Chapter Five

Implementing a Global Means Test

Establishing a global means test would require decisions about its structure and administration. Would each entitlement program administer the test, or would the Congress create a new central agency to oversee all entitlements? Would the Internal Revenue Service (IRS) administer the test through the tax system?

Should participants lose benefits according to a prospective scheme (based on the resources they anticipate having in a future period) or should the reductions be retroactive (based on their income over a past period)? What is the appropriate "unit"--individual, couple, family, or other--over which to determine resources and hence eligibility for benefits? What resources should count in measuring means? How should the system value benefits provided in kind when determining taxes on benefits or any reductions of them? And at what rate should participants lose benefits as their resources increase?

Answers to these questions will determine the success of the means test in terms of the ease and costs of its administration. They will also significantly influence its effectiveness in constraining program expenditures, its fairness in limiting benefits, and its effects on the behavior of recipients.

Because the federal individual income tax already exists, answers to most of the questions are obvious for the option that would tax benefits from entitlements. That approach would simply require that agencies administering the programs tell recipients at the end of each year the value of their benefits that should be reported as taxable income.[1] The appropriate accounting period, tax unit, measurement of means, and rate of taxation of benefits would all be defined by regulations governing the income tax.

The major unanswered question involves the value that should be assigned to in-kind benefits in measuring taxable income. Beyond the difficulties raised by that issue is also the drawback that the IRS would incur higher administrative costs to process informational returns from program agencies and returns filed by people who previously had not been required to file. Nevertheless, the appropriate administrative machinery is already in place. The questions raised above are more difficult to answer for the benefit reduction and denial options.

Administering Agency

Three alternatives are available to administer a global means test of entitlements. The Congress could give responsibility for the test to individual agencies that currently run the various programs, create a new agency that would impose a means test on all covered entitlements, or require the IRS to perform means-testing through tax returns. Each approach has strengths and weaknesses.

1. The IRS already has a form--Form 1099-G--by which government agencies tell participants in some programs the amount of benefits provided to them during the previous year.

Several outcomes are virtually certain regardless of which approach is used. Imposing a global means test would raise administrative costs, increase program complexity, make compliance by beneficiaries more difficult, and require potentially complex end-of-year reconciliation. Whether budgetary savings warrant experiencing these problems depends on how effective the means test would be, how many beneficiaries the test would affect, and by how much benefits could be reduced.

Administration by Individual Agencies

As the providers of benefits, the individual agencies responsible for entitlement programs might appear to be the logical choices to administer means tests. Those agencies collect information about their beneficiaries, calculate levels of benefits, and actually make payments. What they generally do not have is complete information about all of the resources--either current or prospective--available to participants in their programs.

Programs could remedy this lack by requiring recipients to report their resources in full or estimate the resources they expect to have over some future period. Social Security beneficiaries subject to that program's earnings test now provide the same kind of estimates of income if they expect to have earnings above certain thresholds. Judging by the experience of that program, such reporting could impose significant compliance costs on recipients. In addition, processing those data could markedly increase agencies' costs for administration. A further problem would arise because many beneficiaries receive payments from more than one program. In those cases, agencies would duplicate each other's data collection efforts.

Having individual agencies administer a means test would pose two additional problems in determining benefits for recipients. First, because participants would generally be unable to forecast their resources accurately, agencies would have to reconcile the payments people made during a year after complete, accurate information became available. The experience of the Social Security earnings test indicates that many cases would require reconciliation in the form of payments or collections; in fact, the Social Security Administration (SSA) has to correct four out of every five cases in which the earnings test applies. The SSA reports that it spends about $200 million annually to administer the earnings test.[2]

The second problem lies in ordering the benefits from the different programs in determining an individual's or a family's need. Income from other entitlements would have to be part of any means test, since ignoring such income would overstate that need. At the same time, if participants accurately report the benefits they receive from multiple programs and, as a consequence, each program cuts their payments, their actual resources--including the now-lower entitlements--would be less than their estimates. As a result, they would qualify for higher payments.

