

SOCIAL SECURITY STUDENT BENEFITS

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## ISSUE DEFINITION

As part of his program for economic recovery President Reagan included a proposal to discontinue social security benefits for 18 to 22-year-old students attending college or vocational school. Critics of the student benefit believe that other federally funded educational assistance programs which tailor the amount of aid provided to actual educational costs and family income should be relied upon to help finance the college educations of students who are children of retired, disabled, and deceased workers. Defenders of the student benefit say that it is not just educational assistance, but basic income support intended to replace a part of the lost earnings of the parent upon which this student depended up until the time the parent retired, became disabled, or died.

Both Houses of Congress approved a modified version of the President's proposal as part of the Omnibus Budget Reconciliation Act of 1981, signed into law (P.L. 97-35) on Aug. 13, 1981.

## BACKGROUND AND POLICY ANALYSIS

### Prior Law

Under the Social Security Act, monthly cash benefits are paid to the children of an insured worker when the worker retires, becomes disabled, or dies. The amount of the child's benefit is generally equal to 50% of the benefit paid to the retired or disabled worker himself and 75% of a full worker's benefit in the case of a surviving child. Benefits are somewhat less for children in large families due to the maximum family benefit limit, which limits total family benefits to 150% to 188% of the worker's benefit. Although different rules apply to disabled children, child beneficiaries generally continue to receive benefits until they marry or reach age 18. Under old law these benefits could continue even after age 18 and up until age 22 as long as the beneficiary could establish that he was attending high school, college, or vocational school on a full-time basis. Benefits could continue for several months beyond age 22 (until the end of the school term) if the student had not yet completed his 4-year college degree. This continuation of child's benefits beyond age 18 based on full-time school attendance is what is commonly referred to as the social security "student benefit."

The student beneficiary has not been required to show that he is pursuing a degree or that his academic performance has been satisfactory in order to remain eligible for benefits. His benefits could continue during the summer months or during any other period of non-attendance of 4 months or less if he stated in advance his intention to return to school immediately after this period or if in fact he did return to school. If he said that he planned to return to school but did not actually do so, the benefits paid to him during his months of non-attendance were defined as overpayments and subject to recoupment under the rules of the Social Security Administration.

### Legislative History

The 1939 Amendments to the original 1935 Social Security Act provided "supplementary" benefits for the wives and "dependent" children of retired and deceased workers. All unmarried children were eligible for benefits until their 16th birthday; 16- and 17-year-old children were eligible if they were attending school full time. In 1946 the student requirement was dropped; all children were eligible until they reached 18. In 1956 the children of disabled workers became eligible for social security benefits at the same time that benefits for disabled workers were created.

The 1965 Amendments to the Social Security Act that established the Medicare program also provided for social security benefits to children of retired, disabled, and deceased workers even after their 18th birthday and up until their 22nd birthday as long as they attended school full time and did not marry. In its report accompanying the 1965 legislation, the House Ways and Means Committee offered the following explanation for the new provision:

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 be prevented from going to college by loss of parental support and loss of his benefits; he may even be prevented from finishing high school or going to a vocational school. With many employers requiring more than a high school education as a condition for employment, education beyond the high school level has become almost a necessity in preparing for work.... Providing benefits up to age 22 would mean that for many children benefits could continue for the time it takes to complete a 4-year college course.

The Senate Finance Committee report contained identical explanatory language. Although these benefits came to be known as "student benefits," it is clear from the legislative history that they were not primarily intended as educational assistance per se, but to recognize the continuing dependency of a child beyond the normal age of majority because he is attending school full time. Thus, the amount of the benefit payable was related only to the amount of earnings lost due to the death, disability, or retirement of the parent and not related to the actual costs incurred in attending school or to the amount of other income available to the family.

In 1972 the student benefit provision was liberalized to permit benefits beyond age 21 in order that a student working toward an undergraduate degree at a 4-year college could complete the current semester or quarter before his social security benefits were terminated.

