



CENTER ON BUDGET
AND POLICY PRIORITIES

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FAX COVER SHEET

DATE:

Monday

TO:

Nicole Robner

FAX NUMBER:

456-9412

FROM:

Ellen Nissenbaum

SUBJECT:

SS/Werner

NUMBER OF PAGES:
(including cover)

Comments:

Pls share w/ Shirley, Jenn, etc.

As promised.

Better ones on top

OWL PRESS RELEASE

666 11TH STREET. NW • WASHINGTON, DC 20001 • 202-783-6686 • FAX 202-638-2356

OWL Declares Private Accounts Disastrous for Most Women

For Immediate Release
December 2, 1998

Contact: Deborah Briceland-Betts
202-783-6686

"Private retirement accounts are a prime example of why every effort to change the current system must be measured by its impact on women. Reforming Social Security by establishing private accounts would be disastrous for most women," Deborah Briceland-Betts, OWL's Executive Director said at a press conference of national women's organizations today.

"Private accounts would decimate that system by undermining the redistributive effect of the program. Women cannot afford to lose a known benefit, with its guarantee of a progressive formula, and annual increases tied to inflation," she said.

Although a higher percentage of working-age women hold jobs than when Social Security was first established (60 percent today versus 28 percent in 1940) women's careers continue to be different. Women still average 11.5 years away from the workforce for caregiving of small children or elderly parents. And because they remain the primary caregivers, women are also more likely to hold part-time jobs. Those who work full time still earn only 74 percent of what men earn for same or similar work.

A system of private retirement accounts would continue these differences into retirement. Her lower earnings and fewer years in the labor force would mean that her contributions to a private account, on average, would produce very low benefits.

Women live an average of six years longer than men. Women know that their longer lives mean that their benefits must last longer, and as a result, tend to be more cautious investors than men, and their already small, safe investments would lead to even smaller returns. Investment accounts would also hurt those women who live paycheck to paycheck and cannot save, or must spend their small savings before retirement, often for long term care for a spouse or education for a child. It would also hurt those who, simply, live too long and outlive their annuitized individual accounts.

Finally, private accounts would cost our nation trillions of dollars. A new, much more costly administrative structure would have to be established; and, as funds are paid out to individuals instead of into the Trust Fund, benefits for current retirees would still have to be paid. The only way those costs could be covered would be through increased taxes, lower benefits--and/or a huge increase in the deficit, which most likely resulting in the demise of other components of our nation's social insurance program, such as Medicare.

"We welcome these efforts to explore ideas for ensuring Social Security's solvency for future generations, because it is a program that has worked for women. We know, therefore, that if proposed options do not work for America's women, they will not work for anyone. The reverse is not true," said Briceland-Betts.

OWL, the voice of midlife and older women, is the only national membership organization with a mission to address issues unique to women as they age. OWL has 15,000 members and 75 chapters nationwide.

N E W S R E L E A S E

FOR IMMEDIATE RELEASE
December 2, 1998

Contact: Lisa Cain or Kris Maccubbin
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AAUW CHALLENGES CONGRESS
TO PROTECT WOMEN IN SOCIAL SECURITY REFORM
Statement by Nancy Zirkin, Director of Government Relations, AAUW



For more than a century, the American Association of University Women (AAUW) has promoted equity in the workplace, education, and in all aspects of women's lives. AAUW has long been committed to a Social Security program that improves the social status and economic security of the elderly. As Congress considers proposals to reform the current Social Security system, the economic well being and security of women must be safeguarded.

Fact: women are more dependent on Social Security than men. Women earn less than men, making only 74 cents for every dollar a man earns. That adds up to an average of \$250,000 over a lifetime—a quarter of a million dollars that women have not had the opportunity to save or invest for retirement. Add to that the fact that women spend more time out of the paid work force to raise families and the fact that women live longer than men, and you have a recipe for disaster if Social Security reform doesn't protect women.

Fact: women need guaranteed benefits that they can count on. In 1997, the poverty rate for elderly women was 13 percent. Without Social Security benefits, it would have been 52 percent. The poverty rate among elderly men is much lower at 7 percent. For many older women, Social Security is their only source of income.

AAUW challenges Congress to make sure that any Social Security reform increases the stability and security of elderly women with some very simple protections. Congress must preserve the full cost of living adjustments to protect against inflation. This provision is particularly important to women because they live longer, rely more on Social Security, and lack other sources of income.

Congress must maintain a progressive benefit formula. Women and others who earn low wages over their lifetime must continue to be compensated with a larger share of their past earnings to protect them from poverty.

Congress must preserve spousal benefits to protect women. Sixty-three percent of women on Social Security receive benefits based on their husbands' earnings, while only 1.2 percent of men receive benefits based on their wives' earnings.

And Congress must protect the benefits that go to children and widows in the event of a premature death or disability of a working parent or spouse. We must protect women as they grow older. It's the least we can do.

-30-

NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

Formerly known as the Council of Presidents
c/o National Committee on Pay Equity
1126 16th Street, NW ■ Washington, DC 20036 ■ (202) 331-7343 ■ (202) 331-7406

EMBARGOED UNTIL:

11:30 a.m., Wednesday
December 2, 1998

CONTACTS:

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WOMEN'S ORGANIZATIONS URGE PRESIDENT, CONGRESS TO "KEEP THE HEART IN SOCIAL SECURITY"

Diverse Coalition Issues Checklist on Women and Social Security Reform

"All proposals to address the future solvency of the Social Security Trust Fund *must* be viewed through the eyes of women and assessed for their impact on women, the majority of Social Security recipients" according to a statement from the National Council of Women's Organizations, released today at a press conference in Washington, D.C.

In the statement, the National Council of Women's Organizations, which is comprised of women leaders from over 100 organizations and represents more than six million women, called on the President and Congress to keep the heart in Social Security by strengthening and preserving the valuable protections for women under the Social Security system.

"Social Security *is* women's security," said Susan Bianchi-Sand, Chair of the National Council of Women's Organizations and Executive Director of the National Committee on Pay Equity. "We want to ensure that any proposal that compromises these protections is off the table and that women are at the table when decisions about reform are made.

In order to "Keep the Heart in Social Security" any reform proposal should:

- ▶ continue to help those with lower lifetime earnings, who are disproportionately women;
- ▶ maintain full cost of living adjustments;

- ▶ protect and strengthen benefits for wives, widows, and divorced women;
- ▶ preserve disability and survivor benefits;
- ▶ protect the most disadvantaged workers from 'across the board' benefit cuts;
- ▶ ensure that women's guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market;
- ▶ address the care-giving and labor force experiences of women; and
- ▶ further reduce the number of elderly women living in poverty.

According to National Council of Women's Organizations statement, "Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits (including benefits to widows and divorced women), would reduce the retirement income of many women."

Other speakers at the press conference included: Deborah Briceland-Betts, Executive Director, Older Women's League; Heidi Hartmann, Director, Institute for Women's Policy Research; Liz Kramer, Policy Associate, 2030 Center; Eleanor Smeal, President, Feminist Majority; Gail Shaffer, Chief Executive Officer, Business and Professional Women, BPW/USA; Jane Smith, President, National Council of Negro Women; Nancy Ibarra, a 47-year-old widow; Clarissa Cummins, a 90-year-old retiree; and Sandra Yates, a 40-year-old single-parent.

The National Council of Women's Organizations is a non-partisan network comprised of the leaders of over 100 women's organizations, which together represent more than six million women. Organizational members focus primarily on illuminating and promoting public policies that address women's needs.

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For a copy of the statement and the *Women's Checklist on Social Security Reform*, contact the Institute for Women's Policy Research (IWPR) at 202/785-5100 or visit their website at <http://www.iwpr.org>.

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Women and Social Security - Statement and Checklist

KEEP THE HEART IN SOCIAL SECURITY

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

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

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

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

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

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

WOMEN'S CHECKLIST ON SOCIAL SECURITY REFORM

KEEP THE HEART IN SOCIAL SECURITY

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

DOES THE REFORM PROPOSAL . . .



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

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



MAINTAIN FULL COST OF LIVING ADJUSTMENTS?

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



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

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



PRESERVE DISABILITY AND SURVIVOR BENEFITS?

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



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

Some proposed "across-the-board" benefit cuts such as raising the retirement age or the

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



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

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



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

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



FURTHER REDUCE THE NUMBER OF ELDERLY WOMEN LIVING IN POVERTY?

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

NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

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c/o National Committee on Pay Equity

1126 16th Street, N.W. ■ Suite 411 ■ Washington, D.C. ■ 20036 ■ (202) 331-7343 ■ (202) 331-7406

Statement of Susan Bianchi-Sand, Chair NATIONAL COUNCIL OF WOMEN'S ORGANIZATIONS

SOCIAL SECURITY PRESS CONFERENCE December 2, 1998

Welcome. Thank you for coming.

I am Susan Bianchi-Sand, Chair of the National Council of Women's Organizations (NCWO).

The NCWO is a coalition of over 100 leaders from organizations dedicated to advancing equity for women and girls. The Council membership groups reach more than 6 million women.

The face of Social Security has a uniquely woman's profile. Women's financial circumstances and economic vulnerabilities are facts that make any discussion of Social Security reform a critical issue for the National Council.

Women earn less and live longer than men. Women and their families rely on social security as a major portion of fundamental retirement security; and when disability benefits are necessary, it help bring some normalcy to their lives.

With this press conference, the NCWO is launching a year-long organizing and educational campaign to "Keep the Heart in Social Security." We will develop coordinated fact sheets, educational materials, lobby days, town meetings and video tapes to reach our constituents and our communities.

Leaders will meet with members of Congress and agency officials. Last week we met with Gene Sperling in the White House.

Social Security will be our number one policy issue for 1999. This effort will be headed by Heidi Hartmann, President of the Institute for Women's Policy Research. Her task force includes women leaders and organizations who have been active on this issue for years.

Our concerns include not only the adequacy but the equity of Social Security.

A unified position paper following the guidelines and principles described on the visual will be developed and circulated to all parties.

Reform must:

- Continue to help those with lower lifetime earnings;
- Maintain full cost of living adjustments;

A bipartisan network of leaders from over 100 organizations representing more than six million women.

**Embargoed until:
11:30am Wednesday, December 2**

Women's Checklist on Social Security Reform

KEEP THE HEART IN SOCIAL SECURITY

Does the Reform Proposal . . .



Continue to help those with lower lifetime earnings, who are disproportionately women?



Maintain full cost of living adjustments?



Protect and strengthen benefits for wives, widows and divorced women?



Preserve disability and survivor benefits?



Protect the most disadvantaged women from 'across the board' benefit cuts?



Ensure that women's guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market?



Address the care giving and labor force experiences of women?



Further reduce the number of elderly women living in poverty?