The Congress could mitigate this problem by ordering programs for the purpose of counting resources. For example, Social Security benefits might be based only on nonentitlement income, Medicare on nonentitlement income plus Social Security benefits, and so on. Although this solution might not eliminate the problem, it could reduce the need to recalculate benefits for all entitlements.

Single Administering Agency

Having a single agency administer a global means test for all entitlements would eliminate duplicate data collecting and program ordering to determine benefits. The "cost" of those advantages would be the establishment of a new agency with massive data requirements.[3] Potential beneficiaries who could anticipate having their benefits reduced by the means test would have to report their expected resources to the agency. The agency would determine whether to reduce a person's

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2. Imposing a means test on entitlements could cost more or less than the SSA spends on the earnings test. On the one hand, the denial option, which is imposed only on the wealthiest beneficiaries, would require information and adjustment of benefits for relatively few people. The reduction option, on the other hand, would affect many more. In contrast, although the tax option would involve nearly all beneficiaries, its imposition would simply be an extension of the current income tax and would be unlikely to incur large additional collection costs.

3. Because the SSA already has the machinery in place to administer an earnings test, as well as data files containing significant information about Social Security and Medicare participants, it might be a strong candidate to administer a global means test. Imposing that added responsibility, however, might further overburden an agency that is already struggling to manage its own programs adequately.

benefits, apply the appropriate cut to each entitlement, and report net benefits to the agencies administering the individual programs.

Because the central agency would have to calculate benefits for each program and keep track of information on all of the beneficiaries of all the federal government's entitlements, it would have huge--and expensive--data needs. Furthermore, the need for year-end reconciliation would still exist, albeit at a somewhat lower cost because reconciliation would be centralized. Finally, this approach to administering a means test could require an additional bureaucracy, which might seem contrary to current efforts to cut back on the activities of the federal government.

Administration Through the Tax System

A third alternative would use the system set up for the federal individual income tax to administer a means test on all entitlements. People who anticipated reductions in their benefits would have to either notify program agencies to make the cuts or make periodic installment payments to the IRS to return overpayments to the government. At the end of the year, each agency would give beneficiaries statements reporting the amount of benefits that had been paid--just as W-2 forms report income from wages and 1099 forms report income from nonwage sources.[4] Recipients would file tax returns, reporting not just income from private sources but also entitlement payments. They would also calculate whether their benefits had been too large or too small. Discrepancies would result in the government's either requiring repayment or making additional payments.

This approach creates a variety of problems. First, it would further complicate federal income tax returns, which many people already find incomprehensible. Including all entitlements would add a new dimension to this complexity. In addition, many individuals who do not now have to file tax returns would be faced with that annual task. Both the additional returns and their added complexity would impose costs on the IRS, requiring either additional resources from the Congress or the reallocation of currently allocated funds.

Yet because the IRS is already in place, this approach is likely to be cheaper than the other alternatives for administering the means test. Nevertheless, given the IRS's claim that too little money is now available for tax enforcement, any expansion of the agency's responsibilities could further limit its ability to enforce the tax code. That limitation could, in turn, tempt more people to evade taxes.

Finally, making income tax forms more complex could erode voluntary compliance with the tax law, long the backbone of the income tax. The IRS has cited this argument in consistently opposing efforts to include nonrevenue objectives in its mission.

Should a Means Test Be Prospective or Retrospective?

One issue alluded to above and common to all administrative approaches is whether a means test should be prospective or retrospective--that is, based on the resources available during or before the period in which people receive benefits. A prospective approach would offer a better measure of a person's well-being when benefits were paid. It would thus reduce benefits for those who actually had sufficient resources to withstand the cuts. At the same time, prospective accounting requires beneficiaries to estimate their future income, bringing in the potential for a costly reconciliation process to correct errors in those estimates. The federal income tax uses a prospective measure of resources, as do the Congressional Budget Office's simulations of all three options.

