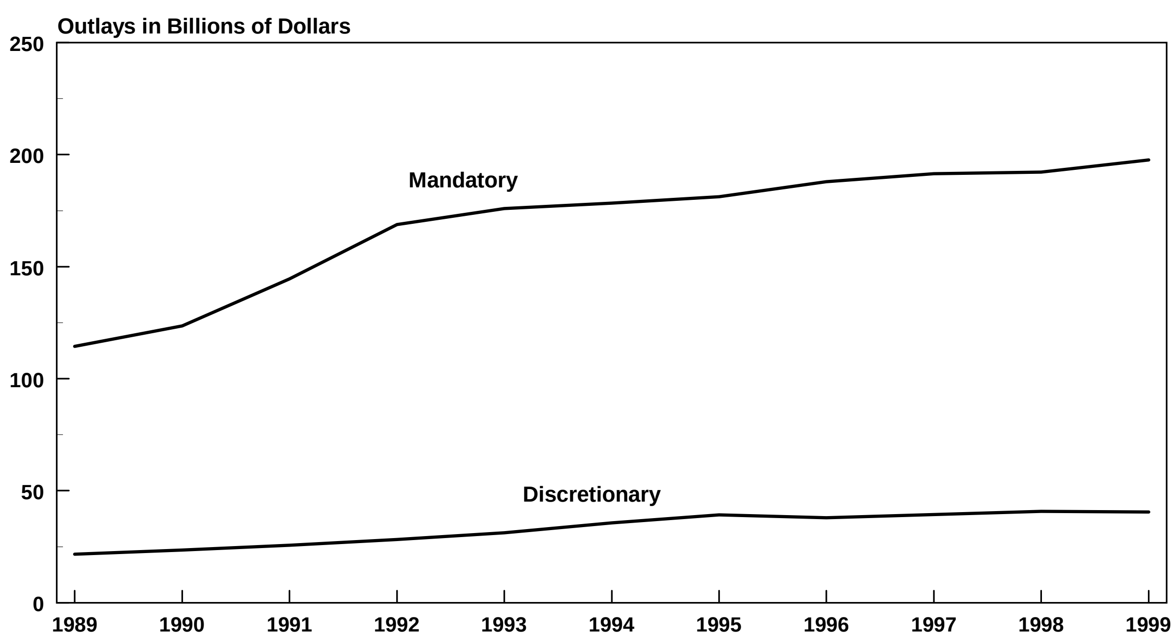
600

Income Security

Budget function 600 covers federal income-security programs that provide cash or in-kind benefits to individuals. Some of those benefits (such as food stamps, Supplemental Security Income, Temporary Assistance for Needy Families, and the earned income tax credit) are means-tested, whereas others (such as unemployment compensation and Civil Service Retirement and Disability payments) do not depend on a person's income or assets. CBO estimates that in 1999, federal outlays under function 600 will total $238 billion, including more than $40 billion in discretionary outlays. Discretionary budget authority of $33 billion was provided for the function in 1999. Over the past 10 years, outlays under function 600 have grown slightly as a share of federal spending, from just under 12 percent to just under 14 percent.



600-01 END TRADE ADJUSTMENT ASSISTANCE

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	250	185
2001	305	280
2002	310	310
2003	315	315
2004	320	320
2005	330	330
2006	335	335
2007	340	340
2008	350	350
2009	360	360
Cumulative		
2000-2004	1,500	1,410
2000-2009	3,215	3,125

SPENDING CATEGORY:

Mandatory

The Trade Adjustment Assistance (TAA) program offers income-replacement benefits, training, and related services to workers who are unemployed as a result of import competition. To obtain assistance, such workers must petition the Secretary of Labor for certification and then meet other eligibility requirements. Cash benefits are available to certified workers receiving training, but only after their unemployment insurance benefits are exhausted. Authorization for the program expired on October 1, 1998, and was subsequently extended for nine months by the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1998.

Ending the TAA program would reduce federal outlays by about $200 million in 2000 and by $3.1 billion during the 2000-2009 period. Affected workers could apply for benefits under the Workforce Investment Act of 1998 (WIA), which authorizes a broad range of employment and training services for displaced workers regardless of the cause of their job loss. (Because funding for WIA is limited, however, TAA cash benefits alone could be eliminated, and the remaining TAA funds for training and related services could be shifted to WIA. Doing so would reduce the total savings by about one-quarter during the 10-year period.)

The rationale for this option is to secure under federal programs more equivalent treatment of workers who are permanently displaced as a result of changing economic conditions. Since WIA provides cash benefits only under limited circumstances, workers who lose jobs because of foreign competition are now treated more generously than workers who are displaced for other reasons.

Eliminating TAA cash benefits would, however, cause economic hardship for some of the long-term unemployed who would have received them. In addition, TAA now compensates some of the workers adversely affected by changes in trade policy. Some people argue, therefore, that eliminating TAA benefits could lessen political support for free trade, which economists generally view as beneficial to the overall economy.

600-02 END THE EXPANSION OF PROGRAMS FOR BUILDING NEW HOUSING UNITS FOR ELDERLY AND DISABLED PEOPLE

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	854	0
2001	854	10
2002	854	120
2003	854	310
2004	854	540
2005	854	710
2006	854	760
2007	854	800
2008	854	840
2009	854	850
Cumulative		
2000-2004	4,270	980
2000-2009	8,540	4,940

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-06

Since the early 1980s, federal activities to provide rental subsidies for low-income people have shifted sharply from constructing low-income housing to using less costly existing housing subsidized with vouchers and certificates. Two construction programs under which new commitments are still being made are the Section 202 and Section 811 programs for elderly and disabled people, respectively. For 1999, $854 million was appropriated to construct up to 9,900 new units and subsidize their operating costs. (The appropriation allows as much as $48 million of those funds to be used for vouchers for disabled people.)

Eliminating funding for additional new units under those programs would reduce outlays by $4.9 billion over the 2000-2009 period. Initially, savings in outlays would be substantially smaller than savings in budget authority because of the long lags involved in building new projects and thus in spending authorized funds.

