded program are deemed to meet the food stamp income and asset criteria, so a family whose vehicle otherwise would place the family above the food stamp assets limits qualifies for food assistance as long as the family is participating in the TANF-funded program.

Once such a family ceases to receive benefits under a TANF-funded program, however, the regular food stamp limits apply. As a result, some families that depend on vehicles worth more than the food stamp limit can lose all of their food stamps, as well as cash assistance, when they find employment.

This sudden loss of a large amount of benefits can undercut the rewards of moving from welfare to work. In addition, the current policy means that a family needing temporary assistance during a period of unemployment may be able to obtain food stamps only if it also applies for benefits from a state's TANF-funded program. Yet the family may wish to remain off cash assistance.

As a result, a legislative change is needed here. One possibility would be to follow the approach contained in the provision of the 1993 reconciliation act that the welfare law repealed — to raise the food stamp vehicle limit and index it. This approach, however, is unlikely to succeed on Capitol Hill; Republicans on the House Ag. Committee are likely to be strongly opposed to indexation.

A politically much sounder approach would be to advance a legislative proposal allowing states to conform their food stamp vehicle limit to the vehicle limit used in their TANF or Medicaid program (i.e., the component of Medicaid relating to families with children) so long as that limit is not more restrictive than the vehicle limit provision in the food stamp statute. This would allow — but not require — states that have liberalized the vehicle rules in their TANF programs to apply the same rules in the food stamp program, so that families that work their way off welfare do not suddenly face the loss of their food stamps. Alternatively, states that seek to facilitate joint Medicaid/ food stamp enrollment on the part of working poor families not receiving welfare might conclude the best approach is to align their food stamp vehicle limit to the limit used in their Medicaid program. That, too, would be permitted under this provision. This provision should have strong appeal to states.

This provision entails a not-insignificant cost. (We do not have figures on just what the cost estimate would be.) But it should be noted that there are two steps USDA can — and should — take administratively that would significantly liberalize the food stamp program's treatment of the vehicles that low-income working families possess. If these steps are taken, as they should be in any case, the cost of a legislative proposal in this area will be substantially reduced, although it will still be significant.

One of these two administrative steps actually is mandated by current law. Because of its unfamiliarity with the difference between "assistance" and "benefits" under the TANF part of the welfare law, however, USDA has not implemented it. Thus, some working families that should be eligible for food stamps under current law are being inappropriately treated as though they exceed the food stamp vehicle limit and are considered ineligible. USDA was not aware of this problem until very recently. If USDA issues guidance setting forth the appropriate legal interpretation (regulations are not needed for it to take effect), this would provide immediate relief to some families, as well as to states seeking greater conformity of food stamp and TANF asset exclusions. This guidance should be issued expeditiously. (Appendix B below explains this issue in more detail.)

The other administrative step arises from a provision of the food stamp statute enacted in 1990 that allows USDA to exclude from consideration in food stamp eligibility determinations any "resources that, as a practical matter, the household is unlikely to be able to sell for any significant return because the household's interest is relatively slight." This provision was intended to prevent families from being denied food stamps because of resources that could not be sold for a significant amount of money and hence could not be used to finance the purchase of significant amounts of food. Unfortunately, the Bush Administration prohibited states from applying this exclusion to vehicles, and USDA's regulations reflect that interpretation.

Several law suits challenging this USDA rule were filed by working poor families who owned cars with fair market values that exceeded the food stamp resource limit but who had little or no equity in these cars (because of outstanding loan balances). These families appropriately argued that they would, "as a practical matter, [be] unlikely to be able to sell [the car] for any significant return" since any proceeds would go to paying off the balances on their loans. Although a few courts held USDA's interpretation was contrary to law, the consensus was that whether or not to exclude such vehicles was a choice within USDA's discretion. If USDA were to change its regulations to eliminate the prohibition on applying this rule to vehicles, households that lack any significant equity in the cars they use to commute to work could qualify for food stamps.

Denying food stamps to such households is counterproductive. Compelling them to sell their cars could make it more difficult for them to maintain or search for and accept employment. It also would do little to enable them to purchase food, since these households would receive no significant return from selling their cars.

Since this change would be a liberalization of current regulations, USDA would have to publish a change in its regulations to effectuate it. USDA could do so, however, as an interim final rule, making the change effective at an early date while the Department receives and reviews comments on this change.

The cost of making the legislative change recommended above in the food stamp program's vehicle policy would be affected substantially by whether the Administration's baseline assumes adoption of one or both of the administrative remedies described here. If the cost of the vehicle proposal still remains too high, the cost could be lowered further by limiting the option for states to use their TANF or Medicaid vehicle limit in the food stamp program so that the vehicle limit cannot exceed a level to be set by the Secretary of Agriculture. (One would not write a specific dollar amount into the proposal because such an amount could become a focal point for debate in the Agriculture Committees.)

2. Restore Food Stamps to Immigrant Working Families with Children

Last year, the Administration proposed to restore food stamp eligibility to legal immigrant families with children, the elderly, and the disabled, as well as to certain refugees and asylees. In the agricultural research law, it succeeded in restoring food stamps to most immigrants who are elderly, disabled or children and who entered the country before August 22, 1996. But most immigrant parents remain ineligible. As a result, many immigrant families with children continue to receive much less in food stamps than they need to afford a minimally adequate diet.

Virtually all immigrant families with children contain one or more non-elderly, non-disabled immigrant adults who remain ineligible for food stamps. Indeed, the children in many immigrant households are U.S. citizens; these households were not affected by the agricultural research law. Because only the children are considered in determining the amount of food stamps most immigrant households receive, an immigrant family with children may get only one-third to one-half of the food stamps it needs to allow it to purchase adequate food through the month. The resulting hardship is likely to affect the children as well as their parents.