Retrospective measures of resources, in contrast, would be less subject to error, particularly if each beneficiary had to file supporting documentation such as a prior year's tax return. But retrospective accounting would not allow a timely measure of whether recipients could bear the cost of their benefits being reduced. The approach would not recognize the changed needs of people whose incomes dropped from one year to the next--including those who retired, became unemployed, or lost spouses through death or divorce.

4. Although a similar reporting system could be established for an administering agency other than the IRS, the IRS has in place the necessary mechanisms to receive and process such reports. Another agency would almost certainly incur higher costs to obtain similar results.

A retrospective approach would, however, address at least one problem endemic to any means test: the incentive for people to shift resources to minimize their loss of benefits. Although beneficiaries could still adjust their incomes over time, they might find it more difficult to anticipate how they would need to change their incomes to receive the maximum benefits possible.

Type of Unit

Means-testing could be based on the income of an individual, a couple, or a more broadly defined family. The choice of unit for a means test determines which recipients would be affected and the amount of benefits they would lose. The decision is a vital one: if means-testing does not adequately take into account differences between units in defining needs and hence in reducing benefits, families may have incentives to split up into separate units or combine into larger ones to avoid or limit the loss of their payments. CBO's simulations use federal income tax units as the basis for benefit reductions.

Individual entitlements use a variety of units to determine eligibility and levels of benefits. Most programs that do not have means tests, such as Medicare, unemployment compensation, and veterans' compensation, provide benefits to individuals--rather than to groups of people--who qualify through their histories of employment or military service. Social Security is similar in that it makes payments to individuals, but eligibility for the program and the benefits it pays to spouses and dependents may depend on the earnings histories of workers.

Programs that now have means tests provide benefits to units ranging from individuals to households. The Food Stamp program defines units most broadly as all members of a household who purchase food and consume meals in common. Aid to Families with Dependent Children goes to parents and their minor children; other "essential" people may be part of the unit in particular cases. Elderly and disabled people receive Supplemental Security Income payments as individuals or couples, generally on the basis of their own resources. (The program reduces benefits for people living in the homes of their children, parents, or others.)

Because families generally consume as a unit, family income and wealth may provide better measures of need than individual income and wealth. Using family resources to determine whether individuals qualify for benefits would prevent programs from providing assistance meant for the poor to individuals who have a low level of personal income and few assets but who are part of wealthier families. Some people would argue, for example, that an unemployed single teenage mother living with her well-to-do parents should not receive welfare.

Regardless of how units are defined for means tests, the actual structure of the tests should minimize the incentives for potential recipients to change their living arrangements or behavior to curtail reductions in their benefits. Resource thresholds above which cuts in benefits begin should vary with the size of a family and its composition to avoid inducing families to split up to qualify for larger payments. For example, the benefit reduction option would violate that maxim by having the same thresholds of income for individuals as for married couples. Under that option, a retired couple in which each spouse had $20,000 of pension and investment income and $10,000 of Social Security would lose $3,000 of their Social Security benefits; if they divorced, they would keep all of their benefits. Setting up different levels of benefit reduction for individuals and families of different sizes could reduce or remove incentives for family breakup. Designers of such a structure must use great care, however, to avoid creating factors that could inadvertently lead to other unwanted behavioral changes.

A related issue is the question of people transferring resources between units to avoid losing benefits. People who want Medicaid to pay the costs of nursing home care, for example, may try to transfer their assets to other family members in order to qualify for coverage. One solution would be to define the units for the means test more broadly. But that approach would eliminate the problem only if units were defined to include all people to whom assets could be assigned. A more appropriate solution might restrict the transfer of assets for the purpose of obtaining assistance, although it would be difficult to prove that any given transfer had that motive.[5] Policymakers face a related pitfall as well: they must take care to avoid structuring the rules of an entitlement in such a way that although they limit who receives benefits, they do so at the cost of failing to meet the principal goals of the entitlement.

