

Federal Spending on the Elderly and Children

The Congressional Budget Office (CBO) recently completed a preliminary analysis of federal spending on people over age 64 and under 18, which concluded the following:

- In fiscal year 2000, the federal government will spend a little over one-third of its budget—about \$615 billion—on transfer payments and services for people age 65 or older.
- Federal spending on children in 2000 will total about \$148 billion, or \$175 billion if payments to the children's parents are included.
- In 10 years (under current policies), spending on the elderly and children combined will account for more than half of total government spending, with the elderly's share making up roughly four-fifths of that amount.
- Entitlement programs account for the overwhelming share of spending on the elderly (97 percent in 2000) but a much smaller portion of spending on children (about two-thirds).
- Federal spending on the average person 65 or older will rise from nearly \$17,700 in 2000 to more than \$21,100 in 2010 (in constant dollars, which exclude the effects of inflation).
- Federal spending per child will increase from about \$2,100 in 2000 to about \$2,500 in 2010 (or \$2,500 and \$3,000, respectively, if spending on parents that is solely attributable to having children is included).

THE DISTRIBUTION OF SPENDING

Programs carried out by the federal government focus much more heavily on assisting the elderly population than families with children. In 2000, CBO estimates, spending on selected programs for the elderly will reach \$615 billion—more than four times the amount spent directly on children and three and one-half times the amount spent on families because of the presence of children.

Whereas the federal government takes the lead in supporting older people, state and local governments have historically provided substantial support for families with children through spending on elementary and secondary education and other programs. In a 1998 study, CBO estimated that state and local governments spent about \$4,000 for each child in fiscal year 1995 compared with about \$700 for each

elderly person.¹ (A significant portion of that spending occurs through programs such as Medicaid and Temporary Assistance for Needy Families, for which federal matching funds are available.) Nevertheless, because federal spending dwarfs state and local figures, total government spending for the average person 65 or older is still much greater than for the average child. (A more detailed examination of total government spending on older people and families with children is beyond the scope of this analysis.)

Federal Spending on the Elderly

CBO estimates that the federal government will spend roughly three and one-third times more on the elderly this year than it did three decades ago (in constant dollars, excluding the effects of inflation). Since 1971, per capita spending on older people (in 2000 dollars) has risen at an annual rate of 2.4 percent a year, although over the past decade that rate of growth was 1.5 percent.

This year, spending on the elderly will account for more than one-third of the federal budget, up from about 22 percent in 1971 and 29 percent in 1990 (see Table 1). That draw on the federal Treasury is projected to climb to nearly 43 percent by 2010 (according to CBO's April 2000 baseline budget projections). Under current law, that share will grow even faster after 2010 as the baby-boom generation retires and the population ages 65 and older expands by nearly three-quarters over the 2010-2030 period.

As a share of gross domestic product (GDP), spending for older people is projected to reach 6.4 percent of GDP in 2000—more than 50 percent higher than three decades earlier but only slightly higher than in 1990. The plateau observed during the 1990s, however, is not expected to continue; CBO projects that federal spending for the elderly will rise to 7.1 percent of GDP by 2010 and grow more rapidly thereafter.

Measured in 2000 dollars, federal spending for the elderly has increased from about \$8,900 in 1971 for the average person age 65 or over to about \$17,700 this year. It is projected to exceed \$21,100 in 2010. Spending for Social Security and Medicare consistently accounts for about four-fifths of that total; spending for discretionary programs represents less than 5 percent in every year.

1. See Congressional Budget Office, *Long-Term Budgetary Pressures and Policy Options* (May 1998), Box 1-2, p. 6.

TABLE 1. ESTIMATED FEDERAL SPENDING FOR THE ELDERLY UNDER SELECTED PROGRAMS, 1971-2010 (By fiscal year, in billions of dollars)

