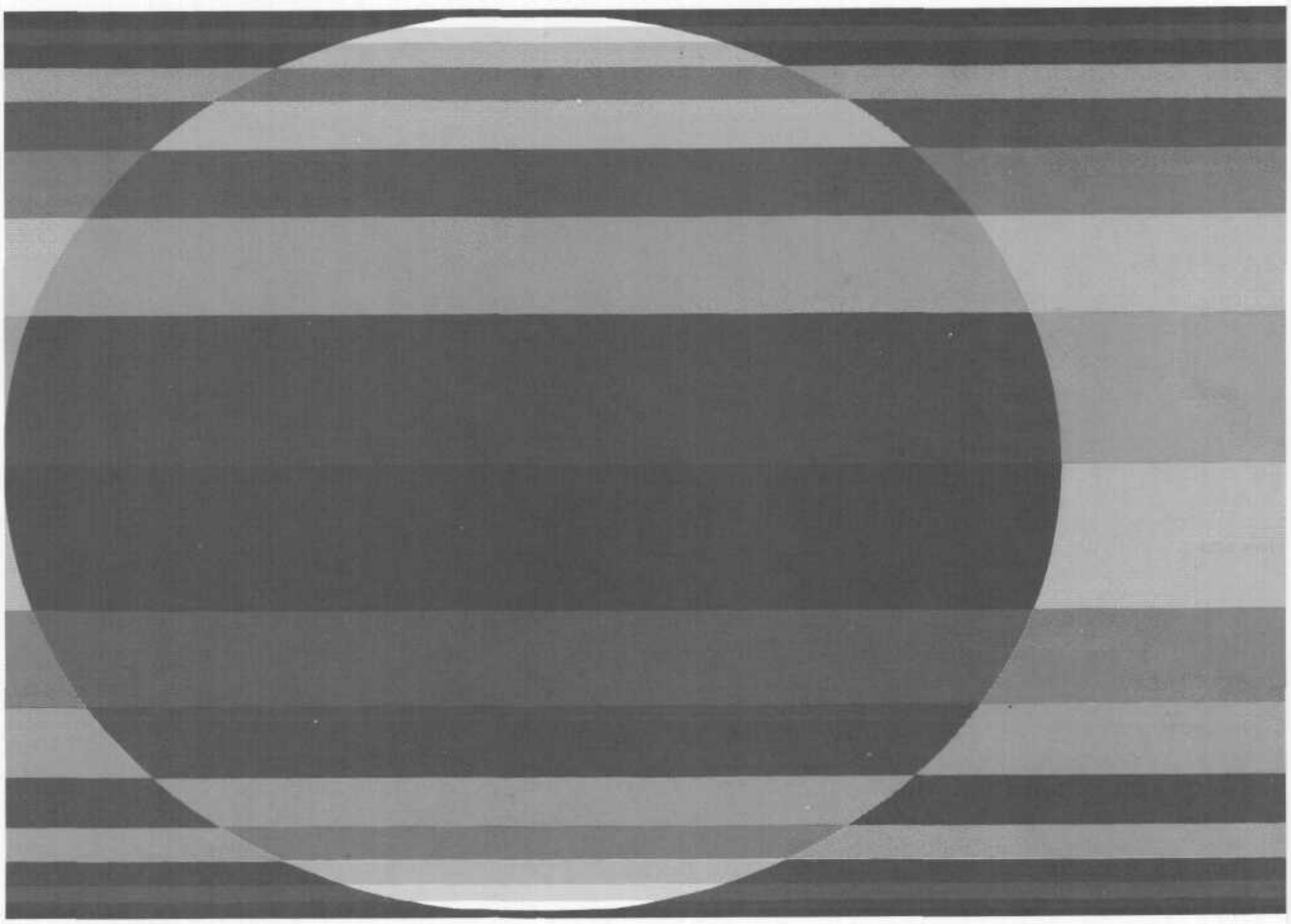
BACKGROUND PAPER

Social Security Benefits for Students

May 1977



Congress of the United States
Congressional Budget Office
Washington, D.C.

SOCIAL SECURITY BENEFITS FOR STUDENTS

Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

PREFACE

Social Security Benefits for Students is a background paper about a variety of proposals, including those recently advanced by Presidents Ford and Carter, to limit or eliminate social security benefits payable under current law to unmarried, full-time students between their eighteenth and twenty-second birthdays. Such proposals are given separate treatment from other social security questions because they raise a mixture of issues affecting both the financial condition of the social security trust funds and the policy of the federal government generally to encourage equal access to postsecondary education. A forthcoming budget issue paper prepared by the Congressional Budget Office presents a broader examination of social security funding issues.

This report is part of a series requested by the Subcommittee on Postsecondary Education of the House Committee on Education and Labor. In accordance with CBO's mandate to provide objective and impartial analysis of budget issues, the report contains no recommendations.

Alfred B. Fitt, General Counsel of CBO, prepared the paper. Mary Richardson Boo edited the manuscript.

Alice M. Rivlin
Director

May 1977

TABLE OF CONTENTS

LIST OF TABLES

SUMMARY

The social security system has both short- and long-run financing problems. President Ford recommended ending social security benefits to students as one means of ameliorating the system's prospective funding shortfalls. President Carter has urged instead that a ceiling of $1,400 be placed on student benefits in the 1977-1978 school year and $1,600 the year after.