Measuring Resources

The decision of which resources to count in a means test will determine how effective the test will be in limiting who receives benefits. Means tests for food stamps, AFDC, and SSI consider cash income, assets, and, in some cases, the value of income received in kind (such as housing assistance or medical care, or benefits other than cash that employers provide, such as the payment of health insurance premiums). Most programs allow people to exclude some income. The Food Stamp program, for example, exempts 20 percent of earned income to cover the costs of employment.

Asset tests generally cover only financial assets, ignoring the value of owner-occupied houses and most personal property. A major exception involves automobiles: programs count the value of vehicles as assets, although cars and trucks used for business or commuting may not be counted.

Cash income is generally the principal basis for measuring resources in any means test. Contention arises, however, about the appropriate period over which to measure income and whether to allow deductions for specific sources of income or types of expenditures. Programs that currently use a means test typically have a one-month period on the grounds that families need assistance right away when their incomes are low, especially when they have no assets to fall back on.

This issue is less relevant for means tests designed to limit benefits going to middle- and high-income families. For them, attaining a minimal standard of living is not in question. For similar reasons, analysts see less need to allow people with high incomes to exclude the cost of basic subsistence from their incomes in counting their net resources.

Some options to means-test entitlements propose using adjusted gross income to measure resources. Adjusted gross income has three major advantages over other measures. First, the Individual Income Tax Code fully defines it in law. Second, the information needed to calculate AGI is readily available--the law already requires employers and other payers of income to provide it. Third, reporting and verification of incomes would be straightforward: beneficiaries could report their AGIs simply by submitting copies of their tax return, and the administering agency could verify the accuracy of those reports by comparing the copies with returns filed with the IRS.

A significant shortcoming of AGI as a measure of resources offsets these advantages, however. Because the tax code excludes some forms of income from AGI, AGI is at best only a rough measure of well-being. It does not include means-tested benefit payments, tax-exempt interest, part or all of Social Security payments, most employment-based benefits, cash gifts, or most forms of in-kind income. The tax code also allows deductions for qualified business expenses, contributions to individual retirement accounts, and alimony, among other items. These shortcomings could be overcome by adding excluded or deductible income to AGI.

Analysts disagree about whether to count income received in kind as part of a person's resources when applying a means test. One problem involves valuation. Recipients of such income are clearly better off than otherwise identical people who are not getting income in kind, but how much better off is hard to measure. A worker with cash wages of $20,000 whose employer provides health insurance that would cost $100 a month has greater total income than a neighbor who has the same $20,000 cash earnings but must pay for his or her own health insurance. Is the insurance worth $100 a month because it would cost that much to buy? Is it worth less if the worker would have spent less than $100 monthly on health insurance if he or she had been paid the $100 in cash? Or is it worth more if the value of the insurance is not subject to income and payroll taxes?

5. The Medicaid program presumes that any transfer of assets occurring within 36 months of an application (or institutionalization, if later) was made to qualify for Medicaid benefits. The program penalizes such transfers. For assets placed in trusts, this "look-back" period is 60 months.

Again, these issues matter more for families at the bottom of the income distribution--who have relatively little discretionary income--than for those at the top. Regardless of how in-kind benefits are valued, simply ignoring those benefits would understate the family's well-being.

A potentially important issue in measuring the incomes of the wealthy concerns unrealized income. A stockholder whose portfolio increases in value by $100,000 during a year has income of $100,000 from that source, even if he or she does not sell the stocks and realize the gains. Economists would argue that an accurate measure of income should include all such inflation-adjusted gains (and losses) whether realized or not.

Measuring unrealized gains is straightforward for assets like stocks and bonds that are frequently marketed and for which prices are known. But measuring unrealized gains for assets like owner-occupied homes, businesses, and other properties is more difficult. Because of problems in valuing such assets, it may be best to omit unrealized gains from means tests for entitlements. Omitting such gains, however, could induce some recipients--particularly those with higher incomes--to hold assets that appreciate rather than assets that provide current income. Such behavior would reduce the budgetary savings generated by the means-testing options.

