CENTER ON BUDGET AND POLICY PRIORITIES

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FOOD STAMP LEGISLATIVE PROPOSALS

Both in his 1992 campaign and in his first State of the Union address on February 17, 1993, President Clinton stated that if a family works full time throughout the year, the family should not have to live in poverty. This goal shaped the Administration's historic EITC expansion enacted in 1993. The EITC expansion was designed so that full-time year-round minimum-wage earnings plus the EITC and food stamps would bring a family of four to the poverty line.

For 1998, the poverty line for a family of four is projected to be $17,100. Combined income from full-time minimum wage work, the EITC, and food stamps also equals $17,100.

This outstanding achievement — bringing these families out of poverty — is secured, however, only if low-income working families do receive food stamp benefits. Indeed, food stamps are nearly as significant to such families as the EITC. In 1998, a family with full-time minimum wage earnings qualifies for $3,756 from the EITC and about $3,600 in food stamps. (See attached chart.)

Unfortunately, participation in food stamps by low-income working families is low and appears to be dropping. Some working poor families are barred from food stamps by archaic assets rules, especially in the vehicle area; for many such families, a modest car needed to commute to work disqualifies them from food stamp benefits. Other working poor families are eligible for food stamps but are not participating in part because of complexities and procedural and other barriers that make it harder for working than non-working families to participate in the food stamp program or that discourage them from participating.

Recent data on food stamp participation illustrate the dimensions of this problem. Between 1995 and 1997, the number of people receiving food stamps in an average month fell a stunning 4.4 million. Only a portion of this decline stems from the impact of the economy and welfare reform in raising earnings so that households are lifted out of the food stamp income range. Between 1995 and 1997, the number of people living in poverty declined 851,000. The decline in food stamp participation — 4.4 million — was five times as great. (See attached chart.)

The same pattern is found when one examines the *percentage* change in the number of poor people and the number receiving food stamps. The number of people living in poverty fell 2.3 percent between 1995 and 1997. The number receiving food stamps plunged 16.6 percent, seven times as much.

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The changes that the welfare law made in food stamp eligibility also played a role here; they removed about 1.25 million people from the food stamp rolls. (These changes principally affected immigrants and adults without children.) But the combined effect of improvements in the economy and restrictions in food stamp eligibility falls well short of explaining the large declines in food stamp participation. Harold Beebout of Mathematica testified at a recent Senate hearing that these factors may explain as little as half of the food stamp participation decline. At the hearing, both Beebout and researchers for Abt Associates testified that food stamp participation rates appear to be falling significantly.

Other data lend weight to this observation. In 1995, there were 72 food stamp participants for every 100 poor people. In 1997, there were 62 participants for every 100 poor people. A similar decline is found when one looks just at children.

These data, as well as anecdotal evidence from states, indicate that many families that would have received cash assistance under the "old regime" but now are off welfare and working for low wages are not receiving food stamps. The lack of food stamp receipt by these families can have several deleterious consequences.

1. As noted earlier, lack of food stamps causes many families earning low wages to be several thousand dollars below the poverty line rather than out of poverty. Moreover, it can cause such families, including the children in them, to fall short of receiving an adequate diet throughout the month.

2. Lack of food stamps also can undermine welfare reform goals. Families that leave welfare for work can, on a monthly basis, be worse off working than on welfare if they do not receive food stamps when they are working. In particular, if they are working part-time (such as 20 hours per week) at a low wage and not receiving food stamps, their monthly disposable income is likely to be lower than when they were on welfare. (The EITC they receive after the year is over still can make them better off by working, but the EITC does not come on a monthly basis, and many families that leave welfare for work appear not to understand they will receive an EITC after the year ends — at least not until they begin receiving the EITC.) This problem is most severe where working families mistakenly think they must go back on welfare to get Medicaid and food stamps.

For these reasons, steps need to be taken to make the food stamp program more accessible to and adequate for low-income working families. These steps fall into two categories — legislative steps and administrative steps. This memo primarily focuses on legislative steps, although it also covers several administrative steps that ought to be taken, some of which would significantly lessen the cost of one of the principal legislative measures we recommended here. We are preparing a second memo on administrative steps that can be taken.

This memo discusses seven recommendations:

1. Raising the limit on the value of vehicles that working poor households may own without being denied food stamps.

2. Restoring food stamps to working poor immigrant parents.

3. Assisting working families that incur substantial out-of-pocket child care costs.

4. Giving states a new food stamp option to align several food stamp income definitions with definitions states are required to use in Medicaid.

5. Giving states another new food stamp option to better enable them to help families making the transition from welfare to work.

6. Providing a modest upward adjustment in the maximum food stamp shelter deduction for families with children, a step that would disproportionately benefit working poor families.

7. Issuing administrative guidance that funds in Individual Development Accounts, including IDAs supported with resources other than TANF funds (such as state or foundation funds) are excluded from food stamp asset determinations.

The principal cost lies in the vehicles and immigrant proposals. The shelter deduction provision suggested here can be designed in a manner to keep its costs small. The other four proposals all should have very small cost; we expect that each of these four proposals should cost less than $50 million over five years and in some cases less than $25 million.

1. Raising the Limit on the Value of Vehicles that Working Poor Households May Own Without Being Denied Food Stamps

The Food Stamp Act of 1977 required states to count the fair market value of a car as a resource to the extent that the value exceeds $4,500. In setting this limit, the House Agriculture Committee report stated that the limit was intended to affect only households with expensive cars, not those with ordinary vehicles needed to commute or look for work.

In the 21 years since the limit was originally set, however, it has been increased only $150 — or about three percent — while the Consumer Price Index for cars has *nearly tripled*. Since the vehicle limit was set at $4,500 in 1977, the CPI-U for used cars has risen 178 percent. For the vehicle limit today to have the same real value that the $4,500 limit had in 1977, it would need to be set at $12,500.

Stated another way, the current limit equals *just 37 percent* of the 1977 limit's real value. As a result, the vehicle limit has a far more restrictive effect on working poor families today than Congress intended when it established the limit. (It may be noted that the Clinton Administration addressed this issue in its first budget, and the 1993 reconciliation law included a Clinton proposal raising and indexing the food stamp vehicle limit. The welfare law, however, repealed this provision of the 1993 reconciliation law before it had taken effect to any significant degree. As explained below, the proposal we recommend here would *not* restore the law as it stood prior to the welfare law but would take a different approach that might accomplish more and should be more politically appealing to governors and Republican Members of Congress.)

THE FOOD STAMP VEHICLE RESOURCE LIMIT HAS LOST VALUE OVER TIME

	CPI-U for Used Cars	Actual Limit	Real Value of 1977 Limit	The Limit's Decline in Real Value since 1977
1977	54.7	$4,500	$4,500	---
1984	112.5	$4,500	$9,255	51.4%
Sept. 1998	151.9	$4,650	$12,496	62.8%

By January 1984, President Reagan's Task Force on Food Assistance, while advancing very conservative proposals in other food stamp areas, warned that the food stamp assets limits had eroded significantly to inflation since 1977 and called for the vehicle limit to be increased immediately from $4,500 to $5,500. The Task Force wrote that many working households that had recently become poor due to unemployment "do not qualify for food stamps because they own too many assets such as autos... . Sometimes these assets are not readily marketable, and if the household has borrowed to purchase them they may actually be a drain on the household's resources... . Therefore, we believe these households should be given greater access to the food stamp system. Raising the limit will help accomplish this."

As the Reagan Task Force explained, the food stamp program bases eligibility determinations on a vehicle's *fair market value*, not on the equity a household has in its vehicle. A vehicle thus can disqualify a household from receiving food stamps even if the household has little equity in it and would receive little money from selling the vehicle.

This restrictive provision apparently has its sharpest effects on working poor families in rural areas. Census data show that poor rural households are somewhat more likely to own cars than poor urban households are, evidently due to the longer distances and lack of public transportation in rural areas. A significant number of rural poor households are now ineligible for food stamps due to the cars they use to commute to work.

In addition, when working households lose their jobs during a recession, the relatively low limit on the value of vehicles they may own can become a barrier preventing them from receiving food stamps. If these unemployed households sell their cars to become eligible for food stamps, they may encounter greater difficulty returning to the workforce when the recovery improves, because lack of a car can make it harder to search for a job or commute to work. Recent research has found that whether a family has a reliable car is an important factor in determining the success of its effort to make the transition from welfare to work (see Appendix A below).

Recognizing these problems, many states have substantially liberalized their policies concerning the vehicles that families may own while qualifying for cash assistance under the TANF block grant. The Urban Institute reports that in recent years, 48 states have liberalized the vehicle limits in their cash assistance programs. These TANF changes affect the food stamp program as well; families getting cash assistance from a TANF-funded program are deemed to meet the food stamp income and asset criteria, so a family whose vehicle otherwise would place the family above the food stamp assets limits qualifies for food assistance as long as the family is participating in the TANF-funded program.

Once such a family ceases to receive benefits under a TANF-funded program, however, the regular food stamp limits apply. As a result, some families that depend on vehicles worth more than the food stamp limit can lose all of their food stamps, as well as cash assistance, when they find employment.

This sudden loss of a large amount of benefits can undercut the rewards of moving from welfare to work. In addition, the current policy means that a family needing temporary assistance during a period of unemployment may be able to obtain food stamps only if it also applies for benefits from a state's TANF-funded program. Yet the family may wish to remain off cash assistance.

As a result, a legislative change is needed here. One possibility would be to follow the approach contained in the provision of the 1993 reconciliation act that the welfare law repealed — to raise the food stamp vehicle limit and index it. This approach, however, is unlikely to succeed on Capitol Hill; Republicans on the House Ag. Committee are likely to be strongly opposed to indexation.

A politically much sounder approach would be to advance a legislative proposal allowing states to conform their food stamp vehicle limit to the vehicle limit used in their TANF or Medicaid program (i.e., the component of Medicaid relating to families with children) so long as that limit is not more restrictive than the vehicle limit provision in the food stamp statute. This would allow — but not require — states that have liberalized the vehicle rules in their TANF programs to apply the same rules in the food stamp program, so that families that work their way off welfare do not suddenly face the loss of their food stamps. Alternatively, states that seek to facilitate joint Medicaid/ food stamp enrollment on the part of working poor families not receiving welfare might conclude the best approach is to align their food stamp vehicle limit to the limit used in their Medicaid program. That, too, would be permitted under this provision. This provision should have strong appeal to states.

This provision entails a not-insignificant cost. (We do not have figures on just what the cost estimate would be.) But it should be noted that there are two steps USDA can — and should — take administratively that would significantly liberalize the food stamp program's treatment of the vehicles that low-income working families possess. If these steps are taken, as they should be in any case, the cost of a legislative proposal in this area will be substantially reduced, although it will still be significant.

One of these two administrative steps actually is mandated by current law. Because of its unfamiliarity with the difference between "assistance" and "benefits" under the TANF part of the welfare law, however, USDA has not implemented it. Thus, some working families that should be eligible for food stamps under current law are being inappropriately treated as though they exceed the food stamp vehicle limit and are considered ineligible. USDA was not aware of this problem until very recently. If USDA issues guidance setting forth the appropriate legal interpretation (regulations are not needed for it to take effect), this would provide immediate relief to some families, as well as to states seeking greater conformity of food stamp and TANF asset exclusions. This guidance should be issued expeditiously. (Appendix B below explains this issue in more detail.)

The other administrative step arises from a provision of the food stamp statute enacted in 1990 that allows USDA to exclude from consideration in food stamp eligibility determinations any "resources that, as a practical matter, the household is unlikely to be able to sell for any significant return because the household's interest is relatively slight." This provision was intended to prevent families from being denied food stamps because of resources that could not be sold for a significant amount of money and hence could not be used to finance the purchase of significant amounts of food. Unfortunately, the Bush Administration prohibited states from applying this exclusion to vehicles, and USDA's regulations reflect that interpretation.

Several law suits challenging this USDA rule were filed by working poor families who owned cars with fair market values that exceeded the food stamp resource limit but who had little or no equity in these cars (because of outstanding loan balances). These families appropriately argued that they would, "as a practical matter, [be] unlikely to be able to sell [the car] for any significant return" since any proceeds would go to paying off the balances on their loans. Although a few courts held USDA's interpretation was contrary to law, the consensus was that whether or not to exclude such vehicles was a choice within USDA's discretion. If USDA were to change its regulations to eliminate the prohibition on applying this rule to vehicles, households that lack any significant equity in the cars they use to commute to work could qualify for food stamps.

Denying food stamps to such households is counterproductive. Compelling them to sell their cars could make it more difficult for them to maintain or search for and accept employment. It also would do little to enable them to purchase food, since these households would receive no significant return from selling their cars.

Since this change would be a liberalization of current regulations, USDA would have to publish a change in its regulations to effectuate it. USDA could do so, however, as an interim final rule, making the change effective at an early date while the Department receives and reviews comments on this change.

The cost of making the legislative change recommended above in the food stamp program's vehicle policy would be affected substantially by whether the Administration's baseline assumes adoption of one or both of the administrative remedies described here. If the cost of the vehicle proposal still remains too high, the cost could be lowered further by limiting the option for states to use their TANF or Medicaid vehicle limit in the food stamp program so that the vehicle limit cannot exceed a level to be set by the Secretary of Agriculture. (One would not write a specific dollar amount into the proposal because such an amount could become a focal point for debate in the Agriculture Committees.)

2. Restore Food Stamps to Immigrant Working Families with Children

Last year, the Administration proposed to restore food stamp eligibility to legal immigrant families with children, the elderly, and the disabled, as well as to certain refugees and asylees. In the agricultural research law, it succeeded in restoring food stamps to most immigrants who are elderly, disabled or children and who entered the country before August 22, 1996. But most immigrant parents remain ineligible. As a result, many immigrant families with children continue to receive much less in food stamps than they need to afford a minimally adequate diet.