Student benefits were added to the social security system in 1965. Benefits paid on account of a dependent child normally end on a child's eighteenth birthday, but the 1965 legislation extended coverage to 18- to 21-year-old unmarried full-time student dependents of dead, disabled, and retired workers. Currently 841,000 students--about one-eighth of all full-time enrolled 18- to 21-year-olds--draw these benefits, averaging over $1,900 a year per student. Total fiscal year 1977 social security trust fund payments to students will exceed $1.6 billion. The Social Security Administration estimates that by fiscal year 1982 there will be 910,000 student beneficiaries receiving $2.5 billion.

Social security student benefits are not needs-tested. The amount of the benefit is half that paid a retired or disabled worker, and three-quarters of that for which a deceased worker would have been eligible. But 43 percent of the student beneficiaries receive less than the formula amount because of the family maximum rule: in general, no family may receive in total more than 175 percent of a worker's benefit.

The federal government has other, smaller programs identical in principle to the social security program that, like social security, provide incidental benefits to students. But the other programs are all paid from or backstopped by general revenues, whereas social security is funded by a flat 11.7 percent payroll tax. Among these other programs are Railroad Retirement, Federal Workmen's Compensation, Civil Service Retirement, and several programs for veterans' dependents.

The federal government has still other programs the only aims of which are to provide needs-tested help to postsecondary students. The largest is the Basic Educational Opportunity Grant (BEOG) program, which paid nearly $1 billion in student grants during fiscal year 1976. None of the current needs-tested federal student grant programs was in existence in 1965 when social security student benefits were enacted.

The only comprehensive survey of the social security student beneficiary group was conducted in 1973 by the Office of Research and Statistics in the Social Security Administration, Department of Health, Education, and Welfare. Some of the findings from that survey were:

- Twenty percent of the beneficiaries were in high school, 72 percent in college, and 7 percent in vocational school.
- The median 1972 family income of beneficiaries was $8,540, compared to $10,900 for all American families with an 18- to 24-year-old member, and to $12,820 for such families with an enrolled member. The fact that social security benefits are not subject to income or payroll taxes narrowed but did not close the aftertax gap between social security and non-social security families.
- Average 1972 benefits were $1,017 for students from the lowest income families (under $2,500) and $1,344--31 percent higher--for students from the highest income group (over $20,000).
- Forty percent were also receiving student benefits under Veterans Administration, Civil Service, or Workmen's Compensation programs.

No information is available about the rate of enrollment of social security eligibles compared to that of other 18- to 21-year-olds from similar family backgrounds and incomes, so there is no basis for estimating the influence of prospective social security benefits on enrollment decisions.

The social security student benefits program has been criticized on the ground that, while its basic purpose is to provide student assistance, other federal programs, particularly BEOG, are better targeted toward those who need help and achieve more equitable results among families of similar size and resources. Critics further contend that a flat-rate tax on workers' earnings is an inappropriate method of financing college attendance, that general revenues should be used for this purpose, and that the program has resulted in expensive, inequitable, and unwarranted duplication of benefits.

Defenders of the program counter that the student benefits are basically not aid to students but income to families, designed like other social security benefits to make up in part for income lost when a worker involuntarily leaves the work force because of age, disability, or death. In short, they argue that it is social insurance and no more properly subject to a needs test or criticism for potential benefit duplication than any other insurance program.

But the critics, in turn, assert that social insurance is the sharing of unwanted risks over which individual beneficiaries have little or no control: disability, death, accidents, employment layoffs, and so forth. The insurance concept is not usually applied to conduct--such as attending school past the eighteenth birthday--that is not only under the individual's control but is actually perceived by him as desirable.

The Congress has not formally reviewed the social security student benefit program since its enactment nearly 12 years ago. If it does so and wishes to consider change, there are at least five options.

<u>Option 1</u>. Preserve the student benefit but reimburse the social security trust funds from general revenues. Obviously, this will not save money, but it will reduce by about one-quarter the drain on the trust fund reserves in the next five years and lessen the pressure to increase the payroll tax rate to maintain the desired reserve. Appropriations from general revenues required to reimburse the social security trust funds to finance student benefits will be $10.8 billion over the next five years.

This option would shift the burden of social security student assistance from wage earners to the society as a whole, but it would be a piecemeal approach to a much larger issue: should any social security benefits be financed from general revenues?

Option 2. Preserve the student benefit but subject it to a needs test. This would reduce outlays from the trust funds, the amount depending on the needs test used. Probably at least two-thirds of social security beneficiaries would continue to qualify if the BEOG standard were used, though in most instances for lesser amounts. Some of the beneficiaries would qualify for higher amounts under other federal student aid programs because their social security benefit would be reduced.

This option would save money by eliminating grants to higher income families but would overturn a 40-year-old policy that social security benefits are best administered as social insurance, for which a needs test is inappropriate.

Option 3. Phase out the student benefit over four years, excluding those dependents who are still in high school. If the phase-out were to begin with fiscal year 1978, the estimated savings in outlays from the trust funds would be $5.6 billion in the five years ending with fiscal year 1982.