| | 1971 | 1980 | 1990 | 2000 | Projected 2010 |
|---|-------------|----------|----------|----------|-------------------|
| Mandatory Programs | | | | | |
| Social Security ^a | 29 | 85 | 196 | 307 | 471 |
| Federal Civilian Retirement | 2 | 8 | 21 | 33 | 50 |
| Military Retirement | 1 | 2 | 7 | 14 | 21 |
| Annuitants' Health Benefits | * | 1 | 2 | 4 | 9 |
| Special Benefits for Coal Miners and Black Lung | * | 1 | 1 | 1 | 1 |
| Supplemental Security Income | 1 | 2 | 4 | 6 | 10 |
| Veterans' Compensation and Pensions | 1 | 4 | 7 | 9 | 14 |
| Medicare | 8 | 29 | 96 | 189 | 377 |
| Medicaid | 2 | 5 | 14 | 33 | 73 |
| Food Stamps ^b | <u>*</u> | <u>1</u> | <u>1</u> | <u>1</u> | <u>1</u> |
| Total | 44 | 137 | 349 | 597 | 1,026 |
| Discretionary Programs | | | | | |
| Housing | * | 2 | 4 | 7 | 10 |
| Veterans' Medical Care | 1 | 3 | 6 | 9 | 13 |
| Administration on Aging Programs | * | 1 | 1 | 1 | 1 |
| Low Income Home Energy Assistance Program | <u>n.a.</u> | <u>*</u> | <u>*</u> | <u>*</u> | <u>1</u> |
| Total | 1 | 6 | 11 | 18 | 24 |
| Total | | | | | |
| All Federal Spending on People 65 and Over | 46 | 144 | 360 | 615 | 1,050 |
| Memorandum: | | | | | |
| Federal Spending on People 65 and Over | | | | | |
| As a percentage of the budget | 21.7 | 24.3 | 28.7 | 34.8 | 42.8 |
| As a percentage of gross domestic product | 4.2 | 5.3 | 6.3 | 6.4 | 7.1 |
| Per elderly person (In 2000 dollars) | 8,896 | 11,839 | 15,192 | 17,688 | 21,122 |

SOURCE: Congressional Budget Office.

NOTE: * = less than \$500 million; n.a. = not applicable.

a. Includes Tier 1 of Railroad Retirement.

b. Includes the federal share of states' administrative costs and nutrition assistance to Puerto Rico.

Federal Spending on Children

Federal programs that provide benefits to children under age 18 will spend about \$148 billion this year, or about 8.4 percent of the total federal budget (see Table 2). Including benefits for those children's parents (where the payments are directly related to the presence of children), \$175 billion, or 9.9 percent of the budget, will go to families with children in 2000 (see Table 3). As a share of GDP, that spending is expected to remain between 1.5 percent and 1.8 percent during the next decade.

Over the next 10 years, spending for children is projected to climb by about \$81 billion to \$229 billion (or \$269 billion including certain spending on adults in those families). Medicaid accounts for the largest share of spending and is the fastest growing program for children. The other in-kind transfer programs that spend the most on children and their families are Food Stamps and child nutrition programs. The greatest cash income support from the federal government for families with children comes from family support programs and the earned income tax credit.

Unlike spending on the elderly, a significant portion of federal spending on children and their families is provided not through entitlement programs but through discretionary programs, which are subject to annual appropriations. Thus, assumptions about future appropriations are more important to projections of spending for children than for the elderly. The estimates in Tables 2 and 3 use the inflated version of CBO's baseline, which assumes that appropriations increase at the same rate as inflation. CBO also produced two other versions of its baseline: one assumes that discretionary spending adheres to the statutory caps on such spending that are in effect through 2002 and grows at the rate of inflation thereafter; the other assumes that such spending is frozen at this year's level. The latter baseline assumption yields the lowest projections of discretionary spending of the three. Under that assumption, discretionary spending on children would be \$10 billion to \$11 billion lower in 2010.

Besides the earned income and child tax credits, other parts of the tax code provide assistance to families with children. Tax preferences exist in the personal exemptions claimed for dependent children, salary-reduction plans directed toward child care expenses, tax credits for higher education, and other provisions.

TABLE 2. FEDERAL SPENDING FOR CHILDREN UNDER SELECTED PROGRAMS IN 2000 AND 2010 (By fiscal year, in billions of dollars)

| | Estimated 2000 | Projected 2010 |
|--|-------------------|-------------------|
| Mandatory Programs | | |
| Medicaid | 23 | 52 |
| Family Support ^a | 16 | 21 |
| Earned Income Tax Credit (Outlay portion only) | 14 | 17 |
| Social Security and Railroad Retirement | 13 | 20 |
| Child Nutrition | 9 | 14 |
| Food Stamps | 9 | 13 |
| Foster Care and Adoption Assistance | 5 | 10 |
| Supplemental Security Income | 5 | 10 |
| State Children's Health Insurance Program | 2 | 5 |
| Social Services Block Grant | 1 | 1 |
| Child Tax Credit (Outlay portion only) | 1 | * |
| Medicare | * | * |
| Total | 99 | 163 |
| Discretionary Programs | | |
| Elementary and Secondary Education | 20 | 27 |
| Housing Assistance ^b | 10 | 14 |
| Other Health and Human Development Programs ^c | 9 | 12 |
| Nutrition Programs ^d | 4 | 5 |
| Community Services, Development, and Other Block Grants | 2 | 3 |
| Youth Employment and Training ^e | 2 | 3 |
| Low Income Home Energy Assistance Program | 1 | 1 |
| Department of the Interior (Indian Affairs) ^f | 1 | 1 |
| Juvenile Justice | * | 1 |
| Refugee and Entrant Assistance | * | * |
| Other | * | * |
| Total | 50 | 66 |