Proponents of this option see little need to subsidize any new construction. The overwhelming housing problem today, they argue, is not a shortage of rental units but the inability of low-income households to afford those that exist. For example, average overall annual vacancy rates have consistently exceeded 7 percent since 1986. In any event, if elderly and disabled people need more housing assistance, it could be provided less expensively through vouchers or certificates.

Opponents of the option argue that national statistics on the supply of rental units mask local shortages of certain types of units. In particular, many households with an elderly or disabled person need housing that can provide special social and physical services that are not generally available. People who support subsidized construction of units for low-income elderly and disabled households also maintain that the high cost of producing such units requires the certainty of a guaranteed stream of income that only project-based subsidies can provide.

600-03 INCREASE PAYMENTS BY TENANTS IN FEDERALLY ASSISTED HOUSING

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	300	160
2001	610	490
2002	970	850
2003	1,350	1,220
2004	1,680	1,620
2005	1,790	1,850
2006	1,860	1,900
2007	1,920	1,960
2008	1,990	2,020
2009	2,060	2,080
Cumulative		
2000-2004	4,910	4,330
2000-2009	14,530	14,150

SPENDING CATEGORY:

Discretionary

Most lower-income renters who receive federal rental assistance are aided through various Section 8 programs or the public housing program, all of which are administered by the Department of Housing and Urban Development (HUD). Those programs usually pay the difference between 30 percent of a household's income after certain adjustments and either the actual cost of the dwelling or a payment standard. In 1998, the average federal expenditure per assisted household for all of HUD's rental housing programs combined was roughly $5,100. That amount includes both housing subsidies and fees paid to administering agencies.

This option would increase tenants' rent contributions over a five-year period from 30 percent to 35 percent of their adjusted income. Budgetary savings would total $14.2 billion over the 2000-2009 period, including $10.5 billion for Section 8 programs and $3.7 billion for public housing. (Those estimates are based on the assumption that the Congress will provide budget authority to extend the life of all commitments for housing aid that are due to expire during the 2000-2009 period.) To diminish or eliminate the impact of this change on assisted tenants, state governments—which currently contribute no funds toward the federal rental assistance programs—could be encouraged to make up some or all of the decreased federal support.

One rationale for directly involving states in housing assistance is that those programs generate substantial local benefits, such as improved quality of the housing stock. If all states paid 5 percent of the adjusted income of those tenants receiving assistance, housing costs for assisted families would not rise. Moreover, since eligibility for housing aid is determined by each area's median income, tying states' contributions to renters' incomes would ensure that lower-income states would pay less per assisted family than would higher-income states. Finally, if a state chose not to participate and consequently rent payments by its households increased to 35 percent of adjusted income, those out-of-pocket costs would still be well below the nearly 50 percent of income paid by the typical unassisted renter who is eligible for assistance.

Because not all states might make up the reduction in federal assistance, housing costs could increase for some current recipients of aid, who generally have very low incomes. This option could also cause some higher-income renters in assisted housing projects to move to unassisted housing because it might now cost less to rent. As those tenants were replaced by new ones with lower income, the concentration of families with very low income in those projects would increase. In turn, the savings from this option could decrease somewhat.

600-04 REDUCE RENT SUBSIDIES TO CERTAIN ONE-PERSON HOUSEHOLDS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	30	20
2001	70	50
2002	100	80
2003	130	110
2004	160	150
2005	200	180
2006	230	210
2007	260	240
2008	280	260
2009	270	290
Cumulative		
2000-2004	490	410
2000-2009	1,730	1,580

SPENDING CATEGORY:

Discretionary

Generally, recipients of federal housing aid live in housing units that are specifically designated for use by federally assisted tenants or rent units of their own choosing in the private rental market. Support for that second type of aid comes in the form of Section 8 certificates and vouchers, which generally reduce what recipients spend for housing to 30 percent of their income. Starting in 2000, the certificate and voucher programs will be combined into one program that will pay the difference between 30 percent of a tenant's income and the lesser of the tenant's actual housing cost or a payment standard determined by local rental levels.

The payment standard and the amount of the federal subsidy both vary according to the type of unit in which the tenant resides. One-person households may generally reside in apartments with up to one bedroom, whereas larger households may reside in larger units. Linking the rent subsidy for a newly assisted one-person household (or a currently assisted household that moves to another housing unit) to the cost of an efficiency apartment rather than a one-bedroom apartment would save $20 million in federal outlays in 2000 and nearly $1.6 billion over the 2000-2009 period. The Administration included this option in its 1999 budgetary proposals.

An argument in favor of this option is that an efficiency unit would provide adequate living space for a person who lived alone. An argument against the option is that individuals in some areas might have difficulty finding suitable housing under this new rule and as a result might have to spend more than 30 percent of their income to pay for available housing.

600-05 STOP EXPANSION OF THE NUMBER OF RENTAL ASSISTANCE COMMITMENTS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	283	20
2001	570	210
2002	870	670
2003	1,170	1,080
2004	1,480	1,380
2005	1,800	1,700
2006	2,130	2,020
2007	2,460	2,360
2008	2,800	2,700
2009	3,150	3,040
Cumulative		
2000-2004	4,380	3,360
2000-2009	16,730	15,180

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

370-06

Each year between 1975 and 1995, and again in 1999, the Congress expanded the stock of Section 8 certificates and vouchers to increase the number of low-income renters who receive housing aid. Those forms of housing assistance provide subsidies that allow recipients to live in private housing of their own choosing, provided the units meet certain standards. At the end of 1998, a total of about 1.5 million commitments for rental assistance were outstanding in both programs, at a total cost of about $7.9 billion in that year. For 1999, the Congress authorized $283 million to fund an additional 50,000 vouchers, and the Congressional Budget Office's baseline assumes that this amount of funding for new units will also be appropriated for each year in the future.