The savings are not identical to the amount of benefits that would be paid if the program were continued unchanged, since about 20 percent of the money now going to students would be paid to their families instead (because the family benefits had been held down by the family maximum benefit rule).

To some extent, the trust fund savings would be offset by higher payments for which the social security student beneficiaries would become eligible in other programs, mainly BEOG.

This option is a necessary step if federal financial assistance to postsecondary students is to be administered on a coordinated, nonduplicative, needs-tested basis. Its enactment would reduce the drain on the social security trust fund. But this option is inconsistent with the concept that social security payments to students are partial recompense for family income losses rather than student aid.

Option 4. Phase out the student benefit entirely, so that no payments are made after the eighteenth birthday. This is the same as Option 3 except that it would also eliminate benefits for those 18- to 21-year-olds who are still in high school. The five-year trust fund outlay savings, in addition to those estimated for Option 3, would amount to $1.7 billion.

There would be no offsetting increase in BEOG or other federal programs to assist postsecondary students because high school students do not qualify for grants under those programs.

This option is based on the argument that social security payments to healthy dependents must stop sometime. The contrary argument is that high school students are still clearly part of the family and not yet ready, by current standards, to enter the regular work force.

Option 5. Beginning October 1, 1977, place a ceiling on the social security student benefit equal to the BEOG ceiling from time to time in effect (the Carter Administration proposal). The Administration estimates a net savings of $1.3 billion over the 1978-1982 period.

This option would reduce trust fund outlays without affecting beneficiaries in the lowest third (measured by size of monthly payment); but there is no evident analytical connection between the social security benefit formula and the BEOG ceiling, and the savings would be achieved largely by reducing benefits for survivor children in contrast to those children whose worker parents are living and disabled or retired.

CHAPTER I. INTRODUCTION

CURRENT SITUATION

One of the many methods proposed for ameliorating the financing problems of social security is to end the student benefits payable to 18- to 21-year-old dependents. Such a step would affect not only the Old Age and Survivors, and Disability Insurance (OASDI) trust funds, it would also have a major impact on the present federal array of student assistance programs. This paper examines the issues and costs associated with the proposal.

Social security benefits paid on account of a dependent child ordinarily stop with the child's eighteenth birthday. But if the child is single and a full-time student, the monthly benefit continues until the end of the academic term in which the child turns 22. About 30 percent (the exact proportion is unknown) of the young people who might qualify for social security student benefits actually obtain them; the others either do not attend school full time or have forfeited eligibility by marrying.

During fiscal year 1976, outlays for social security student benefits made it the second largest federal program for direct aid to students:

Program	Fiscal Year 1976 Outlays (millions of dollars)
Veterans' Readjustment Benefits	5,527
OASDI Student Benefits	1,325
Basic Educational Opportunity Grants	959
Supplemental Educational Opportunity Grants	268

In the fall of 1975, one-eighth of all full-time enrolled 18- to 21-year-olds were drawing social security student benefits. During the fiscal year 1977, outlays will be about $1.6 billion, with 841,000 students usually on the roll, receiving an average annual grant exceeding $1,900.

In January 1976, and again just before the end of his term, President Ford recommended phasing out OASDI student benefits. His recommendation was based in part on a perceived need to reduce the drain on the social security trust funds, and in part on the argument that other federal programs are better targeted toward needy students.

President Carter has withdrawn the Ford proposal and suggests instead a ceiling on annual payments to social security student beneficiaries equal to the Basic Educational Opportunity Grant (BEOG) ceiling ($1,400 in school year 1977-1978 and $1,600 recommended for the following school year).

BACKGROUND

When social security was enacted in 1935, the only benefit was a pension paid to a retired worker, the amount depending on the worker's own wage history. In 1939 Congress augmented the worker's pension if he had a wife or young children and added survivors' benefits for the widows and children of deceased workers.

The children's benefits stopped at age 16 if they were out of school, and 18 if they were in school. In 1946 the law was amended to make the eighteenth birthday the cut-off date, whether the dependent was in or out of school.

Nineteen years later, as one feature of the Social Security Amendments of 1965--which were mainly directed at launching medicare--the Congress extended children's benefits to those in the 18- to 21-year age group if they were unmarried, full-time students. In 1972 the cut-off date was changed from the month of the twenty-second birthday to the end of the school term in which that birthday occurred. Both the House Ways and Means Committee and the Senate Finance Committee justified the 1965 change in the following language:

> The Committee believes that a child over 18 who is attending school full time is dependent just as a child under 18 or a disabled older child is dependent, and that it is not realistic to stop such a child's benefit at age 18. A child who cannot look to a father for support (because the father has died, is disabled, or is retired) is at a disadvantage in completing his education as compared with the child who can look to his father for support... House Report No. 213, March 29, 1965.

When the Social Security Amendments of 1965 became law on July 30, 1965, there were no federal programs to provide grant assistance to students as such. 1/ The sponsoring legislative committees estimated that 295,000 students would qualify for $195 million in social security payments in the first full year of the program. In fact, 376,000 students qualified and $323 million was paid out--thus, first year participation was 27 percent higher and 66 percent more costly than predicted.

