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# A New Deal for Young Adults: Social Security Benefits for Post-Secondary School Students

*By Alexander Hertel-Fernandez*

Summary

Social Security is best known as the foundation of retirement security for older Americans. Equally important is the economic security it provides to families that lose a breadwinner's support because of death or disability. Social Security provides benefits directly to about 3 million dependents under age 18 (or under age 19 if still in high school) who have lost parental support because of death, disability, or retirement. Between 1965 and 1983, the benefit continued until age 22 for young adult children who were enrolled in post-secondary education. This brief examines the case for reinstating Social Security student benefits until age 22 for children of deceased and disabled workers. It finds:

- Higher education is even more important in today's labor market than it was when student benefits were terminated. Workers with only a high school education face a larger wage gap today than did high school graduates 30 years ago.
- Higher education costs far more, and financial aid is less adequate, than when student benefits were terminated. After adjusting for inflation, a year's tuition, room and board in public four-year institutions has more than doubled, reaching about $15,200 in 2009. At the same time, the average Pell grant (just under $3,000 today) has almost no more purchasing power than the average grant 30 years ago.
- In the past, student benefits improved college enrollment and completion rates among minority and low-income students.
- Social Security student benefits today could help low-income community college students better balance work and school to complete their degrees. When Social Security student benefits were in place, they helped college students work fewer hours than would have been necessary without the benefits. Yet, because student beneficiaries had, on average, lower family incomes, they still worked more than other college students.
- The cost of such a student benefit would be modest — 0.07 percent of taxable payroll over the 75-year horizon used by Social Security actuaries.
- Student benefits are consistent with other public policies that view students as dependents of their parents and fit with the family life insurance and disability insurance functions of Social Security.
- Americans support paying for such benefits through Social Security. A national survey in July 2009 found that 78 percent of Americans supported extending benefits for children whose working parents have died or become disabled, from the current cut off of 19 years to 22 years old, if the child is in college or vocational school.

**Alexander Hertel-Fernandez** is a researcher at the Economic Policy Institute.

## Introduction

Social Security is best known as the foundation of retirement security for older Americans. Equally important is its family income protection, which provides wage replacement when a breadwinner's earnings are lost because of death, disability, or old age. Through this role, Social Security provides benefits to about 3 million children of deceased, disabled, and retired parents each year.

Altogether about 6.5 million children under 18 get part of their family income from Social Security because they themselves receive benefits, or they live with relatives who do. These benefits lifted 1.3 million children out of poverty and reduced the depth of poverty experienced by another 1.5 million children in 2005. Children who get part of their family income from Social Security outnumber those who receive assistance from Temporary Assistance for Needy Families (Reno and Lavery 2008; Gabe 2008).

Benefits paid to children are calculated as a share of a parent's total payment amount; children of retired and disabled workers can receive up to 50 percent of their parents' benefit while children of deceased workers are eligible to receive 75 percent. All of these benefits are subject to a family maximum.

In 1965 Congress established the Social Security "student benefit" program, which changed the definition of dependent child to include full-time students enrolled in post-secondary education. Unmarried children of deceased, disabled, and retired parents became eligible for benefits up through their 22nd birthday if they were enrolled in full-time education (Koitz 1983). In order to be eligible, beneficiaries had to enroll in high school, two- or four-year colleges, vocational or technical training programs, graduate school, or professional school. The program peaked in 1981, when it represented 20% of all federal outlays on student assistance for higher education (Ehrenberg and Luzardis 1984).

Payments to students continued until Congress ended the benefits in legislation passed in 1981. The program was terminated for students newly entering college as of May 1, 1982. Today, dependent children are eligible to receive benefits until their 19th birthday, if they are enrolled in elementary or secondary school; if they are not, benefits end at their 18th birthday.

## Student Benefits Are Consistent with the Purpose of Social Security

In enacting student benefits, Congress recognized that most young adults enrolled in post-secondary education were largely dependent on their parents' income. The student benefit was seen, first and foremost, as part of the *insurance* function of Social Security to partially replace earnings that were lost due to a parent's death, disability, or retirement (Koitz 1983; CBO 1977; Rosen 1983). This rationale was articulated in the U.S. House of Representatives Ways and Means Committee report on the legislation:

> "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…
>
> Not only may the child [who cannot look to a breadwinner for support because of death or disability] be prevented from going to college by the loss of parental sup-

> port and loss of his benefits; he may even be prevented from finishing high school or going to vocational school. [...] The program extends the traditional Social Security protection of a child of a wage-earner who can no longer support the family (U.S. House of Representatives 1965)."