Last spring, it may have seemed as though the agriculture research law secured all of the food stamp immigrant restorations that are politically achievable. In the aftermath of the November 3 elections, however, it is far from clear this is the case. Newspaper articles and exit polls show Hispanics voting for Democrats by substantial majorities, especially in California. Asian voters favored Democrats as well. Republican concern about their party's poor showing with Hispanic and, to a lesser degree, Asian voters may now make Republicans willing to give more ground to the Administration in this area if the Administration pushes for further immigrant benefit restorations. (Moreover, if the Administration seeks further restorations but Congress refuses to accept them, that may have political repercussions of its own with Hispanic and Asian constituencies.)

There are several approaches the Administration can take in this area. Extending this year's food stamp restoration to cover legal immigrant parents living with children would assure that such children receive adequate nutrition. If this is deemed too costly, the Administration could propose restoring food stamps to *working* immigrant parents.

Another option is one that was seriously discussed during Congressional/OMB negotiations on the food stamp immigrant provisions to be included in the ag. research bill and dropped only because it did not fit in the bill's cost constraints. This option would restore food stamps to legal immigrant household members who entered the U.S. before August 22, 1996 and resided in a household that: 1) contained one or more minor children; and 2) had earnings or employment of at least a specified level. (The specified level could be something like that a household member worked at least 20 hours per week, had weekly earnings at least equal to 20 times the minimum wage, or had earnings sufficient to have earned at least one Social Security quarter of work during the previous year.)

One considerable attraction this option holds is that it does not erode over time in the rapid fashion that the food stamp benefit restorations in the ag. research bill do. The restoration of benefits in the ag. research law for immigrant children erodes particularly rapidly; with each passing year, there will be fewer individuals who resided here on August 22, 1996, and still are children. Under this option, a child born *after* August 22, 1996, would make eligible for food stamps the legal immigrant members of a low-income working household who themselves entered the country before August 22, 1996. As a result, this provision would continue to qualify legal immigrants for food stamps for years after the children's restoration in the ag. research bill ceases to have much effect.

Another advantage all of these options have is that they help families consisting of legal immigrant parents and *citizen* children. The Urban Institute reports that 75 percent of the children in immigrant families are U.S. citizens. In a recent presentation, Urban Institute researchers commented that benefit restorations targeted only on legal immigrant children provide only limited help for this reason and that children can be helped more by targeting benefit restorations on their parents.

3. Assisting Low-Income Working Families that Incur Significant Out-of-pocket Child Care Costs

Among the largest expenses families can face when they leave welfare for work are child care costs. States do not always provide child care subsidies to families that leave welfare for work. When states do provide such assistance, the subsidies may not cover the full cost of child care.

Moreover, states may cover the child care costs of families that have recently left welfare for work but not cover the child care expenses of many other working poor families. In short, some low-income working families still incur substantial out-of-pocket child care costs.

The food stamp program recognizes this reality to some extent. It allows a household to deduct unreimbursed dependent care costs related to work (or job skills training) from income when the household's food stamp eligibility and benefit level are determined. Under current law, however, this deduction is capped at $200 per month for a child under age two and $175 for an older child. These limits were set in 1988 for the AFDC program and subsequently applied to the food stamp program as well. These limits have not been adjusted for inflation since 1998, and in some areas, appropriate child care now can cost more than these amounts.

The Administration has several options for addressing this problem:

- The simplest would be to provide a one-time adjustment for inflation from 1988 to 1999 so the ceilings on the food stamp dependent care deduction are returned to the 1988 levels in real dollars. This would bring the ceiling on the food stamp dependent care deduction to approximately $325 per month for children under age two and $285 per month for older children.[1] (Alternatively, the Administration could propose a smaller adjustment to cover inflation in child care costs just between 1993 and 1999 (or 2000). It was in 1993 that the food stamp program conformed its dependent care deduction to the dependent care disregard limits written into AFDC in 1988. This approach would raise the ceiling on the food stamp child care deduction to $250 for children under two and $220 for older children. The difference in cost between an adjustment to cover inflation since 1988 and an adjustment covering inflation since 1993 is so small, however, that one probably ought to use 1988 as the base.

- The Administration also could take a different approach and propose giving states the flexibility to set the ceiling on the food stamp dependent care the deduction at any level up to the market rate the state has identified under their programs funded through its Child Care and Development Block Grant. To protect against the possibility of gaming, USDA would need to be given authority to disallow patently unreasonable ceilings.

- Finally, the Administration could convert this deduction to a flat, standardized amount. Any household with unsubsidized child care costs above a specified modest level would receive a deduction from its income of a fixed amount, without regard to the specific amount of its child care costs. Once a state verified that a household had unsubsidized child care costs, it would deduct a set amount (*e.g.*, the current $200 for small children and $175 for older ones). This approach would be less well-targeted than raising the ceiling on the deduction and continuing to limit the deduction to the actual costs a family incurs. On the other hand, states would probably prefer the flat deduction approach since it is simpler and would likely reduce error rates, although by only a small amount. A flat deduction also would likely benefit families that use informal child care

---

[1] Since the beginning of 1991, when the Bureau of Labor Statistics began reporting a separate CPI-U for child care and nursery school, this index has risen 43 percent. Between 1988 and the end of 1990, the general CPI-U rose 10.5 percent. Compounding these two measures and projecting to the end of 1999, the result is an increase of about 62 percent in the cost of child care. Since child care costs have been rising much faster than general inflation, this calculation probably understates the increase in child care costs since 1988 (as a result of the lack of CPI data on child care costs for years before 1991).

arrangements and find it difficult to document all of their expenses to the food stamp office.

Whichever approach the Administration selects is likely to be very inexpensive, since relatively few households claim the food stamp dependent care deduction. In 1996, only 3.5 percent of food stamp households received any dependent care deduction, and of those, only 14.1 percent (or only about one-half of one percent of all food stamp households) received the maximum deduction. CBO scored the provision of the 1993 budget legislation that raised the ceiling to the current levels (from a uniform cap of $160 per child per month) at less than $5 million per year.