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TABLE 2. CONTINUED

| | Estimated 2000 | Projected 2010 |
|---|-------------------|-------------------|
| Total | | |
| All Federal Spending on Children | 148 | 229 |
| Memorandum: | | |
| Federal Spending on Children | | |
| As a percentage of the budget | 8.4 | 9.4 |
| As a percentage of gross domestic product | 1.5 | 1.5 |
| Per child (In 2000 dollars) | 2,106 | 2,541 |

SOURCE: Congressional Budget Office.

NOTES: * = less than \$500 million.

These numbers do not include payments to adults, even when adults receive the payments because of the presence of children.

- a. Family support programs include Temporary Assistance for Needy Families, Family Support, Emergency Assistance, Child Care Entitlements to States, Children's Research and Technical Assistance, and Child Support Enforcement.
- b. Includes federal assisted-housing dollars based on data from the American Housing Survey. Housing assistance includes low-rent public and Indian housing, Section 8 low-income housing aid, Section 236 interest-reduction payments, Section 101 rent supplements, and Section 235 home ownership assistance.
- c. Includes services provided to children by community and migrant health centers; some programs of the Centers for Disease Control and Prevention and the Substance Abuse and Mental Health Services Administration, such as immunization programs and programs for children with serious emotional disturbances; spending on the National Institute on Child Development; services for children through the Indian Health Service; and various programs and aid administered through the Department of Health and Human Services, including Healthy Start, perinatal facilities, pediatric emergency medical service, Ryan White Title IIIB and IV programs, family planning, child welfare and child abuse programs, programs for runaway and homeless youth, programs involving children with developmental disabilities, and Head Start.
- d. Includes the Special Supplemental Nutrition Program for Women, Infants, and Children; the Commodity Supplemental Food Program; food aid provided by the Federal Emergency Management Agency; and the Emergency Food Assistance Program.
- e. Includes Job Training Partnership Act programs such as youth training grants, youth opportunity grants, and Job Corps.
- f. Includes services to Indian children, the elderly, and families; Indian housing assistance; Indian Affairs schools; and other educational services funded through the Department of the Interior for the Bureau of Indian Affairs.

TABLE 3. FEDERAL SPENDING FOR CHILDREN AND THEIR PARENTS UNDER
SELECTED PROGRAMS IN 2000 AND 2010 (By fiscal year, in billions of dollars)

| | Estimated 2000 | Projected 2010 |
|--|-------------------|-------------------|
| Mandatory Programs | | |
| Medicaid | 31 | 69 |
| Family Support ^a | 23 | 29 |
| Earned Income Tax Credit (Outlay portion only) | 25 | 30 |
| Social Security and Railroad Retirement | 15 | 22 |
| Child Nutrition | 9 | 14 |
| Food Stamps | 9 | 13 |
| Foster Care and Adoption Assistance | 5 | 10 |
| Supplemental Security Income | 5 | 10 |
| State Children's Health Insurance Program | 2 | 5 |
| Social Services Block Grant | 1 | 1 |
| Child Tax Credit (Outlay portion only) | 1 | * |
| Medicare | * | * |
| Total | 126 | 203 |
| Discretionary Programs | | |
| Elementary and Secondary Education | 20 | 27 |
| Housing Assistance ^b | 10 | 14 |
| Other Health and Human Development Programs ^c | 9 | 12 |
| Nutrition Programs ^d | 4 | 5 |
| Community Services, Development, and Other Block Grants | 2 | 3 |
| Youth Employment and Training ^e | 2 | 3 |
| Low Income Home Energy Assistance Program | 1 | 1 |
| Department of the Interior (Indian Affairs) ^f | 1 | 1 |
| Juvenile Justice | * | 1 |
| Refugee and Entrant Assistance | * | * |
| Other | * | * |
| Total | 50 | 66 |

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TABLE 3. CONTINUED

| | Estimated 2000 | Projected 2010 |
|--|-------------------|-------------------|
| Total | | |
| All Federal Spending on Children and Their Parents | 175 | 269 |
| Memorandum: | | |
| Federal Spending on Children and Their Parents | | |
| As a percentage of the budget | 9.9 | 11.0 |
| As a percentage of gross domestic product | 1.8 | 1.8 |
| Per child (In 2000 dollars) | 2,491 | 2,986 |

SOURCE: Congressional Budget Office.