The legislative rationale for replacing lost parental support still holds today. In the face of skyrocketing costs of higher education, students may be *more* dependent on their families for support than they were in the mid-1960s when the benefits were first enacted. Recent findings that about eight in 10 students today will rely on their parents for funding during their first year of college (HERI 2009) buttress the case for continuing Social Security's wage-replacement benefits until age 22 for students who have lost parental support.

> *"In the face of skyrocketing costs of higher education, students may be **more** dependent on their families for support than they were in the mid-1960s when the benefits were first enacted."*

Other public provisions recognize the dependent status of young adults enrolled in post-secondary education. First, the federal income tax code generally recognizes unmarried full-time students under age 24 as dependents if a parent pays for at least half of all support (see generally IRS 2009). Second, the Federal Employees Compensation Act, which provides compensation for families of federal workers who die or become disabled on the job, extends benefits to adult children until age 23, if they are full-time students (see 5 US Code Chapter 81). Finally, in regulating health insurance, many states have historically allowed college students to remain eligible for their parents' health insurance coverage up through graduation or (typically) until the students' 25th birthday (see Georgetown University 2010).

In summary, in authorizing the benefits, Congress viewed them as an extension of the insurance function of Social Security. While they were full-time students, young adults were viewed as dependents of their parents. The logic behind this argument is maintained in other public policies today. As this brief will later argue, there may be an even stronger case for viewing students as dependents of their parents in light of the decreasing affordability of higher education and the important role of additional education in both the lifetime earning potential of an individual and in the ability of the American economy to compete in the modern global marketplace.

### TARGETING STUDENT BENEFITS FOR FAMILIES RECEIVING SOCIAL SECURITY DISABILITY AND LIFE INSURANCE

The case for continuing dependents' benefits for students enrolled in higher education is particularly strong when families have lost parental support due to death or disability. These losses pose unexpected financial hardships that can derail families' plans to help their children get the education they will need to compete in the 21st century. Extending children's benefits to young adults engaged in higher education is fully consistent with the family life insurance and disability insurance principles of Social Security. Consequently, this brief makes the case for targeting student benefits to children of disabled and deceased workers.

Family circumstances in the case of retirement are more mixed. In some cases, workers must retire early involuntarily due to health problems, plant closings or layoffs. In other cases, workers have a choice about when to stop working and when to take Social Security. More empirical research on the economic status of children of retirees is needed to establish their different circumstances. Children's plans for higher education and parents' expectations about helping their children meet those costs are likely to influence parents' decisions about when they can afford to retire.

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TARGETING STUDENT BENEFITS FOR FAMILIES RECEIVING SOCIAL SECURITY DISABILITY AND LIFE INSURANCE CONTINUED FROM PREVIOUS PAGE

The decision about when to claim Social Security retirement benefits can be complicated (Reno and Lavery 2010) and student benefits for retirees' adult children could make it more so. In some quarters conventional wisdom favors taking Social Security at the earliest opportunity. Yet, when retirees wait, they increase their long-term financial security by delaying benefits. This occurs because the Social Security payment is increased for each month that receipt is delayed between ages 62 and 70 (Reno and Lavery 2010). A benefit first claimed at 70 is fully 76 percent higher than it would at that age if the person had taken benefits at age 62. Extending benefits to adult children of retirees could create an incentive for retires to take benefits earlier than they otherwise would, and earlier than would be in the best interests of the retiree and his or her spouse should one or both of them live to advanced ages.

When families lose a parent's support through death or disability, the case for continuing benefits for young adult children enrolled in higher education is more straightforward.

## Student Benefits Helped Economically Vulnerable Students Achieve Higher Education

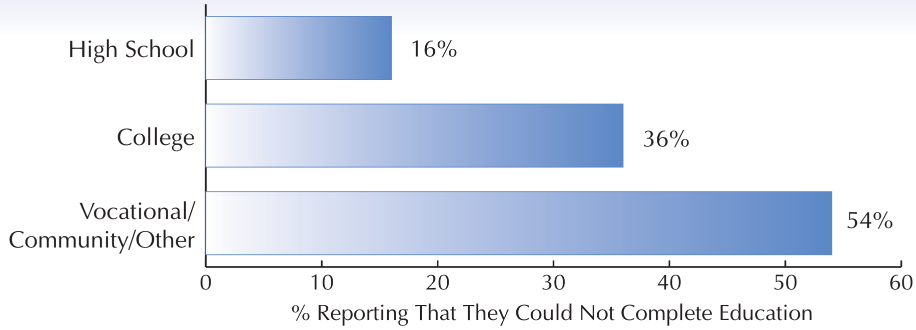
Although Social Security is not a means-tested program, student beneficiaries, like survivor and disability beneficiaries today (GAO 2003), were more likely to come from low-income and minority families. The Congressional Budget Office (1978) found that more than two thirds of students receiving Social Security benefits had household incomes below the national median. It concluded that "Social Security student benefits, though not based on need, assist primarily students from lower-income families because of the economic characteristics of the eligible population."