An alternative way to account for unrealized gains would be to include assets as part of a broader measure of resources. But valuing assets is also difficult. Assets should clearly count in assessing well-being and determining whether cuts in entitlements may be warranted. In general, however, accurate values exist only for financial assets; including other assets would be problematic at best. Programs that currently use a means test circumvent this problem by counting only financial assets, which may be appropriate for families with low incomes. But for wealthier families, who have the ability to shift their wealth among assets, counting only some as resources would create incentives for families to switch their assets into exempt forms.

Those kinds of incentives would result in a misallocation of resources: there would be too much investment in exempt assets and too little in those subject to means tests. Whether that misallocation would be significant depends on how many investors found it worthwhile to shift their assets to retain entitlement payments that the government would otherwise take away. But these potential responses could significantly reduce the savings from means-testing benefits.

A final issue concerning assets involves the politics of means-testing. Two-thirds of all U.S. families own their home, and for many it is their most important and largest asset. Many people would consider it heretical to impose a means test that counted the value of one's home in determining eligibility for an entitlement. Homeowners in general--and the elderly in particular--might think it unfair to deny them Social Security, Medicare, and other benefits simply because they owned valuable homes.

The simplest solution to this difficulty would be to exclude homes in measuring assets--or at least provide large exemptions. That solution has at least one major drawback, though. It would consider as equally deserving otherwise similar homeowners and nonhomeowners, despite what could be huge differences in well-being.

Taxing or Reducing In-Kind Benefits

Benefits received in kind present two particular problems: how to value them and how to tax or reduce them. Taxing or means-testing food stamps, Medicare, or Medicaid would require assigning values to these benefits that would be part of recipients' taxable income or provide the basis for benefit reductions. Little agreement can be found among analysts about how to value in-kind benefits, particularly medical insurance. Yet even if policymakers could agree about how to assign value, actually collecting taxes on or reducing such benefits could pose problems. For Medicare and Medicaid, there would be no practical way to reduce benefits, so any reduction would have to take the form of beneficiaries paying premiums. Low-income enrollees in particular might have difficulty finding the money for those payments.

Any proposal to curtail entitlements, including the three options discussed in this study, would have to confront the question of how to value entitlement benefits. Most observers agree that counting food stamps at their face value is appropriate. Food stamp allotments are generally less than what families spend on food. If families were given cash instead of stamps, most would continue to spend as much on food as before, indicating that they valued a dollar's worth of food stamps the same as a dollar in cash. Consequently, the analysis in the preceding chapters counted food stamps at their face value.

Medicare and Medicaid are more difficult to value. One approach would measure health benefits from these programs at their insurance value--the cost per enrollee to the government of providing those benefits. Using the insurance value avoids the problem of imputing a greater value to benefits for those who are sick and therefore use the most services.

At the same time, this approach may well overstate the value of benefits to enrollees, particularly those who are relatively healthy with low or moderate incomes of which benefits constitute a large part. Many economists would prefer a measure of the value each individual places on the benefits he or she receives, but because it would be specific to each individual, such a measure is not only impractical but probably impossible to obtain in the real world.

In analyzing the effects of the policy options that Chapter 3 discusses, CBO counted health benefits at their insurance value. That measure has the virtue of being easy to determine but may pose problems for some beneficiaries. For example, if benefits were subject to taxation, some low-income families would find themselves having to pay taxes on their benefits that they could not pay because their benefits were provided in kind, not in cash. Exemptions could protect beneficiaries against this occurring, but the exemption would reduce the revenues to be gained from the option.

The benefit reduction option would pose an additional problem. It would be impractical to take away a fraction of medical services from people with incomes high enough to require cuts in benefits. Consequently, reductions in Medicare and Medicaid benefits would have to take the form of charging premiums equal to the difference between the full value of the program and the value of the benefits that a recipient should receive. Such premiums would be affordable for most families who would be subject to reductions in their benefits. Some recipients, however, might be unable to pay the premiums assessed against them as a result of the in-kind income they receive from these programs.