Virtually all immigrant families with children contain one or more non-elderly, non-disabled immigrant adults who remain ineligible for food stamps. Indeed, the children in many immigrant households are U.S. citizens; these households were not affected by the agricultural research law. Because only the children are considered in determining the amount of food stamps most immigrant households receive, an immigrant family with children may get only one-third to one-half of the food stamps it needs to allow it to purchase adequate food through the month. The resulting hardship is likely to affect the children as well as their parents.

Last spring, it may have seemed as though the agriculture research law secured all of the food stamp immigrant restorations that are politically achievable. In the aftermath of the November 3 elections, however, it is far from clear this is the case. Newspaper articles and exit polls show Hispanics voting for Democrats by substantial majorities, especially in California. Asian voters favored Democrats as well. Republican concern about their party's poor showing with Hispanic and, to a lesser degree, Asian voters may now make Republicans willing to give more ground to the Administration in this area if the Administration pushes for further immigrant benefit restorations. (Moreover, if the Administration seeks further restorations but Congress refuses to accept them, that may have political repercussions of its own with Hispanic and Asian constituencies.)

There are several approaches the Administration can take in this area. Extending this year's food stamp restoration to cover legal immigrant parents living with children would assure that such children receive adequate nutrition. If this is deemed too costly, the Administration could propose restoring food stamps to *working* immigrant parents.

Another option is one that was seriously discussed during Congressional/OMB negotiations on the food stamp immigrant provisions to be included in the ag. research bill and dropped only because it did not fit in the bill's cost constraints. This option would restore food stamps to legal immigrant household members who entered the U.S. before August 22, 1996 and resided in a household that: 1) contained one or more minor children; and 2) had earnings or employment of at least a specified level. (The specified level could be something like that a household member worked at least 20 hours per week, had weekly earnings at least equal to 20 times the minimum wage, or had earnings sufficient to have earned at least one Social Security quarter of work during the previous year.)

One considerable attraction this option holds is that it does not erode over time in the rapid fashion that the food stamp benefit restorations in the ag. research bill do. The restoration of benefits in the ag. research law for immigrant children erodes particularly rapidly; with each passing year, there will be fewer individuals who resided here on August 22, 1996, and still are children. Under this option, a child born *after* August 22, 1996, would make eligible for food stamps the legal immigrant members of a low-income working household who themselves entered the country before August 22, 1996. As a result, this provision would continue to qualify legal immigrants for food stamps for years after the children's restoration in the ag. research bill ceases to have much effect.

Another advantage all of these options have is that they help families consisting of legal immigrant parents and *citizen* children. The Urban Institute reports that 75 percent of the children in immigrant families are U.S. citizens. In a recent presentation, Urban Institute researchers commented that benefit restorations targeted only on legal immigrant children provide only limited help for this reason and that children can be helped more by targeting benefit restorations on their parents.

3. Assisting Low-income Working Families that Incur Significant Out-of-pocket Child Care Costs

Among the largest expenses families can face when they leave welfare for work are child care costs. States do not always provide child care subsidies to families that leave welfare for work. When states do provide such assistance, the subsidies may not cover the full cost of child care.

Moreover, states may cover the child care costs of families that have recently left welfare for work but not cover the child care expenses of many other working poor families. In short, some low-income working families still incur substantial out-of-pocket child care costs.

The food stamp program recognizes this reality to some extent. It allows a household to deduct unreimbursed dependent care costs related to work (or job skills training) from income when the household's food stamp eligibility and benefit level are determined. Under current law, however, this deduction is capped at $200 per month for a child under age two and $175 for an older child. These limits were set in 1988 for the AFDC program and subsequently applied to the food stamp program as well. These limits have not been adjusted for inflation since 1998, and in some areas, appropriate child care now can cost more than these amounts.

The Administration has several options for addressing this problem:

- The simplest would be to provide a one-time adjustment for inflation from 1988 to 1999 so the ceilings on the food stamp dependent care deduction are returned to the 1988 levels in real dollars. This would bring the ceiling on the food stamp dependent care deduction to approximately $325 per month for children under age two and $285 per month for older children.[1] (Alternatively, the Administration could propose a smaller adjustment to cover inflation in child care costs just between 1993 and 1999 (or 2000). It was in 1993 that the food stamp program conformed its dependent care deduction to the dependent care disregard limits written into AFDC in 1988. This approach would raise the ceiling on the food stamp child care deduction to $250 for children under two and $220 for older children. The difference in cost between an adjustment to cover inflation since 1988 and an adjustment covering inflation since 1993 is so small, however, that one probably ought to use 1988 as the base.

- The Administration also could take a different approach and propose giving states the flexibility to set the ceiling on the food stamp dependent care the deduction at any level up to the market rate the state has identified under their programs funded through its Child Care and Development Block Grant. To protect against the possibility of gaming, USDA would need to be given authority to disallow patently unreasonable ceilings.

- Finally, the Administration could convert this deduction to a flat, standardized amount. Any household with unsubsidized child care costs above a specified modest level would receive a deduction from its income of a fixed amount, without regard to the specific amount of its child care costs. Once a state verified that a household had unsubsidized child care costs, it would deduct a set amount (*e.g.*, the current $200 for small children and $175 for older ones). This approach would be less well-targeted than raising the ceiling on the deduction and continuing to limit the deduction to the actual costs a family incurs. On the other hand, states would probably prefer the flat deduction approach since it is simpler and would likely reduce error rates, although by only a small amount. A flat deduction also would likely benefit families that use informal child care

[1] Since the beginning of 1991, when the Bureau of Labor Statistics began reporting a separate CPI-U for child care and nursery school, this index has risen 43 percent. Between 1988 and the end of 1990, the general CPI-U rose 10.5 percent. Compounding these two measures and projecting to the end of 1999, the result is an increase of about 62 percent in the cost of child care. Since child care costs have been rising much faster than general inflation, this calculation probably understates the increase in child care costs since 1988 (as a result of the lack of CPI data on child care costs for years before 1991).

arrangements and find it difficult to document all of their expenses to the food stamp office.

Whichever approach the Administration selects is likely to be very inexpensive, since relatively few households claim the food stamp dependent care deduction. In 1996, only 3.5 percent of food stamp households received any dependent care deduction, and of those, only 14.1 percent (or only about one-half of one percent of all food stamp households) received the maximum deduction. CBO scored the provision of the 1993 budget legislation that raised the ceiling to the current levels (from a uniform cap of $160 per child per month) at less than $5 million per year.

4. Giving States the Option to Align Food Stamp Income Definitions with Definitions in Medicaid

A provision of the 1996 welfare law requires states to maintain Medicaid eligibility criteria for families with children that are no more restrictive than the eligibility criteria used in the state's AFDC program as of July 1996. This provision essentially requires states to exclude from the definition of income used in Medicaid those items that were excluded under the state's AFDC program as of July 1996.

A few small and fairly obscure items that were excluded from states' AFDC definitions of income in 1996 are included as income under the Food Stamp Act. These discrepancies affect only very small numbers of households. But they prevent states from aligning their definitions of income for food stamps and Medicaid as part of an effort to streamline the provision of assistance to low-income working families not receiving cash aid.

Moreover, since many states use the same definition of income for TANF and Medicaid, these differences also hinder coordination between TANF and food stamp policy. Requiring eligibility workers and computer systems to keep track of two different gross income levels for the same individuals can be burdensome and potentially error-prone for states.

This problem could be remedied at very minor cost by giving states the option to exclude from food stamp income calculations any items that federal law *requires* them to exclude for Medicaid.[2] This would allow states to conform food stamp and Medicaid definitions and increase program coordination. Indeed, if states could align food stamp

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[2] Although the Food Stamp Act excludes from income a few items that certain states may have counted in their former AFDC programs, this does not pose an obstacle to achieving conformity among the programs, because the Medicaid statute allows states to use less restrictive income definitions than those the state applied in its old AFDC program. A state could elect to extend to Medicaid the few income exclusions in the food stamp program that are not already in the state's Medicaid program.

and Medicaid income definitions, some might choose also to apply the same income definitions to other programs that serve low-income working families, such as child care and LIHEAP.

This option should be quite inexpensive since the main types of income it would affect are relatively unusual — certain federal educational assistance not provided under the Higher Education Act and small state "complementary assistance" programs.[3] The main point would not be to raise benefits, but to allow states to develop an integrated system for providing post-welfare assistance to low-income working families with children that includes both food stamps and Medicaid.

5. Assisting Families Making the Transition from Welfare to Work

Some states offer one-time payments to families that are leaving TANF cash assistance for work. For example, Arkansas gives families a payment equal to twice the monthly cash assistance grant to help such families meet the costs of the transition to work, such as paying for transportation, work clothes, etc. Food stamp rules, however, serve as a disincentive to states considering such a "welfare-to-work" payment, because these payments count as income for the purposes of calculating the household's food stamp benefit.

As a result, when a state gives a one-time check of $100 to a family leaving welfare for work, the state essentially increases the family's income by $67, because the family's food stamps go down about $1 for every $3 dollars that its income rises. This proposal would exclude one-time payments made from TANF-funded programs to help families leaving the TANF cash assistance program for work to make the transition to employment.

USDA already allows states not to count in food stamp income calculations what are known as TANF "diversion payments" — payments provided to induce families not to apply for cash assistance. USDA allows states to exclude these payments under a provision of the Food Stamp Act that excludes "nonrecurring lump-sum payments" from being counted as income. These payments do count as resources. The proposal

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[3] This option would only allow states to conform their food stamp policy to the income exclusions states had in their AFDC-based Medicaid program in July 1996; it would not allow states to extend to food stamps any further income exclusions that a state may subsequently have adopted under the authority the welfare law granted states to liberalize Medicaid rules. This limitation should not seriously interfere with states' ability to adopt a single set of income definitions since most states that have used the new statutory authority to liberalize Medicaid income eligibility rules have done so by creating flat disregards — for example, disregarding an amount of earnings up to the poverty line — rather than by changing the definition of what income can be counted in the first place.

here is to allow states to extend the same treatment to one-time payments that states give families leaving welfare for work.

This option could be proposed as a legislative change. But it would not have to be. USDA could exclude these "welfare-to-work" payments administratively by interpreting the Food Stamp Act's "lump sum" exclusion as applying to these payments as well. To date, USDA has been reluctant to do so because of concerns about the precedent of excluding through administrative action unencumbered payments that families can use to meet basic living expenses. If these policy concerns were resolved, instituting a new interpretation would require only that USDA amend policy guidance that it issued this summer on excluding "diversion payments"; formal regulations should not be necessary.

This proposal should have very little cost because few states make these payments. Even if this policy change induced some additional states to make the payments, these states likely would do so with TANF funds otherwise going unspent. As a result, food stamp costs would not rise in these states above the cost levels that would prevail in the absence of this policy change.

6. Help Families that Experience High Housing Costs

A major inequity in the current low-income assistance system is that a fraction (about 30 percent) of poor households receive housing assistance, while the rest do not. Those that receive such assistance generally spend about 30 percent of income on rent and utilities and have more money left for food than do those households that do not receive housing subsidies (or otherwise have low-cost housing) and that must pay 60 percent or 70 percent of income for housing. The food stamp shelter deduction is the most significant part of the low-income assistance system in lessening this inequity. It targets food stamp benefits to families that need them most because they do not receive housing aid and must bear housing costs that consume the majority of their income.

In determining how many food stamps a family can receive, its housing costs are taken into account. Specifically, a household is allowed a deduction from income for the amount by which its housing costs exceed *half* of its income. This is done to ensure that families with few resources left after paying their rent and heating bills can secure enough to eat. There is a ceiling on the amount of this deduction. No household except those with an elderly or disabled member can get a deduction exceeding the ceiling. This cap on the shelter deduction hits hardest at very poor families with children who do not get any HUD housing assistance. (It has no effect on elderly and disabled.)

The 1993 reconciliation law contained a Clinton Administration proposal to eliminate the cap on the food stamp shelter deduction. The removal of the cap would be phased in slowly and not take full effect until 1997. The 1995 Senate welfare bill, although it contained deep food stamp cuts, preserved this important provision. The final welfare law, however, followed a House proposal and maintained a cap on the shelter deduction which, after two modest interim increases, is to be frozen permanently at $300 beginning October 1, 2000.

Over the long run, this provision is more restrictive that the law as it stood before the 1993 Clinton provision was enacted because prior law adjusted the shelter cap annually to reflect increases in rent and utility costs. This provision of the welfare law was one of the principal provisions the President singled out for criticism when he announced he would sign the law. The President's budget for the following year proposed removing the cap on the shelter deduction, but this proposal was not successful.

A shelter deduction at the $300 cap is likely to be sufficient for most households receiving cash assistance: after other allowable deductions, most such households will not need a larger shelter deduction (and few may be able to afford to spend enough on housing to justify a larger deduction). A major impact of the $300 cap is on working poor families. Working poor families are much less likely than those on cash assistance to be receiving HUD housing subsidies and hence are more likely to face high housing costs. Also, while households with children constitute 62 percent of all food stamp households, they make up 90 percent of the households who would be helped by raising the shelter cap and hurt by its retention at its current level. Although these working families may have somewhat higher average gross incomes than cash assistance recipients, they may have insufficient money available to purchase food because much of their income is tied up meeting high housing costs. In 1996, almost one-third of working poor food stamp households that claimed the shelter deduction were at that year's shelter deduction cap. An increase in the cap on the food stamp shelter deduction would help working poor people avoid having to choose between paying their housing and utility bills on the one hand and buying food for their families on the other. Members of Congress have characterized liberalizations of the food stamp shelter deduction as saving families from having to choose between heating and eating.