A 1973 survey by the research office of the Social Security Administration compared student beneficiaries with the general population of 18-24 year old students and found that the student beneficiaries were more likely to be black. The survey also found that the parents of student beneficiaries had lower educational attainment and were more likely to have been in blue-collar jobs than was the case for the general population of young adult students (Springer 1976). The median family income of student beneficiaries was 33 percent lower than the median income all families with an 18- to 24-year old enrolled full-time in high school or college. When the comparison was between families with a child in college, the student beneficiary families had a median income 29 percent lower than that of other families. Without the student benefits, the beneficiary families' median income would have been 38 percent lower than that of other families with a college student.

For many of these students, Social Security benefits made the difference between continuing and abandoning their education. The Social Security Administration survey found that 36 percent of student beneficiaries in college and 54 percent of those in community college or vocational schools reported that they could not afford to remain in school without their student benefits (Figure 1). Social Security benefits helped low-income students complete college and work fewer hours than would have been necessary without the benefits (Dynarski 2003; Ehrenberg and Luzadis 1984). Yet, because of their lower family incomes, student beneficiaries typically worked *more* than average college students (Springer 1976).

A report for the Department of Education in 1983 examined the effects of terminating student benefits and concluded that "…eliminating Social Security student benefits constitutes a serious

**Figure 1: Percentage of Student Beneficiaries Reporting That They Could Not Complete Education without Social Security Benefits**




Source: Springer 1976.

breach in the college opportunities of low income students who were formerly eligible for the program (Rosen 1983)." Economist Susan Dynarski (2003) quantified the effect of the student benefit on college enrollment for at-risk populations. She found that each $1,000 spent by the program increased the probability of attending college for any given student by about 3.6 percentage points and that eliminating the program had reduced college attendance among previously eligible students by more than a third. Because students with disabled or deceased parents were more likely to be black or from low-income families, Dynarski concluded that termination of the program brought a disproportionate drop in college attendance among these young adults.

Today, student benefits could reduce attrition and long delays in completing school for low-income students at community colleges. The leading reason such students give for dropping from full- to part-time status or for leaving school altogether is the difficulty of balancing work and classes ("With Their Whole Lives Ahead of Them" 2009). Just 38 percent of community college students under the age of 24 have a degree (bachelors, associate, or certificate) six years after starting their studies (National Center for Education Statistics 2002; Orozco and Cauthen 2009). The main reason community college students give for working is that they need the money to pay for their education — 63 percent of young community college students said that they would not be able to attend school without working (National Center for Education Statistics 2002).

*"Social Security student benefits could play an important role in encouraging higher rates of retention and completion, particularly in community colleges, a key goal of many education policymakers today."*

Similarly, student benefits could increase participation in technical, apprenticeship, or vocational programs. Recent research suggests that career and technical training programs are especially effective in integrating low-income and minority students into rewarding careers (OECD 2009). Yet students who could most benefit from such educational experiences often cannot afford them (Lerman 2009). The Social Security student benefit could thus help connect vulnerable youth who have lost parental support with promising training programs.

The importance of the Social Security student benefit is borne out by Congressional testimony from the higher education and student advocacy communities, excerpts of which are included in box on page 6.

RESPONSE TO THE TERMINATION OF STUDENT BENEFITS FROM THE HIGHER EDUCATION AND STUDENT COMMUNITIES

During Congressional hearings throughout 1979-1982, numerous representatives from higher education and student policy and advocacy organizations produced testimony detailing the reliance of many students on Social Security benefits. Below are excerpts from statements to the Committee on Ways and Means of the House of Representatives:

**American Council on Education:** Charles B. Saunders, Director of Governmental Relations, February 8th, 1979: *"The point I want to make, Mr. Chairman, is that this argument [that Social Security benefits essentially overlapped with federal financial aid] is misleading, as is the estimate of savings that would accrue. It ignores the real hardship which would be imposed on most beneficiaries since there is no way existing student aid programs can restore the loss of their benefits."*

**American Association of State Colleges and Universities:** John P. Mallan, Vice President for Governmental Relations, February 17th, 1981: *"[I]t is not true that families affected by the loss of Social Security educational benefits would have their needs met by existing student aid programs. On the contrary: they would have their resources greatly depleted—critically depleted, in the case of most beneficiary families' ability to meet the costs of postsecondary education."*

