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 2003, federal outlays for function 600 will total nearly $328 billion, including about $50 billion in discretionary outlays. In the early 1990s, discretionary spending for function 600 grew significantly; since then, annual growth has generally been slower.

Federal Spending, Fiscal Years 1990-2003 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Estimate 2003
Budget Authority (Discretionary)	18.9	29.6	30.4	32.0	33.1	27.5	27.8	22.7	29.8	32.8	31.6	39.7	42.7	43.2
Outlays														
Discretionary	23.5	25.8	28.2	31.4	35.7	39.2	38.0	39.4	40.9	40.0	41.4	44.0	48.0	50.4
Mandatory	125.1	146.7	171.3	178.6	181.4	184.5	191.7	195.5	196.8	202.4	212.1	225.6	264.5	277.2
Total	148.7	172.4	199.5	209.9	217.1	223.7	229.7	235.0	237.7	242.4	253.6	269.6	312.5	327.6
Memorandum: Annual Percentage Change in Discretionary Outlays	n.a.	9.5	9.6	11.1	14.0	9.7	-3.1	3.8	3.7	-2.3	3.7	6.1	9.2	4.9

Note: n.a. = not applicable.

600-01—Discretionary

Increase Payments by Tenants in Federally Assisted Housing

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	394	810	1,250	1,714	2,203	6,371	18,382
Outlays	173	627	1,056	1,509	1,988	5,354	17,217

Most lower-income tenants 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 a local payment standard. In 2002, the average federal expenditure per assisted household for all of HUD's rental housing programs combined was roughly $6,200, the Congressional Budget Office estimates. That amount included 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. Savings in outlays would total $173 million in 2004 and almost $5.4 billion over five years, including $4.0 billion for Section 8 programs and $1.3 billion for public housing. (The estimates shown here assume that lawmakers will provide budget authority to extend the life of all commitments for housing aid that are due to expire during the 2004-2013 period.)

Supporters of this option might argue that to blunt the impact of the change on assisted tenants, state governments—which currently contribute no funds to 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 is that housing assistance programs generate substantial local benefits, such as improved quality of the housing stock. Moreover, since eligibility for housing aid is determined by each area's median income, tying states' contributions to renters' incomes (assuming that every state increased its contribution) would ensure that lower-income states would pay less per assisted family than higher-income states would.

Opponents of this option could argue that not all states would make up the reduction in federal assistance. As a result, housing costs could increase for some current recipients of aid, who generally have very low income. This option could also cause some relatively high-income renters in assisted-housing projects to move out, because paying an additional 5 percent of their income for such housing could be more expensive than renting an unassisted unit. As those tenants were replaced by new ones with lower income, the concentration of families with very low income in assisted-housing projects would increase and the savings from this option would decline (in some situations, the cost of the public housing program could rise).

RELATED OPTION: 600-02

600-02—Discretionary

Reduce Rent Subsidies for Certain One-Person Households

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	54	108	160	212	263	797	2,860
Outlays	24	79	133	186	238	659	2,616

In general, recipients of federal housing assistance either live in assisted-housing projects or rent units of their own choosing in the private market. Support for that second type of assistance comes in the form of Section 8 vouchers, which generally reduce the amount that recipients spend for housing to 30 percent of their income. Specifically, Section 8 programs pay the difference between 30 percent of a tenant's income (after certain adjustments) and 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 lives. Generally, one-person households may live in apartments with up to one bedroom, whereas larger households may reside in bigger units.

This option would link the rent subsidy for a newly assisted one-person household (or for a currently assisted person who moves to another unit) to the cost of an efficiency apartment rather than a one-bedroom apartment. That change would save $24 million in federal outlays next year and $659 million over the 2004-2008 period.

Advocates of this option would argue that an efficiency unit provides adequate space for someone living alone. Opponents would counter that renters in some areas might have difficulty finding suitable housing under the new rule and, as a result, might have to spend more than 30 percent of their income for available units.

RELATED OPTION: 600-01

600-03—Mandatory

Eliminate Small Food Stamp Benefits

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	90	90	90	90	95	455	950

Under the Food Stamp program, applicants must meet eligibility requirements to receive a monthly benefit. Among other conditions, they must have income at or below 130 percent of the federal poverty line and have countable assets of less than $2,000. Countable assets exclude certain items, such as the value of a house and the value of a car up to a set limit.

Once eligibility for the program has been determined, the value of the benefit is calculated. A household is expected to contribute 30 percent of its net income (gross income minus deductions for personal expenses) for food expenditures. The Department of Agriculture has determined the monthly cost of a "Thrifty Food Plan" for a given household size. A household's food stamp benefit equals the amount by which the monthly cost of the Thrifty Food Plan exceeds 30 percent of the household's net monthly income. For one- and two-person households, a minimum benefit exists: if the calculated benefit is less than $10, the food stamp benefit is set at $10.