Rate of Benefit Reduction

A final issue in structuring a means test is the rate at which benefits decrease as income rises. A means test acts as a tax on resources, levied on beneficiaries in the form of cuts in their entitlements. As such, it has many of the characteristics of a tax. In particular, the faster a means test reduces benefits as income increases--that is, the higher the resulting tax rate on income--the more savings it will generate but also the greater incentive it will give to recipients in the benefit phaseout range to act to avoid its effects.

In the case of a means test, that avoidance can take the form of shifting income to exempt sources, bunching income over time to be able to receive benefits in some periods when income is low, reducing savings to lower both income and assets, or accepting lower income from sources that are counted for the test. Of particular interest are the disincentives that means-testing would create for people to work and to save.

Reducing benefits at too rapid a rate would induce some people to save less. Recipients facing the possible reduction or elimination of their Social Security benefits because of income they receive from savings might choose to save less in order to maintain their benefits.[6] Whether such a disincentive would have much effect on saving behavior depends not only on the rate of benefit reduction but also on two other factors: how much people would save in the absence of a means test and the income levels above which their benefits would be cut.

Younger people who anticipated receiving benefits from entitlements in the future might also respond to benefit reductions. Such people would tend to consume more and save less for their retirement years to prevent the loss of Social Security, Medicare, and other benefits. Others who anticipated having high incomes in retirement might choose to increase their savings to offset

6. An offsetting effect would occur if people anticipated the reduction of their benefits in retirement and chose to save more to offset the loss.

the loss of entitlement benefits. Given the country's already low rate of saving, any policy that might cause people to save even less warrants careful examination and should be adopted with caution.

Means-testing entitlements may also discourage people from working. Workers who were faced with large proposed rates of reduction or the denial of benefits might choose to work fewer hours or to take lower-paying, less productive jobs to protect their entitlements. Income experiments conducted during the 1960s and 1970s suggest that a family's principal worker would have little reaction to such disincentives but secondary workers in the family would be much more likely to cut back their work hours. Some evidence indicates that recipients of Social Security work less than they would otherwise choose to because of the earnings test applied in that program (although it appears that many do so only because they misunderstand the test).[7]

These disincentives to work might be significant for some recipients of entitlements, yet the bulk of benefits go to--and consequently the bulk of savings from any of the options considered here come from--the elderly. The elderly are highly unlikely to work, even without the added disincentives posed by a means test on entitlements.[8] Even so, the possible drop in people's work efforts that means-testing might provoke deserves careful consideration.

7. In 1994, recipients under age 65 face a loss of benefits equal to one-half of all earnings in excess of $8,040. Beneficiaries ages 65 to 69 have their benefits reduced by one-third of their earnings in excess of $11,160. Recipients age 70 or older face no earnings test. Beneficiaries who lose benefits recoup some of that loss later because subsequent benefits are higher than they otherwise would have been. Many beneficiaries seem to think that either any earnings or any earnings in excess of the limits will cause them to lose all of their benefits. As a result, they may react much more strongly than they would if they had an accurate understanding of the program's rules.

8. Among people over age 65 in 1992, only 16 percent of men and 9 percent of women reported being in the labor force. Among those working, more than a third worked less than full time.

Chapter Six

Comparing the Policy Options

The three policy options discussed in this study would differ substantially in the budgetary savings they generated, the way they distributed costs among the recipients of entitlements, and the problems of administration they posed. Modifying the options so that they would have similar budgetary savings would reduce the differences among them in their effects on beneficiaries, but the direction of those differences would not change (see Appendix B).

In principle, the three options are all variations on what is essentially a taxation theme: each would impose additional taxes based on a family's entitlement and nonentitlement income. The options differ only in terms of the tax rates and income brackets over which they would apply. The choice of rates and brackets determines the amount of savings and the distribution of costs among beneficiaries.