Stopping expansion of the number of rental assistance commitments would reduce federal outlays by $15.2 billion over the 2000-2009 period. (That estimate is based on the additional assumption that the Congress will provide budget authority to extend the life of all vouchers and certificates that are due to expire over the 2000-2009 period.)

An argument in favor of this option is that expanding rental assistance programs is inappropriate in light of the cutbacks that have occurred in other areas of federal spending. Furthermore, existing commitments will continue to assist many new eligible households each year because of turnover among assisted renters. In addition, no current recipients would lose their housing assistance as a result of this option.

An argument against the option is that less than one-third of eligible renters actually receive housing assistance. If the number of commitments was frozen, the proportion of eligible renters receiving aid would fall because of continued growth in the number of eligible households. As a result, the number of eligible households with one or more housing problems—such as paying a relatively large share of income for rent or living in a physically inadequate or crowded dwelling—would probably increase.

600-06 REDUCE FUNDING FOR EMPLOYMENT AND TRAINING IN THE FOOD STAMP PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	116	95
2001	175	138
2002	122	147
2003	116	129
2004	115	125
2005	115	125
2006	110	110
2007	110	110
2008	110	110
2009	109	109
Cumulative		
2000-2004	644	634
2000-2009	1,198	1,198

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-07

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) established a new work and training requirement for certain food stamp recipients. The act limited food stamp eligibility to a maximum of three months in any 36-month period for adults not engaged in work or job training who are able-bodied, are between the ages of 18 and 50, and have no dependent children. Under PRWORA, the requirement applies unless the Secretary of Agriculture waives it for a locale because of a high level of unemployment or insufficient job opportunities.

The Balanced Budget Act of 1997 (BBA) provided certain exemptions from the PRWORA work/training requirement as well as $600 million to fund new work/training program slots. The Agricultural Research, Extension, and Education Reform Act of 1998 (P.L. 105-185) reduced work/training funds by $100 million in 1999 and $45 million in 2000.

This option would eliminate the remaining funds for work/training slots under the BBA. It would also provide additional savings in the Food Stamp program derived from not paying benefits to the people who would have occupied the canceled slots. (When the Congressional Budget Office estimated the cost of P.L. 105-185, it estimated savings of $200 million.) In total, CBO estimates that the option would reduce outlays by $95 million in 2000 and about $1.2 billion for the 2000-2009 period.

An argument for eliminating the remaining work/training funds provided under the BBA is that states have not been using all of the funds allotted to them. States receive basic federal funding for employment and training of food stamp recipients under the Food Stamps Act of 1985, and those funds can be used for able-bodied adults without dependent children. People facing the work/training requirement under PRWORA can also apply to other programs that operate independently of the Food Stamp program. States with economically distressed areas, which might have fewer alternative work/training opportunities than more prosperous locales, can also apply for waivers from the PRWORA requirement.

An argument against this option is that the unspent funds are not necessarily evidence of a lack of need. States have had little time to develop the work/training programs that the BBA authorizes. Such programs must be targeted primarily at able-bodied adults without dependent children and may not simply substitute for state-funded programs. To ensure that BBA funds are spent on new work/training efforts, the act requires states to maintain their 1996 state spending levels for work/training programs in order to collect the BBA funds. Another argument for maintaining the funds available under the BBA is that they offer some flexibility because they do not have to be spent in a particular fiscal year. The funds may be carried over and redistributed by the Secretary of Agriculture among the states on the basis of year-to-year changes in the distribution of covered individuals.

600-07 REDUCE THE EXEMPTIONS FROM EMPLOYMENT AND TRAINING REQUIREMENTS FOR FOOD STAMP RECIPIENTS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	30	30
2001	30	30
2002	35	35
2003	35	35
2004	35	35
2005	35	35
2006	35	35
2007	40	40
2008	40	40
2009	40	40
Cumulative		
2000-2004	165	165
2000-2009	355	355

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-06

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) is intended to encourage people to work or pursue job training. Thus, the act restricts food stamp eligibility to a maximum of three months in any 36-month period for able-bodied adults not engaged in work or training who are 18 to 50 years of age and have no dependent children—unless the Secretary of Agriculture has waived the work/training requirement for their locale. Under the Balanced Budget Act of 1997 (BBA), however, states may exempt from the requirement up to 15 percent of such able-bodied food stamp recipients.

This option would eliminate the 15 percent exemption to the PRWORA work/training requirement, which the Congressional Budget Office estimates would reduce outlays by $30 million in 2000 and $355 million for the 2000-2009 period.

The BBA exemption allows states to use different food stamp eligibility rules for different childless adults. Eliminating the exemption would require states to use the same eligibility criteria for all 18- to 50-year-old able-bodied people with no dependent children who live in a particular local area. An argument against this option is that the exemption provides a safety net for a needy population that can be difficult to serve.

600-08 REDUCE THE $20 UNEARNED INCOME EXCLUSION UNDER THE SUPPLEMENTAL SECURITY INCOME PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	60	60
2001	125	125
2002	125	125
2003	125	125
2004	130	130
2005	140	140
2006	125	125
2007	115	115
2008	130	130
2009	135	135
Cumulative		
2000-2004	565	565
2000-2009	1,210	1,210

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-09

The Supplemental Security Income (SSI) program provides federally funded monthly cash payments—based on uniform, nationwide eligibility rules—to low-income elderly and disabled people. In addition, most states provide supplemental payments. Because SSI is a means-tested program, recipients' outside income reduces their SSI benefits, subject to certain exclusions. For unearned income, most of which is Social Security, $20 a month is excluded; benefits are reduced dollar for dollar for unearned income above that amount. The program allows a more liberal exclusion for earned income in order to maintain work incentives.

This option would reduce the monthly $20 unearned income exclusion to $15. The Congressional Budget Office estimates that the savings from that change would be $60 million in 2000 and $1.2 billion over the 2000-2009 period.