Completely removing the cap would be very expensive and also unacceptable to House Republicans. House Republicans also are sufficiently opposed to automatic adjustments for inflation that they probably would flatly reject a proposal to index the $300 cap. What makes most sense to propose a modest one-time increase. For example, the Administration could propose to add another increment to the food stamp shelter deduction cap so it rises to $325 on July 1, 2001, or October 1, 2001. If more funds are available, the increase to $300 scheduled for October 1, 2000, could be accelerated to occur in January 2000 (before the cold winter months with their higher heating bills), with a further increment to $325 made in July 2001. (It is preferable for increases to be proposed to occur in July rather than October so they occur before the appropriators could eliminate them and use the savings to offset added spending in other programs under the jurisdiction of the agriculture appropriations subcommittee.)

7. Individual Development Accounts and Food Stamp Asset Limits

The 1996 welfare law authorized states to use TANF block grant funds to create individual development accounts (IDAs) for low-income families. Families are only permitted to make withdrawals from their IDAs for specified purposes, such as purchasing a new home or educational expenses.

The 1996 welfare law prohibits any means-tested program from counting TANF IDAs in income or resource calculations. This appears to be true even if TANF funds are not actually contributed to the accounts: even if TANF funds are used only for the expenses of administering the IDA (*i.e.*, even if the family receives no "assistance" from a TANF-funded program), the TANF statute appears to prohibit any other means-tested program from considering the IDA available to the household.

Some states and foundations, however, may wish to establish IDAs for families independent of their TANF-funded programs. A question arises how the food stamp program would treat such IDAs. Food stamp rules exclude resources "having a cash value which is not accessible to the household, such as but not limited to, irrevocable trust funds ... ." Where a household cannot obtain access to funds held in an IDA to purchase food or meet other ordinary living expenses, this provision would appear to apply. In addition, the Food Stamp Act excludes from income calculations "any gain or benefit which is not in the form of money payable directly to a household... ." Here again, if the household is prohibited from withdrawing interest earned on an IDA except for extraordinary expenses such as home purchases or educational expenses, that interest can reasonably be considered unavailable to the household and excluded from food stamp income calculations.

USDA therefore could issue guidance making clear that non-TANF IDAs, as well as IDAs that receive only TANF administrative funds, do not affect households' eligibility for food stamps. Because appropriate statutory and regulatory provisions already exist, no new regulations would be required.

Appendix A

New Research Underscores the Importance of Car Ownership to Efforts by Low-Income Mothers to Go to Work

A memorandum recently prepared by noted welfare researcher Kathryn Edin of the University of Pennsylvania for a December 1998 conference on assets and low-income families underscores the need for means-tested programs to have asset rules that allow low-income working parents to have reliable cars. In her memo, "The Role of Assets in the Transition from Welfare to Work," which is based on repeated intensive interviews with 379 low-income single mothers and 90 low-income non-custodial fathers, she writes:

> The end result of these asset-specific welfare rules [the asset rules in place prior to enactment of the welfare law] is that those mothers who end up on welfare tended to be those who had either exhausted their store of assets or never has any substantial assets in the first place. Because the welfare population overall was unusually asset poor, this meant that mothers were poorly situated to move from welfare to work; they couldn't withstand income shocks inherent in the low-wage labor market. This is perhaps part of the reason why, during the 1980's, two thirds of welfare-to-work exits failed (mothers returned to the rolls for a subsequent spell). While off the rolls and on the job, these mothers' income showed frequent fluctuation. One educated guess why some sustained the transition to work while others did not is that assets were unequally distributed among mothers, and those who had them were better able to withstand income fluctuations than those who did not.
>
> On a purely practical level, cars valued under $1,500 [the old AFDC limit was a $1,500 limit on the equity value of a vehicle] tended to be unreliable, got poor gas mileage, and required frequent repair, making the transition from welfare to a job difficult even for those with cars.... .
>
> A mother's own assets are crucial to her ability to move from welfare to work; some save time, some save money, some can be a source of income generation (a car, a sewing machine, a washer and dryer, catering equipment, and so on). A car saves time and the time bind is severe for many single mothers. For those mothers who do not have a car, commuting times generally range between one and two hours a day. Trips to the grocery store, the food bank, and/or the welfare office may also involve time-consuming commutes. This means that a mother who works an eight-hour day will generally spend between ten and twelve hours away from home. Other income generating strategies take up substantial time as well. Our rough estimates are that mothers often spend between 60 and 70 hours per week working, getting to and from work, and doing the other things they need to do to survive economically. A car can cut commuting time substantially, making the balancing act between work and parenting substantially less precarious.

A growing number of states have modified their TANF rules related to cars in recognition of the reality about which Edin writes. The Urban Institute reports that 48 states have raised vehicle limits in their cash assistance programs in recent years. Food stamp vehicle rules, however, are undermining these enlightened state actions.

Appendix B

The TANF Provisions of the Welfare Law and USDA's Food Stamp Vehicle Rules

Under the welfare law, a family receiving "benefits" under a TANF funded program is eligible for food stamps without separately meeting food stamp income and asset rules. Thus, so long as a family is receiving "benefits" under a TANF-funded program, the food stamp vehicle limit does not apply.

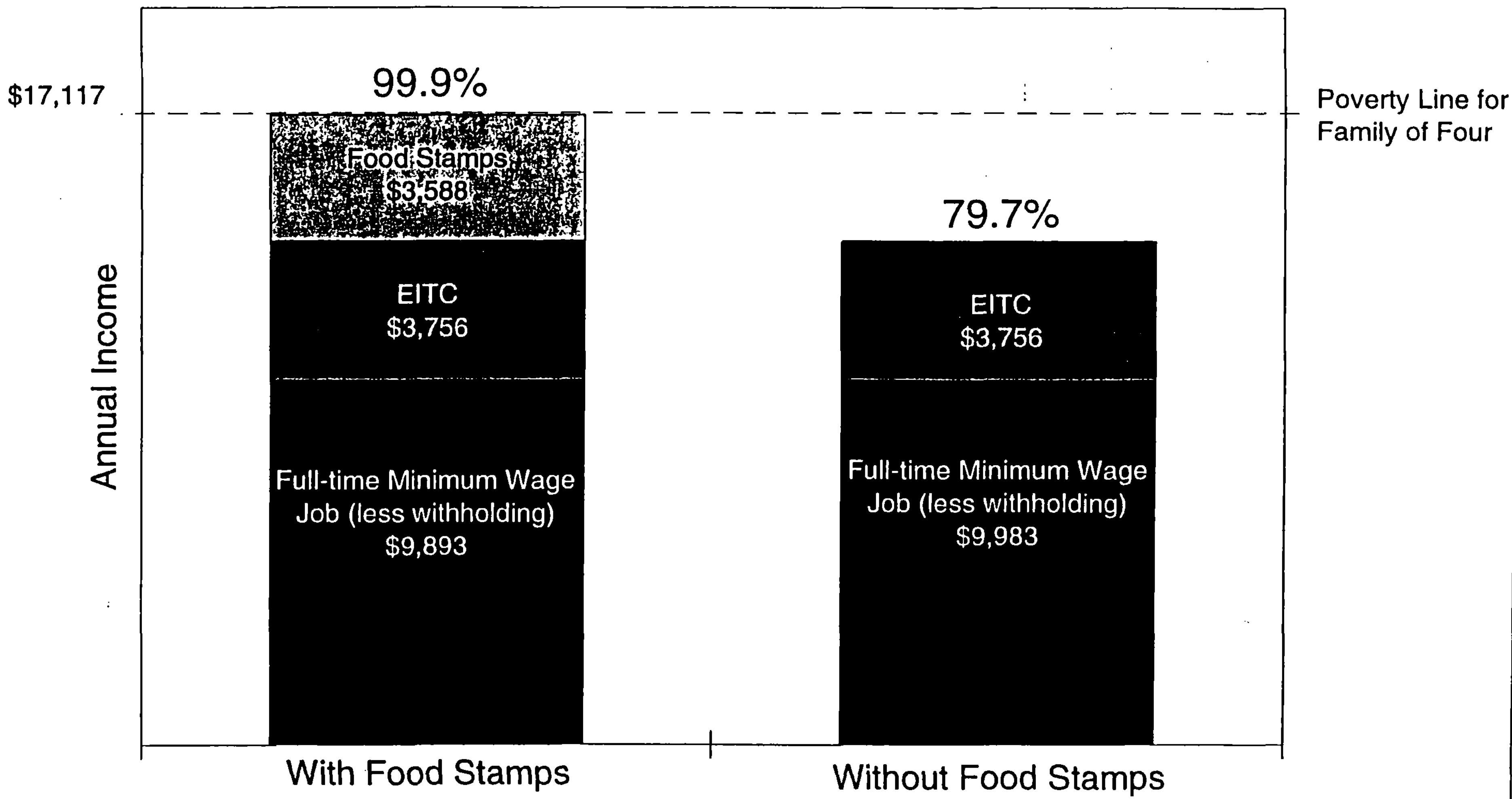
Some provisions of the welfare law that conform or relate various parts of the food stamp program to TANF refer to families receiving "assistance" under TANF-funded programs. Other provisions refer to families receiving "benefits" from such programs. There is a significant difference, as not all benefits provided under a TANF-funded program meet the welfare law's definition of "assistance" provided under a TANF-funded program.

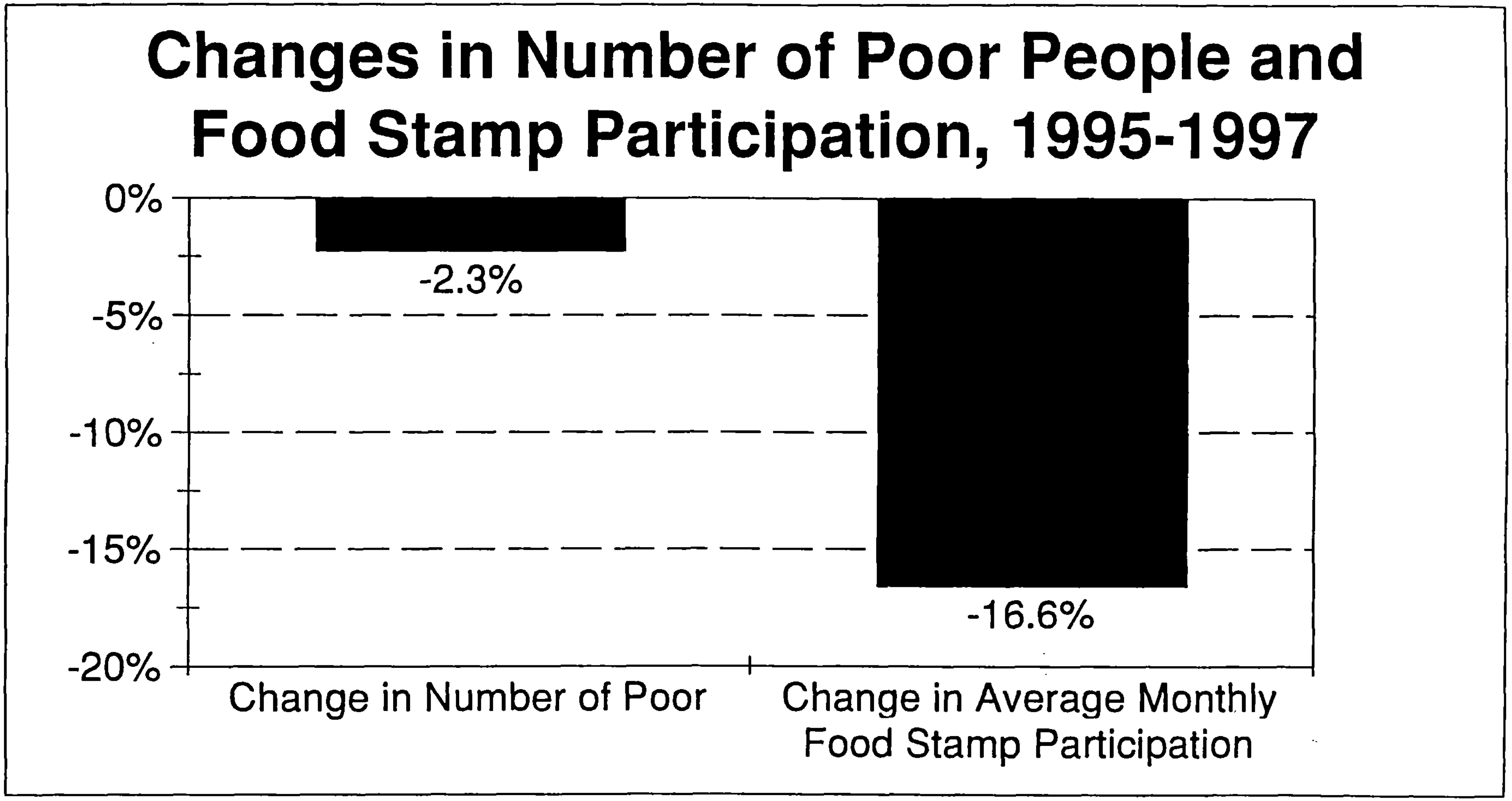
Understandably, USDA has not focused on the distinction between TANF "assistance" and TANF "benefits" and USDA's national office has not issued an interpretation of the requirement that a family receiving "benefits" under a TANF-funded program need not separately meet the food stamp asset rules. At least two USDA regional offices, however, have told states they these rules apply only to families receiving cash welfare payments. (Arkansas, for example, was told it could not continue to apply its TANF vehicle policies to provide food stamps to families that have left cash assistance for work but are continuing to receive post-employment supportive services from the state's TANF-funded program.) In effect, these regional offices are incorrectly telling states that families must be receiving "assistance" from a TANF-funded program, even though this part of the statute applies more broadly to families receiving "benefits" from such programs, rather than just to families receiving assistance. The extension of this protection to any family receiving "benefits" under a TANF-funded program appears deliberate on Congress' part since, as noted above, in some other parts of the Food Stamp Act, Congress chose to relate a food stamp provision only to families receiving "assistance" under a TANF-funded program.

