Many critics of federal retirement spending have focused on the generosity of pension plans for retired federal employees relative to those for private-sector workers. They note that the federal plans have more lenient provisions for early retirement than many private-sector plans. In addition, federal pensions generally include full cost-of-living adjustments, something virtually nonexistent in private pensions (although some protection against inflation is not uncommon). Critics also raise the question of equity. As long as cuts in Social Security benefits remain on the table, many people believe that it would be unfair to protect federal retirement benefits from reductions.

Supporters of federal workers and retirees point out that these programs were integral parts of the employment contract between the federal government and its employees and therefore constitute earned benefits. Cutting them would probably hurt the government's reputation as an employer. Annual surveys comparing government and private-sector wages indicate that federal workers may be accepting lower cash wages in exchange for better retirement benefits in deciding to work for the government. In essence, these workers pay for their more generous retirement benefits by accepting lower wages during their working years.[11] Moreover, as some observers maintain, cutting benefits promised to current annuitants may prompt forward-looking workers to demand higher compensation now to offset the increased uncertainty of their deferred benefits.

In sum, this view holds that any reduction in the benefits that the government has promised its workers would be an inherently unfair abrogation of the labor contract between them. That action would also make it more difficult for the government to attract and retain high-quality employees.

Cutting military pensions poses a different kind of problem. Because military personnel receive pensions only if they serve at least 20 years, retirement benefits are a major incentive for experienced people to stay in the armed forces.[12] But full benefits can be received at any age. That fact combined with the cliff-vesting feature of military pensions (people qualify for pensions only if they serve 20 years but then qualify fully) may induce many military personnel to leave the service as soon as they become vested. Although this inducement serves to maintain a young and vigorous military force, it may also lead some service members whom the military would like to retain to retire in early middle age, when their skills and experience make them most valuable.

Imposing an age requirement for receiving pensions could mitigate this effect, although it would generate little budgetary savings unless it affected current retirees retroactively.[13] Limiting pensions for higher-income retirees through a global means test could also reduce early retirements. An unwanted side effect, however, might be its destruction of the effectiveness of pensions as a retention tool.

A further argument against means-testing federal pensions is that they are already subject to a form of means test. To the extent that they exceed the contributions employees make during their working years, federal pensions are fully taxable under the federal individual income tax. In 1990, for example, 20 percent of civilian pensions went to federal income taxes. Recipient families with incomes below $20,000 paid less than 15 percent of their pensions in taxes; those with incomes above $100,000 paid roughly 30 percent (see Table 6).

Any consideration of how to treat federal civilian pensions must distinguish between the Civil Service Retirement System (CSRS), the original pension system begun in the 1920s, and the Federal Employees' Retirement System (FERS), which replaced CSRS in 1984. Most federal civilian workers hired after 1983 participate in FERS, along with workers hired earlier who elected to transfer to the new system.

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11. This argument will be less valid in the future, however, if the government moves toward pay comparability under the Federal Employees Pay Comparability Act of 1990. That act calls for cash wages of federal workers to increase until they are comparable with the wages of similar workers in the private sector.

12. In fact, all military retirees may be recalled to active duty, and their pensions are technically "retired and retainer pay." This feature makes military pensions qualitatively different from civilian pensions. Furthermore, because of this feature, military retirees who go to work for the federal government receive reduced military pensions during that employment.

13. A 1985 change in the military retirement system reduces until age 62 the retirement benefits of people who entered the military after July 31, 1986, and retire with fewer than 30 years of service.

**Table 6.**
**Average Federal Civilian and Military Pensions per Recipient Family Before and After Federal Income Taxes, by Family Income and Type, 1990**