The shorthand way of expressing the long-term costs of social security benefits is to state them as a percent of taxable payrolls. In the case of student benefits, the

---

1/ In November 1965 the Congress authorized $70 million for what are now called Supplemental Educational Opportunity Grants (SEOG), authorized currently at $200 million. Supplemental grants are administered by colleges and awarded on the basis of student need. Congress enacted Basic Educational Opportunity Grants (BEOG) in 1972. A basic grant up to $1,400 annually is paid to every undergraduate who meets a prescribed needs test. The authorized BEOG maximum will rise to $1,800 in 1978, but the actual maximum will depend on future appropriations decisions.

90-514 O - 77 - 2

1965 estimate was that they would cost 0.12 percent of payrolls in the long run. The actual cost in recent years has been about 50 percent higher:

	1972	1973	1974	1975
Percent	0.16	0.16	0.17	0.18

For fiscal year 1977, the cost of social security student benefits will be approximately $20 for each worker in covered employment.

CHAPTER II. HOW THE STUDENT BENEFIT PROGRAM WORKS

BENEFITS CALCULATION

Subject to certain limitations, a child's benefits are a prescribed fraction of the entitlement for a parent worker no longer in the labor force: one-half if the parent is retired or disabled, three-quarters if the parent is dead.

The amount paid on account of a child does not depend on the child's age: the payment for a one-year-old is the same as for a 21-year-old in the same family. Payment for a child under eighteen goes to the parent or guardian. After that age, the benefits are subtracted from the family check and paid directly to the dependent if he is an unmarried, full-time student.

During fiscal year 1976, the average monthly student payment was $143. Since the children of a deceased worker receive three-quarters of a basic entitlement, their average ($158 in December 1975) was much higher than that for the children of retired ($104) or disabled ($87) workers, who receive only half an entitlement. The current average for all student beneficiaries is probably about $161, for an annual total exceeding $1,900.

The benefit calculation is complicated by a statutory provision that in general limits the total social security benefits for a family to 175 percent of the worker's entitlement. 1/ As a result, no two-person family (worker and spouse, widow and child, two surviving children, etc.) is affected by the maximum, but every three-person or larger family is. A further inevitable result is that the larger the family, the smaller the student's check.

1/ The family maximum actually ranges from 150 percent to 188 percent, as prescribed by a table in 42 U.S. Code 415 and periodically adjusted for Consumer Price Index changes.

The social security actuary estimates that 43 percent of all student beneficiaries have their checks reduced because of the family maximum rule. Half of these students come from families so large that, even if the student dropped off the roll, OASDI trust fund outlays would not be reduced because the family would still qualify for the maximum.

There is yet another complication. Earnings by a beneficiary in excess of an annually adjusted amount ($3,000 during calendar year 1977) require a $0.50 reduction in benefits for each $1 in excess earnings. In practical application, the statutory rule has widely varying effects on the student benefit.

- o If the student is a survivor, only his own earnings above $3,000 can lead to a reduction in benefits. The earnings of a remaining parent or a sibling do not count, except possibly to increase the student's benefits. (If the student is among the 43 percent whose check is held down by the family maximum rule, his payment will go up if that of another member of the family goes down because of excess earnings.)

- o The earnings over $3,000 of a parent who is a retired worker under age 72 do count, and can reduce or entirely eliminate a dependent student's monthly benefits; after the retiree's seventy-second birthday, there is no penalty for any amount of earnings.

- o If a disabled worker-parent earns more than $200 a month, he is no longer eligible for disability payments, nor his children for student benefits. 2/

2/ The $200 a month standard is 41 percent of the 1976 poverty level income for a non-farm family of four.

WHO ARE THE STUDENT BENEFICIARIES AND WHAT DO THEY GET?

The only comprehensive study of the social security student benefits program was conducted in the spring of 1973 by the Office of Research and Statistics (ORS) of the Social Security Administration. The facts collected all bear on the school year 1972-1973, except that family incomes were for calendar year 1972. The first report based on the 1973 survey appeared in the November 1976 Social Security Bulletin. Much of the material that follows is drawn from that report and from unpublished materials supplied to the Congressional Budget Office (CBO) by ORS.

Seventy percent of the students were drawing benefits because of the death of a parent. The remainder were, in about equal numbers, the children of retired and disabled workers. In nine cases out of ten, the dead, retired, or disabled parent was the father.

Twenty percent were in high school, 72 percent in college (with 3 percent in graduate school), and 7 percent in business or vocational school. Except for 18-year-old beneficiaries, who were somewhat more likely than other 18-year-old students to still be in high school, social security students by age seem to be in the same kinds of schools and at the same educational levels as those who do not qualify for benefits.

But overall, as one should expect, they were poorer than their classmates. The 1972 median family income of the social security students attending college was $9,690, which was 89 percent of the median income for all families with 18- to 24-year-old members, and only 71 percent of the median for all such families with children in college.

When federal income and payroll taxes are taken into account, the median incomes of beneficiary and non-beneficiary families are closer, because social security benefits are not subject to income or payroll taxes. Including their benefits, the after-taxes median 1972 income for college student beneficiary families was about 96 percent of the after-taxes median for all families with 18- to 24-year-old members, and about 77 percent of the after taxes median for all such families with a member in college.