Contact: Communications Officer

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FACT SHEET



Business and Professional Women/USA

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BPW/USA

Business and Professional Women/USA, founded in 1919, promotes equity for all women in the workplace through advocacy, education and information. With 70,000 members in more than 2,000 local organizations represented in every congressional district in the country, BPW/USA includes among its members women and men of every age, race, religion, political party and socio-economic background.

BPW/USA monitors federal legislation that affects working women and educates its members to become involved in public policy development in their own workplaces, and at the local, state and federal government levels. As among the first of the women's organizations to endorse the Equal Rights Amendment in 1937, BPW/USA has been a leader in passing key legislation effecting working women including:

- The Women's Business Ownership Act
- Violence Against Women Act of 1994
- The Civil Rights Act of 1964
- Equal Pay Act of 1963
- The Retirement Equity Act of 1984
- Family and Medical Leave Act of 1993
- Title IX of the Civil Rights Act 1964

Legislative Platform

BPW/USA annually releases its national legislation platform, which includes planks that call for:

Economic Equity

Ensure pay equity, equal educational and economic opportunities at all stages of life; and promote affordable, quality dependent care to help ensure economic self-sufficiency for women.

Health

Ensure reproductive choice and full access to all reproductive health services and education; ensure funds for research into and protections for women's health care needs; and encourage the development of a national health care plan recognizing the special health care needs of women.

Civil Rights

Ensure equal rights and remedies for women in all phases of their lives; support affirmative action; eliminate sexual harassment and violence against women.

BPW's political action committee, the **BPW/PAC**, provides contributions and endorsements to women and pro-women candidates who support BPW's legislative priorities.

The BPW Foundation

BPW's Foundation collects, conducts and analyzes research on issues affecting women in the workplace while providing financial assistance for women to further their education. The Foundation, which has awarded over 55 million in scholarships, loans and grants to almost 8,000 women, raises money to educate women who need additional skills to advance in their careers or re-enter the workforce. The Foundation's Marguerite Rawalt Resource Center, one of the nation's first and most comprehensive libraries dedicated to working women's issues, serves as a reference source of information for members and over 200 other libraries across the country.

Events

National Business Women's Week, October 19-23, 1998
BPW Foundation Academic Symposium, Nov. 6-7, 1998, Boston, MA
Policy & Action Conference, Feb. 4-7, 1998, Washington, D.C.
Women Mean Business Awards, Feb. 5, 1998, Washington, D.C.
1999 Annual Conference, July 15-22, Rochester, NY

The
Leading
Advocate
for
Working
Women

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News Release

STATEMENT OF HEIDI HARTMANN

President and Director

Institute for Women's Policy Research

Chair, Working Group on Social Security

National Council of Women's Organizations

Today the National Council of Women's Organizations launches its campaign to "Keep the HEART in Social Security." Social Security *has* a heart--it is our society's way of caring for each other financially. Women have given their hearts to their families and their country, and Social Security, which provides guaranteed, life time retirement benefits is one way our country gives something back to women. Because women live longer than men, women are the majority of Social Security recipients--60 percent overall, and the vast majority of the oldest recipients, 72 percent of those over 85. For many retired women, more than half of non-married women, for example, Social Security is their primary means of support. Thus, Social Security is a women's issue.

Today we want to emphasize three central themes.

First, there are many protections for women in the current Social Security system. Our campaign will educate our members, members of the public, and members of the Congress about these benefits for women: among them, higher relative benefits for lower earners and, for women whose own benefits as workers would be small, benefits as the wives, widows, and divorced wives of retired or deceased working men. And the protections for the minor children of disabled and deceased workers are very important to all parents, especially mothers who are most often the remaining caretaker of the children.

Second, every reform proposal that is considered must be evaluated in terms of its impact on women. Since women and men have different life experiences and different work experiences, virtually *any* public policy affects women differently than it affects men. Social Security is no exception. As much as Social Security has done to reduce poverty among older women, it still doesn't do enough. Older women are still much more likely to be poor than older men (13 percent poor for women vs. 7 percent poor for men). We'd like to see improvement in the economic status of older women, and we will be looking at every proposed reform to see if it brings that improvement to older women's lives.

Third, because Social Security is such an important issue for women and because any proposed reform will affect women differently than it does men, we insist that women leaders have a seat at the table when decisions about reform are made. Because of their different life experiences, women have different attitudes towards reform--for example, women are more averse to risky private investments and more willing to pay higher taxes to improve the financial soundness of the system. Among women, 73 percent opposed privatization in a September NBC poll compared to 58 percent of men, while 67 percent of women vs. 58 percent of men said they'd rather pay higher taxes than cut benefits in an October 1997 poll by the Americans Savings Education Council. Therefore women's views on appropriate reform must be heard. Still underrepresented in Congress, we call upon the President and the Congress to make sure women leaders are involved in the decision making.



FEMINIST MAJORITY

Working for Women's Equality

Eleanor Smeal
President

Peg Yorkin
Chair of the Board

Katherine Spillar
National Coordinator

FOR IMMEDIATE RELEASE
December 2, 1998

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WOMEN MUST BE AT CENTER STAGE IN SOCIAL SECURITY DEBATE

**Feminist Majority Opposes Reforms that Disadvantage Women,
Urges Improvements in Treatment of Women**

WASHINGTON, D.C. -- Joining with other leaders of the National Council of Women's Organizations, Feminist Majority President Eleanor Smeal called upon the Clinton Administration and Congress to move women and women's issues to the center stage of the social security debate.

"Women cannot be a side issue in the social security debate. Women are the main issue. Our concerns must be at center stage. The majority of social security recipients are women. Social security is the major source of retirement income for the majority of women. Women's advocacy organizations, experts on women and social security, and feminist think tanks must be well-represented at the table as reforms and the future of the social security system are debated," stated Smeal.

In addition to women's advocates being at the table, Smeal urged the consideration of improvements to the social security system which would strengthen the system for women and eliminate inequities. "As absolutely crucial as the social security system is to women's economic security, the system is based on demographics of marriage and work patterns which have changed. As a result, there is a substantial benefit gap between male and female social security recipients. Retired women workers receive an average of \$621 in monthly benefits compared with retired men workers who receive an average of \$810 per month.

"Women are penalized for their traditional care-taking roles. For example, leaving the labor force to provide care to children or elderly parents dramatically lowers women's lifetime average earnings and, in turn, their social security benefit payouts. And women are penalized as wage earners. Social Security taxes lower income workers, who are disproportionately women, at a higher average rate because the tax is levied currently on only the first \$68,400 of income. Moreover, wage discrimination against women in the labor market not only keeps most women as lower income earners, but also results in lower social security benefits," said Smeal.

Smeal continued, "In adopting reforms, every reform must be assessed for its impact on women. For example, increasing the number of work years used as a base for the calculation of benefits from 35 to 38 disadvantages women who take time out of the workforce to take care of family members. We must use this opportunity of reforming social security to strengthen it for women." Among the possible reforms which Smeal said merited consideration to improve the treatment of women were:

- Establishing earning sharing allocating 50% of both spouses' earnings to each spouse so that each individual pays into the social security system and collects benefits in her or his own right.
- Crediting, rather than penalizing, individuals providing child care or elderly care for their families.
- Changing distribution of spousal and primary earner benefit to 75% of total benefit for spouse and 75% of total benefit for primary earner. Currently, the primary earner receives 100% and the spouse 50%.
- Raising the cap on social security taxes in order to remove the additional tax burden on secondary wage earners.

For more information or to schedule interviews, contact Justine Andronici or Harriet Trudell at 703-522-2214.



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SCHEDULE FOR FIRST DAY OF WHITE HOUSE CONFERENCE ON SOCIAL SECURITY

All times are tentative.

DECEMBER 8, 1998

Location: Marriott Wardman Park Hotel

10:00-11:00: OPENING SESSION WITH PRESIDENT CLINTON, VICE PRESIDENT GORE, AND MEMBERS OF CONGRESS. (Open Press)

- Speaking Program:
 - President Clinton
 - Vice President Gore
 - Speaker Livingston
 - Minority Leader Gephardt
 - Senator Trent Lott
 - Senator Tom Daschle

11:00-11:45: PANEL --THE CHALLENGES OF SOCIAL SECURITY REFORM: WHY WE NEED TO ACT NOW, THE BUDGET SURPLUS, AND SOCIAL SECURITY REFORM (Open Press)

- Presenters:
 - *Frank Raines and Carol Cox Wait: Discuss why we need to act now (e.g., the problem and how acting sooner helps address it), fiscal issues, and Social Security reform.*
- Moderator:
 - Gwen Ifill --NBC
 - Susan Page --*USA Today*
- Format:
 - Like regional forums, President, Vice President, and other Congressional leaders would be on stage. Raines and Cox Wait would make 5-8 minute presentations and then would take questions from the audience (moderated by Susan Page). Principals would participate in answering audience questions as appropriate.

- Topics Presentations Should Cover:
 - Problem facing Social Security and its causes.
 - Why we need to act now (e.g., changes can be modest)
 - Benefits of changed budget position for Social Security reform
 - Additional benefits of Social Security reform on budget.

11:45-1:15: LUNCH BREAK.

1:15-2:30: PANEL --THE CHALLENGES OF SOCIAL SECURITY REFORM: INVESTING IN EQUITIES. (Open Press)

- Presenters:
 - *Henry Aaron and Carolyn Weaver:* Discuss opportunities and challenges of investing the Trust Fund in equities.
 - *Bob Ball and Jose Pinera:* Discuss opportunities and challenges of Individual Accounts.
- Moderator:
 - Gwen Ifill --NBC
 - Susan Page --*USA Today*

2:30-3:15: PANEL --THE CHALLENGES OF SOCIAL SECURITY REFORM: IMPACT OF REFORM ON DIFFERENT SEGMENTS OF THE POPULATION (Open Press)

- Presenters:
 - *Alicia Munnell and Larry Bossidy:* Impact on women, minorities, people with disabilities, and business.
 - *Martha McSteen and Richard Thau:* Impact on young and old.
- Moderator:
 - Gwen Ifill --NBC
 - Susan Page --*USA Today*

3:30-5:00: OFF-THE-RECORD BREAKOUT SESSIONS TO PROVIDE CONFERENCE PARTICIPANTS THE OPPORTUNITY TO SPEAK DIRECTLY WITH KEY ADMINISTRATION OFFICIALS AND MEMBERS OF CONGRESS. (Closed Press)

- Format:
 - Senior Administration officials would be paired with bipartisan members of Congress, and would lead informal discussions among conference participants about the process and substance of reform. (These sessions would be off-the-record.) Conference participants would be assigned to each of the 5 breakout sessions. Discussion leaders would kick-off informal discussions with a quick statement of their choosing and then would open the floor to comments from conference attendees.