| Family Category | Average Pension per Recipient Family (1990 dollars) Before Taxes | After Taxes | Effective Tax Rate (Percent) |
|---|---|---|---|
| | **Civilian Pensions** | | |
| All Families | 14,340 | 11,460 | 20.1 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 5,170 | 4,890 | 5.4 |
| 10,000 to 19,999 | 9,160 | 7,940 | 13.3 |
| 20,000 to 29,999 | 12,230 | 10,260 | 16.1 |
| 30,000 to 39,999 | 14,230 | 11,500 | 19.2 |
| 40,000 to 49,999 | 17,760 | 14,040 | 21.0 |
| 50,000 to 74,999 | 19,480 | 14,930 | 23.3 |
| 75,000 to 99,999 | 19,670 | 14,780 | 24.9 |
| 100,000 to 149,999 | 25,190 | 17,570 | 30.3 |
| 150,000 or more | 25,490 | 18,140 | 28.9 |
| Type[b] | | | |
| With children | 11,500 | 10,770 | 6.3 |
| Elderly | 14,550 | 11,380 | 21.8 |
| Other | 14,780 | 11,820 | 20.0 |
| | **Military Pensions** | | |
| All Families | 13,460 | 10,900 | 19.0 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 3,400 | 3,260 | 4.1 |
| 10,000 to 19,999 | 7,220 | 6,550 | 9.3 |
| 20,000 to 29,999 | 10,490 | 9,200 | 12.4 |
| 30,000 to 39,999 | 11,370 | 9,680 | 14.8 |
| 40,000 to 49,999 | 12,850 | 10,680 | 16.9 |
| 50,000 to 74,999 | 14,280 | 10,990 | 23.0 |
| 75,000 to 99,999 | 23,550 | 18,200 | 22.7 |
| 100,000 to 149,999 | 19,680 | 14,720 | 25.2 |
| 150,000 or more | 33,770 | 24,110 | 28.6 |
| Type[b] | | | |
| With children | 11,860 | 11,380 | 4.0 |
| Elderly | 13,200 | 10,270 | 22.2 |
| Other | 14,320 | 11,180 | 21.9 |

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTE: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

Workers covered by CSRS receive retirement benefits as a pension funded by equal contributions from the worker and the government totaling 14 percent of wages. These contributions cover roughly 56 percent of the costs of the pension. CSRS participants do not qualify for Social Security benefits from their government service, nor do they receive contributions from the government to retirement savings accounts. In contrast, FERS offers three different retirement resources: a smaller pension fully funded by government and worker contributions equal to 11.4 percent and 0.8 percent of wages, respectively; Social Security benefits; and savings in the Thrift Savings Plan, accumulated through worker and government deposits.

Conceivably, any plan to reduce benefits might exempt federal pensions because they constitute deferred compensation rather than entitlements in the ordinary sense. If the plan reduced Social Security benefits, however, exempting pensions would affect CSRS and FERS participants differently. Because FERS replaced part of the pension benefits in CSRS with participation in Social Security, reducing Social Security benefits without making commensurate reductions in CSRS pensions would favor CSRS participants over FERS participants. Concerns about equity between the two retirement plans would argue that benefit cuts in Social Security be accompanied either by equivalent cuts in CSRS pensions or compensating increases in FERS benefits.

# Means-Tested Income Support Programs

Some federal entitlements provide support in cash and in kind for low-income families who also satisfy certain categorical requirements.[14] The federal part of Supplemental Security Income pays cash benefits to elderly and disabled people with monthly incomes and certain assets below federally specified national limits. Aid to Families with Dependent Children goes to families with children who have monthly incomes and assets below limits set by individual states. Households with monthly incomes below the federal poverty guidelines qualify for food stamps. The earned income tax credit provides refundable tax credits for workers with low incomes.

All four programs impose strict limits on the incomes of recipient families, and the first three also limit the total nonhousing wealth a family may have to qualify for benefits. Because these constraints already exist, subjecting the programs to more global forms of means-testing could duplicate the current tests at significantly higher income levels. Such a process would impose costs for administration and compliance and yet have little effect on spending.

## Supplemental Security Income

In 1974, SSI replaced separate programs aiding elderly, blind, and permanently disabled people. Since then, its caseload has grown from less than 3 million to nearly 6 million people. Benefit payments have grown from $4 billion to $25 billion in 1994.

The program guarantees people who are blind, disabled, or at least 65 years old incomes, in 1994, of $446 per month for individuals and $669 for couples. To qualify for those benefits, recipients must have incomes that fall below the guarantee levels. The program also limits certain assets to no more than $2,000 for individuals and $3,000 for couples.