Even though student beneficiaries overall were poorer, not all of the surveyed students were poor. Thirty-one percent came from families with incomes (not counting student benefits) above the $10,900 median 1972 income of all families with 18- to 24-year-old members. The beneficiary families above that median received 33 percent--about $300 million--of the student benefit dollars that year. Almost all of these families would have been ineligible for the needs-tested Basic Educational Opportunity Grant, for which a typical four-member family with 1972 income of $10,900 or more could not qualify.

But because OASDI student grants are derived from a parent's earnings history, the less poor a surveyed beneficiary, the higher the likely benefit received. The average 1972 grant to the children from the highest income group was 31 percent more than the average grant to the lowest income children (see Table 1).

TABLE 1. AVERAGE OASDI STUDENT GRANTS BY TOTAL FAMILY INCOME, 1972

Total 1972 Family Income	Average Grant	As a Percent of Lowest
Below $2,500	$1,017	-
2,500 - 4,999	1,043	103
5,000 - 7,499	1,180	116
7,500 - 9,999	1,159	114
10,000 - 12,499	1,235	121
12,500 - 14,999	1,261	124
15,000 - 19,999	1,227	121
20,000 +	1,334	131

SOURCE: ORS

CHAPTER III. PROGRAM SIZE

PARTICIPATION AND COST

The number of social security beneficiaries has increased every year in the life of the program. The increase has been both absolute and as a percentage of all 18- to 21-year-olds and of all 18- to 21-year-olds enrolled in school.

TABLE 2. SOCIAL SECURITY STUDENT BENEFICIARY POPULATION, SELECTED YEARS 1966-1975

Calendar Year End	Social Security Students	Percents: Of All Enrolled 18- To 21-Year-Olds	Percents: Of all 18- to 21-Year-Olds
1966	376,000	7.98	3.17
1970	537,000	10.19	4.11
1974	679,000	12.06	4.44
1975	774,000	12.57	4.94

The 1973 ORS survey did not include a control group of 18- to 21-year-olds who were eligible for benefits but were not in school. Consequently, it is impossible to state the actual enrollment rate of social security eligibles or to compare their enrollment behavior with that of 18- to 21-year-olds of like family incomes and backgrounds who were ineligible for social security student benefits. The availability of benefits has probably meant that some attend who would not otherwise do so, but no reported study has measured the real enrollment effects of the benefit program.

The Social Security Administration expects the numbers of student beneficiaries to continue to rise over the next five years, but at a slower rate than in the past. The cost will also rise, of course, by about 53 percent. In Table 3, the estimated costs are expressed not only as benefits paid but as incremental OASDI outlays, for even if the program were cancelled, part of the money now going to students would be paid to their families instead because the family benefits had been held down by the family maximum rule.

TABLE 3. ESTIMATED COSTS OF OASDI STUDENT GRANTS, FISCAL YEARS 1977-1982

Year	Beneficiaries (average load)	Millions of Dollars: Total Benefits Paid	Millions of Dollars: Incremental OASDI Outlays
1977	841,000	1,622	1,300
1978	876,000	1,819	1,461
1979	900,000	2,017	1,620
1980	908,000	2,188	1,758
1981	911,000	2,344	1,884
1982	910,000	2,485	1,998

FINANCING

Social security student benefits, like all other benefits paid from the social security trust funds, are financed by an 11.7 percent payroll tax (half from employee and half from employer) levied on an annually adjustable portion of calendar year earnings: in 1977, the first $16,500 of a worker's earnings.

Of the 11.7 percent tax, 9.9 percentage points are paid into the OASDI trust funds (from which all student grants are financed), and 1.8 percentage points into the Health Insurance trust fund for medicare. (When the Congress enacted medicare benefits in 1965, it raised the payroll tax rate in order to meet expected medicare costs, but it made no similar provision to cover the costs of the student benefits added at the same time.)

The social security student program is by no means the only federal program for supporting categories of 18- to 21-year-old students. There are several others, large and small, that are identical in principle; that is, eligibility depends on the retirement, disability or absence of the parent-provider. But the other programs vary from the social security program in two major and several minor ways. One major difference is that all of the others are financed or backstopped by general revenues rather than by payroll tax receipts. Another major difference is that some are needs-tested; that is, benefits go to students on the basis of their financial needs after taking account of family incomes and other means of support. The minor differences involve the methods of calculating benefits and the point at which eligibility is lost.

Some of the other federal student benefit programs identical in principle to the social security program (and almost identical in the qualifying ages) are listed below.

	Fiscal Year 1977	
Program	Student Participants	Outlays (millions of dollars)
Railroad Retirement	6,000	22.0
Federal Workmen's Compensation	300	0.7
Federal Civil Service	17,000	25.0
Aid to Families with Dependent Children	171,000	71.0
Veterans' Dependents	166,000+	55.0+

The Appendix to this paper contains a more complete description of each of the programs listed.

Veterans' readjustment benefits--the GI bill--account for the largest student grant program by far, $2 billion more this year than social security student benefits, the second largest program. 1/ But veterans' educational benefits are different in principle from the social security program in that the student veteran receives them in his own right, not because of the circumstances of a parent, and the payments he receives, while nominally grants, are in fact a form of deferred compensation for military service.