**U.S. Student Association:** Eduardo Wolle, Legislative Director, February 17th, 1981: *"Social Security benefits, for example, are used by many students to supplement their family's meager savings or earnings as well as provide for some relief for the college costs. Eliminating these benefits for students is unjust, and an inhumane act directed at those families who might otherwise not be able to meet college costs."*

**National Association of Student Financial Aid Administrators:** Statement of A. Dallas Martin, Jr., Executive Director, February 15th, 1982: *"Our Association […] has on numerous occasions in the past opposed the elimination of the educational Social Security benefits for students enrolled in post-secondary education. While we have always realized that some overlap has existed between other forms of student financial aid and Social Security benefits, we have suggested that this problem could be dealt with by requiring that the Social Security educational benefits be counted as a resource to be applied against educational costs before providing the student with other forms of financial aid."*

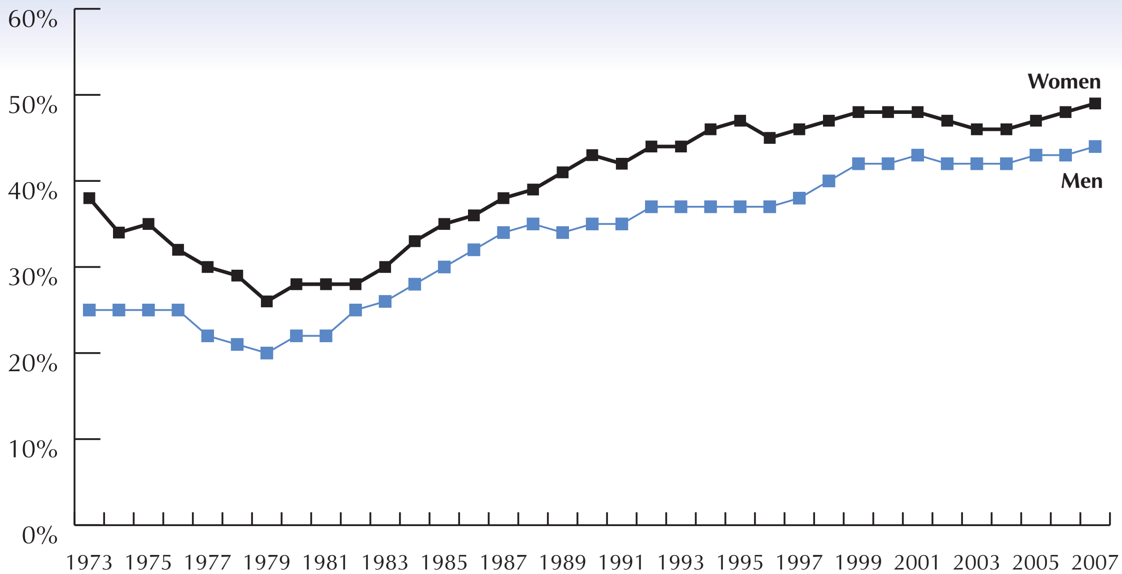
## Higher Education is Even More Essential to Succeed in Today's Labor Market

Workers and their families gain many advantages from higher education. They earn more, have greater job security, and receive better workplace benefits.

College graduates earn, on average, 61 percent more over their lifetimes than do high school graduates, and about double the earnings of those with no high school diploma (Baum and Ma 2007). The "college wage premium" is the differential in earnings between college graduates and high school graduates. This premium declined in the 1970s and rose sharply after 1980 (Figure 2). The college wage premium is far higher today than it was when student benefits were terminated. Between 1981 and 2007, the earnings advantage of male college graduates over male high school graduates rose from 22 to 44 percent. For women the earnings advantage of a college education rose from 28 to 49 percent[1].

Better educated workers are less likely to experience unemployment. Table 1 shows unemployment rates by educational attainment for workers aged 25 or older across four past business cycles. In recent business cycles, unemployment rates peaked in the 1992 recession, reached a cyclical low

**Figure 2: Wage Differential between High School and College Graduates**




Source: Author's analysis of Current Population Survey; see Mishel et al. 2007 for underlying data and methodology. Differential is adjusted for education, age, race, marital status, region, and ethnicity.

point in 2000, then peaked again in 2003 downturn. In both good times and bad, better-educated workers experience lower rates of unemployment. During economic downturns—such as between 2000 and 2003—it is the least educated workers (those without a high school diploma) that generally face the largest increases in unemployment as well.