This option would eliminate food stamp benefits for households whose calculated benefit is less than $10 a month. Savings from that change would total $90 million in 2004 and $455 million over the 2004-2008 period.

Proponents of this option argue that it would concentrate food stamp benefits on recipients with the greatest calculated need because the people who would lose benefits are those who have the highest expected contribution to their monthly food costs. Critics argue that eliminating benefits for households eligible for less than $10 a month might discourage those households from reapplying for the program if their financial situation changed. That discouraging effect could lessen the extent to which the program achieved its goal of aiding low-income households.

600-04—Mandatory

Target the Subsidy for Certain Meals in Child Nutrition Programs

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	85	555	655	670	680	2,650	6,125

The School Lunch Program and the School Breakfast Program provide funds to participating schools to subsidize lunches and breakfasts for children. Participating schools must offer free meals to children with family income below 130 percent of the federal poverty line, reduced-price meals to children with family income between 130 percent and 185 percent of the poverty line, and full-price meals to children with family income above 185 percent of the poverty line. Most schools that participate in the lunch program also participate in the breakfast program.

The subsidy rate per meal does not vary with the cost that the school incurs in providing the lunch or breakfast—it depends solely on the family income of the student receiving the meal. For the 2002-2003 school year, the federal subsidies amount to $2.14 per lunch and $1.17 per breakfast for students receiving free meals, $1.74 per lunch and $0.87 per breakfast for reduced-price meals, and $0.20 per lunch and $0.22 per breakfast for full-price meals. (Schools with large numbers of participating students can get an additional subsidy.) The school sets the prices it charges students for reduced-price and full-price meals, although the reduced-price meal cannot cost more than 40 cents.

This option would eliminate the breakfast and lunch subsidy for full-price meals for students with family income above 350 percent of the poverty line, beginning in July 2004. At the same time, it would increase the subsidy for reduced-price meals by $0.20 for both breakfast and lunch. Those changes would yield net savings of $85 million in 2004 and more than $2.6 billion over five years.

Supporters of this option argue that there is no clear justification for subsidizing meals for children who are not from low-income families. Opponents argue that if a school has been using funds from the full-price subsidy to offset the cost of administering its breakfast and lunch programs, it might decide to raise meal prices for students from higher-income families or drop out of the program. The latter outcome would mean that students who were eligible for free or reduced-price meals would no longer receive them.

600-05—Mandatory

Reduce the $20 Exclusion for Unearned Income Under the Supplemental Security Income Program

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	90	135	125	115	130	595	1,260

The federal Supplemental Security Income (SSI) program provides monthly cash payments—based on uniform, nationwide eligibility rules—to low-income elderly and disabled people. In addition, many 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 consists of Social Security benefits), $20 a month is excluded; SSI benefits are reduced dollar for dollar for unearned income above that amount. The program allows a larger exclusion for earned income (such as wages) to encourage SSI recipients to work.

This option would reduce the exclusion for unearned income from $20 a month to $15. That reduction would save $90 million in 2004 and $595 million over five years.

Advocates of this option argue that a program designed to ensure a minimum standard of living for its recipients need not provide a higher standard for people who happen to have unearned income. But opponents point out that reducing the monthly exclusion by $5 would decrease by as much as $60 a year the income of the roughly 2.3 million low-income people (approximately 35 percent of all federal SSI recipients) who would otherwise benefit from the exclusion in 2004. Even with the full $20 exclusion, the income of many SSI recipients is below the poverty line.

RELATED OPTION: 600-06

600-06—Mandatory

Create a Sliding Scale for Children's SSI Benefits Based on the Number of Recipients in a Family

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	0	70	135	130	150	485	1,345

The federal Supplemental Security Income (SSI) program makes cash payments—based on uniform, nationwide eligibility rules—to elderly and disabled people with low income. In addition, many states provide supplemental payments to SSI recipients. In 2002, children received approximately $5.3 billion, or almost one-sixth, of federal SSI benefits.

Unlike other means-tested benefits, the SSI payment for an additional child does not decline as the number of SSI recipients in a family increases. In 2003, a family with one child qualifying for SSI benefits could receive up to $552 a month, or $6,624 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 receive another $552 a month for each one. (A child's benefit is based only on the presence of a severe disability and the family's income and resources, not on the nature 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 get smaller benefits per child as its number of children receiving SSI increased. The sliding scale used in this option was recommended by the National Commission on Childhood Disability in 1995. It would keep the maximum benefit for one child the same as in current law but reduce benefits for additional recipient children in the same family. If that sliding scale was in place in 2003, the first child in a family qualifying for the maximum benefit would continue to receive $552 a month, but the second child would get $333, and the third would receive $291. Benefits would continue to decrease for additional children. As with current SSI benefits, the sliding scale would be adjusted each year to reflect changes in the consumer price index.