SCHEDULE FOR SECOND DAY OF WHITE HOUSE CONFERENCE ON SOCIAL SECURITY

DECEMBER 9, 1998

Location: The White House

9:00-12:15: TWO WORKSHOPS TO EDUCATE KEY ADMINISTRATION OFFICIALS AND MEMBERS OF CONGRESS ON THE IMPORTANT ISSUES IN SOCIAL SECURITY REFORM. (Closed Press)

- Presenters:
 - *Workshop #1: Ken Kies and Bob Greenstein*
 - *Workshop #2: Martin Feldstein and Robert Reischauer*
- Location:
 - Indian Treaty Room and Vice President's Ceremonial Office
- Format:
 - The first workshop would go from 8:30-10:00. There would then be a 15-minute break and the next workshop would go from 10:15-11:45. Each group would rotate through the following two workshops.
- Participants:
 - Congress would appoint 48 members (12 each from the House and Senate Democrats and Republicans) and we would appoint 12 Administration officials. We would then split up into 2 groups of 30.

12:30-1:00: CLOSING SESSION AT THE WHITE HOUSE WITH PRESIDENT CLINTON, VICE PRESIDENT GORE, AND MEMBERS OF CONGRESS. (Open Press)

- Format:
 - Kies, Greenstein, Feldstein, and Reischauer each make 4 minute presentations to the President, Vice President and Congressional leaders in VP's Ceremonial Office (Closed Press).
 - President, Vice President, and Congressional leaders ask any questions of presenters or Members.
 - Pool spray enters room.
 - President, Vice President, and Congressional leaders make short remarks.



CENTER ON BUDGET AND POLICY PRIORITIES

September 9, 1998

HOW WOULD VARIOUS SOCIAL SECURITY REFORM PLANS AFFECT SOCIAL SECURITY BENEFITS?

An Analysis of the Congressional Research Service Report

by Kilolo Kijakazi and Robert Greenstein

Summary

In June of this year, Rep. Charles Rangel, ranking member of the House Ways and Means Committee, released a Congressional Research Service analysis he had requested on the extent to which three Social Security reform proposals would reduce defined Social Security benefits. The three plans include:

- the bill introduced by Senators Daniel Patrick Moynihan and Robert Kerrey (S. 1792);
- a proposal by the National Commission on Retirement Policy, a panel of Members of Congress and private citizens organized by the Center for Strategic and International Studies (legislation recently introduced in the Senate by Senators Judd Gregg, John Breaux and a few other senators — S. 2313 — and in the House by Reps. Jim Kolbe, Charles Stenholm, and others — H.R. 4256 — is based on the NCRP proposal); and
- a May 1998 proposal by Robert Ball, commissioner of the Social Security Administration under Presidents Kennedy, Johnson, and Nixon and a member of the 1994-1996 Social Security Advisory Council.

The CRS analysis was not designed to be a comprehensive analysis of all components of these three plans, but rather an assessment of an important issue — the degree to which the "defined," or guaranteed, benefits that beneficiaries would be assured of receiving through the Social Security system would change under the three plans. Accordingly, the study does not examine the retirement income that could be generated by individual accounts, which the three plans all contain in differing forms.¹

The CRS analysis finds that the Social Security benefits guaranteed under the three plans vary greatly.

¹ The analysis also does not examine changes in payroll taxes or the effects of a few features of the plans, such as proposals in some plans to eliminate the Social Security earnings test.

- Over the next 75 years, average Social Security benefits would be 23 percent lower under the NCRP plan than under the current benefit structure, 16 percent lower under the Moynihan-Kerrey plan than under the current benefit structure, and six percent lower under the Ball plan.²
- In other words, the CRS analysis finds that the reduction in guaranteed Social Security benefits would be approximately four times larger under the NCRP plan than under the Ball plan and nearly three times greater under the Moynihan-Kerrey plan than under the Ball plan.

As noted, these figures are 75-year averages. The depth of the reductions in Social Security benefits, as well as the differences among the three plans in the size of the defined benefit reductions, would grow significantly as the years pass. The CRS study reports the results of analyses the Social Security actuaries have conducted of the three plans:

- In 2025, the Social Security benefits received by average wage-earners who retire at age 65 would be 33 percent lower under the NCRP plan than under the current Social Security benefit structure. They would be 11 percent lower under the Moynihan-Kerrey plan than under the current benefit structure and about one percent lower under the Ball plan.
- By 2070, the Social Security benefit reductions would be considerably deeper. The Social Security benefits of average wage-earners retiring that year at age 67 would be 48 percent lower under the NCRP plan than under the current benefit structure, meaning that the guaranteed benefit would be cut about in half. Under the Moynihan-Kerrey plan, the average benefit for an individual retiring in 2070 at age 65 would be

² These estimates reflect the effects of provisions in the Ball and Moynihan/Kerrey plans to increase the taxation of Social Security benefits, since such measures are a benefit reduction from the beneficiary's perspective. The figures subsequently cited for the percentage benefit reductions for individuals retiring in 2025 and 2070, however, do *not* include the taxation-of-benefit provisions; the memorandum prepared by the Social Security actuaries that CRS used in conducting its analysis did not include the effects of those provisions when examining benefit reductions for individuals retiring in given years. This is the principal reason that while the Ball plan would reduce total Social Security benefits an estimated six percent over the next 75 years, the benefit reduction for an individual retiring in 2025 is estimated at one percent. (Ball subsequently presented a proposal to the House Ways and Means Committee in testimony on June 3, 1998 that dropped the taxation-of-benefits provision included in the Ball proposal analyzed here.)

Table 1

Estimates by the Social Security Actuaries of Benefit Reductions for Average-Wage Earners Under the Three Plans¹

Year of Retirement	Moynihan-Kerrey	NCRP	Ball
2025	11%	33%	1-2%
2070	22%	48%	1-2%

Source: SSA actuaries estimates, as reported by CRS

¹ These estimates reflect benefit reductions in the year of retirement for beneficiaries retiring at age 65, except that the estimates for the NCRP plan in 2070 reflect benefit reductions for individuals retiring at age 67. The SSA actuaries did not prepare estimates of the effects of the NCRP plan in 2070 for individuals retiring at age 65. These estimates do not include the effects of certain features of these plans, including changes in the taxation of Social Security benefits and in the length of the earnings averaging period that is used to compute Social Security benefits. These estimates also do not reflect the effects on retirees as they grow older of provisions reducing cost-of-living adjustments.

reduced by 22 percent, or more than one-fifth.³ The benefit reduction percentage would remain very small under the Ball plan. (See Table 1.)

(Note: Under the NCRP plan, reductions in Social Security benefits would be smaller for low-wage earners than to average-wage earners due to establishment of a new Social Security minimum benefit. According to the CRS study, the reduction in Social Security benefits for a low-wage earner retiring in 2025 at age 65 would be 13 percent under the NCRP plan. The reduction for a low-wage earner retiring at 67 in 2070 would be 31 percent. In conducting this analysis, CRS defined a low-wage earner as one who earned 45 percent of the average wage throughout his work career; currently, 45 percent of the average wage is \$12,552.⁴)

The CRS study also explains that under the three plans, there would be additional reductions in guaranteed benefits as beneficiaries grow older after retirement, due to changes the plans make in procedures either for computing annual Social Security cost-of-living adjustments or for measuring changes in the Consumer Price Index on which the cost-of-living adjustments depend. The additional reductions

³ The memoranda prepared by the Social Security actuaries that CRS used in conducting its analysis do not provide data on the percentage reduction in benefits for workers retiring at age 67 under the Moynihan-Kerrey plan.

⁴ Individuals with earnings lower than 45 percent of the average wage would face smaller Social Security benefit reductions in the NCRP plan if they worked a sufficient number of years. The minimum benefit for a very low-wage worker under the NCRP plan could exceed the benefit the worker would receive under current law.

are largest in the Moynihan-Kerrey plan, which sets annual cost-of-living adjustments below the Consumer Price Index. The additional reduction is much smaller in the other two plans and smallest in the Ball plan, which would result in the measured CPI being slightly lower but would maintain the cost-of-living adjustment at the CPI level.⁵ CRS projects that as a result of these provisions, benefits would decline between age 65 and age 80 by an additional 13 percent under the Moynihan-Kerrey plan, an additional seven percent under the NCRP plan, and an additional four percent under the Ball plan. For those living into their early 90's, the additional benefit reductions would be nearly twice this size.

It should be noted that the figures shown in Table 1 reflect reductions in Social Security *retirement* benefits. Under the legislation embodying the NCRP and Moynihan-Kerrey proposals, there also would be substantial reductions in Social Security disability and survivors benefits, because the changes in the Social Security benefit formula and cost-of-living provisions would apply to disability and survivors benefits as well as to retirement benefits.⁶

Finally, the study finds that all three plans would fully restore long-term, or 75-year, actuarial balance to the Social Security system. The actuaries of the Social Security system project that the system faces a deficit over the next 75 years equal to 2.19 percent of taxable payroll. The NCRP plan results in a saving of 2.23 percent of taxable payroll over this period. The Moynihan-Kerrey plan saves 2.25 percent of taxable payroll. The Ball plan saves 2.33 percent.

⁵ Under the Moynihan-Kerrey plan, the annual cost-of-living adjustment would be set one percentage point below inflation as measured by the CPI. The Ball plan would keep the cost-of-living adjustment at the CPI, but directs the Bureau of Labor Statistics to update the market basket on which the CPI is based no less frequently than every five years instead of every 10. CRS estimates that would be equivalent to reducing the cost-of-living adjustment by three-tenths of one percentage point per year. The legislation on which the NCRP plan is based calls for development of a new Social Security CPI that would be lower than the regular CPI to the extent that the Bureau of Labor Statistics estimates the regular CPI contains "substitution bias." If BLS concluded that the measures it announced in April 1998 to reduce substitution bias in the CPI have addressed this matter and no such further bias remains or can be estimated, the Social Security CPI that the NCRP plan establishes would be set .33 percentage points below the regular CPI each year. This level of detail on how the cost-of-living adjustments would work under the NCRP plan was not available when the Social Security actuaries prepared the estimates on which the CRS analysis is based; as a result, the CRS analysis may somewhat overstate the degree to which this aspect of the NCRP plan would result in additional benefit reductions as retirees grow older.

⁶ Some sponsors of the legislation embodying the NCRP plan have stated that it does not change disability benefits. Such statements are not correct and appear to reflect some misunderstanding on the part of these sponsors of the effect of their legislation on disability benefits. The NCRP plan changes the benefit formula for computing a beneficiary's primary insurance amount (or PIA), on which Social Security benefits are based for retirement benefits, disability benefits, and survivors benefits alike. A forthcoming Center on Budget and Policy Priorities analysis will explain this matter in more detail.

Why Does the Depth of the Benefit Reductions Differ So Much?

These findings raise an important question. What accounts for the CRS finding that the Ball plan would reduce defined Social Security benefits much less than the other two plans while doing as well in closing the 75-year imbalance? There are two principal reasons for this finding.