**Table 1: Unemployment Rate by Educational Attainment: Percent of the labor force who are looking for work**

| | 1992 | 2000 | 2003 | 2007 | 2009 |
|---|---|---|---|---|---|
| Total (age 16 and over) | 7.5 | 4.0 | 6.0 | 4.6 | 9.3 |
| Age 25 and older by education | | | | | |
| Less than high school | 11.5 | 6.3 | 8.8 | 7.1 | 14.6 |
| High school | 6.9 | 3.5 | 5.4 | 4.4 | 9.7 |
| Some college | 6.0 | 2.8 | 5.2 | 3.9 | 8.6 |
| College graduates | 3.2 | 1.7 | 3.1 | 2.0 | 4.6 |

Source: Author's analysis of Bureau of Labor Statistics data. See Mishel et al. for underlying data.

Better educated workers are more likely to receive valuable employment-based benefits, such as health insurance and retirement savings. For example, 80 percent of college graduates and 86 percent of those with advanced degrees were covered by employer-sponsored health insurance in 2008. In contrast, only 30 percent of workers without a high school diploma and 55 percent of those with a high school degree had workplace health coverage (Gould 2008).

While descriptive statistics show that college educated individuals generally have better economic and social outcomes, they do not prove that expanding access to higher education, *in itself*, necessarily leads to better outcomes for an individual or society. It could be, for example, the observed link between a degree and higher earnings simply reflects the persistence of family incomes across generations, or that college degrees serve to sort workers with different innate skills. However, a broad body of research has generally confirmed the finding that increased education is causally connected to higher earnings and better social outcomes, such as health (for a review see Card 1999; Harmon et al. 2003; Card and Lemieux 2001; Trostel 2007b).

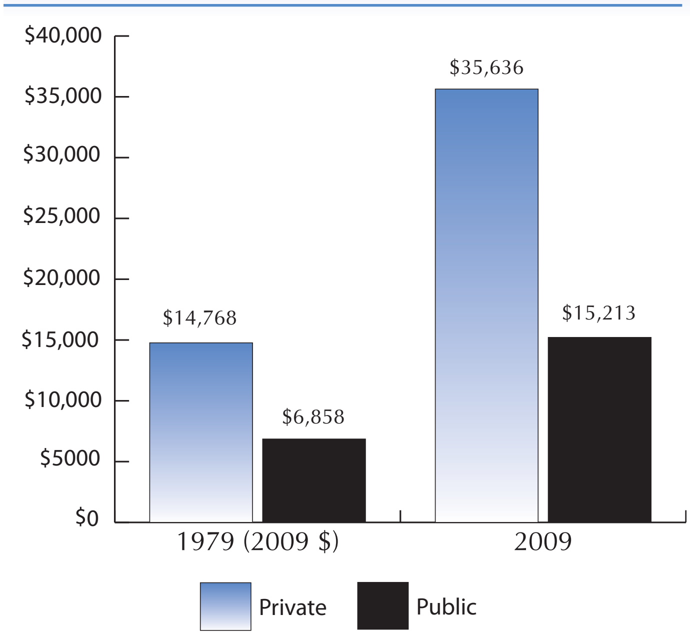
There are clear economic advantages to obtaining a postsecondary degree. These returns have increased dramatically since the student benefit was enacted, making college all the more essential to success in the current labor market. The importance of aiding economically vulnerable students attend and complete higher education through restored Social Security benefits is thus even more important now relative to when the benefit was terminated.

*"Average costs at private colleges rose by 141 percent from 1979 to 2009, while those at public colleges rose by 122 percent."*

## Education Costs More Today than when Benefits Were Terminated; Aid is Less Available

One argument given for terminating Social Security benefits for post-secondary school students was that higher education had become more affordable in the late 1970s than when student benefits were enacted in 1965 (GAO 1979). While this may have been true then, claims of growing affordability are not supported by evidence today. During the 2009-2010 academic year, the average cost of tuition, room, and board at a four-year private institution was $35,636 and was $15,213 at a four-year public institution. After adjusting for inflation, these costs more than doubled since 1979 (Figure 3). Average costs at private colleges rose by 141 percent from 1979 to 2009, while those at public colleges rose by 122 percent. In comparison, median family income for a family of three grew only by 12 percent between 1979 and 2008 after adjusting for inflation, according to data from the Social and Economic Supplement to the Current Population Survey administered annually by the Census Bureau.