This option assumes that the change would not be carried out until 2005 because the Social Security Administration does not maintain data on multiple SSI recipients in a family, so implementing the sliding scale would require significant effort on the agency's part. Savings from this option would total $70 million in 2005 and $485 million between 2005 and 2008.

Proponents of a sliding scale argue that the reductions in benefits it would produce reflect economies of scale that generally affect the cost of living for families with more than one child. Moreover, 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 are generally eligible for Medicaid.

Opponents of this option could argue that children with disabilities sometimes have unique needs that may not be covered by Medicaid, including modifications to their housing and specialized equipment. With lower SSI benefits, some families might be unable to meet such needs.

RELATED OPTION: 600-05

600-07—Mandatory

Reduce the Federal Matching Rate for Administrative and Training Costs in the Foster Care and Adoption Assistance Programs

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	125	155	160	160	165	765	1,615

The Foster Care and Adoption Assistance programs provide benefits and services to eligible low-income children and families. The federal government pays 50 percent of most administrative costs for the programs, including costs for child placement services; state and local governments pay the remaining share. However, the federal government pays higher matching rates for certain activities to induce local administrators to undertake more of them. For example, the federal government pays 75 percent of the costs of training administrators and prospective foster and adoptive parents.

This option would reduce the matching rates for all administrative and training expenses in the Foster Care and Adoption Assistance programs to 50 percent, thus eliminating special rates for specific activities. That change would decrease federal outlays by $125 million in 2004 and by $765 million over five years.

Proponents of this option could argue that because the higher matching rate for training and related expenses has been in place for many years, it is unclear whether states require that rate to provide those services. Reducing the matching rate to 50 percent would shed some light on states' willingness to pay a larger share of those costs, as well as bring the matching rate in line with that for administrative expenses.

Critics argue that states might respond to this option by reducing their administrative efforts, which could raise program costs and offset some of the federal savings. Specifically, states might make less of an effort to eliminate waste and abuse in payments to providers. Or they might provide less training for administrators and parents or reduce the payments and other services that the programs offer. Such reductions could be especially likely because many states are facing budget shortfalls.

Under the Unfunded Mandates Reform Act of 1995, cuts in federal funding for some entitlement grant programs —including Foster Care and Adoption Assistance—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 Foster Care and Adoption Assistance programs to make such changes, this option could constitute an unfunded federal mandate under the law.

600-08—Mandatory

Limit Some Cost-of-Living Adjustments for Federal Retirees

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	200	490	790	1,120	1,470	4,070	17,550

Annuitants under the Civil Service Retirement System (CSRS) receive annual cost-of-living adjustments (COLAs) that offer 100 percent protection against inflation. Annuitants under the newer Federal Employees Retirement System (FERS) receive full protection only when the annual rate of inflation is less than 2 percent. If inflation in a year is between 2 percent and 3 percent, FERS annuitants receive COLAs of 2 percent. If inflation is over 3 percent, their COLA is the increase in inflation minus 1 percentage point.

This option illustrates one way among many to limit COLAs for federal retirees. It would restrict COLAs for CSRS annuitants to half a percentage point below inflation. Moreover, when inflation was less than 3 percent, FERS retirees would receive a COLA that was 1 percentage point below inflation. (Those two reductions would produce roughly comparable cuts in total retirement benefits for the two types of annuitants because FERS enrollees are also covered by Social Security.) The option would save $200 million in direct spending for civilian pensions in 2004 and $4.1 billion during the 2004-2008 period. Over five years, the average CSRS retiree would lose $1,900. (The Congress could also consider limiting COLAs only for the FERS plan, which is more generous when Social Security and Thrift Savings Plan benefits are factored in.)

Advocates of this option contend that federal pension plans offer greater protection through COLAs than most private pension plans do. COLAs are becoming less prevalent in the private sector. According to a 1999 survey, fewer than 10 percent of private-sector retirement plans offered annuitants any automatic protection against inflation.

Opponents of this option argue that cutting any retirement benefit hurts both retirees and the government's ability to recruit a high-quality workforce. Further, when workers accept employment with the federal government, they count on the benefits promised. 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 would hurt those retirees—CSRS annuitants—who are 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, opponents note that federal retirees' protection against inflation has already been restricted to some extent. The General Accounting Office calculated that delays and reductions in COLAs between 1985 and 1994 effectively reduced the adjustments to about 80 percent of inflation.