NOTES: * = Less than \$500 million.

These numbers include payments to adults when adults receive the payments because of the presence of children.

- a. Family support programs include Temporary Assistance for Needy Families, Family Support, Emergency Assistance, Child Care Entitlements to States, Children's Research and Technical Assistance, and Child Support Enforcement.
 - b. Includes federal assisted-housing dollars based on data from the American Housing Survey. Housing assistance includes low-rent public and Indian housing, Section 8 low-income housing aid, Section 236 interest-reduction payments, Section 101 rent supplements, and Section 235 home ownership assistance.
 - c. Includes services provided to children by community and migrant health centers; some programs of the Centers for Disease Control and Prevention and the Substance Abuse and Mental Health Services Administration, such as immunization programs and programs for children with serious emotional disturbances; spending on the National Institute on Child Development; services for children through the Indian Health Service; and various programs and aid administered through the Department of Health and Human Services, including Healthy Start, perinatal facilities, pediatric emergency medical service, Ryan White Title IIIB and IV programs, family planning, child welfare and child abuse programs, programs for runaway and homeless youth, programs involving children with developmental disabilities, and Head Start.
 - d. Includes the Special Supplemental Nutrition Program for Women, Infants, and Children; the Commodity Supplemental Food Program; food aid provided by the Federal Emergency Management Agency; and the Emergency Food Assistance Program.
 - e. Includes Job Training Partnership Act programs such as youth training grants, youth opportunity grants, and Job Corps.
 - f. Includes services to Indian children, the elderly, and families; Indian Housing assistance; Indian Affairs schools; and other educational services funded through the Department of the Interior for the Bureau of Indian Affairs.
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CBO'S DATA AND METHODS

Partitioning federal spending according to the part of the population that receives various benefits is not easy. No uniform data system for all programs classifies expenditures by the age of the recipient. Moreover, even when the identity of the recipients is clear, the identity of the ultimate beneficiaries may not be. For example, income support and medical benefits for the elderly may substitute for spending that relatives would have made on behalf of their elders, in which case the nonelderly would be the true beneficiaries of program spending. Similarly, although family support programs and the earned income tax credit provide cash benefits for families with children, families are not required to spend that money for the benefit of their children.

CBO used a variety of data sources to distribute federal spending among the elderly and families with children. Entitlement spending was apportioned using program data, sample survey data, or some combination of the two. For example, data from the Social Security Administration served as the basis for allocating Social Security benefits, and the Food Stamp Quality Control data file served the same purpose for Food Stamp spending. Allocations of Medicaid spending relied on both administrative and sample survey data. For discretionary programs, the distributions were frequently based on research reports about the programs or, in some cases, on the professional judgment of the agency staff who monitor the programs.

Because those data are not uniform or always for the same year, the allocation of expenditures among age groups is imprecise. In general, the apportionment of spending for larger entitlement programs is more likely to be derived from administrative data rather than based on a single research study or professional judgment, whereas for many discretionary programs, administrative data about beneficiaries are meager and evaluation studies may be the sole source of such information.

Besides deciding what data to use in the allocation of spending among different age groups, CBO had to choose what spending to include in the distributions. Should the analysis of spending relate specifically to individuals, or should transfers to a whole family be considered? Should only spending that is conditioned on the age of the recipient be included? In general, this analysis includes benefits that households receive as a result of having a person of the relevant age residing in the household. For example, unemployment benefits are excluded because they generally do not vary by family size and are based on the unemployment of an individual regardless of age. Food Stamp benefits are prorated according to the number of children or elderly people in the household. Spending for Medicaid, family support programs, the earned income tax credit, and Social Security is distributed on two bases: payments made solely for children and the elderly, and payments that

include amounts spent on adults as a result of their having children. Medicaid spending excludes disproportionate share payments to hospitals that treat a large number of low-income people. In general, the administrative expenses of entitlement programs are not included in the spending distributions.