**Figure 3: Average Cost of Tuition, Room, and Board at Four-Year Private and Public Institutions, 1979 and 2009 (in 2009 Dollars)**

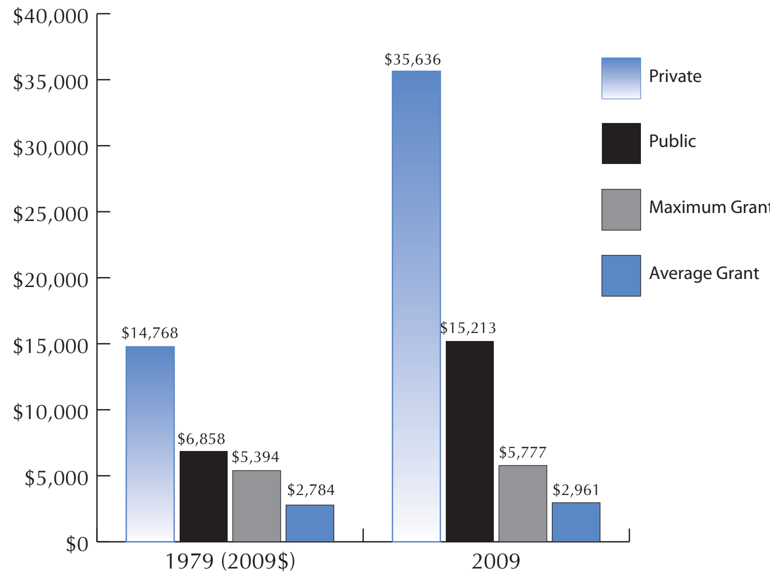



Source: Author's analysis of "Trends in College Pricing" 2009.

A second argument for ending Social Security benefits for students was that other aid was sufficient to meet the needs of low-income students (GAO 1979). In 1979 the maximum Pell Grant covered about one-third of the average cost of tuition, room, and board at private four-year institutions and three-fourths of the average cost of public four-year institutions. The average Pell grant in 1979 covered about one-fifth of the average cost of private institutions and forty percent of the average cost of public institutions (Figure 4). By 2009, the cost of private and public tuition, room, and board had increased dramatically, but the inflation-adjusted value of both maximum and average Pell grants remains about the same as in 1979. Today, the average Pell grant covers less than ten percent of private tuition, room, and board, and 20 percent of the average public tuition, room, and board.

Institutional support—aid offered by colleges themselves—is another important resource for financing higher education. Yet many educational institutions now use financial aid as a tool to attract better-qualified students, rather than to ensure affordability for low- and middle-income students (see e.g. Haycock 2006). From 1995 to 2003, total institutional aid to students with family incomes below $20,000 grew by 50 percent, while total institutional aid to students with family incomes above $100,000 increased by 227 percent. This trend is also reflected in aid programs administered by state governments; from 1994 to 2004 total need-based state aid for college grew by 95 percent while total merit-based aid increased by 350 percent (Haycock 2006).

**Figure 4: Maximum and Average Pell Grant and Average Cost of Tuition, Room, and Board at Four-Year Private and Public Institutions, 1979 and 2009 (in 2009 dollars)**




Source: Author's analysis of "Trends in Student Aid" 2009. 1979 values in 2009 dollars.

Federal support to families for higher education has also shifted from improving equality of opportunity for low-income students to subsidizing tuition for middle- and upper-middle class families. Many of the current tax expenditures directed towards financing higher education accrue to wealthier households. This is especially true for the federal income tax deduction for tuition and related fees (53 percent of the deduction benefits families with cash income above $100,000; Magg et al. 2007) and tax-favored college savings accounts (U.S. Department of the Treasury 2009).

In summary, the cost of college has increased dramatically since 1979, and financial aid, particularly for low- and middle-income families, has not risen in tandem. These trends present a formidable obstacle for disadvantaged students (National Center for Educational Statistics 2006). Continuing Social Security benefits for children of deceased and disabled workers while they are full-time students in post-secondary school is one measure to ease the growing problem of access to higher education for this population.

## Social Security Is an Efficient Way to Deliver Benefits

Social Security remains an efficient way to deliver partial replacement of lost parental support to children of deceased and disabled workers who are students. As a social insurance program that includes nearly all workers, it is extraordinarily efficient to administer. It spends less than one percent of outgo on administration (SSA 2009b).

*"As a social insurance program that includes nearly all workers Social Security is extraordinarily efficient to administer. It spends less than one percent of outgo on administration."*

Some may be concerned that student benefits would be financed by Federal Insurance Contributions Act (FICA) taxes on wages up to a cap ($106,800 in 2010). In this sense, the FICA tax is not progressive[2]. As with overall Social Security benefits, however, the FICA tax would finance progressive benefits. As the previous sections show, students receiving Social Security were disproportionately from low-income families. Moreover, several proposals to restore long-term balance to Social Security, such as either increasing or eliminating the cap on earnings subject to Social Security taxes, would also increase the progressivity of the contributory system.