First, the other two plans reduce the revenue going into the Social Security trust fund and place greater reliance on individual accounts; they essentially divert payroll contributions from the trust fund to individual accounts. The Ball plan, by contrast, does not reduce the revenue going into the trust fund. It adds voluntary individual accounts on top of Social Security but does not divert money from the trust fund for them.

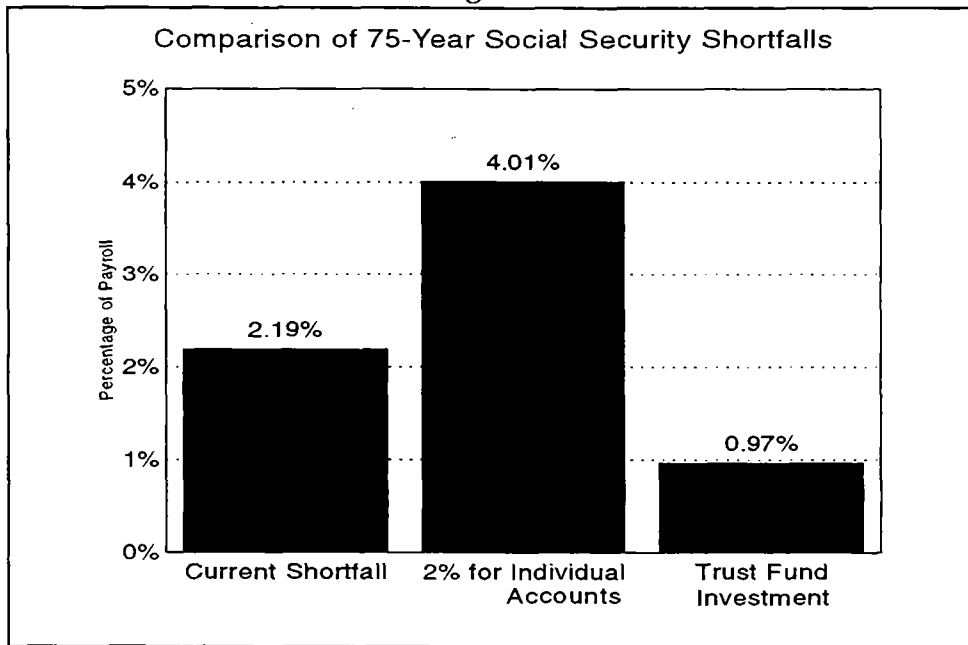
Under current law, the revenue the trust fund is projected to receive over the next 75 years is insufficient to pay the full benefits to which beneficiaries would be entitled during this period. This is what is meant by the statement that Social Security eventually becomes insolvent. Diverting payroll tax revenue from the Social Security trust fund makes the financing shortfall larger and consequently necessitates deeper benefit reductions (or larger payroll tax increases) to put the trust fund back into long-term balance. As the Congressional Research Service explained in an earlier report: "Obviously, if it is projected that the taxes that finance the [Social Security] system are insufficient to pay future promised benefits, earmarking some of them for the buildup of private accounts would make this problem worse. It would mean that to restore the system to solvency future tax increases would have to be larger or benefits cut deeper."⁷

Not surprisingly, CRS found that the NCRP plan, which diverts the most revenue from the Social Security trust fund, contains the deepest Social Security benefit reductions. Among the large benefit reductions in this plan is an across-the-board benefit cut resulting from an increase in the age at which individuals may retire and receive full benefits; the age at which individuals can retire and receive full Social Security benefits would be raised to 70 by 2029 and to approximately 72½ by 2075, a larger increase than any other major plan has proposed.⁸ The plan also includes a reduction of one-third in Social Security spousal benefits. (These benefit reductions are described in more detail later in this paper.)

⁷ "Ideas for Privatizing Social Security," Congressional Research Service, April 6, 1998.

⁸ The age at which individuals may retire and receive full Social Security benefits is commonly referred to as the "normal retirement age." That term, however, is a misnomer; the majority of Social Security beneficiaries retire and begin drawing benefits before this age. What is commonly called the "normal retirement age" is simply the age at which full, rather than reduced, Social Security benefits are paid.

Figure 1



The second reason the Social Security benefit reductions are much more modest under the Ball plan than under the other plans is that the Ball plan invests a portion of the Social Security trust fund reserves in equities. This enables the trust fund to capture the stock market's higher rates of return. The actuaries estimate that the earnings the trust fund would receive from this investment would reduce the 75-year imbalance in the Social Security system by slightly more than half. That, in turn, reduces the benefit reductions or tax increases needed under the Ball plan to restore long-term balance.

Figure 1 illustrates that redirecting two percent of the payroll tax to individual accounts, as the NCRP plan would do, would enlarge the 75-year shortfall from 2.19 percent of taxable payroll to 4.01 percent, in the absence of other changes. The Figure also shows that investing up to 50 percent of the trust fund in equities, as the Ball plan would do, would reduce the 75-year deficit from 2.19 percent of taxable payroll to 0.97 percent, in the absence of other changes.

For these reasons, Rudolph Penner, a former CBO director now at the Urban Institute who supports the NCRP plan, recently observed that "plans that have the trust fund buying equities generally cut [Social Security] benefits less than plans establishing individual accounts."⁹

⁹ Testimony of Rudolph G. Penner before the Senate Budget Committee, July 23, 1998.

The CRS Analysis and Individual Accounts

Proponents of the NCRP plan and the Moynihan/Kerrey bill have criticized the CRS analysis. They fault it for not including the retirement income that would result from the individual accounts the plans contain. They also argue that it is not appropriate to compare benefits under these plans to benefits under the current Social Security system since the current system will not be solvent over the long term. They contend the proposed plans should be compared to a Social Security system revised in a manner that puts it in long-term actuarial balance.

Proposals to divert part of the payroll tax revenue from the Social Security trust fund to individual accounts entail moving partially from a "defined benefit" plan that specifies the payment of particular benefit amounts based on a retiree's earnings history (i.e., from Social Security) to a "defined contribution" plan in which the benefits available to retirees vary greatly. Under a defined contribution plan, benefits depend not only on a beneficiary's earnings history but also on individual investment decisions, the performance of the stock and bond markets (including the state of the markets in the year an individual retires), the real interest rate assumptions used when retirees convert their accounts to annuities, the extent to which funds in individual accounts are consumed by fees that firms charge for managing the accounts (and, where applicable, for converting accounts to annuities at retirement), and other factors.

In weighing options for reforming Social Security, policymakers need to understand the degree to which the defined benefits — that is, the benefits Social Security provides — would be reduced under various approaches, since it is only the defined benefits that retirees are assured of receiving at specified levels. This is the information the CRS study provides.

More comprehensive analyses that factor in the anticipated returns from individual accounts also are needed and should be undertaken. Such analyses are more difficult to conduct, however, than the type of analysis CRS has conducted on the extent to which these three plans would reduce Social Security benefits. Analyses attempting to factor in returns from individual accounts consequently will need to be undertaken with great care. In particular, such studies will need to consider several factors that may have a large impact on the retirement income that individual accounts generate:

Variation in returns from individual accounts: Since individual accounts do not provide defined benefits, the levels of income they generate will differ considerably among beneficiaries and over time. The retirement income from such accounts is likely to offset the reductions in Social Security benefits for some retirees but not others. Retirees who are lucky or wise in their investments should be able to offset the full loss in their guaranteed benefits. Retirees who are unlucky or unwise in their investments — including those who retire and convert their account to a lifetime annuity in a year the market is down — would

likely face large reductions in the income they have to live on in their declining years.

A recent GAO report took note of these issues. "There is a much greater potential for significant deterioration of an individual's retirement 'nest egg' under a system of individual accounts," the GAO wrote. "Not only would individuals bear the risk that market returns would fall overall but also that their own investments would perform poorly even if the market, as a whole, did well"¹⁰

Of particular concern are the returns received by those who lack investment experience. Today, fewer than half of all U.S. households have any investments in the stock market; this lack of experience is likely to make it harder for many to earn solid returns. Moreover, even experienced investors pursuing sound investment strategies can have investments that turn sour and earn below-market returns. The fact that a substantial majority of mutual funds earn rates of return that are below the performance of the S&P 500, a broad measure of the major stocks in the market, is evidence of this fact. These concerns are greatest for plans that allow individuals a wide array of choices in how to invest the funds in their accounts, such as plans that establish accounts similar to IRAs or 401(k) accounts.

Another group likely to face substantial reductions in retirement income under individual accounts are those who must retire early for health reasons but are not sufficiently infirm to meet the stringent Social Security disability criteria, as well as those who have been employed in physically strenuous occupations that are not suitable for someone past their early or mid-60s. Individuals who must retire early would tend to have smaller individual accounts because they would have fewer years of contributing to these accounts. At the same time, they also are likely to have lower Social Security benefits because most of the reform plans that divert revenue from the Social Security trust fund to individual accounts — such as the NCRP plan — raise the normal Social Security retirement age substantially. These plans take this step to shrink Social Security benefit costs enough to help compensate for the large Social Security revenue losses that the diversion of payroll tax revenue to individual accounts entails.

Analyses of the retirement income generated by individual accounts should reflect the range of outcomes these accounts are likely to produce. Simply estimating the average anticipated rate of return for such accounts would obscure the fact that substantial numbers of people would likely receive significantly less income than that from their individual accounts, while others would receive more. Stated another way, such an approach would be

¹⁰ General Accounting Office, *Social Security: Different Approaches for Addressing Program Solutions*, July 1998, p. 6.

problematic because it would fail to reflect the increased risk to beneficiaries that individual accounts carry.

Administrative and Other Costs: Analyses of the retirement income that individual accounts would provide also need to factor in the costs associated with such accounts. Since such costs are paid out of the funds in the accounts, they affect the amount of money available in the accounts to pay retirement benefits.

Private accounts necessarily incur administrative and management fees. Some private account systems also incur costs when account-holders retire and convert the funds in their accounts to lifetime annuities. The individual retirement accounts — or IRAs — and the 401(k) accounts that many Americans possess incur all of these costs. Estimates from two eminent economists, Peter Diamond of M.I.T and Henry Aaron of the Brookings Institution, indicate that between 7.5 percent and 30 percent or more of the amounts saved or earned under the individual account systems that would be established under various Social Security privatization proposals would be consumed by administrative, management, and (where applicable) annuitization costs and fees.

Plans that invest Social Security trust fund revenues in equities, rather than diverting trust fund revenue to individual accounts, avoid almost all of these costs. The General Accounting Office recently reported: "Most of the cost of managing an index fund is incurred maintaining thousands of individual accounts. In contrast, the government, as a single investor, would incur negligible costs as a percentage of its assets. Therefore, investing collectively through the government would result in significant administrative savings compared to investing through individual accounts."¹¹

This is one of the reasons some Social Security experts, such as Brookings Institution senior fellows Henry Aaron and Robert Reischauer, the former CBO director, favor investing a portion of trust fund reserves in equities as an alternative to individual accounts. Aaron and Reischauer observe that because investing trust fund reserves in equities would avoid such costs, it would generate a higher average net rate of return than individual accounts while exposing beneficiaries to much less individual investment risk.