Postsecondary student grant programs like BEOG and Supplementary Educational Opportunity Grants (SEOG) also differ from social security in that they are needs tested. Consequently, they take into account the resources a student may have in the form of social security benefits. But none fully offsets the social security benefit against the needs-tested benefit, with the result that families identical in size and income, one with and one without social security, receive different total amounts of student aid on top of that income.

Of the several student grant programs that are not needs-tested, only Railroad Retirement benefits are coordinated with social security student benefits. The ORS survey found that 40 percent of the social security student beneficiaries were also being paid under the Federal Civil Service System, a Veterans Administration program, or Workmen's Compensation. The VA informally estimates that 90 percent of its student beneficiaries who qualify as the survivors of deceased veterans are also receiving social security student benefits.

Overlaps in student benefits among social security, civil service, VA and similar programs are not the consequence of any articulated federal policy or finding of special need. While it seems likely that some students are receiving duplicative (or triplicative) federal awards that in the aggregate exceed their costs of attendance, there are no data on which to base an estimate of the frequency of such cases.

1/ GI Bill payments will phase down over the next decade as as a result of 1976 legislation, and BEOG will probably become the largest program, with social security holding second place.

CHAPTER V. GENERAL DISCUSSION

OASDI STUDENT BENEFITS: FAMILY INCOME OR STUDENT AID?

The Social Security Administration says of the characteristics of the student benefit program:

> Student benefits are among the least known of the components of the social security program, and, probably because of their name, among the least accurately understood. It is the intent of all OASDI programs to provide benefit income to replace in part the earned income lost when the worker dies, becomes disabled or retires. Benefits are paid not only in proportion to the level of earnings lost, but also in proportion to the size of the family dependent on those lost earnings. Specifically, the student benefit is paid in recognition of the continuing family membership of the student.... Social Security Bulletin, November 1976, page 24.

There is anecdotal evidence that student beneficiaries and their families tend to count a student's check as part of the family's overall resources and not allocable in its entirety to the student. However, the student benefit differs from every other kind of social security dependent's payment in that eligibility depends not only on a relationship with a person who has left the covered work force, but on personal, voluntary effort as well. The benefit is paid only if the 18- to 21-year-old is a full-time student, and only to him, not to his family. 1/

1/ Typically, the award to a student turning 18 means a corresponding reduction in the family's check. But in some cases--when the student is the youngest child in a family headed by a widow not yet 62--the check to the parent is stopped altogether when the student turns 18.

In the same issue of Social Security Bulletin, SSA stated:

> Unfortunately, the student benefit is sometimes misunderstood to be a form of aid rather than a component of family income. Despite its name and the requirement for school attendance, the student benefit program is not a grant, scholarship, loan or aid program. The distinction is fundamental.

But the distinction is not observed by the Office of Management and Budget, which unequivocally characterizes the OASDI benefit as a "student grant," nor was it drawn by the Congress when it legislated social security student benefits in 1965. The explicit and only Congressional reason given was a presumed educational financing deficit on the part of 18- to 21-year-old orphans and the children of retired and disabled workers, compared to other 18- to 21-year-olds whose fathers were living and in the work force. The general presumption of need was unquestionably well-founded in 1965, when there were no federal student assistance programs. Such programs now are in place, at at fiscal year 1977 cost of about $1.8 billion.

OBSERVATIONS

The OASDI student program is a well-administered and quiet success at providing financial assistance to 18- to 21-year-old student children of dead, disabled, and retired workers. However, measured against the criteria used to evaluate the efficiency of other federal student aid programs, the OASDI program does not come away with high marks.

During the 11-year life of the program, there has been no reported research into whether the prospect of benefits makes a real difference in the enrollment decisions of the children of covered workers.

If 1972-1973 patterns persist, one-third of the benefits--more than $500 million this year--will go to families with incomes in excess of the federal standard of need used in the BEOG program. One in three of the beneficiaries will come from families above the fiftieth percentile in income, with one in 20 from above the ninety-second percentile.

The social security student benefit formula produces results that are inconsistent with the usually stated purpose of the federal role in student aid--that is, to try to ensure that financial barriers will not keep young people from pursuing postsecondary education. The operative effect of the formula is that those with the least family resources receive the least help, while those with the most resources are given the most help. 2/ Within the same beneficiary family, if there is at least one parent and more than one child, the first-born child is almost certain to receive less help (whether measured in current or constant dollars) than a younger sibling, no matter what the family circumstances.

Further inequities arise out of the fact that the child's eligibility is determined by the circumstances of his parent. If the father of an 18-year-old high school student dies, the child will normally receive social security benefits. But if the father runs away or is otherwise irresponsible, the child is remitted to the Aid to Families with Dependent Children (AFDC) student program--if one exists in his state--and, on average, to one-third as much help for half as long a time.

The social security student benefits program has never been formally reviewed by the Congress. It is large compared to most of the other student aid programs, but its benefit formula has never been adjusted in the light of their subsequent creation and funding.

2/ This is to be expected under income-loss insurance principles and tends to be the case for all social security benefits based on a worker's earnings history but is unusual in a student assistance program.

If the Congress wishes to consider changes in the social security student benefits program, there are at least five possible courses it might take.

Because the social security system is authorized and financed pursuant to permanent legislation, Congressional rules preclude change through the annual appropriations process. Therefore, the exercise of any of the options listed below will require substantive legislation.