By issuing a Q&A or policy memo that reverses these regional offices' *ad hoc* interpretations, USDA would be correctly applying the law, as well as giving states the option to continue to exclude vehicles that working families need to commute to work by giving such families supportive services after the families leave cash assistance. Furthermore, since many states have transferred TANF money to programs supported by the Child Care and Development Block Grant (CCDBG), these child care programs as well can be considered programs that receive TANF funds. These states consequently could also apply their TANF vehicle policies to determine food stamp eligibility for working families receiving CCDBG child care subsidies. Although some states would not choose to take advantage of this option, others would be able through this mechanism to protect a substantial proportion of the working poor families that do not receive cash assistance but rely upon a car that exceeds the food stamp limits to commute to work. This policy change also would give states an additional incentive to spend their TANF surpluses providing supportive services to families that have left welfare for work.

USDA would not be required to issue regulations to implement this change. Moreover, since this policy is required by law, its cost was covered in CBO's 1996 assumptions that interactions with the new TANF block grant would increase food stamp costs. Whether or not the Administration wishes to go further with liberalizing food stamp vehicle policy, this guidance should be issued without delay.

Helping Working Families Reach the Poverty Line, 1998





Changes in Number of Poor People and
Food Stamp Participation, 1995-1997
0%
-5%
-10%
-15%
-20%
-2.3%
-16.6%
Change in Number of Poor
Change in Average Monthly
Food Stamp Participation

November 20, 1998

DENYING POOR FAMILIES THE RIGHT TO APPLY FOR MEDICAID AND FOOD STAMPS IN NEW YORK CITY

For more than two decades, one of the most basic principles of federal Medicaid and food stamp law has been that all persons have the right to apply for benefits without delay. Through Republican and Democratic administrations, and through numerous rounds of legislation liberalizing or narrowing these programs' eligibility rules, this principle has remained inviolate. When the Reagan Administration learned that a few local offices in one state were limiting households' right to apply for food stamps, it took prompt and firm action to compel the state to bring those offices' practices into compliance with federal law.

Nonetheless, New York City has established a policy of deliberately delaying low-income families' opportunity to apply for Medicaid and food stamps. City officials have been quoted in news accounts saying that families are made to return, in some cases more than once, before they may receive an application form. The City argues that it has made applying for Medicaid and food stamps more difficult to encourage families to become self-sufficient. This practice, however, is both counterproductive and unlawful. Even if families denied the right to apply for Medicaid and food stamps find entry-level jobs, few will receive health insurance for their family and many will remain poor enough that they need food stamps to help feed their families. Food stamp rules allow extensive work requirements to be imposed on applicants and recipients, but they do not permit states or cities to deny households the right even to apply or to delay the point at which they may apply.

So far, New York has instituted these new practices in nine offices throughout the City. Another nine are slated to be converted to these policies by the end of the year, with the remainder changing over by the end of March. Both the Health Care Financing Administration (HCFA), the component of HHS that oversees the Medicaid program, and USDA's Food and Nutrition Service (FNS), which administers the Food Stamp Program, are investigated these practices, the details of which the City has readily admitted in media articles. To date, however, neither federal agency has taken any formal enforcement action.

Food Stamp Law. The 1996 welfare law restricted food stamp eligibility for certain individuals (mainly legal immigrants and unemployed persons without children), but a broad bipartisan consensus remained that states may not deny anyone the right to apply for food stamp benefits. Indeed, section 835 of the welfare law reiterated a long-standing food stamp rule by requiring that "a State agency...shall permit an applicant household to apply to participate in the program *on the same day* the household first contacts a food stamp office in person during office hours" (emphasis added). City

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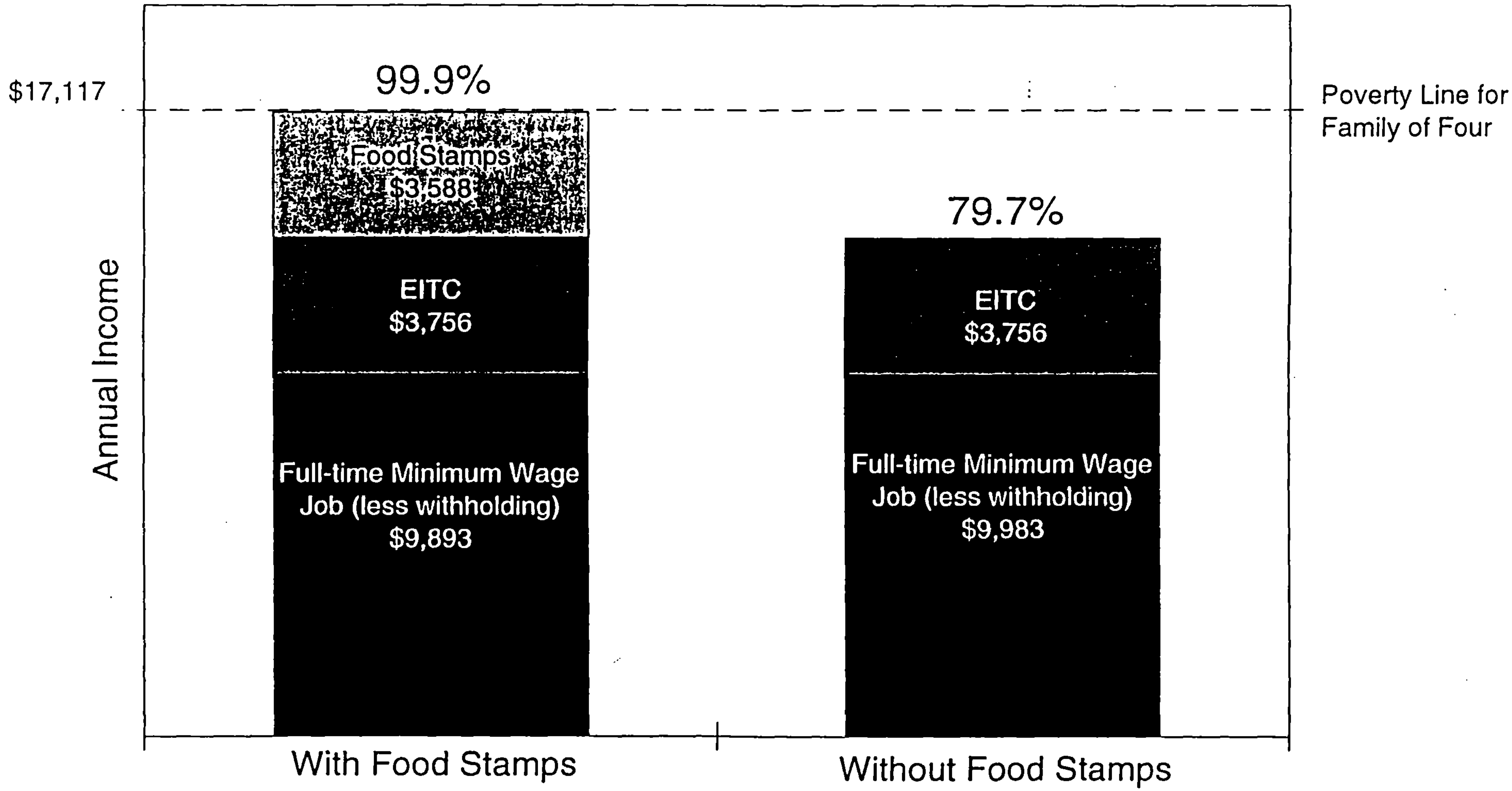
officials have been quoted as saying that they expect that when FNS issues regulations to implement the 1996 welfare law, New York will be permitted to pursue its policy of refusing to accept applications at the initial visit. That is flatly incorrect. Since the 1996 law itself contains the explicit requirement that households be allowed to apply on the first day they contact the office, no regulations can override the statutory requirement.

Part of the reason for requiring food stamp offices to accept immediate applications is that section 838 of the 1996 welfare law requires that food stamps be provided within seven days of applying to households in particularly severe need — for example, a household with less that $150 of gross income for the month and no more that $100 in liquid resources. The City has said it is recording the names and addresses of people who initially try to apply for food stamps. If the household is not allowed to complete an application, however, its need for emergency food stamps cannot be assessed.

It should be noted that the federal government pays the entire cost of food stamp benefits. New York City is achieving no savings for the city or state budgets by denying families the right to apply for food stamps. Indeed, since the City and State each pay a quarter of food stamp administrative costs, they may be increasing their costs by requiring eligibility workers to see families more times than is necessary for an application.

Medicaid Law. Medicaid rules are equally clear. Section 1902(a)(8) of the Medicaid statute requires states to "provide that all individuals wishing to make application for medical assistance under the [Medicaid] plan shall have opportunity to do so." Sections 435.906 and 435.930 of the federal regulations implement this statute by requiring that state and local agencies operating Medicaid "must afford an individual wishing to do so the opportunity to apply for Medicaid *without delay*" and must "furnish Medicaid promptly to recipients *without any delay caused by the agency's administrative procedures*" (emphasis added). The 1996 welfare law did not change any of these requirements.

Helping Working Families Reach the Poverty Line, 1998

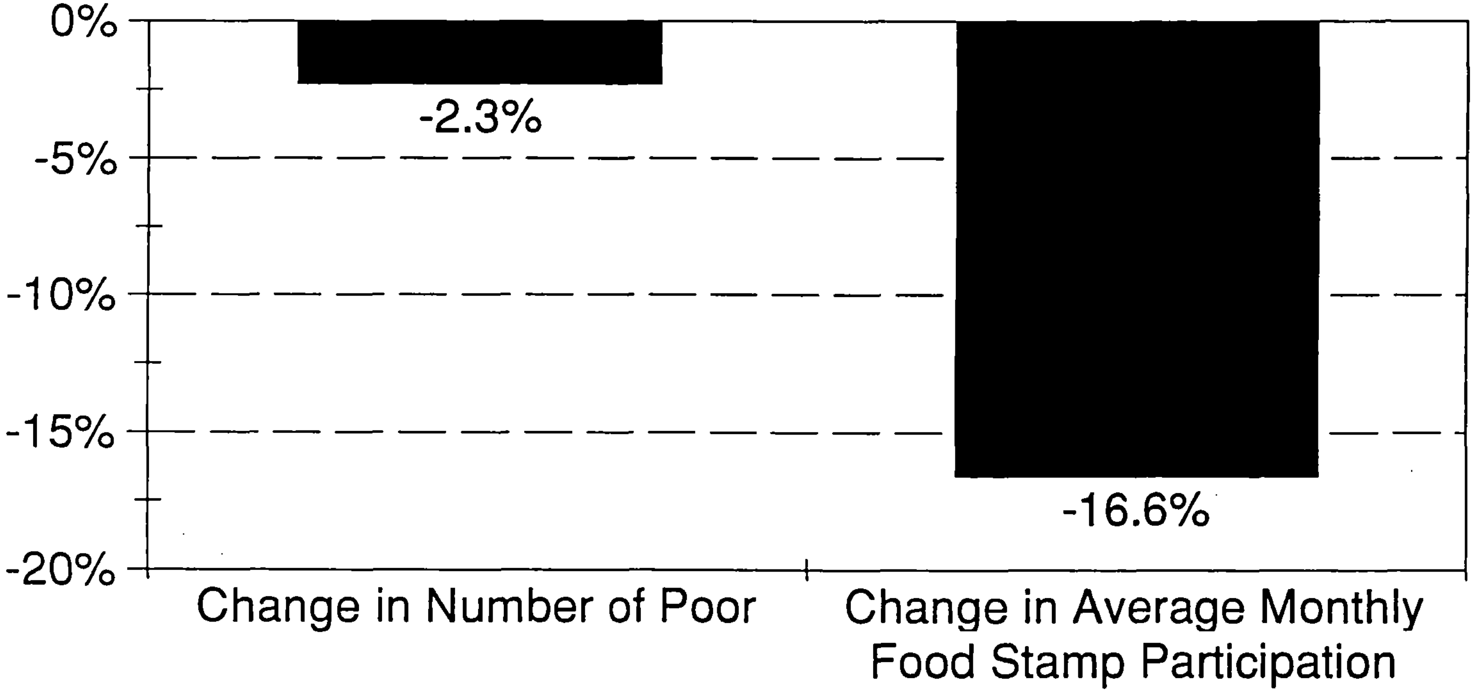


Changes in Food Stamp Participation and Poverty, 1995-1997

	1995	1997	Change 95-97	% Change 95-97
Number of Poor	36,425,000	35,574,000	-851,000	-2.3%
Average Monthly Food Stamp Participation	26,292,904	21,935,748	-4,357,157	-16.6%

Number of Food Stamp Participants for Every 100 Poor People	
1995	72
1997	62

Changes in Number of Poor People and Food Stamp Participation, 1995-1997



August 25, 1998

MEMORANDUM

To: Jennifer Klein, Nicole Rabner

Fr: Debra Waxman

Re: Social Security Reform and Women

As the debate intensifies over Social Security reform, women's groups have increasingly added their voices to the discussion. In articulating their perspective, advocates have consistently pointed to several current inequities between men and women regarding financial security. These differences, which serve as an underpinning to the perspective of many of the women's groups on reform proposals, include: 1)differences in labor force participation and earnings, 2) differences in investment behavior, and 3) differences in longevity. Many advocates worry that these inequities will mean that any across-the-board cuts included in Social Security reform will disproportionately harm women.