A program that ensures a minimum living standard for its recipients need not provide a higher standard for people who happen to have unearned income. Nevertheless, reducing the monthly $20 exclusion by $5 would decrease by as much as $60 a year the incomes of the roughly 2.5 million low-income people (approximately 40 percent of all federal SSI recipients) who would benefit from the exclusion in 2000. Even with the full $20 exclusion, the incomes of most SSI recipients fall below the poverty threshold.

600-09 CREATE A SLIDING SCALE FOR CHILDREN'S SSI BENEFITS BASED ON THE NUMBER OF RECIPIENTS IN A FAMILY

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	0	0
2001	50	50
2002	120	120
2003	120	120
2004	130	130
2005	160	160
2006	140	140
2007	140	140
2008	170	170
2009	180	180
Cumulative		
2000-2004	420	420
2000-2009	1,210	1,210

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-08

The Supplemental Security Income (SSI) program provides cash payments —based on uniform, nationwide eligibility rules—to elderly and disabled people with low incomes. In addition, most states provide supplemental payments to SSI recipients. In 1997, children received approximately $5 billion in federal SSI benefits, accounting for almost one-quarter of federal SSI benefits paid to disabled recipients that year.

Unlike other means-tested benefits, the amount of the SSI benefit for an additional child does not decline as the number of SSI recipients in a family increases. In 1999, a family with one child qualifying for SSI benefits could receive up to $500 a month, or $6,000 a year, if the family's income (excluding SSI benefits) was under the cap for the maximum benefit. If the family had additional eligible children, it could have received an additional $500 a month for each one. (A child's benefit is based only on the presence of a disability and the family's resources, not on the nature or severity of the qualifying disability or on participation by other family members in the SSI program.)

This option would create a sliding scale for SSI disability benefits, so that a family would receive smaller benefits per child as the number of children receiving SSI increased. The sliding scale used for this option was recommended by the National Commission on Childhood Disability in 1995. It would keep the maximum benefit for one child as it is in current law but reduce additional benefits for additional recipient children in the same family. If that sliding scale was in place in 1999, the first child in a family qualifying for the maximum benefit would receive $500, the second child would receive $312 (38 percent less), and the third would receive $267 (47 percent less). Benefits would continue to decrease for additional children. About 90 percent of child recipients would be unaffected by the new scale, and the remaining 10 percent would have their benefits reduced by about one-fourth, on average. As with current SSI benefits, the sliding scale would be adjusted each year to reflect changes in the consumer price index.

The Congressional Budget Office assumes that this option would not be implemented until 2001, because the Social Security Administration does not maintain data on multiple SSI recipients in a family and implementation of the sliding scale would therefore require significant effort. Savings from this option would total $50 million in 2001 and $1.21 billion over the 2001-2009 period.

Proponents of this option argue that the proposed reductions in benefits reflect economies of scale that generally affect the cost of living for families with more than one child. Proponents might also note that the high medical costs that disabled children often incur, which would not be subject to economies of scale, would continue to be covered because SSI participants generally are covered by Medicaid. Still, opponents could argue that children with disabilities sometimes have unique needs that may not be covered by Medicaid, including housing modifications and specialized equipment. With the proposed drop in benefits, some families might be unable to meet such needs.

600-10 REDUCE THE FEDERAL MATCHING RATE FOR ADMINISTRATIVE COSTS IN THE CHILD SUPPORT ENFORCEMENT PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	850	850
2001	930	930
2002	1,050	1,050
2003	1,150	1,150
2004	1,250	1,250
2005	1,350	1,350
2006	1,440	1,440
2007	1,530	1,530
2008	1,640	1,640
2009	1,740	1,740
Cumulative		
2000-2004	5,230	5,230
2000-2009	12,930	12,930

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

600-11

The Child Support Enforcement (CSE) program, enacted in 1975, assists states in their effort to improve the payment of child support by noncustodial parents. The federal government pays 66 percent of the program's administrative costs, provides incentive payments, and allows states to retain some of the money they collect.

This option would reduce the federal share of administrative costs from 66 percent to 50 percent. The Congressional Budget Office estimates that lowering the federal matching rate could save $850 million in 2000 and $12.9 billion through 2009.

Several arguments can be made for shifting greater responsibility for CSE administrative costs to the states. For one thing, it would encourage states to make their CSE efforts more efficient because states would be paying a larger share of the costs of any inefficiencies. Moreover, it would bring the federal share of CSE administrative costs more in line with the share of such costs that the federal government bears in comparable programs.

Lowering the matching rate would entail some risks, however. Because caseloads for child support workers are already high, states are not likely to be able to improve the program's efficiency enough to offset the reduction in federal payments. As a result, states might cut their CSE services, and child support collections might drop. A reduction in collections could also mean higher state costs for Temporary Assistance for Needy Families (TANF) because state collections of child support partly offset states' TANF benefit payments. States might respond to their greater share of the costs by reducing their benefits and services for needy families.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including the Child Support Enforcement program—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the CSE program to make such changes, this option could constitute an unfunded mandate on those jurisdictions under the law.

600-11 REPEAL THE HOLD-HARMLESS PROVISION FOR STATE COLLECTIONS IN THE CHILD SUPPORT ENFORCEMENT PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	50	50
2001	50	50
2002	45	45
2003	45	45
2004	40	40
2005	35	35
2006	30	30
2007	25	25
2008	20	20
2009	15	15
Cumulative		
2000-2004	230	230
2000-2009	355	355

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

600-10

Enacted in 1975, the Child Support Enforcement (CSE) program assists states' efforts to improve the payment of child support by noncustodial parents. In addition to providing funds for CSE administration and incentive payments, the federal government allows states to keep a portion of their collections. Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), which provides block grants to states for Temporary Assistance for Needy Families (TANF), a state can retain a portion of the child support it collects for TANF recipients. The act allows the state to keep an amount equal to the state's matching rate for other federal programs or the amount that the state retained in 1995, whichever is greater.

This option would repeal the "hold-harmless" provision in PRWORA that allows a state to keep the amount of its 1995 CSE collections for TANF families, even if the state collects less than the 1995 amount. The Congressional Budget Office estimates that eliminating that provision would reduce outlays by $50 million in 2000 and by $355 million in 2000 to 2009.