The federal government pays the full cost of the guarantees, which are adjusted annually for inflation based on changes in the consumer price index. States may supplement the federal guarantee at their own expense, and about half the states choose to do so.

In 1990, roughly 4 percent of U.S. families received SSI payments--including state supplements--averaging slightly more than $3,800 (see Table 7). One in eight families with incomes below $10,000 received benefits. Elderly families were more than twice as likely as younger families to benefit from the program; one-fifth of elderly families with incomes below $10,000 were beneficiaries. Overall, recipient families got one-fourth of their total income from SSI. The poorest families relied on the program for half of their support.

14. This discussion omits a number of smaller means-tested entitlements including nutrition and student loan programs. Those programs account for less than 5 percent of total entitlement spending. Medicaid, although also a means-tested benefit, is omitted here and covered instead in the section on federal health insurance programs.

## Aid to Families with Dependent Children

The AFDC program offers cash assistance to families with children deemed to be needy under standards set by each state. Families with monthly incomes and assets under a state's limits qualify for benefits that, for a three-person family in 1994, range from a maximum of $120 per month in Mississippi to a maximum of more than $900 per month in Alaska. Generally, the program does not automatically adjust benefits to keep pace with inflation.

The federal and state governments share the costs of the program, with the wealthiest states bearing half the cost of spending for their residents and poorer states paying as little as one-sixth. In 1994, the program will pay nearly $23 billion in benefits to a monthly average of nearly 14 million recipients. The federal government will pay 55 percent of those costs. Because costs are split between states and the federal government, any savings that a means test would generate would also be split between the two entities.

The AFDC program provided average benefits of about $3,600 to 13 percent of all families with children in 1990 (see Table 7). The poorest families were most likely to participate: over half of families with children and incomes below $10,000 received benefits. For those families, AFDC made up two-thirds of their total income.

## Food Stamps

The Food Stamp program provides low-income households with coupons that they can use like cash to purchase food products. A four-person household with countable income below the federal poverty guidelines and specified assets of less than $2,000 qualifies for up to about $380 worth of food stamps monthly. Today, participation in the Food Stamp program stands at record levels. In the average month in 1994, more than 27 million people will receive food stamps; total benefits in 1994 will exceed $24 billion. The federal government pays the full cost of food stamps.

One-tenth of all families and one-third of those with incomes below $10,000 received food stamps in 1990 with an average value of nearly $1,500 (see Table 7). Families with children were more likely than other families to participate in the program; one-sixth of those families got stamps worth an average of $2,000. For recipient families, food stamps added significantly to family income--on average, nearly one-sixth of the total.[15] Families with incomes below $10,000 received one-fifth of their income from the program.

## Earned Income Tax Credit

The Congress had several purposes in mind when it enacted the EITC in 1975: providing financial assistance to low-income working families with children, offsetting Social Security payroll taxes, and improving the incentive to work. It has since made the credit more generous on a number of occasions, most recently in the Omnibus Budget Reconciliation Act of 1993. That act increased benefits and extended them to families and individuals without children.

In 1996, when the changes are fully phased in, the EITC will offer tax credits of as much as $3,560 annually to taxpayers with adjusted gross incomes (AGIs) of up to about $11,600 and smaller amounts to those with AGIs up to about $28,500. (AGI is the measure of income subject to federal income taxes before subtracting personal exemptions and standard or itemized deductions.) In 1996, over 18 million taxpayers will receive about $23 billion from the EITC. Approximately $3 billion of that amount will be in reduced taxes; $20 billion will be in refundable payments.

The framework for benefits under the EITC consists of three income ranges: a phase-in range of earnings, over which the credit increases to a maximum; a plateau range of AGI, over which the credit equals that maximum; and a phaseout range of AGI, over which the credit declines to zero.[16] For example, in 1996, the credit for a family with two children will equal 40 percent of wages up to $8,900, for a maximum of

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15. This analysis measures food stamps at their face value. Family income equals cash income from all sources plus the value of food stamps received. It excludes the value of Medicare, Medicaid, and other income received in kind.

16. The plateau and phase-out ranges actually apply to the larger of AGI or earnings, but AGI is generally at least as large as earnings.