The option that counts all entitlements as taxable income for the federal individual income tax would affect the most recipients, but it would impose the smallest costs on those families who paid higher taxes. About $260 billion in new revenues over five years is the estimated gain from the approach (see Table 18).

The option would raise taxes for nearly two-thirds of all families receiving entitlements; its effects would be felt by nearly three times as many families as would be affected under either of the other two options. But the families affected by the tax option would, on average, pay taxes equal to only one-tenth of their benefits--less than half the average losses under the other two options.

The tax option would be the least progressive of the three, a consequence of the relatively small variation in tax rates among families. The average fraction of benefits lost by affected families with incomes above $100,000 would be just twice that for affected families with incomes below $30,000.

Taxing all entitlements would be the easiest of the three options to administer because it would simply be an addition to the existing federal tax system. Even so, it would raise the costs of collecting taxes. Nearly one-third of U.S. families would have to report additional income on their tax returns. In addition, many families who do not now have to file returns, particularly elderly families, would become new filers.

At the other extreme, the option of denying all entitlement benefits to families with the highest incomes would affect the fewest people but impose the greatest costs on those who were affected. The denial option, as formulated for this study, would take benefits away from just 1 percent of recipient families. Those families would, however, lose an average of three-fourths of their benefits.

As Chapter 3 describes, this option would save less than the other two options, about $44 billion over five years. To increase those savings would require modifying the option so that it affected many more families. Yet even if the savings it produced matched those obtained by the benefit reduction option, the number of families losing benefits would still be smaller than under the other options--less than one-third--and average losses would be three times as large (see Appendix B).

Table 18.
Comparing the Effects of Three Policy Options to Cut Net Entitlement Costs

Family Category	Broaden Taxable Income to Include Entitlements	Reduce Benefits to Middle- and High-Income Recipients	Deny Benefits to High-Income Recipients
	Budgetary Savings over Five Years (Billions of dollars)		
All Families	258.0	189.8	44.2
	Percentage of Recipient Families Affected		
All Families	64	22	1
Income (1995 dollars)[a]			
1 to 29,999	63	b	0
30,000 to 99,999	64	56	b
100,000 or more	71	82	29
	Average Percentage of Benefits Lost by Families Losing Benefits		
All Families	10	23	77
Income (1995 dollars)[a]			
1 to 29,999	8	c	0
30,000 to 99,999	12	15	c
100,000 or more	17	71	77

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.

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. Less than 0.5 percent.

c. Too few families would be affected to allow estimation of a statistically meaningful value.

Nevertheless, the option's effects would still be highly progressive: few families with incomes of less than $50,000 would lose benefits.

Finally, denying benefits to high-income families would require either entirely new administrative mechanisms or substantial changes to existing bureaucracies. New or existing agencies would, however, have to deal with relatively few cases--only the most affluent families would be required to submit information about their incomes. Furthermore, most affected families would lose all of their benefits. Consequently, relatively few cases would require adjustment to account for unexpected changes in income.

Reducing the benefits given to middle- and high-income families would produce savings and effects on beneficiaries that fall between the other two options. The reduction option would affect about one-fifth of all recipient families, and they would lose an average of nearly one-quarter of their benefits. That amount is more than twice the average loss under the tax option but less than one-third the loss under the benefit denial option.

The option would be highly progressive, although not as progressive as the denial option. Families with incomes above $100,000 who were affected would lose an average of more than two-thirds of their benefits. In comparison, families with incomes between $30,000 and $100,000 would lose less than one-sixth of theirs, and few families with incomes below $30,000 would be affected. As the option was conceived in this study, it would save about $190 billion over five years, three-quarters as much as the tax option but more than four times as much as the denial option.

Like the denial option, reducing benefits would require substantial new administrative machinery, but unlike the denial approach, the increase in costs and effort would be much greater. Because potentially more families would be affected, a greater fraction of beneficiaries would have to file information about their incomes with the administering agency.