As expected, both proponents of privatization plans (e.g. Cato Institute) and skeptics (e.g. Older Women's League) have published reports arguing why their respective positions will do the most to protect American women. The majority of high-profile women's organizations, however, fall into the "cautious and skeptical" category. These advocates are interested in/concerned about several specific provisions in the plans currently under consideration, and regardless of the size and shape of the final plan, these issues will be necessary to resolve. A sample of this list includes provisions to change the computation of benefits, increase the retirement age, shift the allocation of spousal and survivor benefits, calculate individual annuities, and change earnings sharings.

The first section of this memo includes a handful of factoids, gathered from two GAO reports (12/97 and 4/97), the Cato Institute, the Older Women's League and the Institute for Women's Policy Research, on the inequities discussed.

Section two details several specific provisions, which have been included in some of the major reform plans, as they may impact women. The list of plans I referenced includes: the three proposals offered by the Social Security Advisory Council in 1996-- 1)the Maintain Benefits plan (MB), 2) the Individual Accounts plan (IA) and 3)the Personal Security Accounts plan (PSA), 4) the CSIS 21st Century Retirement Plan, and 5)two Senate bills and two House bills. bills. (See attached chart).

SECTION I

Labor Force Participation

- In 1996, labor force participation rate for women age 16 and older was 59 percent compared with 75 percent for men.
- An average woman spends 11.5 years out of the workforce.

Earnings

- Women earn 74 percent of what men earn for the same work.
- Women retiring in the next 20 years will likely have less than 1/3 the income necessary to retire comfortably. Only 25 percent of African American women and 33 percent of Hispanic women have income from savings or assets
- Poverty rates for women age 65 (14.9%) and over are twice as high as for elderly men (7.2%).

Investment Behavior

- A study published by the University of Pennsylvania (and cited in GAO report, 4/97, p.3) analyzed 35 years of participation in Federal Thrift Savings Plans at historical yields and identical contributions and found that the gender difference in investment behavior can lead to men having a pension portfolio that is 16 percent larger than women.

Life Expectancy

- Women live an average of seven years longer than men.

SECTION II

Computation of Benefits

Currently, Social Security benefits are calculated based on earnings averaged over the course of 35 years. Several proposals including: the Maintain Benefits plan, the Individual Accounts plan and the Moynihan/Kerrey plan would increase the length of years used to compute benefits from 35 to 38 years. Rep. Nick Smith's (R-MI) proposal would increase the number of years to 39, and the CSIS plan would increase it to 40 years. This provision is intended to be a cost-savings mechanism. Average earnings tend to increase and then decrease over the course of an individual's career. Lengthening the computation period will likely include more years with decreased earnings, therefore reducing the benefit and saving money.

This is likely to impact women more significantly than men because fewer women have participated in the labor force for as long as men have. In fact, the Social Security Administration forecasts that fewer than 30 percent of the women retiring in 2020 will have 38 years of covered earnings, compared with almost 60 percent of men who will have 38 years of covered earnings. (GAO, 4/10/97). In addition, the median number of years with zero earnings for workers turning 62 in 1993 was four for men and 15 for women (GAO, 12/97)

SSA has calculated that if the number of years used to compute a benefit was raised to 38, this would be a 3.1 percent benefit reduction for men and a 3.9 percent reduction for women. Extended to forty years, the computation formula would likely result in a 5.2 percent reduction in benefits for men and a 6.4 percent reduction for women.

Raising the Retirement Age

Under current law, the age of retirement is gradually increasing from age 65 to age 67. Almost all of the plans reviewed include a provision to accelerate this increase in the retirement age as well as an increase in the early retirement age. Again, this is a cost-savings mechanism that is likely to hurt older men and women who cannot find a job or may be restricted for health reasons. However, the impact may be greater for older women because of the differential in earnings -- men working those extra years are likely to make more than women -- and because women are more often caretakers for children and parents or an older spouse.

Furthermore, advocates worry that if the early retirement age remains at 62, but the normal retirement age is increased, benefits at early retirement may decrease further from the current value of 80 percent of the full benefit available at the normal age. This decrease would result from the additional years the retiree is collecting benefits between early retirement and normal retirement. This would translate into an added hardship for widows whose benefits depend on how early their spouses retired.

Shifts in the Allocation of Survivor and Spousal Benefits

Because women tend to live longer than men on average and more women than men rely on their spouse's income, survivor and spousal benefits are of particular importance to this constituency. Under the Individual Accounts plan, the CSIS plan and Rep. Smith's plan, spousal benefits are lowered from 50 percent to 33 percent of the retired worker's benefit. However, the IA plan would couple this provision with a change in the survivor benefit from 100 percent of the deceased worker's benefit to the higher of either one's own benefit, the spouse's benefit, or 75 percent of the couple's combined benefit. The result may be beneficial for widows with work experience, but the downside would fall on low-earning married, divorced or separated women.

Calculation of Individual Annuities

As the reform discussions center increasingly on privatization and the slightly riskier opportunities of personal retirement accounts, individual annuities have gained more attention as a mechanism to ensure a basic monthly benefit for life. While some proposals will allow retirees to withdraw their savings in lump sum payments (e.g. the Moynihan plan, the Sanford plan, the Smith plan) rather than buy an annuity, this will lead to too much risk for many. However, even if an annuity is an attractive option, it may still disadvantage women compared to men because many insurance companies use gender-specific life tables to calculate the value of the annuity. These tables are adjusted for longevity and therefore, insurance companies offer a smaller monthly benefit for women or charge women more for the same level of benefits given to men. We should note that federal, state and local pension plans use unisex life tables in calculating monthly annuity benefits.

The debate over retirement security has highlighted concerns about the availability of pension plans for women. According to the Older Women's League, only one in five women in this country work for firms with fewer than 100 employees and are covered by a pension plan, and only 13 percent of women 65 or older receive income from a pension. In late June, House and Senate Democrats introduced companion bills, entitled the Retirement Security Act of 1998, intended to, among other things, help small businesses set up pension funds, ensure pension portability and guarantee pension security. Women's groups will most certainly want to focus on these efforts as part of the larger debate.

Personal Investing

Many of the reports on women and Social Security reform, including briefings from the Cato Institute, raise questions about the impact of the gender difference in investment behavior and experience on women, particularly low-income, non-educated women. This concern is of primary importance for any proposal to privatize, especially those plans allowing beneficiaries freedom to choose investments. There has been a nearly unanimous call from this constituency for an education campaign to enable women and low-income individuals to gain the tools and the know-how to reap the higher benefits that are promised under a privatized system.

Changes in Earnings Sharings

Privatization proponents, such as Cato, argue that because women currently tend to have lower retirement benefits resulting from some of the inequities discussed investing in the market rather than in Treasury bonds can provide financial benefits to women. While these advocates acknowledge the concerns about benefit formulation and spousal and survivor benefits, they suggest supporting a privatization plan that includes some add-ons to protect low income, non-working or secondary-earner spouses. One example would be to mandate earnings sharings, in which total contributions by married couples to a personal security account would be split 50-50 between the husband and wife before being deposited into each account.

Section III: A Couple of Final Thoughts

This issue is, needless to say, complicated, and several of the provisions I have highlighted, such as an accelerated increase in the retirement age, are likely to be a part of any final plan. The concern from the advocacy groups seems to focus on the cumulative effects of these changes on women coupled with the possibility that investing in the market may not reap benefits equally for men and for women. Given the current political mood, there is a likelihood that the final plan will include some piece of privatization or opportunity to redirect money from a payroll tax to investment in the market through private accounts. Therefore, specific suggestions that would protect women combined with efforts to privatize, such as using unisex annuity tables, providing general education efforts and financial planning advice, may be a viable solution.

Social Security Reform Proposals Side-By-Side

Proposals	Personal Retirement Accounts	Retirement Age	Computation of Benefits	Survivor/Spousal Benefits	Guaranteed Minimum Benefit
Advisory Council on SS	**3 options**: **(MB)** does not include personal investment accounts, **(IA)** includes defined contribution individual accounts with 1.6% of covered payroll invested, **(PSA)** invest 5% of employee's payroll tax in mandatory accounts for workers under age 55.	Increases from 65 to 67 by 2011. Then slowly rises to age 70 by 2083.	Extends from 35 to 38 years between 1997-99.	The IA plan lowers spousal benefits from 50% to 33% of retired worker's benefit. Survivor benefit changes from 100% of deceased worker's benefit to the higher of one's own benefit, spouse's benefit or 75% of the couple's combined benefit.	The IA plan includes a minimum flat benefit equal to 65% of the current poverty level for an elderly person living alone.
CSIS "21st Century Retirement Plan"	Invests 2% of current payroll tax for all workers under age 55 into Individual Savings Accounts (ISA). Similar to Thrift Savings Plan (TSP)	Increases to age 70 by 2029. Increases early retirement age to 65 by 2017.	Increases from 35 years to 40 years.	Reduces spousal benefits from 50% to 33% between 2000 and 2016.	All SS beneficiaries with 20 years of covered earnings guaranteed a benefit of at least 60% of the poverty level, phasing upwards with each year of covered earnings.
S.1792 Moynihan (D-NY) Kerrey (D-NE)	Invests 2% of payroll taxes in voluntary personal accounts-managed like TSP. **KidSave**: opening $1,000 retirement investment account for every child at birth and adding $500 a year for the first five years.	Increases by two months per year between 2000 and 2017 to age 68. Increases to age 70 between 2018 and 2065.	Increases from 35 to 38 years.		A worker could choose to invest in PSAs or take an increase in take-home pay equal to 1% of wages.
S. XXX Gramm (R-TX) Domenici (R-NM) (expected to be introduced in September)	Invests 3% of payroll taxes into mandatory SS Individual Investment Accounts - voluntary for current workers. Invest in real assets-60% stocks and 40% bonds.				During transition, worker is guaranteed minimum benefit equal to the SS benefits that might have been earned plus 20% of the SI annuity accumulated prior to retirement.
H.R. 2768 Sanford (R-SC)	Invests 8% of payroll taxes into mandatory personal retirement accounts for those entering workforces in 2000 or later. Invest in low to moderate risk index funds.	Increases to age 70 by 2029.			Investment principle up to a minimum wage level annuity would be insured against loss by a fund administered by the SEC or private insurer.
H.R. 3082 Smith (R-MI)	Invest 2.5% rising to 2.8% in voluntary Personal Retirement Savings Accounts (PRSA). Invest similar to IRAs	Increases to age 69 between 2003 and 2015. Increases early retirement age to 65 between 2000 and 2011.	Increases from 35 years to 39 years by 2015	Reduces spousal benefits from 50% to 33%.	Workers investing in PRSAs would still receive SS benefit that would be reduced by the actuarial value of the contributions put into PRSA.

THE WHITE HOUSE

WASHINGTON

August 5, 1998

Dear Barbara:

Thank you for your letter concerning Social Security, and the specific challenges facing women as we strive to reform and strengthen our nation's Social Security system. I agree with you on the importance of this matter, and assure you that my Administration is working to address these issues.

As you know, women represent 60 percent of all Social Security recipients. Because women live longer, on average, than men, this percentage climbs to over 70 percent after the age of 85. In addition, unmarried women -- including widows -- age 65 and over receive just over half of their total income from Social Security. For these reasons, women will be significantly affected by the future of our Social Security system and any changes that are enacted.

My Administration recognizes the importance of these issues and is studying the effects any reforms to the Social Security system will have on women. Vice President Gore, at the July 1 Social Security conference in Rhode Island, noted the special challenges facing women retirees, and voiced the Administration's intent to address these concerns. I have welcomed an open dialogue in my effort to save Social Security first by reserving every penny of any surplus until we achieve comprehensive Social Security reform. I am committed to including the special concerns of women in this dialogue.

Thank you, again, for your letter. I look forward to working with you to ensure a stronger, reformed Social Security system for both women and men in the next century.

Sincerely,

Bill

The Honorable Barbara B. Kennelly
House of Representatives
Washington, D.C. 20515

SOCIAL SECURITY AND WOMEN
August 5, 1998

Social Security Is Particularly Important For Women:

- **Most Social Security Recipients Are Women.** Women represent 60 percent of all aged Social Security recipients. Women are 72 percent of all beneficiaries age 85 and above.

- **Elderly Unmarried Women Get More Than Half Their Income from Social Security.** Unmarried women -- including widows -- age 65 and over get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security.

- **Without Social Security, the Poverty Rate Among Elderly Women Would Be Over 50 Percent.** The poverty rate among elderly women is 13.6 percent. Without Social Security it would be 53.1 percent. (For men the rate is 6.8 percent, without Social Security it would be 40.8 percent).

The Current Social Security System Has a Number of Features That Protect Women:

- **Social Security Provides an Inflation-Protected Benefit That Lasts as Long as You Live.** Because women tend to live longer than men (life expectancy at age 65 is 19.2 years for women and 15.7 years for men), they are in greater danger of outliving their other sources of retirement income, but it is impossible to outlive your Social Security benefit.

- **The Progressive Benefit Formula Provides a Higher Replacement Rate for Workers with Lower Earnings.** Since women tend to have lower earnings than men, they receive benefits that are a higher fraction of their lifetime earnings.

- **Social Security Provides Extra Benefits to Spouses with Low Lifetime Earnings.** Women are more likely than men to take time out of the labor force for child rearing, and on average have lower earnings when they work than men do. This means that the Social Security benefit they are entitled to based on their own earnings history can be small. But Social Security provides a spousal benefit that helps many women, even if they don't ever work at all. A spouse receives the larger of the benefit she is entitled to based on her own earnings, and one-half of the benefit received by her husband.

- **Social Security Provides** Benefits **for Widows.** Social Security pays an aged widow a benefit based on either her earnings or the earnings of her deceased spouse, which ever is higher. And Social Security provides benefits to parents of children under 16 if the other parent is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefit parents.

Social Security Reform Needs to Pay **Serious Attention to the Impact** of Proposed **Reforms on Women:**

- **President Clinton Is Committed To Social Security Reform That Is F** Because Social Security is so important to women, it will be important in judging any Social Security reform proposal to consider how the re affect different types of women.