The Social Security "Baseline"

The other criticism lodged against the CRS analysis by proponents of the NCRP plan and the Moynihan/Kerrey bill is that comparing benefits under reform plans to

¹¹ General Accounting Office, "Social Security Financing: Implications of Stock Investing for the Trust Fund, the Federal Budget, and Economy," statement of Barbara D. Bovbjerg before the Senate Special Committee on Aging, April 22, 1998.

benefits under the current Social Security benefit structure is inappropriate since the current Social Security system will not be solvent over the long term. They contend that the appropriate standard against which reform proposals should be measured is an altered model of Social Security that includes measures bringing the system into long-term balance.

This criticism of the CRS study is unconvincing. Use of a baseline, or a point of reference where no change has taken place, is common in research. The benefit levels the current benefit structure pays provide an appropriate baseline measure against which to compare the Social Security benefits that various reform plans would provide. To use these benefit levels as a baseline in no way suggests that changes are not needed to restore long-term solvency to the system; it simply provides a readily understandable measure of comparison.

Nor does use of this baseline alter comparisons to each other of the plans CRS examined. The comparative standing of these plans would remain unchanged if CRS had used a different standard. For example, if CRS had used the Moynihan-Kerrey bill as its standard, the NCRP plan would be shown to reduce Social Security benefits relative to the standard while the Ball plan would be shown to raise them.

More important, there is no widely accepted way of altering Social Security to achieve long-term balance that can serve as a baseline. In particular, to compare alternative plans to a policy of restoring balance solely by cutting Social Security benefits may be misleading; that is an option no one is suggesting. Not a single member of the 1994-1996 Social Security Advisory Council recommended such an approach. No proponent of Social Security reform has proposed it.

Furthermore, use of a standard which assumes that balance will be restored solely by cutting benefits could lead to some misunderstanding among the public. Some plans that reduce retirement income below the levels the current benefit structure provides could be shown to *increase* benefits relative to such a standard; some of the public could mistakenly think this means that such plans would raise benefits relative to the standard-of-living that the current benefit structure provides. If many Americans mistakenly believed such a plan would raise retirement income above the levels the current system provides, they could conclude that no sacrifice would be involved and no increase needed in saving by individuals.

A number of these issues are discussed in more detail below.

Why Do Plans that Reduce or Divert Payroll Tax Revenue Result in Large Reductions in Social Security Benefits?

The principal reason the NCRP and Moynihan-Kerrey plans reduce Social Security benefits much more deeply than the Ball plan does is that they reduce the revenue going into the Social Security trust fund. This deepens the trust fund's

financing shortfall and necessitates deeper benefit reductions to eliminate the shortfall. The NCRP plan reduces the revenue going into the trust fund on a permanent basis, while the Moynihan-Kerrey plan reduces trust fund revenue for the next 30 years (and, on average, over the 75-year period used in Social Security projections).

The NCRP plan mandates the permanent diversion of two percentage points of the payroll tax from the Social Security trust fund to individual accounts. The Moynihan-Kerrey bill reduces the payroll tax by two percentage points through 2024 (and by less than two percentage points from 2025 through 2029).¹² The Moynihan-Kerrey plan provides for voluntary individual accounts funded with its one percentage point reduction in the *employee* share of the payroll tax, along with a mandatory employer matching contribution for any employee establishing such an account, financed by the one percentage point reduction in the *employer's* share of the payroll tax.

Reducing the revenue going into the Social Security trust fund necessitates deeper reductions in Social Security benefits to restore long-term balance. For example, an analysis by the Social Security actuaries shows that the NCRP plan's diversion of two percentage points of payroll tax revenue to individual accounts increases the deficit in the Social Security trust fund by an amount equal to 1.82 percent of taxable payroll over the next 75 years. The Social Security actuaries project that the current shortfall equals 2.19 percent of taxable payroll over the next 75 years. By deepening the shortfall by 1.82 percent of taxable payroll, the NCRP plan's diversion of two percent of the payroll tax enlarges the size of the Social Security deficit approximately 80 percent. That, in turn, necessitates Social Security benefit reductions about 80 percent larger than otherwise would be needed to restore Social Security to long-term balance.¹³

The NCRP plan achieves these deeper benefit reductions in a number of ways, including the following.

- The NCRP plan raises the age at which individuals can retire and receive full, rather than reduced, Social Security benefits to a higher age level than any of the other major plans that have been offered. For example,

¹² The Moynihan-Kerrey plan begins to raise the payroll tax in 2025 and restores the tax rate to its current level by 2030. The plan also would begin to raise the payroll tax rate slightly *above* the current level in 2045 and continue raising it until 2060. At that time, the combined employee and employer shares of the payroll tax would be one percentage point above the current level.

¹³ The NCRP plan offsets a modest portion of the revenue loss by shifting from the Medicare trust fund to the Social Security trust fund the share of the revenue from partial taxation of Social Security benefits that currently is deposited in the Medicare Hospital Insurance Trust. Shifting this revenue would deepen the long-term fiscal imbalance in the Medicare trust fund, however, which is more serious than the long-term imbalance in the Social Security trust funds. When all of its changes in trust fund revenue are considered, the NCRP plan deepens the trust fund shortfall by 1.39 percentage points of payroll, or 50 percent.

the plan advanced by the 1994-1996 Social Security Advisory Council that went the farthest in raising the age at which workers can retire and draw full benefits would raise this age from 65 today (and eventually 67 under current law) to 70 by 2083. By contrast, the NCRP plan would increase this age to 70 by 2029 and to approximately 72½ by 2075. The NCRP plan also would raise the *early* retirement age, the age at which retired individuals can retire and begin to draw reduced Social Security benefits, from 62 to 65 by 2029 and to approximately 67½ by 2075.

Raising the age at which individuals can retire and receive full benefits essentially constitutes an across-the-board reduction in Social Security benefits because it reduces benefits not only for those who retire earlier but also for those who remain at work until this age, a point that is not widely understood.¹⁴ Each one-year increase in the age at which full benefits are paid results in a reduction of approximately seven percent in the Social Security benefits that an average worker receives over his or her retirement years.¹⁵

In addition, increasing from 62 to 65 the age at which individuals can retire and begin to draw *reduced* Social Security benefits would be particularly burdensome for those who are unable to work until 65 either because they are in poor health during their early 60s (but are not sufficiently infirm to meet the stringent Social Security disability criteria) or because they have been employed in physically strenuous occupations in which they cannot remain employed until 65.

¹⁴ Under current law, with the age at which full benefits are paid set at 65 and scheduled to rise to 67 by 2022, workers who retire at 62 (or 63 or 64) receive lower monthly benefits for the rest of their lives in recognition of the fact that their benefits will be spread over more years. Conversely, those who do not retire until age 70 receive *higher* monthly benefits for the rest of their lives because they will draw benefits for fewer years. Under proposals to raise to 70 the age at which full benefits are paid, however, those who retire at 70 would receive the standard benefit that now goes to those retiring at 65; they would no longer receive an enhanced benefit for workers who do not retire and begin drawing benefits after the age at which full benefits are paid. Raising the age at which full benefits are paid thus essentially constitutes an across-the-board cut; if the age is raised to 70, those retiring at 70 lose benefits along with those who retire in their 60s.

¹⁵ "Increasing the Eligibility Age for Social Security Pensions," Testimony of Gary Burtless, senior fellow, The Brookings Institution, before the Senate Special Committee on Aging, July 15, 1998. When the age at which individuals can retire and draw full benefits is raised to 70 under the NCRP plan, individuals would be able to retire at 65 and begin drawing reduced Social Security benefits, just as individuals today can retire and begin receiving reduced benefits at 62. Those electing the early retirement option would receive reduced Social Security benefits for the rest of their lives. Under the NCRP plan, individuals could retire and begin to make withdrawals from their individual accounts before age 65 if there were enough funds in the accounts to provide monthly payments at least equal to the poverty line.

- The NCRP plan also makes major changes in the Social Security benefit computation formula. Under the current, progressive formula, Social Security benefits equal 90 percent of the first \$477 of a worker's average monthly wage over his or her work-years, 32 percent of the next \$2,875 of a worker's average monthly wage over his or her work years, and 15 percent of the remainder of a former worker's average monthly wage.¹⁶ The NCRP plan would, over time, lower these 32 percent and 15 percent "replacement rates" to 21.36 percent and 10.01 percent, respectively, which would constitute a large benefit reduction. A significantly smaller percentage of the wages and salaries many workers earned would be replaced by Social Security benefits when they retired. This formula change alone reduces benefits for a worker whose average wages are \$40,000 in 1998, and whose wages rise in subsequent years at the same rate as average wages in the economy, by 22 percent.
- In addition, the NCRP plan proposes to reduce the benefit Social Security provides to spouses of primary wage-earners; the spousal benefit would be lowered from 50 percent of the primary wage-earner's benefit, as under current law, to 33 percent of that benefit. Many spouses thus would experience a benefit reduction of up to one-third, on top of the NCRP plan's other benefit reductions. (Some members of the 1994-1996 Social Security Advisory Council also proposed to reduce the spousal benefit, but they used the savings from this proposal to help finance an *increase* in the benefits that Social Security pays to widows and widowers so as to provide more adequately for widows, who face poverty at very high rates.¹⁷ In 1996, some 39 percent of elderly widows — about two in every five — had incomes below 150 percent of the poverty line.¹⁸ Reducing spousal benefits without raising widows' benefits would reduce benefits principally among women.)

Since the Ball plan does not divert trust fund revenue to fund individual accounts, it does not need Social Security benefit reductions of this magnitude. As noted above, the Ball plan further shrinks the size of the benefit reductions or tax

¹⁶ In computing these average monthly wage figures, the Social Security Administration indexes wages earned in years before a worker's retirement by changes in average wages in the U.S. economy in the intervening years.

¹⁷ Under the recommendation these Advisory Council members made, the widow or widower of a deceased worker would receive 75 percent of what the couple's *combined* benefit would have been, rather than receiving only the worker's benefit (or only the widow or widower's own benefit, if larger), as under current law. *Report of the 1994-1996 Advisory Council on Social Security, Volume I: Findings and Recommendations*, January 1997

¹⁸ Bureau of the Census, Current Population Survey, 1996, March 1997.

increases needed to restore Social Security to long-term balance by investing a portion of Social Security reserves in the equities markets and thereby capturing the higher rates of return these markets provide. This is essentially the same strategy that state and private pension funds use.