**Table 7.**
**Percentage of Families Receiving Means-Tested Benefits, Average Benefits per Recipient Family, and Benefits as a Percentage of Family Income, by Program, Family Income, and Family Type, 1990**

| Family Category | Percentage of Families Receiving Benefits | Average Benefits per Recipient Family (1990 dollars) | Benefits as a Percentage of Recipient Family's Income |
|---|---|---|---|
| | **Supplemental Security Income** | | |
| All Families | 4 | 3,820 | 24 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 13 | 3,260 | 50 |
| 10,000 to 19,999 | 5 | 4,440 | 32 |
| 20,000 to 29,999 | 3 | 4,720 | 19 |
| 30,000 to 39,999 | 1 | b | b |
| 40,000 to 49,999 | 1 | b | b |
| 50,000 to 74,999 | 1 | b | b |
| 75,000 to 99,999 | 1 | b | b |
| 100,000 to 149,999 | 1 | b | b |
| 150,000 or more | 1 | b | b |
| Type[c] | | | |
| With children | 3 | 4,640 | 21 |
| Elderly | 8 | 2,880 | 23 |
| Other | 3 | 4,300 | 29 |
| | **Aid to Families with Dependent Children[d]** | | |
| All Families | 6 | 3,340 | 26 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 17 | 2,910 | 47 |
| 10,000 to 19,999 | 7 | 4,000 | 30 |
| 20,000 to 29,999 | 3 | 3,980 | 16 |
| 30,000 to 39,999 | 1 | b | b |
| 40,000 to 49,999 | 1 | b | b |
| 50,000 to 74,999 | 1 | b | b |
| 75,000 to 99,999 | 1 | b | b |
| 100,000 to 149,999 | 1 | b | b |
| 150,000 or more | e | b | b |
| Type[c] | | | |
| With children | 13 | 3,610 | 28 |
| Elderly | 1 | b | b |
| Other | 2 | 2,220 | 21 |

$3,560.[17] Families with wages above $8,900 and with wages and AGI of less than $11,620 will receive the maximum credit. The credit will decline by 21.06 percent of any wages or AGI above $11,620; it falls to zero for families with wages or AGI of $28,524 or more. The formulas for determining EITC benefits are more generous for families with children than for childless families and more generous for families with two or more children than for those with one child.

One-tenth of all families and more than one-fourth of families with children received the EITC in 1990, before major increases that were enacted in 1990 and

17. The income levels used to calculate the EITC are adjusted for inflation. Consequently, the values shown here are estimates based on CBO's projections of inflation.

**Table 7.**
**Continued**

| Family Category | Percentage of Families Receiving Benefits | Average Benefits per Recipient Family (1990 dollars) | Benefits as a Percentage of Recipient Family's Income |
|---|---|---|---|
| | **Food Stamps** | | |
| All Families | 10 | 1,490 | 15 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 31 | 1,310 | 22 |
| 10,000 to 19,999 | 14 | 1,790 | 13 |
| 20,000 to 29,999 | 4 | 1,510 | 6 |
| 30,000 to 39,999 | 1 | b | b |
| 40,000 to 49,999 | e | b | b |
| 50,000 to 74,999 | e | b | b |
| 75,000 to 99,999 | e | b | b |
| 100,000 to 149,999 | e | b | b |
| 150,000 or more | e | b | b |
| Type[c] | | | |
| With children | 17 | 2,020 | 19 |
| Elderly | 5 | 680 | 8 |
| Other | 6 | 680 | 8 |

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

See Box 1 on page 8 for a discussion of how to interpret data on the receipt of benefits.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Too few families received benefits to allow estimation of a statistically meaningful value.

c. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

d. Because the data do not distinguish accurately between recipients of Aid to Families with Dependent Children (AFDC) and recipients of general assistance, some recipients of general assistance are included with recipients of AFDC.

e. Less than 0.5 percent.

1993 (see Table 8). Benefits averaged $600, nearly two-thirds of the maximum credit of $953 in that year. The EITC increased the income of the average recipient by 3 percent. Families with incomes below $10,000, however, received a 9 percent boost in income from the credit.