Response to CATO Study That Women Would Benefit Significantly From Social Security Privatization

INSTITUTE FOR WOMEN'S POLICY RESEARCH
1400 20th Street, NW, Suite 104
Washington, DC 20036

To Jen, cc al—

fax
TRANSMITTAL

To: Melanne Verveer
Fax #: 456-6244

From: **Diana Zuckerman, Ph.D.**
Director of Research and Policy Analysis

Re: Report on Impact of Social Security Reform on Women
Date: 6/19/98
Pages: 5, including this cover sheet.

You may be hearing from Congress about this soon.

Comments:

I wanted to make sure that you and the First Lady are aware of our new report, which is generating quite a lot of interest among Congressional Democrats. Let me know if you'd like a copy. I think you will find it interesting. The bottom line is, since women earn less than men (75% of what men earn for FT work) and since women are more likely to work PT or take time off for childrearing for at least a few years, most privatizing proposals (which change the benefit formula to make benefits more closely tied to earnings, thus reducing the safety net social insurance aspect) will hurt most women, especially women who are widowed, single, or divorced. And, since women are much less likely to have any private pensions, and the pensions they have are much lower than men's, they are much more dependent on Social Security benefits than men are.

Hope all is well!

Diana

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News Release

FOR RELEASE:
Friday, June 12

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POOR ELDERLY WOMEN MOST THREATENED BY PROPOSED SOCIAL SECURITY CHANGES

"Privatizing Social Security may be good for stockbrokers, but it will be devastating for poor elderly widows," according to noted economist Heidi Hartmann.

A new report, ***The Impact of Social Security Reform on Women***, written by Hartmann and her colleagues at the Institute for Women's Policy Research, describes poverty among widows and other elderly women and threats they would face from proposed changes to Social Security. It will be released on June 12.

Women depend more heavily on Social Security than men do, according to the report, which notes that women are poorer than men, live longer than men, and are less likely to have a pension. The report cites five ways that proposals to "reform" or privatize Social Security will hurt poor elderly women, reducing their already meager incomes.

1 First, poor elderly women would be hurt by calculating benefits based on a 38-year average of highest earnings rather than the current 35 years. Two proposals of the Advisory Council on Social Security, the Individual Accounts and the Maintain Benefits proposals, would do this. But 70 percent of all women retiring in the year 2021 will have worked fewer than 38 years, often because they took time out to care for young children. The proposals would lower their benefits because the 38-year average would include up to three additional years at zero or part-time income.

"In 1996, less than half of women in the childbearing years 25-44 worked full-time all year while three quarters of men of the same age group did. Social Security already penalizes women for taking time off to raise their kids, and these new proposals would penalize them even more," according to Hartmann.

In the future, "even though younger women will have more work experience than currently retired women, they will still be much more likely than men to spend time out of the labor force or working part-time," said Lois Shaw, IWPR consulting economist and the report's chief author.

- more -

2

Second, several proposals, including the Individual Accounts and the Personal Security Accounts proposals, would hurt poor elderly women by raising the normal retirement age as well as the early retirement age. Under current law, the normal retirement age will increase from 65 to 67 by 2027, but these proposals would accelerate that increase, and gradually increase the retirement age even further. This would harm all men and women who are unable to work full-time past age 65, but especially women, who are more likely to have to stop working in order to care for an older spouse.

3

A third harmful proposed change would limit cost-of-living benefit increases. A bill recently introduced by Senator Moynihan would limit increases to 1 percentage point less than the Consumer Price Index. The National Commission on Retirement Policy proposes increases half a percent less than the Consumer Price Index. Either of these reductions would have a large cumulative negative effect on those who are already among the worst off—those, disproportionately female, who live to be very old.

4

A fourth proposal harmful to women is to partially privatize benefits, for example, by allowing employees to invest their portion of the payroll tax in stocks or mutual funds. Private investments are risky because the return depends on the market at the ~~time of retirement~~. The risk is greater for women, since they tend to rely heavily on Social Security as their major source of retirement income. In addition, women earn less than men and will have less to invest, and the proposed guaranteed portion of retirement benefits would be substantially lower than they are today.

5

Fifth, several proposals would gradually reduce disability benefits, eventually cutting them by 30 percent. This would increase poverty among disabled retirees, including wives and widows whose husbands became disabled prior to the normal retirement age.

"As proposals are developed and considered, it is essential to maintain the social insurance aspects of the current system so that women are not thrust into poverty as a result of changes in Social Security policies," according to Diana Zuckerman, IWPR's Director of Research and Policy Analysis and a co-author of the report.

The report paints a portrait of poverty among older women, noting that their marital status has enormous impact on whether they are poor or not. Elderly divorced women and widows are significantly likelier to be poor than elderly married women, according to the report. Among Social Security beneficiaries, long-term widows and

- more -

divorcees are three to five times likelier to be living in poverty or just above the poverty line than married women.

IWPR found that women retiring now and in the future are more likely to be divorced and that this larger proportion of divorced and separated women could mean an increased likelihood of poverty among older women in the future, despite their improved life-time earnings.

Current Social Security rules protect recipients in six ways that are especially important for women: first, the benefit formula replaces more low earner than high earner earnings; second, yearly cost-of-living increases especially help long-lived people (who are predominantly women); third, survivor benefits for the lower-earning spouse (almost always the wife); fourth, benefits for divorced spouses if a marriage lasted at least ten years; fifth, benefits for children of disabled or deceased workers; and sixth, benefits before retirement age for nonemployed caretakers of children of deceased or disabled workers.

The report acknowledges that some adjustments may be necessary to close the projected gap between outlays for benefits and revenues from payroll taxes and lists five alternatives that would not harm the poorest elderly: investing a portion of the Social Security Trust Fund in the stock market; requiring state and local government employees to be covered; increasing the payroll tax by a small amount after 2012; making all Social Security benefits (except for already taxed employee contributions) subject to income tax, with proceeds credited to the trust fund; funding part of any Social Security deficit from general tax revenues as many European countries do.

The report is based on interviews conducted as part of the Social Security Administration's New Beneficiary Survey. The results will be reported for the first time at IWPR's fifth women's policy research conference, Women's Progress: Perspectives on the Past, Blueprint for the Future, on June 12.

Copies of the report are available for $10 each from the Institute for Women's Policy Research, 1400 20th St. NW, Suite 104, Washington DC 20036 or by calling 202-785-5100.

The Institute for Women's Policy Research is a nonpartisan, nonprofit scientific research organization.

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NOTE TO REPORTERS AND EDITORS: For a free copy of the report, call Shannon Garrett, 202-785-5100.

Washington Post
Friday, June 19, 1998

JUDY MANN

For Women, Troubling Trends in Social Security

A new report from the Institute for Women's Policy Research warns that proposed reforms in the Social Security system could be devastating for widows and many other elderly women who are more likely to be dependent on Social Security than men.

Women who are currently on Social Security, and who were much less likely to have worked than women in the baby boom generation, are not the only ones threatened, according to "The Impact of Social Security Reform on Women," written by economist Heidi Hartmann and her colleagues. Women of the generation in which working was the norm also are at greater risk of poverty than are men, because their incomes average 75 percent of men's and because many women of childbearing age take time off or work part time. Both factors lower their Social Security benefits.

"Single and divorced and long-term widowed women are the most vulnerable to poverty because of their lesser engagement in paid work over their lifetime," Hartmann says. "Their own pensions are either nonexistent or very small. If they were once married, they are frequently dependent on what their husbands' earnings were, on his pension and Social Security. These pensions are reduced when the husband and chief breadwinner dies. This leaves women who are alone very vulnerable."

The study is based on data from the Social Security Administration's New Beneficiary Survey, which conducted interviews with a sample of men and women who began receiving benefits in the early 1980s. The surviving members of the original sample and surviving spouses were reinterviewed in 1991 to find out how their circumstances had changed. Ten percent of the unmarried women were poor when they were first interviewed shortly after retirement. Nine years later, that percentage had risen to 15. Among the older women who became poor, two-thirds stayed poor. Declining income from assets also contributed to their poverty.

For women with modest retirement income, continuing to work was one of the few ways of avoiding poverty, but for women with health problems, that was not always an option. The study found that the current Social Security system had important protections for women, including yearly cost-of-living increases and a benefit formula that is relatively generous to low-income workers.

It warned that several features of proposed reforms could undermine women by cutting dependent spouse benefits, raising the basis for calculating benefits from 35 years of highest earnings to 38, and raising the age at which a person could begin receiving benefits from the current 65 to much older. Already, the age is being raised from 65 to 67 by 2027, and some proposals would require people to be 70 before they could receive Social Security checks.

The study calculated that 30 percent of women and 60 percent of men retiring in 2021 will have accumulated 38 years of work experience. Women would find their benefits lowered because they would include up to three years of zero or part-time income for the time the women took off to care for young children.

Another proposal that could hurt women in particular is one that would limit cost-of-living benefit increases to 1 percentage point less than the Consumer Price Index, which could have a devastating cumulative effect on women who live to be very old.

Both men and women also may lose years out of the work force when they have to reeducate or retrain themselves, an increasingly common pattern, Hartmann says. "It may be that men and women's lives become more similar, with men taking on more family care, but that both would have to leave the labor force while retraining. With computers and being able to work from home, we might envision a more fluid mesh or screen between work and nonwork, in which men and women would move in and out of work more readily. You'd want to see the private pensions be more portable. Now it still requires five years to vest in a pension. We might want to reduce this, as well as have a Social Security system that doesn't penalize time off from work."

Social Security reform is going in the opposite direction of societal trends, she points out. "As society gets more wealthy, people want more leisure, and they are retiring earlier, not later. . . . Our public policy seems almost punitive: You can't get any benefit until you are 70." A factor that may be driving that is the perception that people are retiring from their main jobs earlier and beginning a second career to supplement their pensions. That kind of work usually pays less, although it provides more freedom.

"The biggest reason women became poor is that they stopped working. To look at it and say we can delay benefits because so many are working, that's the privileged few who are healthy enough. Many policymakers are thinking of themselves," and they do not realize that when women can no longer work and are dependent on meager benefits, they are plunged into poverty. "Policymakers see retired people working now. But there is a big difference between doing it to get extra money and doing it to survive."

Hartmann says she has been surprised by how many articles and reports on Social Security reform fail to mention the great difference in its impact on men and women.

Women are far more dependent on Social Security as a main source of income than men are—which means that attempts to reform Social Security absolutely must be examined through a lens that tells us in detail what the impact would be on women. This is a program designed to provide social insurance against poverty, and that mission must remain firmly in our sights.

Social Security Administration

SSA Publication No. 05-10070
March 1998
(March 1997 edition may be used)

How Your Retirement Benefit Is Figured

As you make plans for your future, one of the questions you'll probably ask is, "How much will I get from Social Security?" There are several ways you can find out. Social Security can give you a free estimate of what your retirement benefit will be. You can obtain the request form by calling Social Security and asking for a form SSA-7004, *Request for Earnings and Benefit Estimate Statement.*

If you have access to the Internet, you can obtain the request form, an estimate or calculate your own retirement benefit using the Internet program, ANYPIA. These services are available at *http://www.ssa.gov*.

Even with an estimate, many people still wonder exactly how their benefit is figured. Social Security benefits are based on earnings averaged over most of a worker's life-time. Your actual earnings are first adjusted or "indexed" to account for changes in average wages since the year the earnings were received. Then we calculate your average monthly indexed earnings during the 35 years in which you earned the most. We apply a formula to these earnings and arrive at your basic benefit, or "primary insurance amount" (PIA). This is the amount you would receive at age 65.

Factors That Can Raise Or Lower Your Retirement Benefit

The monthly benefit you receive from Social Security may not be the basic benefit. Your actual benefit may be higher or lower than that amount if any of the following is true.

You receive benefits before age 65.

You can begin to receive Social Security benefits at age 62, but at a reduced rate. Your benefit is reduced by 5/9 of 1 percent for each month you get benefits before age 65. This amounts to approximately a 20 percent reduction at age 62.

The closer you are to age 65 when benefits start, the smaller the reduction. For example, the reduction is 13 and 1/3 percent at age 63 and 6 and 2/3 percent at age 64.

You receive cost-of-living increases.

You are eligible for cost-of-living benefit increases starting with the year you become 62. This is true even if you don't get benefits until 65 or even 70. Cost-of-living increases are added to your benefit beginning with the year you reach 62 up to the year you start getting benefits.

You delay your retirement past age 65.

A person may continue working past age 65 and not begin to receive Social Security benefits. If you choose to do this, your benefit amount will be increased by a certain percent for every month that you are past age 65 but not receiving benefits. These increases are automatically added to your benefit until you reach age 70.

You are a government worker with a pension.

If you also get or are eligible for a pension from work where you didn't pay Social Security taxes, usually a government job, a different formula is applied to your average monthly earnings. To find out how your benefit is figured, contact Social Security and ask for a copy of *A Pension From Work Not Covered By Social Security* (Publication No. 05-10045).

Any Questions?

You can get recorded information or a benefit estimate request form 24 hours a day, including weekends and holidays, by calling Social Security's toll-free number, **1-800-772-1213**. You can speak to a service representative between the hours of 7 a.m. and 7 p.m. on business days. Whenever you call, have your Social Security number handy.

People who are deaf or hard of hearing may call our toll-free "TTY" number, **1-800-325-0778,** between 7 a.m. and 7 p.m. on business days.

You can also reach us on the Internet. Type http://www.ssa.gov to access Social Security information.