Option 1. Continue the social security student benefit program unchanged, but use general revenues to reimburse the cost to the trust funds. This option would of course not reduce federal outlays, but it would cut the $32 to $45 billion projected 1978-1982 drain on the trust fund reserves by about one-quarter and to that extent lessen the upward pressure on the payroll tax rate. The social security actuary estimates the general fund impact as follows, in billions of dollars:

	1978	1979	1980	1981	1982	5-Year Total
Required Appropriations	1.8	2.0	2.2	2.2	2.5	10.8

The case for this option is that, whatever one's view of the operation and effects of the benefits program, there is no reason to continue with so narrow a base in financing it. According to this argument, the payroll tax should be reserved to help former payroll taxpayers who have involuntarily left the work force because of age, disability, or death, and their dependents who are too young, too old, or too burdened to enter the work force. People 18- to 21-years old are not too young to enter the work force. If they are to be assisted in going to college--on the widely accepted theory that the whole society benefits from an educated populace--then the whole society should contribute to their assistance, not just wage earners.

There are two main arguments against this option. First, when benefits are disconnected from their financing, they tend to get out of control. Because student benefits are now locked to the parent worker's earnings history, it would take a basic change in the formula to unlock them. Second, the question of whether to supplement or supplant the social security payroll tax with general fund revenues raises immensely important issues that arguably should not be dealt with in the piecemeal fashion implied by this option.

Option 2. Add a needs test as a condition for receiving social security student benefits. This option would reduce outlays from the trust funds, with the amount obviously depending upon the needs test chosen. The implications for annual general fund appropriations would depend upon whether Option 1 had also been adopted, and upon the ricochet effects a reduction in social security student payments might have on other federal student aid programs, already needs-tested and financed from the general fund.

The case for this option is simple: there is not enough money to go around, and until we have taken care of those deemed truly in need, we should not take care of those who cannot show need.

The case against this option is that public acceptance of the social security system and the hard-hitting tax that pays for it is grounded on the belief that social security is insurance, not welfare--that if you pay your premium in good times, you will be covered in bad times without having to prove your need. This popular view of social security, and the willingness to submit to the payroll tax, may be threatened if any of the benefits are made needs-tested after 40 years without such tests.

Option 3. Phase out social security student benefits for postsecondary students. If a four year phaseout were to begin with fiscal year 1978, the trust fund outlay implications would be, in millions of dollars:

	1978	1979	1980	1981	1982
OASDI Savings	433	829	1,195	1,507	1,598

But some students now unable to qualify for social security payments would move into, or more deeply into, the BEOG program, with consequent higher BEOG outlays offsetting in part the savings to the trust funds. The increased BEOG costs after the phase-out is completed, and assuming an $1,800 maximum grant, would probably be about $180 million a year.

The case for ending social security benefits to postsecondary students is that this is a necessary step in moving toward a comprehensive, nonduplicative federal program to help those who need financial assistance for education beyond the high school level. Under this approach, a student from a social security family would qualify for no more and no less federal help than one from a non-social security family of identical size and resources.

The case against this option is that it misconceives the fundamental nature of social security payments to 18- to 21-year-old students. By this argument, such payments are simply part of the social insurance coverage the Congress has written into law--an approximated recompense for earnings lost because of retirement, death, or disability, with considerations of actual need or possible benefits duplication no more relevant than they are in other insurance programs. This argument rejects the contention of some critics of the program that what is in fact insured against is the "risk" of attending college, a voluntary act rather than an undesired hazard and therefore not a risk for which insurance coverage is appropriate.

Option 4. Phase out social security benefits for high school as well as postsecondary students. Again assuming a phase-out begun in the fall of 1977, with no loss of eligibility by those who were 18 before October 1st, the trust fund outlay savings (in addition to those estimated for Option 3) would be, in millions of dollars:

	1978	1979	1980	1981	1982
OASDI Savings	219	324	352	377	400

There would be no increases in BEOG outlays or other postsecondary student assistance programs because high school students do not qualify for grants under those programs.

The case for ending benefits to 18- to 21-year-old high school students (virtually all of whom are 18 or 19) depends on a conviction that social security payments for healthy dependents must stop sometime, and that the eighteenth birthday is an appropriate time.

The arguments for continuing such benefits are that overwhelmingly high school student beneficiaries are still part of the family (96 percent live in a parental home), are not ready by current standards to enter the work force, and, by definition, cannot receive benefits that are duplicative of federal postsecondary benefit programs.

Option 5. Enact the Carter Administration proposal to put a ceiling--equal to the BEOG ceiling--on the annual amount payable to any social security student beneficiary. If the proposal is made applicable only to those who become 18 after June 30, 1977, is based on a BEOG ceiling of $1,400 for school year 1977-1978 and $1,600 for the next school year, and if there is an approximate 5 percent annual increase in the BEOG ceiling thereafter, the administration estimates the following net outlay results, in millions of dollars:

	1978	1979	1980	1981	1982
Savings	80	168	265	346	396

The Congressional Budget Office has not made an independent calculation of the savings flowing from the Carter proposal.

The argument in favor of this option is that it will reduce the drain on the social security trust funds but will not affect the lowest third (in size of monthly payment) of the student beneficiaries.