Whether the EITC encourages or discourages work on the part of families depends on their level of income. The credit offers a work incentive to families with wages in the phase-in range by increasing their earnings up to 40 percent. The credit may be a disincentive to work for families with incomes in the phaseout range.

**Table 8.**
**Percentage of Families Receiving the Earned Income Tax Credit, Average Credit per Recipient Family, and Credit as a Percentage of Family Income, by Family Income and Type, 1990**

| Family Category | Percentage of Families Receiving Credit | Average Credit per Recipient Family (1990 dollars) | Credit as a Percentage of Recipient Family's Income |
|---|---|---|---|
| All Families | 10 | 600 | 3 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 12 | 590 | 9 |
| 10,000 to 19,999 | 22 | 650 | 4 |
| 20,000 to 29,999 | 9 | 470 | 2 |
| 30,000 to 39,999 | 4 | 570 | 2 |
| 40,000 to 49,999 | 2 | 630 | 1 |
| 50,000 to 74,999 | 2 | 600 | 1 |
| 75,000 to 99,999 | 2 | 510 | 1 |
| 100,000 to 149,999 | 2 | 600 | 1 |
| 150,000 or more | 1 | b | b |
| Type[c] | | | |
| With children | 28 | 600 | 3 |
| Elderly | d | b | b |
| Other | d | b | b |

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

See Box 1 on page 8 for a discussion of how to interpret data on the receipt of benefits.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Too few families received benefits to allow estimation of a statistically meaningful value.

c. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

d. Less than 0.5 percent.

For families at that level, each additional dollar of income reduces their credit by as much as 21 cents--leaving them with 79 cents of net income before other taxes.[18]

18. The increased income from the credit provides recipients with an incentive to work less. That incentive reinforces the disincentive to work for families in the phaseout range and offsets incentives to work more for families in the phase-in range.

## Further Means-Testing of Income Support Programs

Additional means-testing of the income support programs discussed above seems to be a two-edged sword. Assistance programs designed to aid low-income families already impose limits on both the incomes and assets of recipients. Including those programs in a broad-based means test could thus be duplicative and result in little impact on program costs. At the same time, global approaches offer at least one advantage: instead of the monthly tests now used in each program other than the EITC, the programs would be subject to annual tests.[19] As a consequence, beneficiaries who qualified for assistance for only part of a year and who had substantial annual incomes could lose some or all of their benefits.[20] This approach would target the limited resources available toward the long-term poor rather than the temporarily poor.

Whether a policy of additional global means-testing would defeat the aims of the programs would depend on each family's circumstances. For example, an annual means test could require an unemployed single mother who received assistance during the first half of a year and then found a well-paying job during the second to repay some of that assistance. An otherwise similar mother whose fortunes were reversed--she was employed at a good wage during the first half of the year before losing her job and qualifying for welfare--could face a serious problem: she might have to repay some of those benefits because of her annual income but might not have the resources to do so.

On the one hand, setting benefit levels on the basis of a retrospective means test of annual income would avoid the problem of families having inadequate resources to repay benefits. On the other hand, it might deny assistance to families who were truly in need. In large part, the monthly means tests currently imposed on some entitlements recognize that families can need outside assistance for short periods, even if they can meet their needs by themselves most of the time.

# Government-Sponsored Health Insurance

Two major government programs provide health insurance for elderly, disabled, and poor people. Medicare offers assistance to people who are age 65 or older or permanently disabled who qualify on the basis of their own or others' work experience. Medicaid provides health care to people with low incomes and assets as well as to families who have spent large shares of their incomes on medical care.

## Medicare

Established in 1965, Medicare provides health care to elderly and disabled people through two separate programs. Hospital Insurance (HI), or Part A of Medicare, pays for hospital inpatient services, home-based health care, and skilled nursing. Supplementary Medical Insurance (SMI), or Part B, pays for doctors and outpatient services.

Payments from the HI trust fund are financed primarily through payroll taxes; a combination of enrollee premiums (roughly one-quarter of costs) and general revenues supports SMI benefits. In 1994, Medicare will provide roughly $161 billion in medical care to more than 34 million beneficiaries.