### Reagan Administration Proposal

Both the Ford and Carter Administrations recommended cutbacks in the student benefit program, but neither proposal would have reduced benefits to

any student already receiving benefits. Both prior Administrations proposed no change in benefits for high school students, but a 4-year phasing out of benefits for all postsecondary students. The Reagan proposal would also have left benefits to high school students unchanged, but it went further than the Ford and Carter proposals did in cutting back benefits to postsecondary students. The Reagan proposal would have reduced the amount of monthly cash benefits paid to current student beneficiaries who attend college or vocational school by 25% each year for the next 4 years and allowed no new post-secondary student beneficiaries to come on the rolls after Aug. 1, 1981.

The Reagan Administration expected to save \$2.2 billion per year in social security benefit costs when the proposal was fully effective in FY85.

The Administration argued that social security student benefits duplicate other federally funded education assistance programs for college students and should therefore be eliminated. It maintained that assistance for students represents a "marginal" benefit in a social insurance scheme, since social insurance is generally intended to insure against unavoidable risks and not to permit individuals the option of attending school beyond age 18. The Administration also pointed out that the availability of federally funded educational assistance other than social security has increased dramatically since 1965 (from less than \$300 million in 1965 to about \$7 billion in FY81), and that those forms of assistance are preferable to social security in providing assistance to students because they take into account actual costs of attending school and the amount of other income to the family. Given that the student benefit is "marginal" and "duplicative" of other programs, the Reagan Administration is anxious to abolish it in order to reduce the financial difficulties of the social security trust funds and to help reduce total Federal spending as part of the President's program for economic recovery.

#### Congressional Action in 1981

In order to help meet their FY82 budget reconciliation targets, both the Senate Finance Committee and the House Ways and Means Committee voted in May 1981 to phase out social security benefits, but each modified the Reagan Administration proposal. The Finance Committee voted to stop enrolling new postsecondary beneficiaries 1 year later than the Administration proposed, that is, to make the 1981-82 school year the final year in which such new students would be eligible. The Finance Committee further voted to eliminate summer benefits (May through August) for students left in the expiring program, beginning in 1982; to reduce student benefits by 25% yearly, starting in September 1982, to end all student benefits effective in May 1985; and to pay no cost-of-living benefit increases to postsecondary students after July 1981.

Individuals 18 to 21 years old who became newly entitled to social security benefits due to the death, disability or retirement of a parent after August 1981 could receive benefits as post-secondary students, but only through July 1982.

The Ways and Means Committee voted to stop enrolling postsecondary students after December 1982, but to freeze benefits at their July 1981 level for those left in the expiring program; and to eliminate summer benefits (June through August) for those not enrolled in a full-time summer school program.

Further, the Senate Finance Committee voted to stop a child's benefit after his 19th birthday, even if he were still in high school; but the House Ways and Means Committee voted to continue benefits for children over 18 until completion of their elementary or secondary schooling.

These decisions were reported in committee press releases: Finance, #81-10, May 6, 1981; Ways and Means, May 20, 1981.

Just prior to the July 4 recess, both the House and Senate approved FY82 budget reconciliation bills. The Senate-passed bill included the provision to phase out social security student benefits just as it has been voted on in the Finance Committee and in the Budget Committee (reported to the full Senate as S. 1377, the Omnibus Reconciliation Act of 1981). However, when the Ways and Means Committee provision was brought to the floor as part of the House Budget Committee's reconciliation package (H.R. 3982), the student benefit was among those provisions modified by the amendments offered by Representative Latta (the so-called Gramm-Latta II alternative). The Latta amendment deleted the Ways and Means provision and substituted language identical to that which had passed the Senate the day before (June 25). Since the Gramm-Latta substitute passed the House on June 26 by a 217-211 margin, there were no differences between the House and Senate student benefit provisions to be resolved by the conference committee.

Conferees appointed to resolve the differences between the House and Senate budget bills reached agreement in late July 1981, and the Omnibus Reconciliation Act of 1981 received final approval by both bodies on July 31, 1981. It was signed into law (P.L. 97-35) by the President on Aug. 13, 1981.