Eliminating the hold-harmless provision could elicit different reactions from the states. Because it would tie the amounts retained by states from CSE collections more closely to what they actually collected, this option could induce states to expand their CSE efforts and thus raise their total collections for TANF families. But states that did not reach their 1995 CSE collection levels would have less funding available, which could cause them to reduce their benefits and services for needy families.

Under the Unfunded Mandates Reform Act of 1995, reductions in federal funding for certain entitlement grant programs—including the CSE program—are considered mandates on state governments if the states lack authority to amend their programmatic or financial responsibilities to offset the loss of funding. Because some states may not have sufficient flexibility within the CSE program to make such changes, this option could constitute an unfunded federal mandate on those jurisdictions under the law.

600-12 REDUCE TANF BLOCK GRANTS TO STATES

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	819	35
2001	819	35
2002	819	85
2003	819	95
2004	814	120
2005	814	150
2006	814	160
2007	804	250
2008	804	300
2009	804	300
Cumulative		
2000-2004	4,092	370
2000-2009	8,130	1,530

SPENDING CATEGORY:

Mandatory

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), the federal government provides block grants to states for Temporary Assistance for Needy Families (TANF). The amounts of the block grants are based on spending levels for three programs that PRWORA repealed and TANF replaces: Aid to Families with Dependent Children (AFDC), Emergency Assistance for Needy Families, and the Job Opportunities and Basic Skills (JOBS) training program. To receive TANF funds, a state must spend from its own funds a predetermined "maintenance-of-effort" amount based on its pre-TANF spending. In addition, the state must maintain minimum work participation rates for recipient families, require parents and caretaker recipients to engage in work activities after receiving no more than 24 months of TANF benefits (with some exemptions), and impose a five-year limit on receipt of federally funded TANF benefits. Currently, the Congress has authorized $16.5 billion annually for TANF through 2002.

This option would reduce the TANF block grants to states by 5 percent, which the Congressional Budget Office estimates would reduce budget authority by $819 million and outlays by $35 million in 2000. For 2000 to 2009, CBO estimates that this option would reduce budget authority by $8.1 billion and outlays by $1.5 billion.

Budget authority is projected to fall by less than the full 5 percent reduction in the TANF block grant because of the increase in spending for food stamps that would occur when TANF benefits were reduced. Outlays would fall by less than the reduction in budget authority because caseloads in the AFDC and TANF programs have declined significantly over the past five years and many states have been accumulating TANF budget authority from their current annual block grants. The cut in budget authority would result in lower outlays only after a state had depleted its stored budget authority.

An argument for reducing the TANF block grants is that most states need much less money for their programs than legislators expected when PRWORA was enacted. An argument against the cut is that it would reduce federal spending immediately in several states that have been exhausting their TANF block grants, which could cause those states to cut their TANF benefits and services. In addition, reducing federal funding could be viewed as an abrogation of a prior agreement between the federal and state governments and could make future agreements on block grants more difficult.

600-13 REDUCE FUNDING FOR THE LOW INCOME HOME ENERGY ASSISTANCE PROGRAM

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	110	83
2001	110	108
2002	110	110
2003	110	110
2004	110	110
2005	110	110
2006	110	110
2007	110	110
2008	110	110
2009	110	110
Cumulative		
2000-2004	550	521
2000-2009	1,100	1,071

SPENDING CATEGORY:

Discretionary

The Low Income Home Energy Assistance Program (LIHEAP) helps some low-income households pay their home energy costs. Authorized by the Omnibus Budget Reconciliation Act of 1981 and distributed through block grants to the states, LIHEAP funding is $1.1 billion in 1999. States may use the grants to help eligible households pay home heating or cooling bills, provide energy "crisis intervention" for those in immediate need, and fund low-cost weatherization projects. Additionally, the LIHEAP appropriation includes $300 million for energy emergencies designated by the President.

Households may be eligible for the program if they receive assistance under certain means-tested programs or if their income is sufficiently low. Eligibility requirements are set by the states within federal guidelines. For example, the states may give preference to households with the highest energy costs (relative to income).

Cutting LIHEAP funding by 10 percent would save nearly $1.1 billion in federal outlays during the 2000-2009 period. One way of achieving that reduction in spending would be for states to forgo weatherization spending, which includes funds for new windows, doors, and furnaces that reduce future energy use. In 1995, states spent an average of just over 10 percent of their LIHEAP block grants for weatherization. Currently, states can spend up to 15 percent of their grant funds for weatherization, with the option of obtaining a waiver that allows expenditures of as much as 25 percent. Each year between 1995 and 1998, five states on average received that type of waiver.

An argument in favor of reducing LIHEAP funding is that the program was created in response to rapid increases in the price of home energy sources in the late 1970s and early 1980s. Since 1981, however, real energy prices (adjusted for inflation) have decreased by about one-quarter. In addition, the small number of waivers that states have obtained to increase weatherization spending supports the claim that most do not regard weatherization as a priority for LIHEAP funds. The federal government already provides similar assistance through the Department of Energy's (DOE's) Weatherization Assistance for Low-Income Persons, which has an appropriation of $133 million in 1999 and served over 63,000 households in 1998.

An argument against reducing LIHEAP funding is that spending for the program has already declined. In real terms, its 1999 appropriation is about half of its first appropriation. From 1981 to 1995, the percentage of eligible households receiving assistance dropped from 36 percent to 19 percent. Moreover, many communities have yearlong waiting lists for assistance from DOE's weatherization program, making it unlikely that the DOE program would be able to make up for LIHEAP's decreased coverage. In addition, it would be impossible for all of the states to limit cuts in funding to weatherization assistance. In 1995, six states did not fund any weatherization projects. To comply with this option, those six states and others that use less than 10 percent of their grant funds for weatherization would have to cut their basic LIHEAP spending.