Estimating the Effects of Various Plans When Income From Individual Accounts is Added

The CRS analysis does not purport to be a comprehensive analysis of all components of the three plans it examines, but rather an assessment of the changes made in the defined, or guaranteed, benefits that retirees would be assured of receiving through Social Security. Analyses also are needed that include projected returns from individual accounts. Undertaking such analyses is not easy or straightforward.

To factor in benefits from individual accounts one must make assumptions regarding investment behavior, stock market performance, the expectations that firms selling annuities have concerning what inflation and interest rates will be in coming years, and other factors. Since future earnings are unlikely to mirror past earnings exactly, all such projections are subject to a wide range of error. More important, projected rates of return from individual accounts generally are averages; the actual benefits that individuals would derive from such accounts would vary substantially from the estimated average figures, with some beneficiaries garnering higher rates of return and others receiving lower rates of return.

Many low-income earners may receive relatively low rates of returns from their investments. Low-income families tend to have little experience with retirement accounts or with investing in stocks, bonds, and mutual funds. They would be more likely than experienced investors to make poor investment choices. Experience with 401(k) accounts suggests they also would be likely to invest quite conservatively, probably out of fear of losing the limited resources they have. In a June 17, 1998 House Ways and Means Committee hearing on individual accounts, several witnesses testified that much of the public lacks sufficient knowledge about investing to manage such accounts well.¹⁹

When estimating the retirement income that individual accounts would generate, there is no easy way to factor in the potential for a substantial segment of the public — and in particular, those with below-average earnings — to invest unwisely or too conservatively. One possible approach is to show ranges for the levels of retirement income and rates of return that individual accounts would generate. Estimates that simply show projected average rates of return on individual accounts, rather than

¹⁹ Testimony of Teresa Tritch, senior editor of *Money* magazine, and Ric Edelman, head of Edelman Financial Services, before the U.S. House of Representatives Subcommittee on Social Security of the Committee on Ways and Means, June 18, 1998.

The Year of Retirement Can Greatly Affect a Beneficiary's Level of Retirement Income Under A System of Individual Accounts

There also are a number of other ways in which investment risk would affect the retirement income an individual would receive under a system of individual accounts. For example, Gary Burtless, a senior fellow at the Brookings Institution, has shown that under such a system, the amount of the monthly annuity for an individual who converts his or her individual account to an annuity at retirement could vary greatly not only as a result of the investment choices a worker has made but also as a result of the state of the stock market in the year the individual retired.

If an individual retires and converts his or her account to an annuity in a year in which the stock market is very high, the individual is likely to receive a more ample annuity check. But if the individual has the misfortune to retire and annuitize when the market is down, the individual can be faced with a meager income for the rest of his or her life. Burtless' research shows that if workers retiring in the 1960s and 1970s had deposited funds in individual accounts throughout their careers, with the money invested in stock index funds, an average male worker who retired and converted an individual account to an annuity in 1976 would have received a monthly benefit for the rest of his life that was *only a little more than half as large* as the monthly benefit an average male worker who retired and annuitized seven years earlier, in 1969, would have received.

ranges, tend to oversimplify this matter. Another possible approach is to attempt to estimate the percentage of individuals likely to secure rates of return lower (or higher) than the average rate of return. Such variations are particularly important in light of the fundamental purpose of social insurance, which is to *assure* the retired, the disabled, and survivors a certain basic income.

Even more difficult is the task of estimating how the stock market will perform in coming decades. Given the dizzying increases in the market in recent years, using market performance for a period that includes these years to predict future performance may generate estimates of rates of return for individual accounts that prove to be too high. The ratio of stock prices to corporate earnings has climbed well above its traditional range, which raises questions about how much further the equities markets will rise. No one knows the answer to this question. In recent congressional testimony, Rudolph Penner, who backs the NCRP plan, acknowledged that for this reason, "considerable uncertainty surrounds the assumption regarding what can be earned" through investment in equities.²⁰ (It may be recalled that only three decades ago, in the 1970s, the market performed poorly and lost a large share of its value.)

²⁰ Testimony of Rudolph G. Penner, senior fellow, the Urban Institute, before the Senate Budget Committee, July 23, 1998.

Administrative Costs

One set of factors that can more readily be taken into account in estimating the retirement income that individual accounts may generate involves the costs associated with these accounts, including administrative and management fees, costs under some plans of converting funds in these accounts to annuities that pay a monthly benefit until death, and costs under some plans of the transition from Social Security to private accounts. All private account plans entail some or all of these costs. Since the costs are generally paid from the accounts, they reduce the retirement income the accounts generate. Estimates that do not reflect such costs are not valid.

The administrative costs that must be paid from the funds in individual accounts are the expenses that investment firms incur in handling the accounts, conducting marketing efforts to attract investors, communicating with their investors, record-keeping, and corporate overhead. The fees these firms charge to account-holders also include a profit margin; no one can expect private firms to handle such accounts for free or at a loss. The administrative costs for IRAs currently range from \$35 to \$45 per account per year.²¹ For private defined contribution pension plans, administrative costs vary by the number of participants in the plan and have been estimated to range from approximately \$50 per year per participant for a plan with 10,000 or more participants to nearly \$290 for a plan with 15 or fewer participants.²² Flat-rate costs of this nature are most disadvantageous to low-wage workers, since these charges consume a larger percentage of the investments in small accounts than of the investments in larger accounts. In addition to these administrative costs are investment management fees that firms charge for investing the funds in these accounts and shifting the funds as account-holders direct.

Two eminent economists, Peter Diamond of MIT and Henry Aaron of the Brookings Institution, have studied administrative and management fees associated with IRAs and 401(k) plans.²³ They estimate that by retirement, costs for individual accounts established on an IRA or a 401(k) model would consume, on average, about 20 percent of the funds otherwise deposited in or earned by the accounts. As Diamond

²¹ Remarks by Philip Lussier, State Street Global Advisors, before the National Commission on Retirement Policy, Social Security Working Group, February 25, 1998.

²² Edwin C. Husted, "Trends in Retirement Income Plan Administrative Expenses," *Pension Research Council Working Paper*, 96-13, Philadelphia: University of Pennsylvania, 1996.

²³ Statement by Peter Diamond, AARP-Concord Coalition Debate on Social Security, Albuquerque, July 27, 1998; Peter Diamond, "The Future of Social Security for this Generation and the Next: Proposals Regarding Personal Accounts," testimony before the Subcommittee on Social Security of the House Committee on Ways and Means, June 18, 1998; testimony of Henry J. Aaron before the Senate Committee on the Budget, July 23, 1998.

Financial Securities Analyst Explains That Administrative Costs Can Substantially Reduce Returns From Accounts

- In testimony July 24 before the Subcommittee on Finance and Hazardous Materials of the House Commerce Committee, Joel M. Dickson, Senior Investment Analyst with the Vanguard Group, explained the large role that administrative costs can play in lowering rates of return that individual accounts can provide, especially for the smaller-than-average accounts of workers with below-average earnings. Dickson stated:

"Much of the recent debate on individual accounts has centered around how Social Security participants can earn higher rates of return — like those experienced in the private financial markets. Unfortunately, there is often a large gap between the assumed market return on an investment and the actual return realized by investors. The reason? Cost... What may seem to be a relatively small cost difference over a short period of time can become an enormous difference over a long investment horizon....

"Consider a \$1,000 investment in two equity funds; one earns a market return of 10%; the second earns only 8%, which represents the market's return reduced by an all-too-realistic total cost of 2% (arising from charged expenses and portfolio transaction costs). After the first year, the difference in account values between the two options is only \$20. Of course, a participant investing over the course of their working lifetime must consider much longer time horizons. Over 40 years, the first fund soars to \$45,000. The second fund, earning 2% less per year, grows to \$22,000 — less than half what the market earned....

"The key pricing variable for private accounts is the average account size. To the extent that costs of servicing the accounts could not be covered by asset-based management fees, other charges — like account maintenance fees — are likely. One of the criticisms often made about privately-managed, individual accounts is that lower-income workers may not be as financially savvy, resulting in lower average returns. I think a bigger issue is that lower-income and part-time workers will have small account balances, potentially subjecting them to higher fees because asset-based revenue cannot begin to cover the costs of maintaining these accounts. Thus, they are likely to earn lower returns than higher-income workers that make the same investment choices for reasons unrelated to financial market sophistication."

explains, a one percent annual average charge on funds in such an account consumes, over a 40-year work career, 20 percent of the funds in the account.²⁴ Based on the most recent financial data on mutual funds, a one percent annual charge is a conservative

²⁴ Diamond explains that with a one-percent annual charge on holdings in accounts, a dollar deposited in an individual account in the first year of a 40-year work career will be subject to the one percent fee 40 times, while a dollar deposited in the final year before retirement will be subject to the fee once. On average, dollars in the account will be subject to the one percent annual charge 20 times, so approximately 20 percent of the amounts deposited or earned by the account will be consumed by these charges. Diamond also notes that in Chile, costs consume approximately 20 percent of the amounts in individual accounts, with the percentage being *higher* in Great Britain and Argentina.

estimate. Lipper Analytical Services reports that in 1997, the average charge on no-load stock funds equaled 1.21 percent of amounts invested in the funds, while the average charge on front-load stock funds equaled 1.25 percent.²⁵ Moreover, the 1994-1996 Advisory Council on Social Security estimated an annual charge of one percent on assets in privately managed individual accounts.²⁶

The amounts consumed would generally be larger than 20 percent for smaller-than-average accounts and smaller than 20 percent for large accounts. This means the retirement income that individual accounts modeled on IRAs or 401(k) plans would generate would be about 20 percent smaller on average than the income would be without these fees and costs. It also means that estimates of the retirement income that IRA-type or 401(k)-type accounts would generate will overstate this income by approximately 20 percent on average if the estimates do not reflect these fees and costs.

Costs of Converting Accounts to Annuities

A sizable additional cost also would be incurred under plans that feature private accounts modeled on IRAs or 401(k) plans — the cost of converting the funds in a worker's account to a lifetime annuity when the worker retires. These costs cover a company's marketing expenses, commissions to agents, investment costs, overhead, and profits.

The leading study on this issue indicates that the fees charged for converting an account to an annuity at retirement consume, on average, approximately five to ten percent of the retirement savings of an individual purchasing a \$100,000 annuity.²⁷ In other words, the insurance company would take five to 10 percent of the amount in the retiree's account to cover its costs and profits, with the amount of the monthly annuity check being based on the remaining 90 percent to 95 percent of the funds in the account. (These annuitization costs can vary by as much as 15 percent across insurance firms. A retiree would need to be fairly astute in selecting the best company from

²⁵ See Robert McGough, "Robust Fund Industry Isn't Lowering Fees," *Wall Street Journal*, May 14, 1998.