Medicare is the second largest entitlement program, exceeded only by Social Security. In 1990, nearly one-fourth of all families in this country received Medicare benefits at an average cost to the federal government of about $3,800 (see Table 9).[21] Virtually all elderly families--96 percent--participated in the program, compared with just 5 percent of younger families. Elderly families with higher incomes were somewhat less likely to get Medicare benefits, probably because their members were still working and receiving health insurance through their employers.

The program distributes HI benefits without regard to need, and the arguments supporting that policy are similar to those used for Social Security. The program is a social insurance program paid for by payroll taxes, say supporters. Through it, workers insure themselves against a portion of the health care costs that they expect to incur as retirees. According to that view,

19. Because the EITC is based on wages and total income from the previous year, it already imposes an annual means test.

20. Note, however, that many families with temporarily low incomes would have enough assets to disqualify them from receiving assistance.

21. This analysis values Medicare benefits at their insurance value--that is, the total cost of the program divided by the number of beneficiaries--minus premiums paid for SMI benefits. This approach assigns a constant value to every beneficiary, regardless of how much medical care is consumed, and therefore avoids attributing the highest values to the sickest participants in the program. The Congressional Budget Office assigned a value for 1990 of about $2,940. Chapter 5 discusses the problem of valuing health benefits.

**Table 9.**
**Percentage of Families Receiving Health Benefits, Average Value per Recipient Family, and Benefits as a Percentage of Family Income, by Program, Family Income, and Family Type, 1990**

| Family Category | Percentage of Families Receiving Benefits | Average Value per Recipient Family (1990 dollars) | Value as a Percentage of Recipient Family's Income |
|---|---|---|---|
| | **Medicare** | | |
| All Families | 24 | 3,830 | 13 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 34 | 3,200 | 48 |
| 10,000 to 19,999 | 30 | 3,830 | 26 |
| 20,000 to 29,999 | 25 | 4,100 | 17 |
| 30,000 to 39,999 | 21 | 4,270 | 12 |
| 40,000 to 49,999 | 17 | 4,140 | 9 |
| 50,000 to 74,999 | 15 | 4,170 | 7 |
| 75,000 to 99,999 | 17 | 4,160 | 5 |
| 100,000 to 149,999 | 18 | 4,290 | 4 |
| 150,000 or more | 20 | 4,380 | 1 |
| Type[b] | | | |
| With children | 6 | 3,500 | 11 |
| Elderly | 96 | 3,930 | 13 |
| Other | 4 | 3,100 | 15 |
| | **Medicaid** | | |
| All Families | 10 | 3,950 | 28 |
| Income (1990 dollars)[a] | | | |
| 1 to 9,999 | 29 | 3,480 | 56 |
| 10,000 to 19,999 | 12 | 4,550 | 33 |
| 20,000 to 29,999 | 5 | 4,730 | 19 |
| 30,000 to 39,999 | 3 | 4,350 | 13 |
| 40,000 to 49,999 | 3 | 4,040 | 9 |
| 50,000 to 74,999 | 2 | 4,570 | 8 |
| 75,000 to 99,999 | 2 | 3,840 | 5 |
| 100,000 to 149,999 | 1 | c | c |
| 150,000 or more | 1 | c | c |
| Type[b] | | | |
| With children | 16 | 4,310 | 29 |
| Elderly | 10 | 2,310 | 17 |
| Other | 5 | 4,570 | 36 |

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

The value of health benefits equals the insurance value of the benefits net of any premiums paid.

See Box 1 on page 8 for a discussion of how to interpret data on the receipt of benefits.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

c. Too few families received benefits to allow estimation of a statistically meaningful value.

enrollees have paid for their benefits, just like any other form of insurance.

Yet past contributions fall considerably short of paying for the benefits of current enrollees. Those benefits are funded through a pay-as-you-go mechanism, which has been unable to keep pace with the program's rapid growth in numbers of beneficiaries and real costs per beneficiary. As a consequence, current workers--including those with low and moderate earnings--are paying for the health care costs of HI enrollees, some of whom may be quite affluent. Proponents of cuts in the program or increased cost sharing by beneficiaries assert that higher-income participants should bear more of the program's costs.