4. Giving States the Option to Align Food Stamp Income Definitions with Definitions in Medicaid

A provision of the 1996 welfare law requires states to maintain Medicaid eligibility criteria for families with children that are no more restrictive than the eligibility criteria used in the state's AFDC program as of July 1996. This provision essentially requires states to exclude from the definition of income used in Medicaid those items that were excluded under the state's AFDC program as of July 1996.

A few small and fairly obscure items that were excluded from states' AFDC definitions of income in 1996 are included as income under the Food Stamp Act. These discrepancies affect only very small numbers of households. But they prevent states from aligning their definitions of income for food stamps and Medicaid as part of an effort to streamline the provision of assistance to low-income working families not receiving cash aid.

Moreover, since many states use the same definition of income for TANF and Medicaid, these differences also hinder coordination between TANF and food stamp policy. Requiring eligibility workers and computer systems to keep track of two different gross income levels for the same individuals can be burdensome and potentially error-prone for states.

This problem could be remedied at very minor cost by giving states the option to exclude from food stamp income calculations any items that federal law *requires* them to exclude for Medicaid.[2] This would allow states to conform food stamp and Medicaid definitions and increase program coordination. Indeed, if states could align food stamp

[2] Although the Food Stamp Act excludes from income a few items that certain states may have counted in their former AFDC programs, this does not pose an obstacle to achieving conformity among the programs, because the Medicaid statute allows states to use less restrictive income definitions than those the state applied in its old AFDC program. A state could elect to extend to Medicaid the few income exclusions in the food stamp program that are not already in the state's Medicaid program.

and Medicaid income definitions, some might choose also to apply the same income definitions to other programs that serve low-income working families, such as child care and LIHEAP.

This option should be quite inexpensive since the main types of income it would affect are relatively unusual — certain federal educational assistance not provided under the Higher Education Act and small state "complementary assistance" programs.[3] The main point would not be to raise benefits, but to allow states to develop an integrated system for providing post-welfare assistance to low-income working families with children that includes both food stamps and Medicaid.

5. Assisting Families Making the Transition from Welfare to Work

Some states offer one-time payments to families that are leaving TANF cash assistance for work. For example, Arkansas gives families a payment equal to twice the monthly cash assistance grant to help such families meet the costs of the transition to work, such as paying for transportation, work clothes, etc. Food stamp rules, however, serve as a disincentive to states considering such a "welfare-to-work" payment, because these payments count as income for the purposes of calculating the household's food stamp benefit.

As a result, when a state gives a one-time check of $100 to a family leaving welfare for work, the state essentially increases the family's income by $67, because the family's food stamps go down about $1 for every $3 dollars that its income rises. This proposal would exclude one-time payments made from TANF-funded programs to help families leaving the TANF cash assistance program for work to make the transition to employment.

USDA already allows states not to count in food stamp income calculations what are known as TANF "diversion payments" — payments provided to induce families not to apply for cash assistance. USDA allows states to exclude these payments under a provision of the Food Stamp Act that excludes "nonrecurring lump-sum payments" from being counted as income. These payments do count as resources. The proposal

[3] This option would only allow states to conform their food stamp policy to the income exclusions states had in their AFDC-based Medicaid program in July 1996; it would not allow states to extend to food stamps any further income exclusions that a state may subsequently have adopted under the authority the welfare law granted states to liberalize Medicaid rules. This limitation should not seriously interfere with states' ability to adopt a single set of income definitions since most states that have used the new statutory authority to liberalize Medicaid income eligibility rules have done so by creating flat disregards — for example, disregarding an amount of earnings up to the poverty line — rather than by changing the definition of what income can be counted in the first place.

here is to allow states to extend the same treatment to one-time payments that states give families leaving welfare for work.

This option could be proposed as a legislative change. But it would not have to be. USDA could exclude these "welfare-to-work" payments administratively by interpreting the Food Stamp Act's "lump sum" exclusion as applying to these payments as well. To date, USDA has been reluctant to do so because of concerns about the precedent of excluding through administrative action unencumbered payments that families can use to meet basic living expenses. If these policy concerns were resolved, instituting a new interpretation would require only that USDA amend policy guidance that it issued this summer on excluding "diversion payments"; formal regulations should not be necessary.

This proposal should have very little cost because few states make these payments. Even if this policy change induced some additional states to make the payments, these states likely would do so with TANF funds otherwise going unspent. As a result, food stamp costs would not rise in these states above the cost levels that would prevail in the absence of this policy change.

6. Help Families that Experience High Housing Costs

A major inequity in the current low-income assistance system is that a fraction (about 30 percent) of poor households receive housing assistance, while the rest do not. Those that receive such assistance generally spend about 30 percent of income on rent and utilities and have more money left for food than do those households that do not receive housing subsidies (or otherwise have low-cost housing) and that must pay 60 percent or 70 percent of income for housing. The food stamp shelter deduction is the most significant part of the low-income assistance system in lessening this inequity. It targets food stamp benefits to families that need them most because they do not receive housing aid and must bear housing costs that consume the majority of their income.

In determining how many food stamps a family can receive, its housing costs are taken into account. Specifically, a household is allowed a deduction from income for the amount by which its housing costs exceed *half* of its income. This is done to ensure that families with few resources left after paying their rent and heating bills can secure enough to eat. There is a ceiling on the amount of this deduction. No household except those with an elderly or disabled member can get a deduction exceeding the ceiling. This cap on the shelter deduction hits hardest at very poor families with children who do not get any HUD housing assistance. (It has no effect on elderly and disabled.)

The 1993 reconciliation law contained a Clinton Administration proposal to eliminate the cap on the food stamp shelter deduction. The removal of the cap would be phased in slowly and not take full effect until 1997. The 1995 Senate welfare bill, although it contained deep food stamp cuts, preserved this important provision. The final welfare law, however, followed a House proposal and maintained a cap on the shelter deduction which, after two modest interim increases, is to be frozen permanently at $300 beginning October 1, 2000.