Expected savings from the student benefit phaseout as enacted (without offsetting costs) are as follows:

(in millions of dollars)

CY 1982	CY 1983	CY 1984	CY 1985	CY 1986
\$915	\$1,715	\$2,260	\$2,570	\$2,730

#### Summary of the Final Provision

The final provision as signed into law on Aug. 13, 1981 includes the following elements:

- (1) With respect to high school students, benefits may continue only until the 19th birthday as long as the beneficiary is still a full-time student in elementary or secondary school. This new rule took effect as of August 1982.
- (2) With respect to post-secondary (college or vocational school) students, students who became entitled to child's benefits by August 1981 and who were attending post-secondary school full-time by April 1982 may continue to receive student benefits if they continue to

qualify under all the old rules. However, their benefits will be phased out as follows:

- (a) Beginning in 1982, no more benefits will be paid for May, June, July, or August, whether or not the student is attending summer classes.
- (b) No more cost-of-living increases will be made after June 1981.
- (c) In September 1982, and again in September 1983 and September 1984, the benefit will be reduced by 25% of the August 1981 benefit amount. No benefits will be paid after April 1985.

Post-secondary students who failed to meet one of the requirements for the phased out benefits (because they became entitled to social security benefits after August 1981 or because they were not in post-secondary school full-time by April 1982) could receive student benefits only through July 1982. The benefits payable to these students were not subject to the reductions described in (a), (b), and (c) above.

#### Numbers Affected

According to Social Security Administration estimates, at the end of September 1982, about 650,000 students were affected by the new provision. About 360,000 postsecondary students had their benefits reduced under the phaseout rules; about 250,000 postsecondary students who would have been eligible under old law were receiving no benefits at all (because they failed to qualify for the phaseout group); and as many as 40,000 elementary or high school students 19 or older who would have been eligible under old law were not be receiving benefits. Most of the 40,000 students were high school seniors. The number of postsecondary students affected by the provision over the next 5 years has been estimated by SSA as follows:

	<u>Sept. 82</u>	<u>Sept. 83</u>	<u>Sept. 84</u>	<u>Sept. 85</u>	<u>Sept. 86</u>
Total	610,000	610,000	590,000	570,000	550,000
Phaseout	360,000	160,000	50,000	0	0
No benefit	250,000	450,000	540,000	570,000	550,000

#### Notification Issue

After enactment of P.L. 97-35, various Members of Congress accused the Social Security Administration of failing to provide adequate notice of the change to student beneficiaries and potential student beneficiaries. They were particularly concerned about notification of child beneficiaries who were expecting to graduate from high school in the spring of 1982 so that they could accelerate their enrollment in postsecondary school in order to meet the May 1, 1982 deadline for full-time attendance. There seemed to be some willingness on the part of high school and college administrators to facilitate these arrangements -- early high school graduation or flexible scheduling so that students could attend high school and college simultaneously during the spring.

SSA said they did not believe it was necessary for them to inform these potential beneficiaries because the intent of Congress in setting the May 1,

1982, deadline was to allow students graduating from high school in the spring of 1981 ample time to begin postsecondary school and still remain eligible for at least the phasing out benefits. They argued that Congress did not intend to prompt a mass exodus of high school seniors from high school into college in the spring of 1982. The legislation and the committee reports are silent on the matter of notification. However, the Senate Finance Committee discussions (where the May 1 deadline was added to the provision) indicated that the committee intended to grandfather in only the 1980-1981 class of high school seniors -- not students graduating one year later.

Between Feb. 26 and Mar. 12, 1982 SSA notified by mail all student beneficiaries on the rolls at that time. And, as child beneficiaries approach their 18th birthdays, SSA will inform those who plan to attend college of the new rules. On Aug. 20, 1982, Senator Levin proposed, as a floor amendment to H.R. 6863, a supplemental appropriations bill, that the deadline for the student benefit phaseout be extended from May to October 1982. Senator Levin's amendment, which also would have made changes in the treatment of uncashed social security checks, was defeated on a 47-42 vote.