Similar arguments apply to the SMI portion of Medicare. SMI beneficiaries pay only about one-fourth of program costs; the remainder comes from general revenues. People who advocate restraints on entitlements question why taxpayers should be paying three-fourths of SMI costs for enrollees with substantial incomes. Both the Bush and Clinton Administrations have acted on that question. Each has proposed that higher-income enrollees pay a greater share of SMI costs through higher monthly premiums.

Others are more cautious about introducing SMI premiums that would be related to income, in part because of the short-lived Medicare Catastrophic Care Act (MCCA). The MCCA was designed to provide catastrophic health insurance and drug benefits to all Medicare enrollees. It paid for those benefits by imposing premiums on all beneficiaries and substantial income tax surcharges on those with moderate to high incomes. (The surcharge would have fallen on the 40 percent of Medicare enrollees who had federal individual income tax liability of at least $150.)

The logic that the recipients of the benefits should actually pay more of the costs of expanding the program was initially persuasive to the Congress and the President. But the redistributive aspects of the program's financing, which required higher-income recipients to pay more than the costs of their expected additional benefits, created a political maelstrom that resulted in the MCCA's repeal.

## Medicaid

Under the Medicaid program, states provide health care to low-income families with children as well as to poor elderly and disabled people.[22] The federal and state governments share the costs of the program on the same basis as they share the costs of AFDC.[23] States must provide Medicaid to all AFDC families and most SSI recipients. However, the law permits 12 states that provided Medicaid under more restrictive eligibility standards before the establishment of SSI in 1972 to continue to use those standards.

Beginning in 1986, the Congress extended mandatory Medicaid coverage to children and pregnant women in families with low incomes.[24] States also have the option of offering Medicaid benefits to other low-income families who are considered medically needy; 36 states did so in 1992. States determine what medical services are covered under their Medicaid plans as well as the levels of reimbursement to providers. In 1994, nearly 34 million people will receive an estimated $140 billion worth of Medicaid benefits.

In 1990, 10 percent of all U.S. families participated in the Medicaid program and received benefits with an average insurance value of nearly $4,000 per family (see Table 9).[25] Because of the program's eligibility rules, families with children were more likely than average to participate: 16 percent of them received assistance through the program compared with 7 percent of families without children. Medicaid assisted nearly a third of all families with incomes below $10,000 and 60 percent of families in that income range who had children.

22. People participating in the Medicare program can also receive Medicaid benefits if their incomes are low enough. In such cases, Medicaid pays most out-of-pocket costs that Medicare does not pay.

23. Because the federal and state governments share the costs of Medicaid, they would also share any savings generated by means-testing the benefits of the program.

24. Changes have been phased in over time, extending mandatory coverage to all poor children under age 19 but only for those born after September 1983. Consequently, not until 2002 will all poor children under age 19 be eligible for coverage.

25. CBO's analysis assigns insurance values to Medicaid benefits on the basis of recipiency status and state. Recipients are classified as either elderly, nonelderly disabled, nonelderly adult nondisabled, or child nondisabled. Chapter 5 discusses the problem of valuing health benefits.

Regulations governing eligibility for Medicaid benefits already impose strict limits on both the income and assets recipient families may have. Further subjecting beneficiaries to a more global means test at higher income levels would, for the most part, duplicate current tests and add substantial new administrative costs. And if the test was an annual one--as it most likely would be--families in some categories could be hurt.

A small number of families who now qualify for benefits on the basis of low monthly incomes for part of a year would be made ineligible under an annual income test. Using an annual test could deny health care to people during periods when their resources were truly inadequate to pay for health services. Alternatively, such families could receive health care under Medicaid when they needed it but then have to pay the govern-