Over the long run, this provision is more restrictive that the law as it stood before the 1993 Clinton provision was enacted because prior law adjusted the shelter cap annually to reflect increases in rent and utility costs. This provision of the welfare law was one of the principal provisions the President singled out for criticism when he announced he would sign the law. The President's budget for the following year proposed removing the cap on the shelter deduction, but this proposal was not successful.

A shelter deduction at the $300 cap is likely to be sufficient for most households receiving cash assistance: after other allowable deductions, most such households will not need a larger shelter deduction (and few may be able to afford to spend enough on housing to justify a larger deduction). A major impact of the $300 cap is on working poor families. Working poor families are much less likely than those on cash assistance to be receiving HUD housing subsidies and hence are more likely to face high housing costs. Also, while households with children constitute 62 percent of all food stamp households, they make up 90 percent of the households who would be helped by raising the shelter cap and hurt by its retention at its current level. Although these working families may have somewhat higher average gross incomes than cash assistance recipients, they may have insufficient money available to purchase food because much of their income is tied up meeting high housing costs. In 1996, almost one-third of working poor food stamp households that claimed the shelter deduction were at that year's shelter deduction cap. An increase in the cap on the food stamp shelter deduction would help working poor people avoid having to choose between paying their housing and utility bills on the one hand and buying food for their families on the other. Members of Congress have characterized liberalizations of the food stamp shelter deduction as saving families from having to choose between heating and eating.

Completely removing the cap would be very expensive and also unacceptable to House Republicans. House Republicans also are sufficiently opposed to automatic adjustments for inflation that they probably would flatly reject a proposal to index the $300 cap. What makes most sense to propose a modest one-time increase. For example, the Administration could propose to add another increment to the food stamp shelter deduction cap so it rises to $325 on July 1, 2001, or October 1, 2001. If more funds are available, the increase to $300 scheduled for October 1, 2000, could be accelerated to occur in January 2000 (before the cold winter months with their higher heating bills), with a further increment to $325 made in July 2001. (It is preferable for increases to be proposed to occur in July rather than October so they occur before the appropriators could eliminate them and use the savings to offset added spending in other programs under the jurisdiction of the agriculture appropriations subcommittee.)

7. Individual Development Accounts and Food Stamp Asset Limits

The 1996 welfare law authorized states to use TANF block grant funds to create individual development accounts (IDAs) for low-income families. Families are only permitted to make withdrawals from their IDAs for specified purposes, such as purchasing a new home or educational expenses.

The 1996 welfare law prohibits any means-tested program from counting TANF IDAs in income or resource calculations. This appears to be true even if TANF funds are not actually contributed to the accounts: even if TANF funds are used only for the expenses of administering the IDA (*i.e.*, even if the family receives no "assistance" from a TANF-funded program), the TANF statute appears to prohibit any other means-tested program from considering the IDA available to the household.

Some states and foundations, however, may wish to establish IDAs for families independent of their TANF-funded programs. A question arises how the food stamp program would treat such IDAs. Food stamp rules exclude resources "having a cash value which is not accessible to the household, such as but not limited to, irrevocable trust funds ... ." Where a household cannot obtain access to funds held in an IDA to purchase food or meet other ordinary living expenses, this provision would appear to apply. In addition, the Food Stamp Act excludes from income calculations "any gain or benefit which is not in the form of money payable directly to a household... ." Here again, if the household is prohibited from withdrawing interest earned on an IDA except for extraordinary expenses such as home purchases or educational expenses, that interest can reasonably be considered unavailable to the household and excluded from food stamp income calculations.

USDA therefore could issue guidance making clear that non-TANF IDAs, as well as IDAs that receive only TANF administrative funds, do not affect households' eligibility for food stamps. Because appropriate statutory and regulatory provisions already exist, no new regulations would be required.

Appendix A

New Research Underscores the Importance of Car Ownership to Efforts by Low-Income Mothers to Go to Work

A memorandum recently prepared by noted welfare researcher Kathryn Edin of the University of Pennsylvania for a December 1998 conference on assets and low-income families underscores the need for means-tested programs to have asset rules that allow low-income working parents to have reliable cars. In her memo, "The Role of Assets in the Transition from Welfare to Work," which is based on repeated intensive interviews with 379 low-income single mothers and 90 low-income non-custodial fathers, she writes:

> The end result of these asset-specific welfare rules [the asset rules in place prior to enactment of the welfare law] is that those mothers who end up on welfare tended to be those who had either exhausted their store of assets or never has any substantial assets in the first place. Because the welfare population overall was unusually asset poor, this meant that mothers were poorly situated to move from welfare to work; they couldn't withstand income shocks inherent in the low-wage labor market. This is perhaps part of the reason why, during the 1980's, two thirds of welfare-to-work exits failed (mothers returned to the rolls for a subsequent spell). While off the rolls and on the job, these mothers' income showed frequent fluctuation. One educated guess why some sustained the transition to work while others did not is that assets were unequally distributed among mothers, and those who had them were better able to withstand income fluctuations than those who did not.
>
> On a purely practical level, cars valued under $1,500 [the old AFDC limit was a $1,500 limit on the equity value of a vehicle] tended to be unreliable, got poor gas mileage, and required frequent repair, making the transition from welfare to a job difficult even for those with cars.... .
>
> A mother's own assets are crucial to her ability to move from welfare to work; some save time, some save money, some can be a source of income generation (a car, a sewing machine, a washer and dryer, catering equipment, and so on). A car saves time and the time bind is severe for many single mothers. For those mothers who do not have a car, commuting times generally range between one and two hours a day. Trips to the grocery store, the food bank, and/or the welfare office may also involve time-consuming commutes. This means that a mother who works an eight-hour day will generally spend between ten and twelve hours away from home. Other income generating strategies take up substantial time as well. Our rough estimates are that mothers often spend between 60 and 70 hours per week working, getting to and from work, and doing the other things they need to do to survive economically. A car can cut commuting time substantially, making the balancing act between work and parenting substantially less precarious.