#### Student Benefits to Survivors of Military Personnel

Although social security benefits for students have not been restored, Congress took action in 1982 to restore the equivalent of student benefits to orphans of servicemen who died on active duty before Aug. 13, 1981, or who died later as a result of a service-connected disability incurred or aggravated before Aug. 13, 1981. Payment comes not from the social security trust funds but from the Department of Defense.

This provision was added, by a vote of 94-1, to a continuing resolution, H.J.Res. 631, passed on Dec. 16, 1982. Congress responded to the argument that it was wrong to have denied student benefits to survivors of military personnel because social security benefits formed an important part of the package of pay and benefits which were offered to servicemen to encourage them to join and remain in the military. Indeed, Defense Department publications distributed to recruits and new officers described the protection afforded their families by the social security system if they should die on active duty or later as a result of a service-connected disability. Many testified that the promised availability of social security benefits constituted a commitment upon which many military families relied in their estate planning.

A student benefit comparable to the social security student benefit was restored to eligible post-secondary students between the ages of 18 and 22 at the level paid prior to the enactment of the 1981 Reconciliation Act. Benefits were not retroactive but began with the first month after enactment, and would be adjusted in the future by the average of the adjustments provided by the Veterans Administration educational assistance program.

The authority to designate the appropriate Federal agency to administer the benefits was left to the President, but the Social Security Administration was charged with providing to the head of such agency the information required to administer the new program. On July 24, 1983, the President issued an executive order designating the Veterans Administration as the administrator of the program.

LEGISLATION97th Congress

P.L. 97-35 (H.R. 3982)

Omnibus Budget Reconciliation Act of 1981. Included a provision (Section 2210) that eliminates benefits to new postsecondary students age 18-21 who are full-time students in college or vocational school and allows benefits to elementary and secondary school students only up to age 19, effective with benefits payable for August 1982. Certain students who begin postsecondary school before May 1982 may continue to receive benefits up until age 22; however, these benefits will be reduced 25% each year beginning in September of 1982 and no cost of living adjustments or summer month benefits (May through August) will be paid after 1981. Introduced June 19, 1981 as H.R. 3982 (Jones), a clean bill replacing H.R. 3964 on behalf of the Budget Committee. After being amended (Latta amendments), passed House June 26. Conference report passed both houses on July 31. Signed into law Aug. 13, 1981.

HEARINGS

- U.S. Congress. House. Committee on Education and Labor, Subcommittee on Elementary, Secondary, and Vocational Education and Subcommittee on Postsecondary Education. Social Security student benefit cuts. Hearings, 97th Congress, 2d session. Feb. 3, 1982. Washington, U.S. Govt. Print. Off., 1982.
- U.S. Congress. House. Committee on Ways and Means, Subcommittee on Social Security. Implementation of 1981 Reconciliation Act repeal of Social Security student benefit. Hearings, 97th Congress, 2d session. Feb. 5, 1982. Washington, U.S. Govt. Print. Off., 1982.
- U.S. Congress. House. Committee on Ways and Means, Subcommittee on Oversight. Review of social security student benefit program. Hearing, 96th Congress, 1st session. Feb. 9, 1979. Washington, U.S. Govt. Print. Off., 1979.

REPORTS AND CONGRESSIONAL DOCUMENTS

- Congressional Budget Office. Social security benefits for students, Washington, May 1977.
- U.S. General Accounting Office. Social Security benefits for postsecondary schools should be discontinued; report to the Congress by the Comptroller General of the United States. [Washington] 1979 (HRD 79-108, Aug. 30, 1979.)



ADDITIONAL REFERENCE SOURCES

Characteristics of student OASDI beneficiaries in 1973: an overview. Social security bulletin, November 1976.

Student OASDI beneficiaries: program utilization and educational aspirations. Social security bulletin, September 1978.