600-14-A DEFER COST-OF-LIVING ADJUSTMENTS FOR CSRS ANNUITANTS

	Savings (Millions of dollars) Budget Authority	Outlays
Annual		
2000	370	370
2001	520	520
2002	460	460
2003	560	560
2004	720	720
2005	890	890
2006	1,070	1,070
2007	1,240	1,240
2008	1,460	1,460
2009	1,670	1,670
Cumulative		
2000-2004	2,630	2,630
2000-2009	8,960	8,960

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-14-B, 600-14-C, 600-15, 600-16, and 600-17

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Federal civilian and military retirement programs cover about 4.2 million active employees and 4.3 million retirees and survivors. Federal pension payments totaled $75 billion in 1998. Civilian workers covered by the Civil Service Retirement System (CSRS), which covers most civilian employees hired before January 1, 1984, receive full cost-of-living-adjustments (COLAs), as do military personnel hired before August 1, 1986. Civilian employees and military personnel hired after those dates receive less generous protection from inflation. Employees covered by the post-1983 civilian plan, the Federal Employees Retirement System (FERS), receive a so-called diet-COLA, generally 1 percentage point less than inflation. Moreover, COLAs are generally paid only to FERS retirees who are age 62 and older. Military personnel covered by the post-1986 pension provisions also receive COLAs that are a percentage point less than inflation. At age 62, those military retirees will receive a one-time adjustment to their pensions, increasing them to the amount that would have been payable had full COLAs been in effect.

This option and options 600-14-B and 600-14-C illustrate three basic approaches to reducing the cost of COLAs: deferring adjustments for inflation, limiting the size of those adjustments, and reducing adjustments for middle- and high-income retirees. All three options would still leave federal retirees with better protection against inflation than most retirees with private-sector pensions. However, as with any cut in benefits, those reductions could make recruitment and retention harder for both federal civilian programs and the military services.

Deferring COLAs until age 62 for all nondisabled civilian employees who retired before that age would yield savings in direct spending of $370 million in 2000, $2.6 billion over five years, and $9 billion over 10 years. Consistent with the military retirement system, this option allows a catch-up adjustment at age 62 that reflects inflation after the date of retirement. Under the COLA-deferral approach, a CSRS-covered annuitant retiring at age 55 with an average annuity of $25,000 in 1998 would lose $18,000 over seven years. No estimate of this option is provided for the military. Extending the COLA deferral to military retirees, who are generally forced to retire after 20 to 30 years of service, would probably be too onerous.

Deferring COLAs would align COLA practices for CSRS with those under FERS and encourage federal employees to work longer. A major disadvantage of this option is that for current retirees or those nearing retirement, it could be regarded as a revocation of earned retirement benefits. In addition, although CSRS benefits are more generous than those typically offered by private employers, they fall short of those offered by many large private firms, which compete directly with the federal government in labor markets. Moreover, because CSRS benefits are already less generous than those available under FERS, this option would worsen the disparity between the government's civilian retirement plans.

600-14-B LIMIT SOME COLAs FOR FEDERAL RETIREES

	Savings (Millions of dollars) Civilian	Military
Annual		
2000	170	560
2001	390	910
2002	630	1,260
2003	880	1,640
2004	1,130	2,030
2005	1,400	2,450
2006	1,680	2,870
2007	1,970	3,320
2008	2,270	3,790
2009	2,580	4,270
Cumulative		
2000-2004	3,200	6,400
2000-2009	13,100	23,100

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-14-A, 600-14-C, 600-15, 600-16, and 600-17

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Another way to reduce the cost of protecting retired federal workers from inflation would be to widely apply the so-called diet-COLAs (cost-of-living adjustments) provided under the Federal Employees Retirement System, or FERS, and the post-1986 Military Retirement System, or MRS. That option would limit COLAs for pre-1986 MRS retirees to 1 percentage point below the rate of inflation. For annuitants under the Civil Service Retirement System, or CSRS, COLAs would be restricted to half a percentage point below inflation. Moreover, when inflation fell below 3 percent, FERS retirees would receive a COLA equaling the rate of inflation less a percentage point. The smaller one-half point reduction for CSRS retirees would produce a cut roughly comparable to the 1 percentage-point limit for MRS and FERS enrollees because MRS and FERS enrollees are also covered by Social Security.

Savings in direct spending for civilian pensions would amount to $170 million in 2000, $3.2 billion over five years, and $13.1 billion over 10 years. For military pensions, savings in direct spending would be $560 million in 2000, $6.4 billion over five years, and $23 billion over 10 years. (Those estimates assume that the Congress would also lower agencies' appropriations to reflect the decreased cost of funding current employees' benefits.) Over five years, the average CSRS retiree would lose $1,600; the average military retiree would lose $3,400. (Savings from this option for civilian pensions would fall by $440 million over five years if it was coupled with option 600-14-A, which would defer COLAs until age 62 for CSRS workers.) On the civilian side, the Congress could also consider limiting COLAs only for the more generous FERS plan.

The main argument for this approach, as with the other COLA options, is that COLA protection under the CSRS and pre-1986 MRS exceeds that offered by other federal and private pension plans. On average, private pension plans offset only about 30 percent of the erosion of purchasing power caused by inflation. FERS and the post-1986 MRS provide full protection less 1 percent. By contrast, CSRS and the pre-1986 MRS provide 100 percent automatic protection from inflation.

The main argument against cutting any retirement benefit is that such an action hurts both retirees and the government's ability to recruit a quality workforce. Advocates for federal workers argue that although certain provisions of federal retirement plans are generous, total compensation should be the basis of comparison between federal and private-sector employment. Annual surveys indicate that federal workers may be accepting salaries below private-sector rates for comparable jobs in exchange for better retirement provisions. In essence, workers pay for their more generous retirement benefits by accepting lower wages during their working years. This option, however, would hurt those retirees most dependent on their pensions. It would also renege on an understanding that workers covered under CSRS who passed up the chance to switch to FERS would retain their full protection against inflation. Finally, critics note that some protection from inflation for federal retirees has been restricted in the past. The General Accounting Office calculated that COLA delays and reductions during the 10-year period from 1985 through 1994 effectively reduced COLAs to about 80 percent of inflation.