RELATED OPTIONS: 600-09 and 600-10

RELATED CBO PUBLICATIONS: *Measuring Differences Between Federal and Private Pay*, November 2002; *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998; and *Comparing Federal Salaries with Those in the Private Sector*, July 1997

600-09—Mandatory

Modify the Formula Used to Set Federal Pensions

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Outlay Savings	70	130	185	235	295	915	3,485

The government's major retirement plans for civilian employees, the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS), provide initial benefits that are based on average salary during an employee's three consecutive highest-earning years. In 2002, outlays for benefits under the two programs totaled $48.9 billion.

This option would use a four-year average to compute benefits for people who retire under FERS and CSRS after September 30, 2003. As a result, initial pensions would be about 1.5 percent to 2 percent smaller for most new civilian retirees, saving the federal government $70 million in 2004 and a total of $915 million over five years.

Proponents contend that this option would align federal practices more closely with those in the private sector, which commonly uses five-year averages to calculate an employee's base pension. The change in formula would encourage some federal employees to work 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 could hinder efforts to decrease the size of the federal workforce and promote the hiring of entry-level workers.

Opponents argue that by cutting benefits, this option would reduce the attractiveness of the government's civilian compensation package. In previous legislative sessions, the Congress took several actions to improve that compensation package, including rolling back required contributions by federal employees to their retirement plans.

Under this option, FERS benefits (which include Social Security and the Thrift Savings Plan) would remain more generous than those offered by large private firms, but CSRS benefits (which do not include Social Security and the Thrift Savings Plan) would fall below those received by many retirees from the private sector. The average new CSRS retiree would lose $620 in 2004 and $3,200 over five years, whereas the average new FERS retiree would lose $190 in 2004 and just $1,000 over five years because of the smaller defined benefit under that system.

RELATED OPTIONS: 600-08 and 600-10

RELATED CBO PUBLICATIONS: *Measuring Differences Between Federal and Private Pay*, November 2002; *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998; and *Comparing Federal Salaries with Those in the Private Sector*, July 1997

600-10—Discretionary

Restructure the Government's Matching Contributions to the Thrift Savings Plan

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	375	400	430	460	495	2,160	5,250
Outlays	375	400	430	460	495	2,160	5,250

Most federal workers covered by the Federal Employees Retirement System (FERS) can direct up to 13 percent of their salary to the Thrift Savings Plan (TSP), which is similar to a 401(k) plan. (That limit will increase over the next several years.) At the same time, federal agencies automatically contribute an amount equal to 1 percent of salaries for their FERS employees to the TSP. In addition, they match the first 3 percent of workers' voluntary contributions to the TSP dollar for dollar and the next 2 percent at 50 cents on the dollar. Employees can contribute another 8 percent of pay but get no matching contribution. Thus, although federal workers can save up to 13 percent of their earnings in the TSP, they can receive the maximum government match by contributing just 5 percent of their earnings.

This option would restructure the TSP contribution schedule so that the government made the full 5 percent match only when employees contributed 10 percent. Specifically, the government would match voluntary contributions ranging from 1 percent to 6 percent of earnings at the rate of 50 cents per dollar (for a maximum 3 percent match) and contributions ranging from 7 percent to 10 percent at 25 cents per dollar (for a maximum 1 percent match). The government would continue to automatically contribute an amount equal to 1 percent of employees' earnings. That restructuring would save $375 million in 2004 and $2.2 billion over the 2004-2008 period.

Supporters of this option contend that changing the government's matching schedule would bring federal practices more in line with those of defined-contribution plans in the private sector, which usually provide lower matches and no automatic contributions. According to the Bureau of Labor Statistics, the most prevalent practice among medium and large private firms is to match employees' contributions up to 6 percent of pay at 50 cents on the dollar. Some federal employees, especially those currently contributing 5 percent of their earnings, would have an incentive to contribute more to the TSP and, as a result, would have more savings available when they retired. Furthermore, restructuring matching contributions might reduce the disparity between the government's two major retirement systems. Benefits under FERS—which include Social Security and the TSP—are currently higher and cost the government more than benefits under the older Civil Service Retirement System for most participants.

Opponents argue that this option would have several drawbacks. First, a lower government match on smaller contributions could reduce the retirement resources of some employees by weakening their incentive to contribute. Second, the government might achieve its savings at the expense of those employees who are least likely to contribute a higher percentage of their earnings to the TSP—namely, young workers and others with relatively low pay. Third, changing the TSP could be considered unfair because many people accepted employment with the government or switched from the Civil Service Retirement System to FERS assuming that TSP benefits would remain the same.

RELATED OPTIONS: 600-08 and 600-09

RELATED CBO PUBLICATIONS: *Measuring Differences Between Federal and Private Pay*, November 2002; *Comparing Federal Employee Benefits with Those in the Private Sector*, August 1998; and *Comparing Federal Salaries with Those in the Private Sector*, July 1997