²⁶ The Advisory Council assumed an annual charge of one percent on accounts established under the Personal Security Accounts proposal, a proposal that diverted *five* percentage points of the payroll tax to individual accounts. Since many of the administrative costs involved in managing private accounts are fixed costs that do not vary with the size of the account, this suggests that the average charge could be larger than one percent per year on the smaller individual accounts that would be established under plans using IRA-type or 401(k)-type accounts that divert two or three percentage points of the payroll tax into these accounts rather than five percent.

²⁷ Olivia S. Mitchell, James M Porterba, and Mark J. Washawsky, *New Evidence on the Money's Worth of Individual Annuities*, Cambridge, National Bureau of Economic Research, April 1997. Also see Aaron, *op. cit.*

which to purchase an annuity. Many people do not have sufficient investment expertise to make the wisest choices in purchasing annuities.)

In addition, prices for annuities are generally raised to cover the company's risk of incurring added costs due to "adverse selection." Adverse selection refers to the probability that people with longer-than-average life expectancies will be more likely to purchase lifetime annuities than people with shorter-than-average life expectancies. Insurance companies cover themselves for the costs of paying lifetime annuities to people who may live to very old ages. The resulting increase in the price of annuities has been estimated to reduce the value of retirement savings being converted to an annuity by an additional 10 percent.

Totaling all of these costs and charges, Henry Aaron concludes that the administrative and management costs *plus* the costs of converting funds in these accounts to annuities would consume *between 30 percent and 50 percent* of the amounts saved in IRA-type or 401(k)-type individual accounts. These are very large amounts and indicate why analyses of plans that include individual accounts need to reflect estimates of these costs in their computations. (Estimates of rates of return from individual accounts issued by privatization proponents such as the Heritage Foundation tend to ignore such costs and are not valid as a result.)

Costs Under the Thrift Savings Plan Model

Diamond also has examined likely administrative costs for individual accounts modeled on the Thrift Savings Plan. The individual accounts the NCRP plan would create are based on this model. The costs for this type of account would be considerably lower but would still be significant. Diamond estimates that the costs of administering this type of account would consume approximately 7.5 percent of the funds in an average worker's account (as distinguished from the 20 percent cost Diamond and Aaron estimate for plans with IRA or 401(k) type accounts), reducing the retirement benefits these accounts would pay by that percentage.²⁸ Under the NCRP

²⁸ Administrative costs for TSP equaled approximately \$20 per participant in 1997, which equaled about 3.75 percent of what would be the average worker's deposit into a private account under the NCRP plan. As Aaron, Diamond, and former Thrift Savings Plan head Francis Cavanaugh have testified, using this model for the accounts of 140 million to 150 million workers employed by millions of employers would entail significantly higher costs in percentage terms than the cost of operating the Thrift Savings Plan for employees of a single employer, the U.S. Government. The TSP's economies-of-scale would not be available due to the existence of millions of separate employers. In addition, many costs associated with operating the Thrift Savings Plan are borne by the federal agencies in their role as employer rather than by TSP itself (e.g., responding to employees' questions); such costs would almost certainly not be imposed upon private employers under an individual accounts plan based on the TSP model. These costs would have to be borne by the entity operating the accounts system and defrayed through charges on the accounts. In addition, federal agencies transmit the relevant data to TSP electronically, while many private employers submit data on paper; that would further increase the costs for the entity administering the accounts (as well as the risk of errors in maintaining accounts

(continued...)

Investment of Trust Fund Reserves in Equities Likely to Yield Higher Rates of Return by Reducing Costs

Both the Ball plan and a separate plan designed by former Congressional Budget Office director (and now Brookings senior fellow) Robert Reischauer and Brookings senior fellow Henry Aaron would invest a portion of Social Security trust fund assets in broadly indexed funds. Such approaches would tend to generate higher rates of return than plans that divert a portion of payroll tax revenue to individual accounts, because investing a portion of the trust funds in the equities markets does not entail the administrative costs, management fees, and (in some cases) annuitization costs involved in systems with nearly 150 million individual accounts.

If individual accounts and trust fund reserves invested in index equity funds were both to earn the average market rate of return — but the retirement benefits the individual accounts paid had to reflect the administrative costs, management fees, and, where applicable, annuitization costs these accounts must pay — the investment of trust fund reserves in the market would necessarily generate a higher net rate of return. Investing a portion of trust fund reserves in the market also pools the risk of investing in the market so no single individual has to face the threat of large investment losses.

For these reasons, Reischauer, Aaron²⁵ and a number of other economists have concluded that this approach is likely to yield higher rates of return at lower risk to beneficiaries than a system of individual accounts.

²⁸ Henry J. Aaron and Robert D. Reischauer, "Tune It Up, Don't Trade It In," *The Washington Post*, Outlook section, April 19, 1998. In addition, Francis Cavanaugh, former head of the Thrift Savings Plan, recently testified that "The only feasible way for the Social Security system to benefit from the higher returns offered by the stock market is to invest a portion of the trust fund in stocks, which is what virtually all large public and private pension and retirement funds have already done." Statement of Francis X. Cavanaugh before the Subcommittee on Social Security of the House Ways and Means Committee, June 18, 1998.

plan, the percentage by which accounts would be reduced to cover administrative costs would be the same for all accounts without regard to their size.

Annuitization costs under a plan such as the NCRP proposal are less clear. The NCRP plan requires a minority of retirees to annuitize. Others *could* annuitize but would not have to do so; those who did would have several options regarding how to annuitize. Some individuals who annuitized would likely incur large annuitization costs. Some others likely would not convert their accounts to annuities. Those who did not annuitize would not be able to withdraw all their funds at once; there would be limits on the amounts they could withdraw. The annual amount an individual would be allowed to withdraw would be based on his or her life expectancy. As the individual grows older, the maximum withdrawal allowed would decrease to stretch

²⁸ (...continued)
records).

the savings left in the account over the years expected to remain in the individual's life. If an individual with a modest account lived to a very old age, the withdrawals could eventually become very small. This stands in contrast to Social Security benefits, which do not decline in amount as an individual grows older but rather increase to keep pace with inflation.

(There also is some question as to the feasibility of using the Thrift Savings Plan model for a system of 140 million or 150 million individual accounts held by workers of millions of employers. Francis X. Cavanaugh, the former head of the Thrift Savings Plan and a former Reagan Administration Treasury official, recently testified that managing such a system would require 10,000 highly trained federal employees and stated that in his view, "... it would be impossible to establish cost-effective TSP-type PSAs [personal savings accounts] for the Social Security system."²⁹)

Conclusion

The CRS study provides a useful analysis of the effects of the three plans on the defined benefits that Social Security provides. The data in the study demonstrate that plans that reduce or divert Social Security payroll tax revenue from the trust fund to individual accounts entail deeper reductions in Social Security benefits than plans that do not reduce trust fund revenue. The data also illustrate the fact that plans that invest a portion of Social Security trust fund assets in equities can restore Social Security to long-term balance with smaller Social Security benefit reductions than other plans because such an approach boosts trust fund revenues.

Subsequent studies should attempt to incorporate the effects of the individual accounts that various plans establish on the income that retired workers would receive. Such analyses will need to take into account the average amounts the individual accounts are projected to earn, the risk that account-holders would face and the wide variation in retirement income that consequently could result, and the costs and fees that would affect the benefit payments these accounts can make.

²⁹ "Statement of Francis X. Cavanaugh before the Subcommittee on Social Security of the House Ways and Means Committee, June 18, 1998.

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CENTER ON BUDGET AND POLICY PRIORITIES

Revised October 8, 1998

AFRICAN AMERICANS, HISPANIC AMERICANS, AND SOCIAL SECURITY: THE SHORTCOMINGS OF THE HERITAGE FOUNDATION REPORTS

Executive Summary

by Kilolo Kijakazi

The Heritage Foundation has released two reports on Social Security's rate of return for minorities. One report addresses African Americans; the second speaks to Hispanic Americans. Heritage argues that the African-American community will secure poor and even potentially negative rates of return from Social Security because African Americans have lower life expectancies. Heritage asserts that Social Security also is a bad deal for Hispanic Americans because they are a disproportionately young population and will bear a significant share of the cost of financing Social Security in the future. According to these reports, these communities would fare better under a retirement program of individual accounts invested in the private market.

The Heritage reports contain critical flaws, however, in their assumptions about both Social Security and individual accounts. The erroneous assumptions result in large errors in Heritage's analysis of rates of return for the population in general and for minorities in particular. As this paper explains, Heritage's rate-of-return calculations substantially understate the rate of

return from Social Security and heavily overstate the rate of return from the individual accounts that Heritage favors. As a result, the Heritage calculations are inaccurate.

The Social Security actuaries concluded that Heritage "grossly underestimates the expected rates of return from Social Security benefits" for workers in general and African Americans in particular.

A major part of this paper is drawn from an assessment of the Heritage paper on African Americans that the Social Security Administration's highly respected Office of the Chief Actuary conducted. The Office of the Chief Actuary identified major errors in Heritage's work, including the fact that Heritage exaggerated the taxes that African Americans pay into Social Security while substantially understating the Social Security benefits that African Americans receive. The actuaries concluded that Heritage "grossly underestimates the expected rates of return from Social Security benefits" for the overall population and especially for African Americans. The actuaries also examined Heritage's subsequent work on Hispanic Americans and found it seriously flawed as well.

Dr. Kilolo Kijakazi is a senior policy analyst in the Income Security Division at the Center on Budget and Policy Priorities, where she specializes in Social Security. Dr. Kijakazi previously worked as a policy analyst at the National Urban League and the Food and Nutrition Service of the U. S. Department of Agriculture. She is the author of *African-American Economic Development and Small Business Ownership*, a book published by Garland Publishing, Inc. in 1997.