Estimating Your Social Security Retirement Benefit
For Workers Born In 1936

Step 1:	Enter your actual earnings in Column B, but not more than the amount shown in Column A.	$__________
Step 2:	Multiply the amounts in Column B by the "index factors" in Column C, and enter the results in Column D. This gives you your indexed earnings, or the approximate value of your earnings in current dollars.	$__________
Step 3:	Choose from Column D the 35 years with the highest amounts. Add these amounts.	$__________
Step 4:	Divide the result from Step 3 by 420 (the number of months in 35 years). This will give you your average indexed monthly earnings.	$__________
Step 5:	**a.** Multiply the first $477 in Step 4 by 90%.	$__________
	b. Multiply any amount over $477 and less than $2,875 by 32%.	$__________
	c. Multiply any amount over $2,875 by 15%.	$__________
Step 6:	Add a, b, and c from Step 5. Round down to the whole dollar. This is your estimated monthly retirement benefit at age 65.	$__________
Step 7:	Multiply the amount in Step 6 by 80%. This is your estimated monthly retirement benefit at age 62.	$__________

Year	**A. Maximum Earnings**	**B. Actual Earnings**	**C. Index Factor**	**D. Indexed Earnings**
1951	3,600		9.26	
1952	3,600		8.72	
1953	3,600		8.25	
1954	3,600		8.21	
1955	4,200		7.85	
1956	4,200		7.34	
1957	4,200		7.12	
1958	4,200		7.05	
1959	4,800		6.72	
1960	4,800		6.47	
1961	4,800		6.34	
1962	4,800		6.04	
1963	4,800		5.89	
1964	4,800		5.66	
1965	4,800		5.56	
1966	6,600		5.25	
1967	6,600		4.97	
1968	7,800		4.65	
1969	7,800		4.40	

1970	7,800	4.19
1971	7,800	3.99
1972	9,000	3.63
1973	10,800	3.42
1974	13,200	3.23
1975	14,100	3.00
1976	15,300	2.81
1977	16,500	2.65
1978	17,700	2.45
1979	22,900	2.26
1980	25,900	2.07
1981	29,700	1.88
1982	32,400	1.78
1983	35,700	1.70
1984	37,800	1.61
1985	39,600	1.54
1986	42,000	1.50
1987	43,800	1.41
1988	45,000	1.34
1989	48,000	1.29
1990	51,300	1.23
1991	53,400	1.19
1992	55,500	1.13
1993	57,600	1.12
1994	60,600	1.09
1995	61,200	1.05
1996	62,700	1.00
1997	65,400	1.00

Social Security Administration

How You Earn Credits

SSA Publication No. 05-10072
January 1998
ICN 467510

How You Earn Social Security Credits

You earn Social Security credits when you work in a job covered by Social Security.

During your working years, your wages are posted to your Social Security record, and you receive Social Security earnings credits based on those wages. These credits are used later to determine your eligibility for Social Security retirement benefits or for disability or survivors benefits if you should become disabled or die.

In 1998, you receive one Social Security credit for each $700 of earnings, up to the maximum of four credits per year. In future years, the amount of earnings needed for a credit will rise as average earnings levels rise.

The credits you earn will remain on your Social Security record even if you change jobs or have a period of no earnings.

Special Rules For Some Jobs

Special rules for earning Social Security coverage apply to certain types of work. If you have one of the following types of jobs, contact Social Security for information about how you earn credits:

- domestic work;
- farm work; or
- work for a church or church–controlled organization that has been exempted from payment of Social Security taxes.

If you are self--employed, you earn Social Security credits the same way employees do (one credit for each $700 in net earnings, but no more than four credits per year). However, special rules apply if you have net annual earnings of less than $400. For more information, call Social Security to ask for a free copy of the factsheet, *If You're Self--Employed* (Publication No. 05--10022).

If you are in the military, you earn Social Security credits the same way civilian employees do. You also may receive additional earnings credits under certain conditions. For more information, call Social Security to ask for a free copy of the factsheet, *Military Service And Social Security* (Publication No. 05-10017).

Work Not Covered By Social Security

The following workers are not covered by Social Security:

- most federal employees hired before 1984 (but since January 1, 1983, all federal employees have paid the Medicare hospital insurance part of the Social Security tax);
- railroad employees with more than 10 years of service;
- employees of some state and local governments that chose not to participate in Social Security; or
- children under age 21 who work for a parent (except a child age 18 or over who works in the parent's business).

How Many Credits Do You Need?

The number of credits you need to be eligible for Social Security benefits depends on your age and the type of benefit.

Retirement Benefits

Everybody born in 1929 or later needs 40 credits to be eligible for retirement benefits. People born before 1929 need fewer credits.

See the table below.

Year of Birth	Credits Needed
1929 or later	**40**
1928	**39**
1927	**38**
1925	**37**
1926	**36**
1924	**35**

If you work for a nonprofit organization that was mandatorily covered by Social Security starting in 1984, a special provision applies that may allow you to receive retirement benefits with fewer credits. For more information, call Social Security to ask for a free copy of the factsheet, *If You Work For A Nonprofit Organization* (Publication No. 05-10027).

Disability Benefits

The number of credits required for disability benefits depends on your age when you become disabled.

If you become disabled before age 24, you generally need six credits during the three--year period ending when your disability begins.

If you are 24 through 30, you generally need credits for half of the period between age 21 and the time you become disabled.

If you are disabled at age 31 or older, you need the number of credits shown in the following table. Also, you must have earned at least 20 of the credits in the 10 years immediately before you became disabled.

Disabled At Age	**Credits Needed**
31 through 42	20
44	22
46	24
48	26
50	28
52	30
54	32
56	34
58	36
60	38
62 or older	40

Survivors Benefits

The family of a deceased worker may be able to get survivors benefits, even though the deceased worker had fewer credits than are otherwise needed for retirement benefits.

If you were born in **1929 or before,** one credit is needed for each year after 1950, up to the year of death, in order for your family members to collect survivors benefits.

If you were **born in 1930 or later,** one credit is needed for each year after age 21, up to the year of death.

Regardless of when you were born, your dependent children could get survivors benefits if you had six credits in the three years before your death. Their benefits could continue until they reach age 18 (or age 19 if they are attending an elementary or secondary school full time).

Your widow or widower who is caring for your children who are under age 16 or disabled also may be able to get benefits.

Medicare

The Social Security credits you earn also count toward eligibility for Medicare when you reach age 65. You may be eligible for Medicare at an earlier age if you are entitled to disability benefits for 24 months or more. Your dependents or survivors also may be eligible for Medicare at age 65 or if they are disabled.

People who need kidney dialysis or a kidney transplant for permanent kidney failure may be eligible for Medicare at any age.

For more information, call Social Security to ask for a free copy of the booklet, *Medicare* (Publication No. 05--10043).

For More Information

You can get recorded information about Social Security coverage 24 hours a day, including weekends and holidays, by calling Social Security 's toll--free number, **1-800-772-1213**. You can speak to a service representative between the hours of 7 a.m. and 7 p.m. on business days. Our lines are busiest early in the week and early in the month, so, if your business can wait, it's best to call at other times. Whenever you call, have your Social Security number handy.

People who are deaf or hard of hearing may call our toll--free "TTY" number, 1--800--325--0778, between 7 a.m. and 7 p.m. on business days.

You also can reach us on the Internet. Type http://www.ssa.gov to access Social Security information.

The Social Security Administration treats all calls confidentially—whether they're made to our toll–free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That is why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

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Question 3

How Much Is a Social Security Benefit?

Average Monthly Social Security Benefits (January 1997)

Retired Workers	$ 745
Aged Couple, *Both* Beneficiaries	$1,256
Widowed Parent and Two Children	$1,478
Aged Widow(er) Alone	$ 707
Disabled Workers	$ 704
Disabled Worker, Spouse and Children	$1,169

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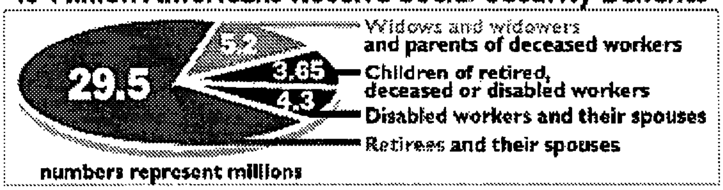
Question 2

Who Receives Benefits From Social Security?

Each month, over 43 million Americans receive Social Security benefits -- having earned them either directly (because of contributions made during their working lives) or indirectly (because of contributions made by working family members).

43 Million Americans Receive Social Security Benefits



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Question 4

What Will I Get When I Retire?

A Social Security monthly benefit is based on a worker's level of earnings in covered employment over his/her working life. For those born after 1928, 35 years of earnings are used in calculating a retirement benefit.

Family members' benefits also are directly based on the worker's average lifetime earnings. A family benefit cannot be larger than the worker's salary.

The Social Security benefit formula is designed so that if you have average earnings all through your working life and retire at full retirement age, the Social Security benefit you receive in your first year of retirement will be about 43 percent of your earnings in the year just before you retired. The current age for full retirement is 65. This age will be gradually increased to age 67.

Social Security benefits are progressive. If you had minimum-wage earnings all your life, your benefit will be about 59 percent of your earnings before retirement. If you were at the maximum taxable earnings level all your life, the benefit will be about 24 percent of your pre-retirement earnings.

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Question 6

What is the Social Security Earnings Limit?

The earnings limit is the amount an individual can earn from employment before losing any Social Security benefits.

1997 Social Security Earnings Limit

Age	65 to 69	Under 65
Annual	$13,500	$8,640
Monthly	$1,125	$720
Reduction	Benefits are reduced $1 for every $3 of earnings above $13,500.	Benefits are reduced $1 for every $2 of earnings above $8,640.

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Question 11

How Does Social Security's Trust Fund Work and What Is Its Financial Condition?

The 1997 report by the Social Security trustees regarding the financial condition of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds should reassure all Americans that Social Security remains healthy for the foreseeable future. The program's critics seize every opportunity to portray the program in doom-and-gloom terms. Yet, Social Security's actuaries tell us ***the program can pay full benefits in a timely manner until 2029 without a single change in current law***.

Social Security will continue through 2011 to take in more revenue than is needed to pay benefits. Beginning in 2012, incoming revenue combined with interest earnings can finance promised benefits through 2018. In 2019, the principal will have to be tapped. By 2029, the principal will be exhausted, ***but*** incoming revenue would still cover about ***75 percent of current law benefits.***

Here are some key dates to keep in mind:

1997	The Social Security trust fund has over \$500 billion (1/2 trillion) in reserves and growing.
2012	Tax income will not be sufficient, interest income from principal will be needed to help pay benefits.
2019	Tax and interest income not enough to pay benefits, principal will be tapped.

	pay benefits, principal will be tapped.
2029	Principal will be exhausted, but revenues will cover 75% of benefits.

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Question 14

Why Do People Get Social Security Benefits Regardless of Their Income?

Social Security benefits are not welfare. They are an earned right, based on your earnings and time in the work force. Since we all pay into Social Security and pool our risks, we all earn the right to protection regardless of income.

Although workers contribute the same percentage of payroll taxes into the system (up to an annual maximum), lower-income workers receive in return a higher proportion of their contributions in benefits than higher-income workers. Moreover, some beneficiaries with comparatively higher incomes pay taxes on their benefits.

Social Security serves as the base upon which all workers can build their income security. It would hardly be fair to deny benefits to those who contributed to the system over a working life because they are better off.

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Highlights of Social Security Data, June 1998

- Chart--Number of Social Security Beneficiaries, by type of benefit, June 1998
- Highlights of Social Security Data, June 1998 in PDF
- In June 1998, 44,075,900 persons received Social Security benefits, an increase of 282,800 (0.6 percent) since June 1997. Sixty-two percent were retired workers (27,358,200) and 11 percent were nondisabled widows and widowers (4,814,200). As the attached chart indicates, when disabled widows and widowers, widowed mothers and fathers, and parents are included, the total number of widows and widowers was 5,228,000.
- 5,497,100 beneficiaries were receiving payments on the basis of disability--4,596,800 disabled workers, 708,700 disabled adult children, and 191,600 disabled widows and widowers. In addition 199,700 spouses and 1,399,700 minor and student children of disabled workers were receiving benefits.
- Seventy-two percent of the total were aged 65 or older (31,830,200), and another 8.8 percent were age 62-64 (3,860,000). Another 6.7 percent were children under age 18 (2,972,700).
- Benefit payments from Social Security Trust Funds in June were $31.2 billion--$27.2 billion for OASI and $4.0 billion for DI.
- Average monthly benefits for June were $767 for retired workers, $722 for disabled workers, and $735 for nondisabled widows and widowers.
- In June, 299,900 monthly benefits were awarded, including 125,100 to retired workers and 50,500 to disabled workers. Awards from January 1998 to date were 2,017,600--891,000 retired worker, 300,100 disabled worker, and 826,500 to all dependents and survivors.
- Benefit awards during calendar year 1997 totalled 3,866,000--1,718,600 retired worker, 587,400 disabled worker and 1,559,900 for their spouses and children and for survivors.

http://www.aarp.org/focus/ssecure/part_1

AARP Speaks to Congress

February 10, 1998
Washington, DC

Index of Congressional Testimony

- Testimony Summary
- Complete testimony

Also See:

- Social Security focus

Statement of Joe Perkins

Member - AARP Board of Directors

The Goals of Social Security

Before The Special Aging Of The United States Senate

February 10, 1998
Washington, DC

AARP appreciates the opportunity to present its views regarding the goals for our Social Security system. Americans of all ages have a stake in ensuring that this critical family income protection program continues as the stable base on which beneficiaries can build a secure financial future with the addition of individual savings and pensions.

For over 60 years, Social Security has been the base of our nation's family income protection system. The program faces a long-term challenge, but not a crisis. Today, Social Security has a reserve exceeding $600 billion, which is invested in government securities. Since the program will continue taking in more revenue than will be needed to pay benefits and administer the program for many years to come, it will continue to accumulate substantial assets. According to Social Security Administration (SSA) actuaries, the program will have sufficient assets and revenue to continue paying full benefits on time for another 32 years. Although its assets are projected to be depleted in 2029, Social Security's incoming revenue can continue to finance 75 percent of the benefits promised under current law well beyond 2029.