A growing number of states have modified their TANF rules related to cars in recognition of the reality about which Edin writes. The Urban Institute reports that 48 states have raised vehicle limits in their cash assistance programs in recent years. Food stamp vehicle rules, however, are undermining these enlightened state actions.

Appendix B

The TANF Provisions of the Welfare Law and USDA's Food Stamp Vehicle Rules

Under the welfare law, a family receiving "benefits" under a TANF funded program is eligible for food stamps without separately meeting food stamp income and asset rules. Thus, so long as a family is receiving "benefits" under a TANF-funded program, the food stamp vehicle limit does not apply.

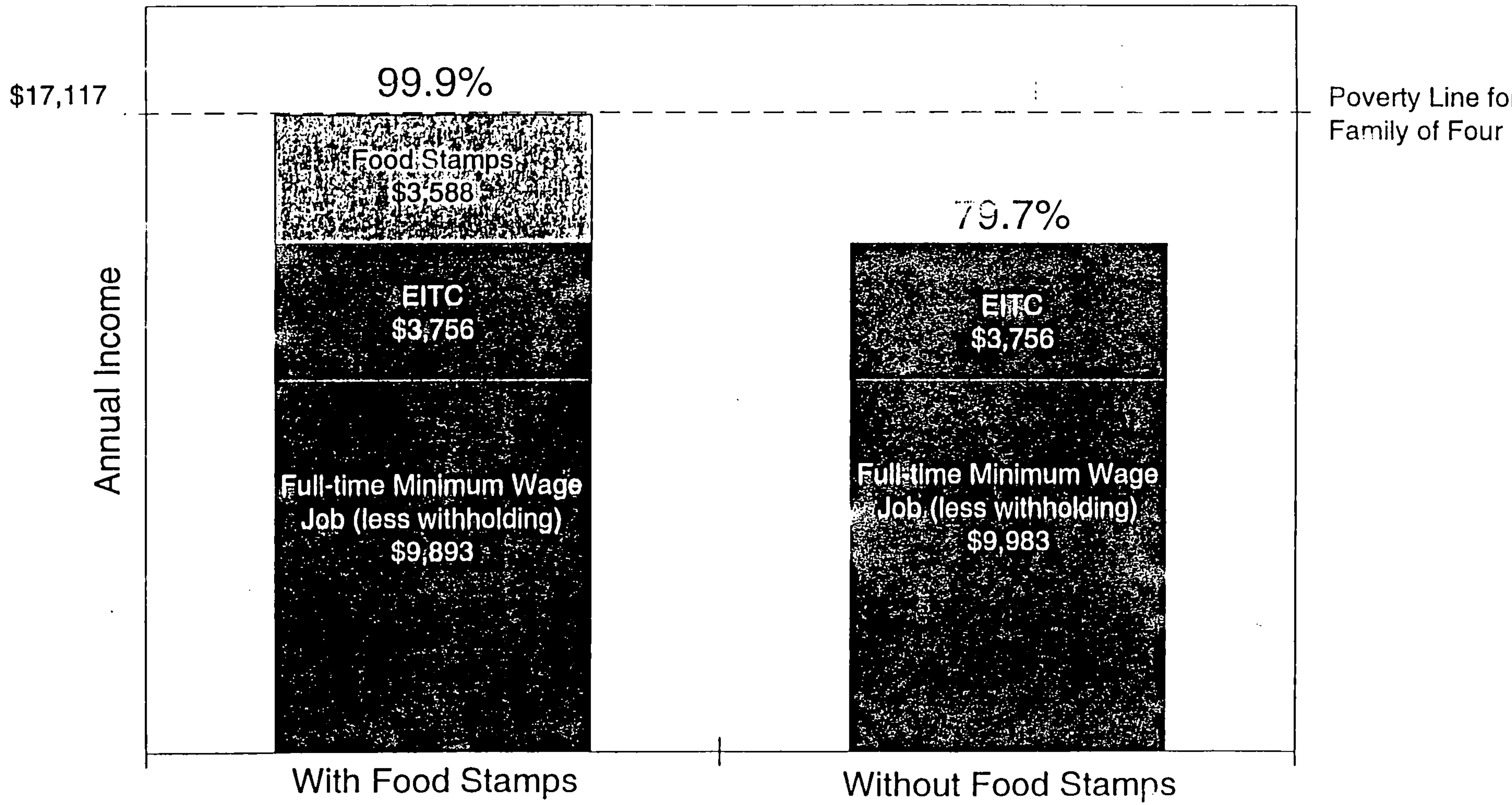
Some provisions of the welfare law that conform or relate various parts of the food stamp program to TANF refer to families receiving "assistance" under TANF-funded programs. Other provisions refer to families receiving "benefits" from such programs. There is a significant difference, as not all benefits provided under a TANF-funded program meet the welfare law's definition of "assistance" provided under a TANF-funded program.