600-14-C REDUCE COLAs FOR MIDDLE- AND HIGH-INCOME FEDERAL RETIREES

	Savings (Millions of dollars) Civilian	Military
Annual		
2000	260	300
2001	610	540
2002	960	800
2003	1,320	1,070
2004	1,700	1,350
2005	2,080	1,640
2006	2,480	1,950
2007	2,890	2,280
2008	3,320	2,610
2009	3,750	2,970
Cumulative		
2000-2004	4,850	4,060
2000-2009	19,370	15,510

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-14-A, 600-14-B, 600-15, 600-16, and 600-17

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Another alternative would tie reductions in the cost-of-living adjustment (COLA) to annuitants' benefit levels. For example, the full COLA could be awarded only on the first $680 of a retiree's monthly benefit; a half COLA could be given on the remainder. The average pension for a civilian retiree was $1,710 a month in 1998, and the average military pension was $1,450 a month. The threshold of $680 per month is about equal to the projected poverty level for an elderly person in 1999 and could be indexed to maintain its value over time. Similar proposals have been considered for Social Security.

This approach would save about $260 million in direct spending for civilian pensions in 2000, $4.9 billion over the 2000-2004 period, and $19.4 billion over 10 years. For military pensions, savings in direct spending would be $300 million in 2000, $4 billion over five years, and $15.5 billion over 10 years. (Those estimates assume that the Congress would also decrease appropriations to agencies to reflect the drop in the cost of funding benefits for current employees.) The average retiree under the Civil Service Retirement System (CSRS) who was affected by the cut would lose $2,600 over five years, and the average affected military retiree would lose $2,140. Because the full COLA would be paid only to beneficiaries with small annuities, this option would better focus COLAs on retirees who had the greatest need for protection from inflation. Retirees receiving Federal Employees Retirement System (FERS) benefits already receive a reduced COLA, so this change would affect them less than those receiving CSRS benefits. As a result, the option would widen the existing gap between benefits provided by FERS and those provided by CSRS, leaving FERS even more generous relative to CSRS than it had been in the past.

The disadvantage of the option is that it would reduce the ability of the federal government to hire and retain middle- and upper-level managers and professionals. In addition, restricting COLAs would undercut a major strength of the federal retirement system—its ability to offer indexed pensions. Fully indexed benefits provide insurance against inflation, which generally is not offered in the private sector. Furthermore, many people object to any reductions in earned retirement benefits. They also point out that federal pensions are fully taxable under the individual income tax in the same proportion that they exceed the contributions that employees made during their working years. Moreover, pension benefit levels are not always reliable indicators of total income. As a result, unrestricted COLAs might be paid to recipients who had substantial income from other sources.

600-15 MODIFY THE SALARY USED TO SET FEDERAL PENSIONS

	Savings (Millions of dollars) Civilian	Military
Annual		
2000	20	20
2001	50	40
2002	80	70
2003	120	90
2004	160	130
2005	190	180
2006	220	230
2007	250	310
2008	280	410
2009	320	540
Cumulative		
2000-2004	430	350
2000-2009	1,690	2,020

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-14-A, 600-14-B, 600-14-C, 600-16, and 600-17

RELATED CBO PUBLICATION:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Both of the government's major civilian employee retirement plans, the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS), provide initial benefits based on an average of the employee's three highest-earning years. The Military Retirement System also uses that three-year base for personnel hired after September 1980. However, personnel hired before that date receive benefits calculated by using their salary at the date of retirement. If a four-year average was adopted for future retirees under CSRS and FERS as well as for military personnel hired after September 1980, and a 12-month average was adopted for all other military personnel, initial pensions would be about 1.5 percent to 2 percent smaller for most new civilian retirees and about 1 percent to 2 percent smaller for new military retirees. In 2000, total savings to the government in direct spending for civilian pensions would be $20 million; savings would total $430 million over five years and $1.7 billion over 10 years. Savings in direct spending for military pensions would be $20 million in 2000, $350 million over five years, and $2 billion over 10 years. (Those estimates assume that the Congress would also reduce agencies' appropriations to reflect the lower cost of funding current employees' benefits.)

This option would align federal practices more closely with those in the private sector, which commonly uses five-year averages. The change in figuring the base salary would encourage some employees to remain on the job longer in order to boost their pensions to reflect the higher salaries they receive with more years on the job. That incentive could help the government keep experienced people, but it would hinder efforts to reduce federal employment and promote younger hires. In 1995, the Congress actively considered basing military pensions on the final 12 months of pay for personnel hired before September 1980 but ultimately rejected that proposal.

The major drawback to the option is that it would cut benefits and consequently reduce the attractiveness of the government's civilian and military compensation packages. In fact, the 105th Congress considered significant increases in pension benefits for military personnel in its second session before finally dropping the proposal from the omnibus appropriation bill. Recently, the Senate passed legislation increasing military pay and pensions; the Administration's budget for 2000 also proposes increases.

Under this option, FERS benefits would remain more generous than those offered by large private firms, but CSRS benefits would fall below those received by many retirees in the private sector. The average CSRS retiree would lose $450 annually, whereas the average FERS retiree would lose $140 annually because of the smaller defined benefit under that system. Retirees participating in FERS would continue to receive their full Social Security benefits and distributions from the Thrift Savings Plan (TSP). In contrast, Social Security does not cover CSRS participants, and the government makes no contributions to TSP accounts established by CSRS participants.

600-16 RESTRICT THE GOVERNMENT'S MATCHING CONTRIBUTIONS TO THE THRIFT SAVINGS PLAN

	Savings[a] (Millions of dollars) Budget Authority	Outlays
Annual		
2000	640	640
2001	720	720
2002	800	800
2003	880	880
2004	980	980
2005	1,080	1,080
2006	1,190	1,190
2007	1,300	1,300
2008	1,430	1,430
2009	1,560	1,560
Cumulative		
2000-2004	4,020	4,020
2000-2009	10,580	10,580

a. Discretionary savings from the 1999 funding level adjusted for inflation.