Elderly Poverty Rate in U.S. Before and After Receipt of Social Security, 1996

Poverty rate before benefits 50.1%

Poverty rate after benefits 12.3%

Source: Census Data

Elderly Lifted out of Poverty by Social Security as Percentage of All Elderly Lifted Out of Poverty by Safety Net Programs, 1996

	Number (millions)	As Percentage of All Elderly Who Are Lifted Out of Poverty
Elderly lifted out of poverty by:		
Social Security	11.7	89.3%
Other social insurance	0.4	3.1%
Means-tested cash	0.5	3.7%
Means-tested non-cash	0.5	3.8%
All safety net programs	13.0	100.0%

10% combined

People Lifted out of Poverty by Safety Net Programs, by Age, 1996

	All Persons (millions)
Number poor lifted out of poverty by:	
Social insurance (primarily Social Security)	17.9
Means-tested cash programs	3.0
Means-tested non-cash programs	4.3
Federal taxes and the EITC	1.7
All safety net programs	27.0

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CENTER ON BUDGET AND POLICY PRIORITIES

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

FY I
from
Shirley

From: Bob Greenstein

Date: November 24, 1998

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

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

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

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

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

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

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

- Give states the option to provide coverage under Medicaid and the child health block grant to low-income legal immigrant children who have entered the United States after August 22, 1996, the date the welfare law was signed. States now are barred from extending such coverage. This proposal was in the Administration's FY 1999 budget.
- Give states the option to provide prenatal care to legal immigrant pregnant women who have arrived after August 22, 1996. States must provide Medicaid coverage for *delivery* costs when such women give birth but are prohibited from providing Medicaid coverage for prenatal care, which can result in healthier birth outcomes. This makes little sense.
- Provide SSI eligibility to legal immigrants who enter the country after August 22, 1996 and become disabled after arriving here. Should a poor legal immigrant hit by a bus or maimed in a workplace accident be denied SSI? The Administration fought for this in 1997 but didn't win it. Let's join this fight again.
- Provide SSI for legal immigrants here on August 22, 1996 who subsequently become elderly and poor. The 1997 restoration limits SSI to those elderly legal immigrants who were both 65 or older and *on the SSI rolls* on August 22, 1996. This is too restrictive. At a minimum, we should cover those who were in the U.S. and 65 or older on August 22, 1996 but not on the SSI rolls on that date. Current rules in this area penalize elderly legal immigrants who worked as long as they could and stayed off SSI as long as they could — and consequently weren't receiving benefits on August 22, 1996 — but who since have become poor. Fixing this would simply conform the treatment of elderly legal immigrants in SSI to the food stamp treatment for elderly legal immigrants the Administration won this June.
- Extend food stamps to poor legal immigrant parents here on August 22, 1996, or at least to working poor immigrant parents. Currently, children in these families can get food stamps, but their parents can't. The result is that the family as a whole, including the children, often does not have enough to eat. The primary people who would be covered under this proposal are individuals who came here legally, are working, and are trying to raise their children on below-poverty wages.

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

Core Democratic voters defy predictions

Some '94 defectors return to the fold

By Kathy Kiely and Jessica Lee USA TODAY

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

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

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

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

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

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

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

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

ence all over the country."

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

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

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

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

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

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

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

"We have found that when we talk to union members one by one, we can make the case



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

Hispanics prove pivotal

By Maria Puenente USA TODAY

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

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

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

In New York, Puerto Ricans and Dominican-Americans helped make the difference for Democrat Rep.

Charles Schumer in the no-holds-barred brawl for the U.S. Senate against incumbent Republican Al D'Amato. Exit polls showed Schumer with overwhelming support from Hispanics.

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

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

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

crats, seven are Republicans and one was in a nonpartisan race.

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

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

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

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

Dems push to the end to increase black votes

By Jessica Lee USA TODAY

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

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

There's a lot at stake in the elections and union members will vote," Rosenthal said.

In much of the nation, including several states where

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

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

racers were going down to the wire, dismal weather was doing nothing to boost turnout.

For special-interest groups, the final days of the 1998 cam-

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

Dora Von, an African-American who is a legal typist in Sacramento, got a call around 5:30 p.m. Monday when she got home from work. "At first I thought it was a prank," she says. "Then I realized it was his voice tell-

ing me to go out and vote. It made me feel really special, like I could do something for our country."

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

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

the airwaves.

"We did a lot of advertising on radio stations aimed at traditional families," said a native presidential candidate

Gary Bauer, head of Campaign for Working Families, a political action commi. "We ended up in 170 different races around the country."

Washington Post
Washington, DC
November 16, 1998

GOP Governors Look to Wield Stronger Hand in Party Affairs

By DAN BALZ
Washington Post Staff Writer

Excerpted from above article...

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

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

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

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

House Seats

an unalterable path to taking use in 2000."

Core Support

Democrats' turnout effort was the party's core support among its members and women. In the final weeks, every level of the effort, from the 1,000 volunteers who canvassed Washington state to boost college professor and newly re-elected Brian Baird.

Analysis documents their success: participation among union members, for example, jumped to 22% from 13% in 1994, when the Democrats lost the House. No complete numbers on voters' turnout were available. The evidence shows they participated in several key races. In the West, for example, where Democrats were expected to lose, the Republican effort to improve turnout for the first time in the West, black voter turnout jumped to 19% in 1994.

Done by the Christian Coalition Democrats even managed to improve the Republican Party's most

Identified religious conservatives said they voted for a Democrat, while 67% of the religious right, as com-

A House Divided

Narrowest 20th century House majorities:

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

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

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

³ Not counting one undecided race in Oregon

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

News in the Wee Hours

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

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

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

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

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

Minorities Put Democrats Over Top in Key Races

By DENNIS FARNEY

Staff Reporter of THE WALL STREET JOURNAL

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

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

Motivated by Threat to Clinton

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

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

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

selective, highly competitive races.

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

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

Pattern Among Hispanics

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

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

"The Hispanic vote is still very much up

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

Minority voters also seem to have longer memories. In California, GOP gubernatorial candidate Dan Lungren, who lost big to Democrat Gray Davis, was hurt by the strident anti-immigration stand taken by GOP Gov. Pete Wilson in 1993. Meanwhile, successful appeals to minorities, whether by Democrats or by Republicans such as Gov. Bush, also rested on foundations that have taken years to build.

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

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

Hopes of Some Tobacco Foes Go Up in Smoke

By DENNIS FARNEY, Staff Reporter

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

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

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

In Massachusetts, Democratic Attor-

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

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

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

lected Gov. Pete Wilson (R)
lected Gov. Zell Miller (D)
lected Gov. Terry Branstad (R)
lected Gov. Roy Romer (D)
lected Gov. Lawton Chiles (D)
lected Gov. Phil Ball (R)
lected Gov. Jim Edgar (R)
lected Gov. Benjamin Nelson (D)
lected Gov. Bob Miller (D)
lected Gov. George Voinovich (R)
lected Gov. Arne Carlson (R)

legislative control game Women, minorities propelled Democrats in key races

ate legislatures

11 state legislatures on Election Day they control as well as the House of government. Key gains in North Carolina, Washington look over chambers in Michigan where one party controls both houses

graphic makeup of their states. That power can be used by the dominant political party to draw lines that help their candidates win election to Congress and the legislature.

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

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

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

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

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

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

Republicans say state elec-

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

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

The most significant state legislative results came in these states:

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

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

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

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

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

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

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

Democrats in key races

By Jessica Lee and Maria Puente
USA TODAY

USA IVS

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

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

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

Center, women "gave much stronger support to Democrats than men gave to Republicans."

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

Also in California, Democratic Sen. Barbara Boxer beat challenger Mait Fong by 10 points. The exit polls showed she got only 47% of the white vote but 88% of the black vote and 74% of the Hispanic vote.

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

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

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

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

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

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

Overall, women turned out at about the same rate as men. But according to the nonpartisan Pew Research

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

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

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

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

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

¹From legislature. ²Does not reflect final results.

USA TODAY

draw congressional and legislative district lines after the 2000 Census.

Governors and legislatures redraw those maps every 10 years to reflect the demo-



CENTER ON BUDGET AND POLICY PRIORITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Presumptive eligibility**

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

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

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

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

The President's FY99 proposal would have improved the BBA provision and broadened state flexibility by expanding the list of agencies and organizations that could presumptively enroll eligible children at state option. The most significant change would be to allow schools to become presumptive eligibility enrollers. The NEA and other school-related associations are eager for enactment and see the presumptive eligibility expansion as an important outreach tool. When combined with the new simplified Medicaid applications that most states are now using to enroll children, the presumptive eligibility option expansions would allow schools, child care resource and referral centers⁵, and other agencies that come into regular contact with low-income uninsured children to combine their outreach strategies with actual enrollment into Medicaid.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



CENTER ON BUDGET AND POLICY PRIORITIES

Memo

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

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

Date: November 13, 1998

Re: Incremental Vouchers for FY 2000

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

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

The Importance of New Housing Vouchers

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

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

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

- *Minnesota Family Investment Project.* A recent evaluation of Minnesota's welfare reform initiative (known as MFIP) by the Manpower Demonstration Research Corporation found that residents of public and subsidized housing benefitted more from that initiative than poor families not residing in such housing. The central features of MFIP were a substantial increase in the amount of earned income disregarded in determining the family's eligibility for, and benefit level under, the State's cash assistance program, combined with a requirement that recipients participate in work activities. The evaluation found that among long-term welfare recipients in urban counties participating in the full MFIP program, employment and earnings increases were greater for families living in public or subsidized housing than for those in private housing. MFIP participants living in public or subsidized housing also outperformed residents of private housing on an absolute basis; average earnings over 18 months among long-term welfare recipients in urban counties who received full MFIP benefits and lived in public or subsidized housing exceeded by more than 40 percent the average earnings of full-MFIP participants not residing in such housing.
- *Tenant-based Section 8 Program in California.* Analyzing data collected in four California counties (Alameda, Los Angeles, San Bernardino, and San Joaquin), researchers from UCLA found that, on average, families receiving both Aid to Families with Dependent Children (AFDC) and Section 8 tenant-based vouchers or certificates worked significantly more hours than AFDC families living in other forms of housing, including unsubsidized housing. The study concluded that the most "plausible explanation [for these results] is that Section 8 housing offers recipients residential choice and mobility that improve opportunities for employment."

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

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

Another important social purpose that can be furthered through housing vouchers is education. Studies show that the children of families that move frequently tend to do less well in school. By enabling poor families to find and keep affordable

housing, vouchers help them to stay in place, improving their children's educational prospects.¹

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

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

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

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

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

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

While the economy has performed well since 1995, there is reason to believe the affordable housing shortage remains acute. In the two decades prior to 1995, the gap between the number of poor renter households and the number of apartments affordable to those households steadily increased. This trend persisted even through times of economic growth. For example, the gap between the number of poor renter households and the number of apartments affordable to those households increased by one million – almost 30 percent – between 1991 and 1995.⁴

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

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

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

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

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

Strategies for Increasing Appropriations for Housing Vouchers

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

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

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

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

Ordinary Vouchers. The last new appropriation of regular vouchers was made in FY 1994. (In FY 1995, the incoming Republican Congress rescinded an appropriation of incremental vouchers.) As ordinary incremental vouchers are distributed largely by formula to a very large number of PHAs, they have the support of the housing

authority trade groups. There also is some sentiment (particularly in the Senate) that if there are to be new vouchers, they should be ordinary vouchers that local PHAs can use for whatever purpose they deem appropriate.

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

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

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

Hybrid Approaches

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

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

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

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

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

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

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

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

Conclusion

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

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

APPENDIX

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

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

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

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ON THE WEB

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Study Offers New Insight On Homeless

By NICHOLE M. CHRISTIAN

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

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

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

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

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

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

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

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

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

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

"This study will inevitably be read by many people as dismissing the importance of social services," said Jim Baumohl, an associate professor of social welfare at Bryn Mawr College in Pennsylvania. "But what it's really saying is that if the goal is still to reduce shelter

utilization, then we ought to consider a strategy of rapid attachment to housing, rather than assuming homeless families can't stay housed."

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

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

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

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

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