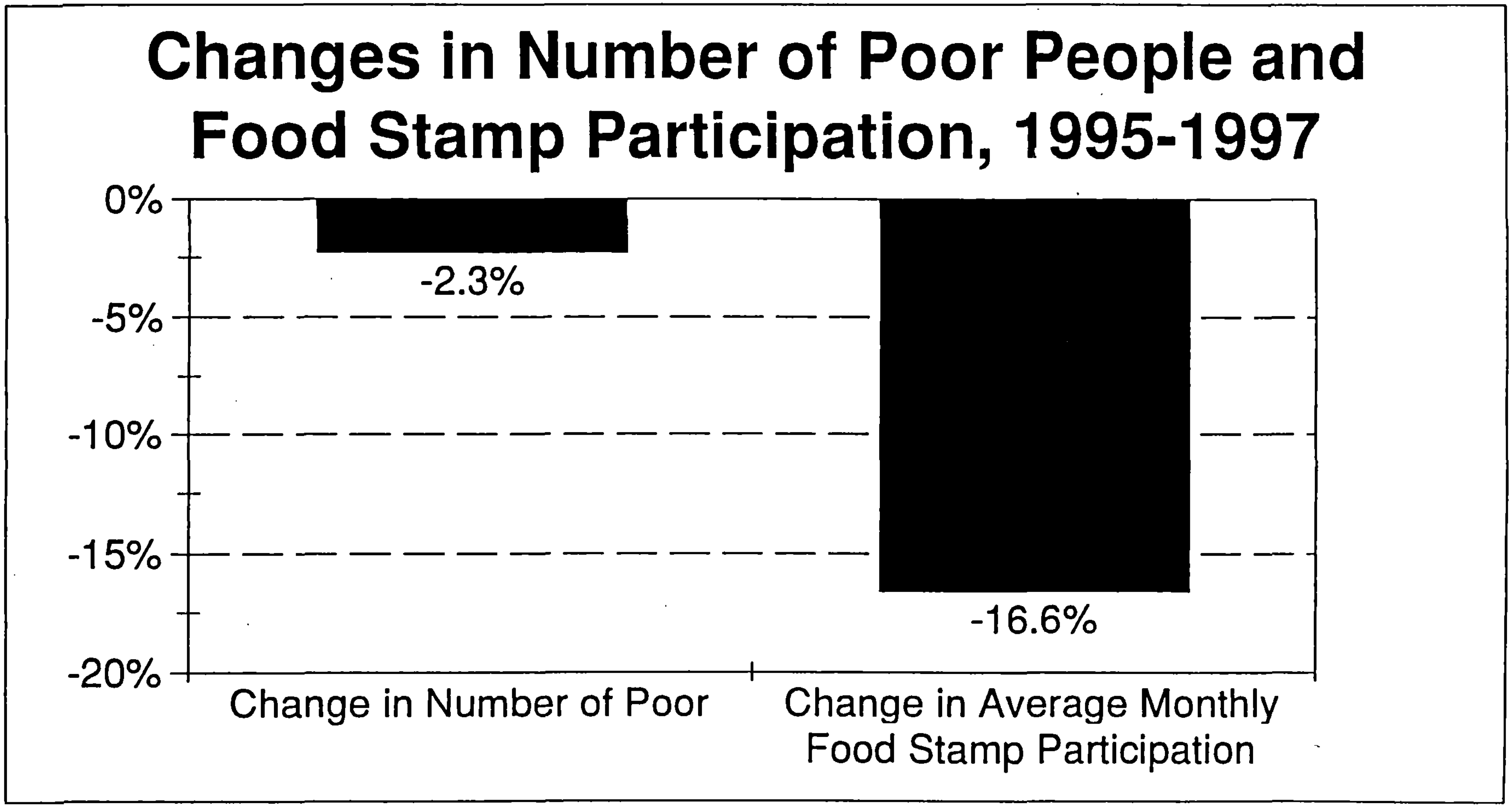
Understandably, USDA has not focused on the distinction between TANF "assistance" and TANF "benefits" and USDA's national office has not issued an interpretation of the requirement that a family receiving "benefits" under a TANF-funded program need not separately meet the food stamp asset rules. At least two USDA regional offices, however, have told states they these rules apply only to families receiving cash welfare payments. (Arkansas, for example, was told it could not continue to apply its TANF vehicle policies to provide food stamps to families that have left cash assistance for work but are continuing to receive post-employment supportive services from the state's TANF-funded program.) In effect, these regional offices are incorrectly telling states that families must be receiving "assistance" from a TANF-funded program, even though this part of the statute applies more broadly to families receiving "benefits" from such programs, rather than just to families receiving assistance. The extension of this protection to any family receiving "benefits" under a TANF-funded program appears deliberate on Congress' part since, as noted above, in some other parts of the Food Stamp Act, Congress chose to relate a food stamp provision only to families receiving "assistance" under a TANF-funded program.

By issuing a Q&A or policy memo that reverses these regional offices' *ad hoc* interpretations, USDA would be correctly applying the law, as well as giving states the option to continue to exclude vehicles that working families need to commute to work by giving such families supportive services after the families leave cash assistance. Furthermore, since many states have transferred TANF money to programs supported by the Child Care and Development Block Grant (CCDBG), these child care programs as well can be considered programs that receive TANF funds. These states consequently could also apply their TANF vehicle policies to determine food stamp eligibility for working families receiving CCDBG child care subsidies. Although some states would not choose to take advantage of this option, others would be able through this mechanism to protect a substantial proportion of the working poor families that do not receive cash assistance but rely upon a car that exceeds the food stamp limits to commute to work. This policy change also would give states an additional incentive to spend their TANF surpluses providing supportive services to families that have left welfare for work.

USDA would not be required to issue regulations to implement this change. Moreover, since this policy is required by law, its cost was covered in CBO's 1996 assumptions that interactions with the new TANF block grant would increase food stamp costs. Whether or not the Administration wishes to go further with liberalizing food stamp vehicle policy, this guidance should be issued without delay.

Helping Working Families Reach the Poverty Line, 1998




Changes in Number of Poor People and Food Stamp Participation, 1995-1997
0%
-5%
-10%
-15%
-20%
-2.3%
-16.6%
Change in Number of Poor
Change in Average Monthly Food Stamp Participation

CENTER ON BUDGET
AND POLICY PRIORITIES

November 20, 1998

DENYING POOR FAMILIES THE RIGHT TO APPLY FOR MEDICAID AND FOOD STAMPS IN NEW YORK CITY

For more than two decades, one of the most basic principles of federal Medicaid and food stamp law has been that all persons have the right to apply for benefits without delay. Through Republican and Democratic administrations, and through numerous rounds of legislation liberalizing or narrowing these programs' eligibility rules, this principle has remained inviolate. When the Reagan Administration learned that a few local offices in one state were limiting households' right to apply for food stamps, it took prompt and firm action to compel the state to bring those offices' practices into compliance with federal law.