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

600-14-A, 600-14-B, 600-14-C, 600-15, and 600-17

RELATED CBO PUBLICATIONS:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Comparing Federal Salaries with Those in the Private Sector (Memorandum), July 1997.

The Thrift Savings Plan (TSP) for federal civilian employees is a defined contribution pension plan similar to the 401(k) plans that many private employers offer. Federal agencies automatically contribute to the TSP an amount equal to 1 percent of an individual's earnings on behalf of each of the 1.5 million workers covered by the Federal Employees Retirement System (FERS). In addition, the employing agency matches voluntary deposits by employees dollar for dollar on the first 3 percent of their pay and 50 cents for each dollar on the next 2 percent. The total federal contribution is 5 percent of pay for employees who also put aside 5 percent. Employees covered by the Civil Service Retirement System (CSRS), which covers most civilian federal employees hired before January 1, 1984, can contribute 5 percent of their pay to the TSP, but agencies contribute nothing on behalf of those employees.

If the government limited its matching contributions to a uniform rate of 50 percent on the first 5 percent of pay, its maximum contribution would fall to 3.5 percent of pay. Savings from that proposal would total $640 million in 2000 and $4 billion over five years. Ten-year savings would reach $10.6 billion. (The estimates exclude savings realized by the Postal Service because reductions in its operating costs eventually benefit only mail users.) Assuming that agencies continued the automatic 1 percent contribution, this arrangement would remain more generous than the defined contribution pension plans that are typically offered in the private sector.

Limiting the matching contributions would reduce the disparity between the government's two major retirement systems. Benefits under FERS are currently more generous than those under the older CSRS for most participants. Yet restricting the matching contributions would have several drawbacks. Middle- and upper-income employees rely on the government's contributions to maintain their standard of living during retirement because Social Security replaces a smaller fraction of their income than it does for lower-income employees. Part of the TSP's appeal derives from its individual accounts for each participant, which enjoy some protection from cuts imposed by subsequent changes in law. The security and portability of the TSP were major factors in the decision of many employees to switch from CSRS to FERS, because the TSP compensated for a less generous defined benefit plan. Changing the TSP's provisions would be unfair to that group, whose decision to switch plans reasonably assumed that changes would not be made. Opponents of restricting the matching rate also argue that doing so would diminish employees' savings for retirement, a problem that would be intensified if the cut reduced TSP participation. Research shows, however, that private-sector employees' contributions to their 401(k) plans tend to be responsive to the offer of employer matching contributions but not to the size of the match.

600-17 INCREASE EMPLOYEE CONTRIBUTIONS FOR FEDERAL PENSIONS

	Mandatory Savings from Civilian Plans[a]	Increased Revenues from Military Plans[a]
Annual		
2000	0	20
2001	0	90
2002	0	130
2003	940	160
2004	1,140	190
2005	1,130	210
2006	1,120	230
2007	1,100	250
2008	1,080	280
2009	1,070	280
Cumulative		
2000-2004	2,080	590
2000-2009	7,580	1,840

a. In millions of dollars.

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

600-14-A, 600-14-B, 600-14-C, 600-15, and 600-16

RELATED CBO PUBLICATIONS:

Comparing Federal Employee Benefits with Those in the Private Sector (Memorandum), August 1998.

Comparing Federal Salaries with Those in the Private Sector (Memorandum), July 1997.

This option would permanently increase by 0.5 percent of pay the contributions that most federal civilian employees make to their retirement plan. The option would also require people entering the military services to contribute 2 percent of basic pay toward retirement. Before 1999, most civilian workers covered by the Civil Service Retirement System (CSRS), the older of the two major civilian retirement plans, contributed 7 percent of their salary to their retirement fund. However, as CSRS-covered workers, they pay no Social Security taxes. Employees covered by the other major civilian plan, the Federal Employees Retirement System (FERS), generally contributed 0.8 percent of pay toward a defined benefit plan and paid 6.2 percent in Social Security taxes. The Balanced Budget Act of 1997 temporarily raises federal civilian employees' contributions to the retirement funds by 0.5 percent of pay; it also raises nonpostal agencies' contributions for CSRS participants by 1.5 percent of pay. The government began phasing in those increases in January 1999—employee contributions initially rose by 0.25 percent of pay. The increases are scheduled to expire after 2002. This option would make those higher employee and agency contributions for civilian pensions permanent.

Adopting this option for civilian employees would increase savings in mandatory programs by $2.1 billion over five years and $7.6 billion over 10 years. Contributions by new military personnel would increase revenues by $20 million in 2000, $590 million over five years, and $1.8 billion over 10 years. (The estimates assume that agencies' contributions for employees under FERS and for military personnel remain unchanged.) Because the majority of military personnel leave the armed forces before retirement and receive no pension, the estimate of revenues is net of their refunded pension contributions during the 2000-2009 period.

Requiring employees to contribute to their retirement funds is one way to offset the generosity of federal civilian pension benefits relative to those in the private sector, yet maintain a high level of salary replacement once people retire. Moreover, military retirement benefits, which currently require no contributions, are more generous than benefits for federal civilian retirees. Requiring contributions by military personnel would be a step toward parity.

On the downside, for most federal civilian employees and new entrants to the armed forces, the option would be roughly equivalent to a 0.5 percent and 2.0 percent pay cut, respectively, and would further diminish the federal government's compensation package relative to that of the private sector. (Private firms seldom require employees to contribute to pension plans.) Those factors would weaken the government's ability to attract new personnel. In the case of military personnel, the option would hurt retention by increasing the incentive for service members to leave the military before they became eligible for retirement after 20 years of service—in essence, the option would offer an "exit bonus" in the form of the returned contributions. The government as a result might attract a less skilled workforce or be forced to raise cash compensation for its employees.