In order to help find a reasonable solution to restore long-term financial stability, the American people and their elected officials should first engage in an inclusive national dialogue about how Social Security operates, its goals, the many options to achieve long-term solvency, and the impact of these options on their families' future. This dialogue can help identify the essential features of a financially-strengthened Social Security program that can continue providing income protection to all beneficiaries, now and in the future.

AARP commends this committee for furthering the dialogue regarding Social Security's future. We hope this hearing underscores the need for a comprehensive discussion that helps lay the foundation for a reasonable solution to Social Security" long-term challenge.

I. Social Security: An Evolving Program

Social Security was conceived during the Great Depression when millions of working Americans faced an uncertain economic future and millions of older Americans faced an impoverished retirement, or no retirement at all. Social Security was designed to protect against "the hazards and vicissitudes" that workers might face if they had sole responsibility for their financial security in retirement. It is a near universal, defined benefit program that serves as the income base, to which workers can add an employer-provided pension, and their personal savings. Social Security was not intended to be the sole retirement income source, yet today, one in four beneficiaries depend on it for at least 90 percent of their income. This reliance, which is projected to continue in the future, reflects weaknesses in our private pension system and the inability of many individuals to accumulate and preserve significant savings while in the paid labor force. It is critical that we address these areas as well.

Since its inception, Social Security has weathered financing problems and adapted benefits to reflect changing economic and demographic conditions. The system will face its most serious demographic test when the 75 million Boomer generation retires. In 2008, the first Boomers will be eligible for Social Security, and the system should be financially prepared. Adjustments ought to be in place to ensure the continued payment of reasonable benefits to succeeding generations. A timely adjustment before the Boomers retire can and should be made. In fact, other institutions, such as the public school system, responded to the impact of this generation. While the schools had to accommodate the Boomers with little advance notice, Social Security has had a considerably longer lead time to prepare for the Boomers' retirement. We should begin considering changes to Social Security now so this nation's most successful and popular federal program can accommodate this generation and those who follow them.

II. Principles That Should Be Maintained

Some of the enduring elements of a Social Security system already have been identified by the Social Security Advisory Council. In 1995, AARP adopted a set of principles that we believe should be reflected in any solvency plan. (They are attached.)

AARP and the Social Security Advisory Council agree on the following goals:

Social Security should be self-financed with contributions from workers and employers.

The Social Security system is financed through an earmarked revenue source, payroll taxes, that is credited to the Social Security trust funds. Payroll tax contributions by employees and employers give both a stake in the program's future. Since Social Security's financing source is distinct and its operations are separate from the rest of the government, the system can be carefully monitored. This scrutiny helps ensure adequately financed benefits and a timely warning of potential problems. Earmarked funding means Social Security does not take away general government revenues needed for other programs, and it prevents Social Security dollars from being used directly for non-Social Security purposes. Moreover, most Americans consider the payroll tax fairer than the income tax.

Social Security should be compulsory and universal participation achieved.

Universal participation is essential in a social insurance program. Under social insurance, workers pool their resources in a government-sponsored insurance plan to protect them against unforeseen circumstances, which as individuals they otherwise might not have purchased, afforded, or received from their employer. Although some people might have sufficient financial resources to purchase the benefits--including survivor, dependent, disability, and retirement protection--a pooling arrangement means all contributors can receive a more secure base of financial protection throughout their lives and far fewer people will face impoverishment.

Universal participation enlarges the pool of money from which to finance benefits, and, therefore, provide more complete protection. For many working Americans, Social Security is the only source of survivor, dependent, and disability benefits. For most beneficiaries, it is the only income source they have which is adjusted annually for inflation. By requiring universal participation, the program can distribute benefits progressively, and low-income workers are provided a more adequate level of financial security. Universal participation also protects those whom private insurers might exclude from their plans. For example, insurers might be reluctant to underwrite a disability benefit for someone with a pre-existing medical condition or a life insurance policy for someone whose older relatives are long-living.

Universal participation is desirable for other reasons as well. It ensures that workers will have continuous protection even if they change jobs. It keeps administrative costs low by eliminating fees traditionally associated with private insurers. Universal participation ensures a sense of community and public purpose and a consistency from one generation to the next. Everyone contributes, everyone receives benefits, and everyone bears a measure of responsibility for their retirement. Since everyone contributes while working, future retirees need not endure the financial uncertainty and hardship earlier generations faced. Because their past contributions as workers qualify them for Social Security, current and future beneficiaries will not have to depend on the financial fortunes of their younger relatives or the empathy of society.

- **Social Security benefits should bear a direct relationship to contributions;**
- **Social Security should continue to protect low-wage earners by paying benefits that keep them from relying on means-tested benefits; and**
- **Social Security benefits should be provided regardless of income.**

These three principles have been largely responsible for the enormous and consistent support Social Security enjoys among Americans of all ages. The Social Security benefit formula blends the concepts of "individual equity" (a direct relationship between contributions and benefits) and "social adequacy" (providing an income floor to all who qualify for benefits). To preserve the concept of equity, benefits reflect an individual's work history and payroll tax contributions. Thus, average and higher earners will receive a higher benefit because they contributed more. To provide adequacy, however, the formula is weighted so lower-wage workers receive a benefit that replaces a higher percentage of their pre-retirement wages than for average- or high-wage earners. This weighting helps protect lower-income workers and their families from destitution when a wage earner leaves the workforce, and provides all beneficiaries with a measure of dignity and independence. The progressive benefit formula is critical because lower-wage workers generally do not accumulate sufficient financial resources, such as a private pension or savings, that help replace their lost wages. In a sense, the blending of adequacy and equity acknowledges that Social Security is not designed as an investment program, but rather as basic income insurance against economic hardship and unforeseen events. If equity were the only consideration, the highest contributors would receive a larger benefit and those with smaller overall contributions would have less adequate income protection.

Social Security benefits are based on contributions made over a working life and are provided to all who qualify. If benefits were conditioned solely upon need, i.e., means tested, public support would drop precipitously. If there is any doubt about this, one need only compare the level of public support for programs that serve those with low incomes to the support for universal programs like Social Security. Denying benefits to high-income workers would make them far less willing to participate in the program. The Social Security benefit formula, which represents an implicit income transfer from high to low earners, would be undermined if high earners opted out of a system that might deny them benefits. Moreover, means testing sends the wrong signal about savings. By curtailing benefits when they retire, savers, in effect, are penalized for their thriftiness and farsightedness.

III. Benefits That Should Be Protected

Social Security includes an array of benefits and income protections that should be maintained in a future solvency package. These include

- **Social Security benefits for the spouses and children of retired and deceased workers; and**
- **Social Security benefits for disabled workers and their families.**

The availability of these benefits further demonstrates that Social Security has a broader purpose beyond that of an individual investment. By extending financial protection to the families of retired and deceased workers and to disabled workers and their families, the program protects a broad spectrum of society against risks that cannot be anticipated, particularly at the beginning of a working life. Spousal benefits make a considerable difference in the economic well being of widows, young and old, and for divorced spouses, who otherwise might find themselves in or close to poverty. While the percentage of married women workers is higher now than when the program began, women's wages tend to be lower than their male counterparts. Consequently, many women will receive a retirement benefit that blends their own benefit with one earned for them by their spouse.

Disability benefits were added to Social Security in the 1950s. Younger workers tend to overlook and undervalue these disability and survivor benefits (equivalent to life insurance). Yet, Social Security is the only long-term disability insurance for 3 out of 4 workers, and its life insurance features provide income protection for 98 percent of the children in this country. According to the Social Security Administration, the Social Security survivor benefit is equivalent to about $300,000 in life insurance for the spouse and two children of a deceased worker with an average earnings history, and disability protection equivalent to a policy worth over $200,000. If survivor and disability benefits were based solely on a worker's contributions, young workers and/or their families might not receive extended benefits because they would have "used up" their contributions.

Social Security benefits are adjusted annually for inflation once they begin.

Among the provisions which the Social Security Advisory Council reaffirmed is automatic cost-of-living adjustments (COLAs). COLAs are critical to most beneficiaries' income security. These adjustments provide beneficiaries with an income source that helps keep pace with rising prices even if they have insufficient additional resources. Today, Social Security is the dominant income source for 3 of 5 beneficiaries and virtually the only income source for 1 in 4 beneficiaries, most of them single older women. Given this widespread reliance on Social Security, any reduction in COLAs would mean that millions of beneficiaries would face economic hardship. In fact, most of the dramatic reduction in the poverty rate for those age 65 and over in the early 1970s was due to the large **ad hoc** increases in Social Security that preceded automatic cost-of-living adjustments. Since then, the poverty rate for the elderly has stabilized because annual COLAs have prevented the more than one in five older Americans -- mostly older single women -- who are below 125 percent of the poverty line from falling further behind economically.

COLAs help ensure that beneficiaries, particularly the oldest ones, will not outlive their resources. If COLAs were eliminated or permanently reduced, the real value of Social Security would decline as beneficiaries become older. In effect, beneficiaries would be poorer at age 80 than at age 65. This is particularly true given that their other income and assets have likely declined and their health care costs have risen sharply.

IV. Other Considerations

A. Overall Retirement Income

While it is important to consider specific Social Security goals, decisions about the program should be viewed within the broader context of overall income security in retirement. Retirement income often has been compared to a three-legged stool comprising Social Security, pensions and private savings. Multiple retirement income sources can improve economic security by distributing financial risk among the government (Social Security), the employer (pensions), and the individual (savings). Today, Social Security is the strongest of the three legs. A majority of current beneficiaries depend on Social Security for the largest share of their income, and one in four have little or no other income.

Pensions are retirement benefits earned in employer-sponsored plans. Today, only half of all workers are covered by any type of pension plan. Highly compensated individuals are more likely to be covered by or participate in pension plans and generally accrue higher benefits. Some pension plans ("defined benefit"), like Social Security, promise a specific benefit level based on earnings and time in the labor force. The benefits provided by other types of pensions ("defined contribution") reflect the value of the worker's account when he/she retires. Over the past 15 years, there has been a dramatic increase in individual account plans, such as 401(k)s, in which the responsibility to save, as well as the risk of poor investment performance, rest with the employee. Given this ongoing shift in the private sector, it becomes even more important to maintain Social Security's shared risk design and defined benefit promise.

Savings represent individually held assets and investments. High earners are most likely to accumulate savings and in far greater amounts than low-wage workers. Many households, however, have little or no retirement savings, and those with savings all too often need to or choose to expend them for non-retirement purposes. Currently, three-quarters of all lump-sum payouts are not rolled over into another retirement vehicle. Given the low level of individual savings, it seems probable that many future retirees will have inadequate savings to meet their income needs.

Since pensions and savings continue to be modest or non-existent for many households, Social Security is likely to continue as a dominant income source. In order to ensure retirement income adequacy, policy makers will have to improve all three legs. As legislators consider options for all three legs, they should acknowledge the different role each leg plays. Future policy should build upon the opportunities for individual responsibility and control that already exist in the pension and savings legs -- areas more appropriate for individual risk and responsibility. The Social Security leg, however, should continue its role as the guaranteed base of income.

B. <u>Work Force Participation</u>

The shape of the Social Security program influences the labor market and older workers' labor force participation rates. It is legitimate to question whether Social Security should be neutral with regard to decisions about continued participation in the labor force or whether it should affect the decision. Currently a worker can collect reduced benefits at age 62, the Early Eligibility Age. These benefits are actuarially reduced to reflect receipt prior to the Normal Retirement Age. The age at which workers apply for Social Security has dropped by about three years since the 1960s. For some workers, access to Social Security at age 62 enables them to voluntarily leave the labor force and spend a longer period of time in retirement. Others do not retire voluntarily but leave because of ill health, a physically demanding job, or unemployment. Some ostensibly retire voluntarily but do so in the face of possible employment termination. As policy makers consider an increase in the Normal Retirement Age and/or the Early Eligibility Age, they should determine whether the labor market will generate sufficient jobs for older workers who are able to work, and whether there are adequate income protections within or outside of Social Security for those who become disabled or unemployed before attaining the age of eligibility for Social Security.

C. Employers

Decisions about Social Security will affect employers costs independent of a change in their share of the payroll tax. If older workers delay retirement in response to an increase in the age for initial or full Social Security benefits, employers could incur added pension and employee benefit costs. For example, employers who provide "bridge payments" to workers who take early retirement until they become eligible for Social Security might have added costs. If Social Security benefits are scaled back, employers, many of whom "integrate" their pensions with Social Security, might well face added pension costs. Indeed, some workers might pressure employers to improve their pension benefits because a smaller Social Security benefit diminishes their overall retirement income.

V. Conclusion

Americans of all ages should become better informed about the Social Security system so they can participate in the debate about its place in their future. The program has been, and should continue to be, an important part of our nation's commitment to providing income protection for workers and their families against the financial difficulties many otherwise would endure as a result of retirement, death or disability.

Maintaining Social Security's long-term solvency and improving the overall retirement income of future generations is vital to our nation's economic well-being. Fortunately, the over $600 billion now in the Social Security trust funds will increase dramatically over the next decade. Thus, we have time to conduct a meaningful national dialogue that will lead toward informed judgment and consensus about the best way to strengthen the program for the long term.

The Association looks forward to participating on a bipartisan basis with our nation's elected officials to achieve a solution to Social Security's long-term problems. This solution should maintain the program's guiding social insurance principles, ensure benefit adequacy, and achieve solvency in a fair and timely manner. Social Security must continue its role as the foundation of lifetime income security for tomorrow's beneficiaries.