Nonetheless, New York City has established a policy of deliberately delaying low-income families' opportunity to apply for Medicaid and food stamps. City officials have been quoted in news accounts saying that families are made to return, in some cases more than once, before they may receive an application form. The City argues that it has made applying for Medicaid and food stamps more difficult to encourage families to become self-sufficient. This practice, however, is both counterproductive and unlawful. Even if families denied the right to apply for Medicaid and food stamps find entry-level jobs, few will receive health insurance for their family and many will remain poor enough that they need food stamps to help feed their families. Food stamp rules allow extensive work requirements to be imposed on applicants and recipients, but they do not permit states or cities to deny households the right even to apply or to delay the point at which they may apply.

So far, New York has instituted these new practices in nine offices throughout the City. Another nine are slated to be converted to these policies by the end of the year, with the remainder changing over by the end of March. Both the Health Care Financing Administration (HCFA), the component of HHS that oversees the Medicaid program, and USDA's Food and Nutrition Service (FNS), which administers the Food Stamp Program, are investigated these practices, the details of which the City has readily admitted in media articles. To date, however, neither federal agency has taken any formal enforcement action.

Food Stamp Law. The 1996 welfare law restricted food stamp eligibility for certain individuals (mainly legal immigrants and unemployed persons without children), but a broad bipartisan consensus remained that states may not deny anyone the right to apply for food stamp benefits. Indeed, section 835 of the welfare law reiterated a long-standing food stamp rule by requiring that "a State agency...shall permit an applicant household to apply to participate in the program *on the same day* the household first contacts a food stamp office in person during office hours" (emphasis added). City

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@center.cbpp.org http://www.cbpp.org HN0026

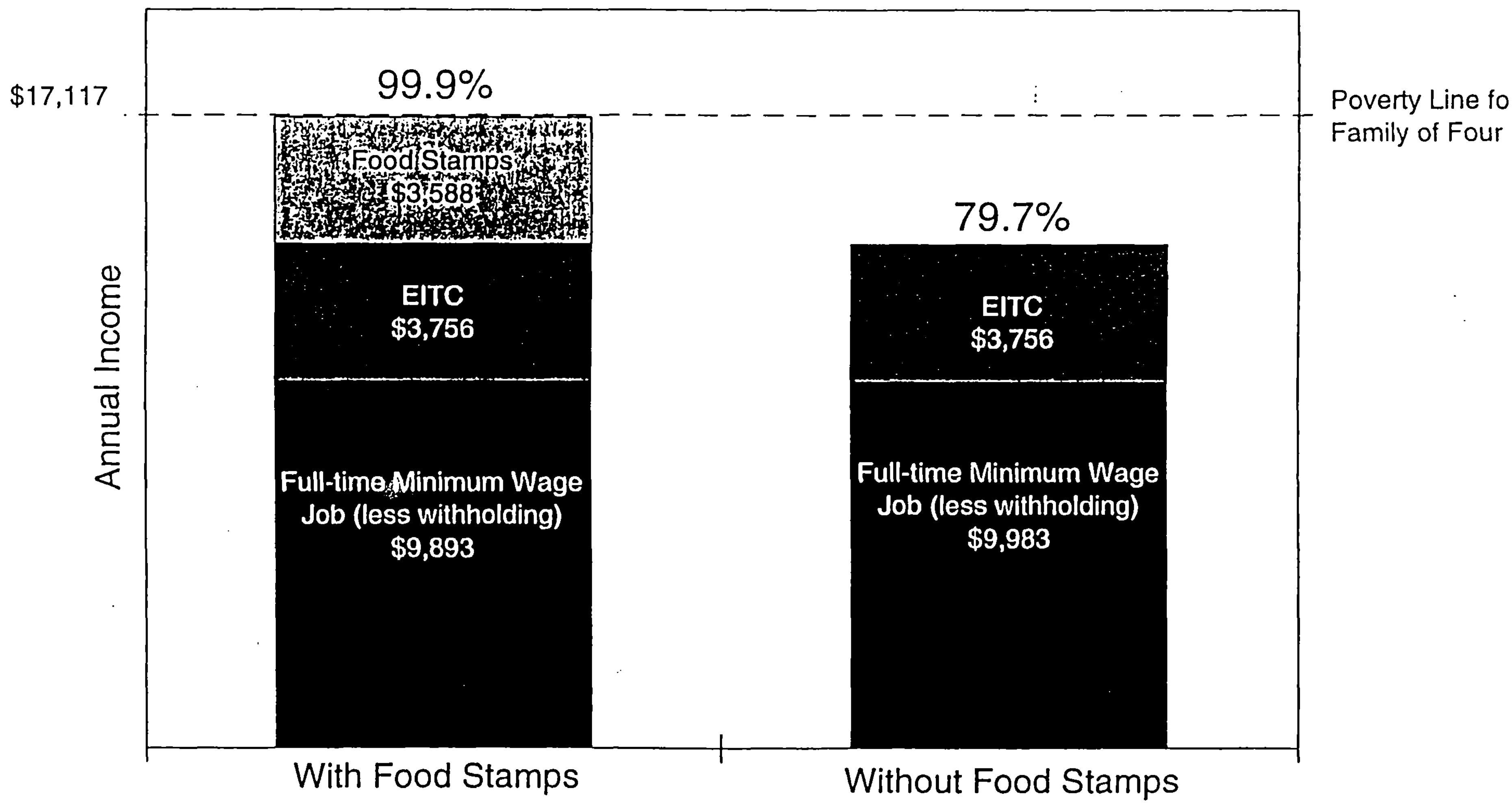
officials have been quoted as saying that they expect that when FNS issues regulations to implement the 1996 welfare law, New York will be permitted to pursue its policy of refusing to accept applications at the initial visit. That is flatly incorrect. Since the 1996 law itself contains the explicit requirement that households be allowed to apply on the first day they contact the office, no regulations can override the statutory requirement.