**Table 10.**
**Characteristics of Families Receiving Entitlement Benefits, by Family Income and Type, 1990**

| Family Category | Recipient Families (Thousands) | All Families (Thousands) | Percentage of All Families Receiving Benefits | Average Benefits per Recipient Family (1990 dollars) | Percentage of All Benefits |
|---|---|---|---|---|---|
| All Families | 50,270 | 103,280 | 49 | 10,320 | 100 |
| Income (1990 dollars)[a] | | | | | |
| 1 to 9,999 | 13,340 | 18,810 | 71 | 7,880 | 20 |
| 10,000 to 19,999 | 12,630 | 22,160 | 57 | 10,340 | 25 |
| 20,000 to 29,999 | 8,230 | 17,860 | 46 | 11,220 | 18 |
| 30,000 to 39,999 | 5,410 | 13,140 | 41 | 11,350 | 12 |
| 40,000 to 49,999 | 3,390 | 9,390 | 36 | 11,460 | 7 |
| 50,000 to 74,999 | 4,200 | 12,470 | 34 | 11,910 | 10 |
| 75,000 to 99,999 | 1,480 | 4,290 | 35 | 13,060 | 4 |
| 100,000 to 149,999 | 760 | 2,370 | 32 | 14,640 | 2 |
| 150,000 or more | 450 | 1,570 | 29 | 16,190 | 1 |
| Type[b] | | | | | |
| With children | 13,720 | 34,890 | 39 | 8,200 | 22 |
| Elderly | 21,710 | 22,140 | 98 | 13,970 | 58 |
| Other | 14,840 | 46,250 | 32 | 6,930 | 20 |

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

The table covers the following entitlements: Social Security and Railroad Retirement, unemployment compensation, veterans' compensation and pensions, Supplemental Security Income, Aid to Families with Dependent Children, the Food Stamp program, the outlay portion of the earned income tax credit, Medicare, Medicaid, and federal civilian and military pensions. Food stamps are measured at face value; Medicare and Medicaid benefits are assigned their insurance value net of any premiums paid.

See Box 1 on page 8 for a discussion of how to interpret data on the receipt of benefits.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

ment back for the cost of that care if they were deemed able to do so based on their annual incomes. Families who had to pay back those costs--or who had to pay taxes on the value of their benefits--could well lack the resources needed to do so.

That sort of payback requirement could have other adverse effects as well. It might pose a substantial disincentive for families to earn additional income during years in which they received Medicaid assistance, given that some part of the added earnings would go to repay the costs of that assistance. It might also cause some people not to seek health care when appropriate, particularly in the case of preventive care for children.

## The Distribution of All Entitlement Benefits

Examining individual entitlements to see how and to whom they give benefits fails to provide a complete picture of which families receive how much in total entitlement payments. Many families receive payments from more than one program, either because participation in one program makes a family automatically eligible for benefits from another or because programs may have similar eligibility requirements. All recipients of AFDC, for example, qualify for Medicaid assistance. In addition, they are almost certainly eligible for food stamps, since the income limits for AFDC are generally lower than those for the Food Stamp program. Similarly, a vast majority of the elderly get both Social Security and Medicare because the program requirements are much the same. Determining the full extent of the entitlements that families receive requires combining all of the programs and examining the distribution of their total benefits.

In 1990, just under half of all families participated in one or more of 11 major federal entitlements. More than 50 million families received a total of about $360 billion in cash payments from Social Security, unemployment compensation, veterans' compensation and pensions, AFDC, SSI, or federal civilian or military pensions, and more than $150 billion more of in-kind benefits from the Food Stamp program, Medicare, and Medicaid. On average, the government spent roughly $10,000 per recipient family.

Benefits in 1990, however, were not distributed evenly among families with different incomes (see Table 10). On the one hand, low-income families were more likely to receive benefits than their counterparts with higher incomes: nearly three-fourths of families with cash incomes below $10,000 were beneficiaries, compared with less than one-third of families with incomes above $100,000. On the other hand, among recipient families, those with high incomes had higher average benefits than those with low incomes--$15,200 for families with cash incomes above $100,000 versus $7,900 for families with incomes below $10,000.

Who received benefits and how much they received also differed widely among types of families (see Table 10). Virtually all families (98 percent) with at least one member age 65 or older received some benefits, compared with 39 percent of families with children and 32 percent of other families (no elderly family members or children). Among recipient families, average benefits were nearly twice as large for elderly families. They received about $14,000 versus roughly $8,200 for families with children and $6,900 for other families. And slightly more than two-fifths of all recipient families were elderly, whereas the remaining families split about evenly between those with and without children. Overall, three-fifths of all entitlement outlays went to elderly families, and about one-fifth each went to families with children and other families.