## Americans Support Social Security Benefits for Students

There is strong public support for paying Social Security benefits until age 22 to children of deceased or disabled workers who are in post-secondary school. A nationally representative poll commissioned by the Rockefeller Foundation and the National Academy of Social Insurance in 2009 found that 78 percent of respondents supported paying those benefits (Reno and Lavery 2009b). Young adults in particular have expressed strong support for restoring student benefits in Social Security. Focus groups conducted as part of the Roosevelt Institute (a national student think-tank) initiative on Social Security, as well as participants in the National Academy of Social Insurance's annual summer intern academy, have consistently cited reinstatement of the benefit as a key component of overall Social Security reform.

*A nationally representative poll found that 78 percent of respondents supported paying [student] benefits.*

## Expected Beneficiaries and Payments

In 2008, 546,568 child recipients of Social Security had their benefits terminated because they were too old to continue receiving payments. Of these recipients, 43 percent were the children of deceased workers and 45 percent were children of disabled workers. (The others were children of retired workers, 12 percent.) Together, these are the beneficiaries who could become eligible for a restored student benefit should they choose to pursue post-secondary education. The average monthly benefit for 18-19 year old beneficiaries in 2008 was $812 for children of deceased parents and $436. for children of disabled parents. As the table below demonstrates, current 18-19 year old recipients of Social Security disability or survivor benefits are much more likely than the total population of 18-19 year olds to be non-white. Nearly half (42 percent) of the beneficiary population is non-white, versus just twenty-two percent of the total 18-19 year old population. This is consistent with historical records that demonstrated that child recipients of Social Security were more likely to be minorities.

**Table 2: Racial Characteristics of Current Beneficiaries with a Deceased or Disabled Parent**

| | Current Disability/Survivor 18-19 year old beneficiaries (2008) | All 18-19 year olds (2008) |
|---|---|---|
| White | 57 | 78 |
| Black | 21 | 15 |
| Other | 21 | 7 |
| Total percent | 100 | 100 |

Source: Current beneficiary data from the Social Security Administration Annual Statistical Supplement for 2009; 18-19 year old demographic data from the 2009 Annual Social and Economic Supplement to the Current Population Survey.

## Society Benefits from a Better Educated Work Force

In addition to the direct benefits to the students themselves, there may be broader benefits to society as a whole from expanding access to higher education. A better-educated workforce generates more income and tax revenue, while requiring less spending on public programs, such as unemployment insurance, welfare, Medicaid, and food stamps (Trostel 2007a). Indirect benefits to society and the economy as a whole include better health, longer life expectancies, increased innovation and dissemination of technology, greater political participation, reduced crime, and increased civic participation (Levin et al. 2007). It is thus possible that increasing college enrollment and completion could increase payroll tax revenue for Social Security. These effects are likely to be magnified by the fact that the population of potential beneficiaries is poorer than the general population of 18-to-22 year olds, so college enrollment and completion will have a larger impact on recipients relative to the general population.

## The Cost of Social Security Student Benefits Is Small

While Social Security faces a long-run shortfall in revenue, the imbalance is neither as dire nor as imminent as it was in the early 1980s when student benefits were terminated. Congress has many options to put the program into long-run balance or even surplus (Diamond and Orszag 2005; Reno and Lavery 2009a; SSA 2009a; Altman 2005). A restored student benefit would represent only a relatively small increase in current Social Security expenditures.

The current projected long-run shortfall under intermediate assumptions for the entire Social Security program (Old Age, Survivor, and Disability benefits) is estimated to be 2.00 percent of taxable payroll, according to the 2009 Trustees Report. Providing student benefits for children of deceased and disabled workers is estimated to cost about 0.07 percent of taxable payroll over the 75-year actuarial horizon, or 3.5 percent of the entire projected shortfall (SSA 2009a, Reno and Lavery 2009a). To put that cost in perspective, consider a worker earning $50,000 per year. A 0.07 percent increase in the Social Security contribution rate would represent an additional $35 in Social Security contributions per year split between the hypothetical worker and her employer. This cost estimate does not take into account the growth in earnings resulting from increasing educational opportunities for disadvantaged students. Though this would increase both contributions and benefits, the net effect on the program's finances would likely be positive. Therefore, the long-term cost of restoring the student benefit could be even less than the estimate provided by the Social Security Administration.

## Arguments for Terminating Student Benefits

A 1979 report to Congress from the General Accounting Office (GAO) outlined five arguments for ending student benefits: (1) College students could no longer be viewed as dependents; (2) College had become more affordable; (3) The benefits were not effective student aid because they were neither means-tested nor contingent on academic progress; (4) That the benefits were an undue burden on the trust fund; and (5) the Social Security Administration (SSA) did not have an adequate structure to verify full-time school enrollment of beneficiaries, resulting in overpayments (GAO 1979).