Part of the reason for requiring food stamp offices to accept immediate applications is that section 838 of the 1996 welfare law requires that food stamps be provided within seven days of applying to households in particularly severe need — for example, a household with less that $150 of gross income for the month and no more that $100 in liquid resources. The City has said it is recording the names and addresses of people who initially try to apply for food stamps. If the household is not allowed to complete an application, however, its need for emergency food stamps cannot be assessed.

It should be noted that the federal government pays the entire cost of food stamp benefits. New York City is achieving no savings for the city or state budgets by denying families the right to apply for food stamps. Indeed, since the City and State each pay a quarter of food stamp administrative costs, they may be increasing their costs by requiring eligibility workers to see families more times than is necessary for an application.

Medicaid Law. Medicaid rules are equally clear. Section 1902(a)(8) of the Medicaid statute requires states to "provide that all individuals wishing to make application for medical assistance under the [Medicaid] plan shall have opportunity to do so." Sections 435.906 and 435.930 of the federal regulations implement this statute by requiring that state and local agencies operating Medicaid "must afford an individual wishing to do so the opportunity to apply for Medicaid *without delay*" and must "furnish Medicaid promptly to recipients *without any delay caused by the agency's administrative procedures*" (emphasis added). The 1996 welfare law did not change any of these requirements.

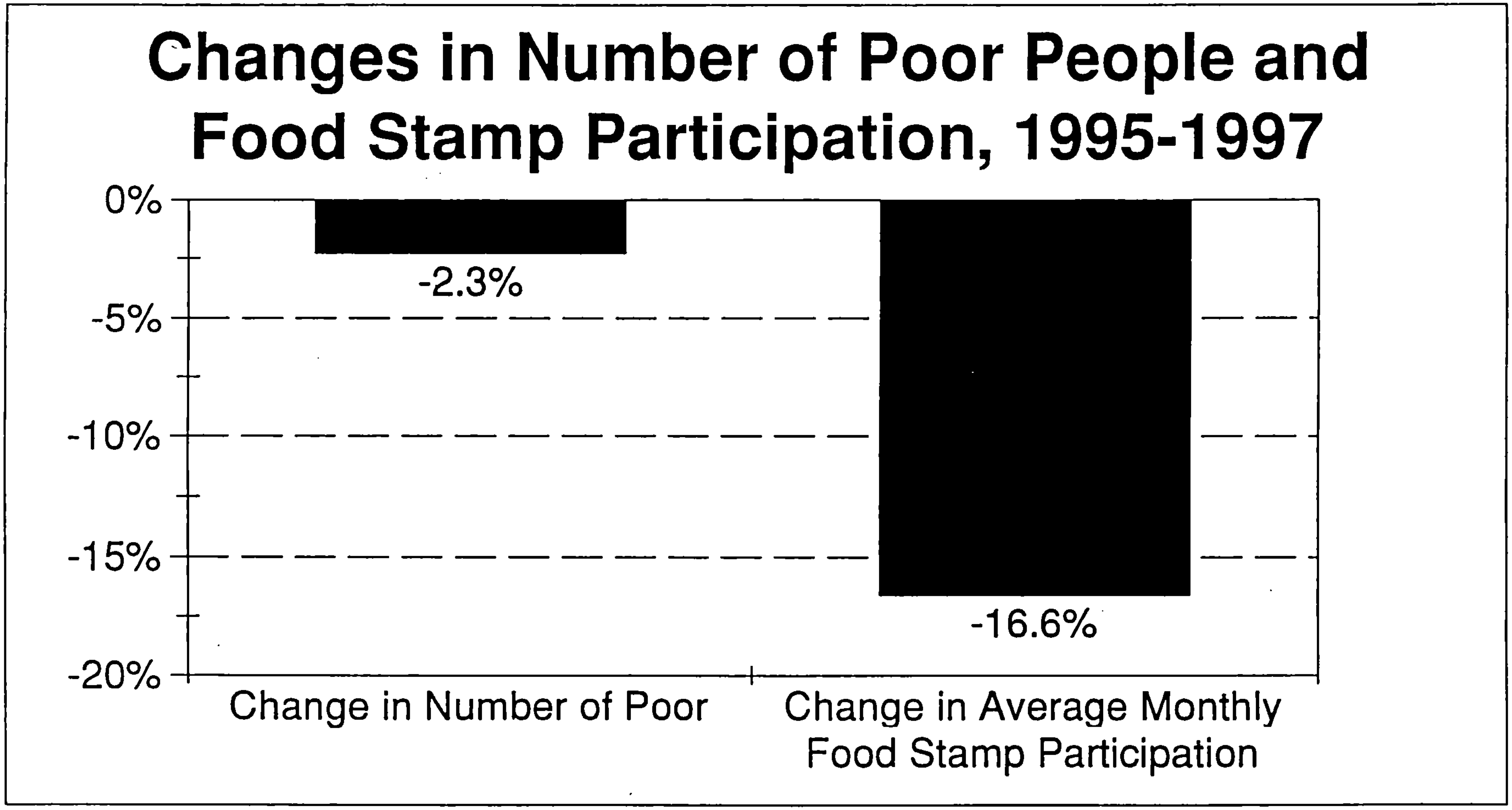
Helping Working Families Reach the Poverty Line, 1998



Changes in Food Stamp Participation and Poverty, 1995-1997

	1995	1997	Change 95-97	% Change 95-97
Number of Poor	36,425,000	35,574,000	-851,000	-2.3%
Average Monthly Food Stamp Participation	26,292,904	21,935,748	-4,357,157	-16.6%

Number of Food Stamp Participants for Every 100 Poor People	
1995	72
1997	62



Changes in Number of Poor People and Food Stamp Participation, 1995-1997
0%
-5%
-10%
-15%
-20%
-2.3%
-16.6%
Change in Number of Poor
Change in Average Monthly Food Stamp Participation