The argument against this option is that it appears to be quite arbitrary. There is no analytical connection between the social security benefit formula and the BEOG ceiling as it may from time to time be adjusted, particularly for the 20 percent of the beneficiaries who are in high school and ineligible for a BEOG award.

Unless the Carter proposal were also to include a change in the family maximum benefit rule, the ceiling on a student's benefit will mean no net change in the OASDI outlay in scores of thousands of cases, because the amount no longer paid to the student will merely be added to the amount going to other members of the family.

Because survivor student beneficiaries receive three-quarters of a worker's entitlement and the children of retired or disabled workers receive only one-half, the proposal strikes much more heavily at the former than the latter. CBO estimates that the proposed ceiling would reduce benefits for about two-thirds of those who qualify because the worker parent has died, but for only about one-quarter of the student children of retired and disabled workers.

APPENDIX. STUDENT BENEFITS UNDER OTHER FEDERAL PROGRAMS

Railroad Retirement. Benefits were extended to 18- to 21-year-old students in 1966, on the ground that "This amendment is necessary to provide benefits to such children similar to the benefits now available under the Social Security Act" (House Report No. 2171, October 1, 1966, page 2). The Railroad Retirement Board estimates that in fiscal year 1977 there will be 6,000 student beneficiaries, with an average monthly payment of $258 and a maximum of $428, at a cost of $22 million. Eligibility ends with the end of the term in which the twenty-second birthday occurs, unless the student already has a bachelor's degree, in which case benefits stop at the twnety-second birthday.

Federal Employees' Workmen's Compensation. Student benefits were added, again in 1966, the only explanation given being that "The (Labor) Department also suggested that benefits payable to or on account of dependent children or orphans should be continued until the child finishes his full-time education" (House Report No. 1304, March 2, 1966, page 3). The Department of Labor estimates that in fiscal year 1977 there will be 300 student beneficiaries, with an average monthly benefit of $182 and a potential monthly maximum of $1,040, at a cost of $600,000. Eligibility continues until the end of the term in which the student has his twenty-third birthday--one year more than social security provides.

Aid to Families With Dependent Children (AFDC). The same 1965 law that established the social security student entitlement authorized the states to continue needs-tested AFDC payments to age 21 for beneficiaries attending college. Under prior law, the payments could continue past the eighteenth birthday only if the child was in high school or vocational school. Forty-two states participate in varying degrees. In May 1976 the estimated average monthly benefit was $65--of which $34 came from federal funds--for 171,000 students at an annual federal cost of about $70 million. Although the latest cut-off point is the twenty-first birthday, the states can, and many do, stop AFDC student payments at the nineteenth or twentieth birthday. But unlike all similar programs, there is no federal requirement that the student be single.

Federal Civil Service Retirement. Student benefits were added in 1962 for the surviving children of deceased retirees or covered federal employees (if the deaths were not work-related). The Civil Service Commission estimates that in fiscal year 1977 there are 17,000 student beneficiaries, with an average monthly benefit of about $130 and a maximum of $160, at a cost of about $25 million. Eligibility ends on July 1st following the twenty-second birthday, except for those born in July and August, who lose eligibility on the twenty-second birthday.

Veterans' Dependents. In one form or another, student benefits have been available at least since 1933, but they were made explicit through age 22 in legislation that became effective October 31, 1965. There are four different kinds of payments on account of or to a student:

1) Veterans' non-service connected disability pensions are augmented if the veterans have 18- to 22-year-old student children; $14 a month is added for the first child if there is no spouse, $5 otherwise, with dependents past the third not counted. This is a needs-tested entitlement. As a veteran's income rises, the pension is reduced, but the effect of the reduction formula is to increase the amount payable by reason of the first dependent, to a maximum of $93 a month. At the end of 1974, there were one million pensioners in this category, 410,000 of them under the age of 65. The Veterans Administration is unable to estimate how many student children are included in the program or how much the benefits cost.

2) On the pensioner's death, each child counts for $24 a month if there is a widow; if there is no widow, the first child counts for $57 and each additional child $24, with actual payments equalized among the children. The program is needs-tested. The Veterans Administration estimates that in fiscal year 1977 there will be 160,500 student beneficiaries but it is unable to furnish a cost estimate. If the average monthly payment is $25, the annual cost is about $50 million.

3) If the veteran has a service-connected disability, his pension is augmented by $66 a month for each student child if the disability is 100 percent and by lesser amounts for lesser disability percentages, down to $33 a month for those with a 10 percent disability. This program is not needs-tested. At the end of 1974, there were 2.2 million such pensioners, with 2 million under the age of 65. The Veterans Administration is unable to estimate how many student children are counted in the program or how much their benefits cost.

4) On the service-connected death of a disability pensioner who leaves a widow, $67 is paid for each student child. If there is no widow, the first child counts for $131, the second $58, the third $54, and all beyond the first three $49 a month. The benefits are not needs-tested. The Veterans Administration estimates that in fiscal year 1977 there will be 5,600 student beneficiaries but it is unable to furnish a cost estimate. If the average monthly benefit is $70, the annual cost is about $4.7 million.

In all four categories of student benefits for the children of veterans, the cut-off age is the twenty-third birthday--approximately one year later than the social security cut-off.

O