This brief has found ample precedents for viewing college students as dependents of their parents (#1), college has become far less affordable since 1979 as costs skyrocketed without a corresponding increase in aid for low- and middle-income students (#2). In response to issue #3, Social Security student benefits were not forumlated as student aid, but rather as partial replacement of parental support as part of the insurance function of Social Security. This logic was articulated in the legislative rationale for the benefits in 1965. Moreover, in response to issue #3, the benefits were effective in helping low-income and minority students attend college. In response to issue #4, the cost estimate for providing such benefits to children of disabled and deceased workers is quite modest.

The final concern cited by the GAO—of an inadequate verification structure—is also no longer applicable. When student benefits were in place, SSA relied mainly on self-reports by students of their enrollment. If self-reports were late, missing, or incorrect, overpayments could arise. However, the recovery rate on these overpayments was quite high; the government recouped approximately 75 percent of all incorrect payments (DeWitt 2001). Moreover, verification today has greatly improved, and the SSA Office of the Inspector General has routinely conducted rigorous investigations of inaccurate payments for current high school student beneficiaries aged 18 through 19 (SSA 1999, 2004). Streamlined electronic enrollment verification could be used to verify student status with student benefits today. Verification of student status could build on the existing infrastructure of the Free Application for Federal Student Aid (FAFSA), which conducts similar verification with institutions of higher education.

### HOW THE SOCIAL SECURITY ADMINISTRATION COULD USE FAFSA FOR ENROLLMENT VERIFICATION

The federal government screens eligibility for higher education assistance through the FAFSA. Students wishing to apply for federal aid must complete an annual application (typically online) that includes their personal information, Social Security number, financial records, and other tax information. This form is submitted to the Department of Education. Applicant information is compiled and then sent to financial aid offices at the respective universities to verify student enrollment and academic standing. A restored Social Security student benefit could take advantage of this process by submitting beneficiary information through the FAFSA process and having individual universities report back the enrollment and academic status of beneficiaries. This information would then be sent to the Social Security Administration. Making use of existing processes for enrollment verification in the FAFSA process would greatly reduce the administrative costs and potential payment errors associated with restoring the student benefit. It would also have the added effect of ensuring that all student beneficiaries also apply for federal financial aid. Thus these administrative and technical shortcomings that may have originally provided a case for eliminating the benefit are much less relevant today.

In sum, arguments made in the late 1970s to terminate student benefits have lost their salience today. Indeed, in light of the skyrocketing costs of higher education, eroding financial aid, and increasing economic value of post-secondary education, there is an even stronger case for providing wage-replacement benefits for young adult students who have lost parental support because of death or disability.

## Conclusion

*Restoration of the student benefit will be an affordable and effective step to ensure the continuing adequacy of Social Security's family protection.*

Describing Social Security, Philip Springer (1976) wrote: "as a social institution, the program ensures continuity of the basic social unit—the family—when the economic base of the unit's existence, earnings, is lost." The loss of income from a disabled or deceased parent represents a significant risk to the continued educational achievement of affected children. This is especially true in light of the declining affordability of post-secondary education, which has made students increasingly reliant on their families for financial support. Restoration of the student benefit will be an affordable and effective step to ensure the continuing adequacy of Social Security's family protection.

## Endnotes

1 These values and the data in Figure 2 are regression-adjusted for experience, education, age, race, marital status, region, and ethnicity in an attempt to control for the effect of these variables and isolate the impact of education on differences in earnings).

2 One of the principal goals of the Earned Income Tax Credit (EITC; enacted in 1975) was to reduce the payroll tax burden on very low-income workers to increase the returns of employment, while still granting them the same social insurance protection afforded to other workers. To ensure the progressivity of Social Security, any increases in payroll contributions could be offset by increases to the EITC (for more detail see Reno 2007 and Altman 2005).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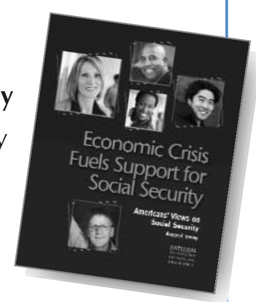


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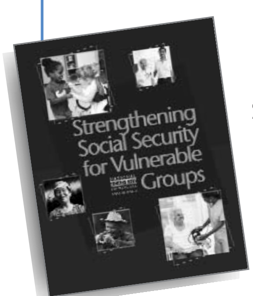


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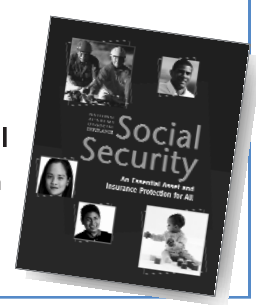


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1776 Massachusetts Avenue, NW, Suite 615, Washington, DC 20036-1904
(202) 452-8097 • (202) 452-8111 Fax
nasi@nasi.org • www.nasi.org