KIDS'SHARE2014

REPORT ON FEDERAL EXPENDITURES ON CHILDREN THROUGH 2013

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Acknowledgments:

The authors are grateful to the Annie E. Casey Foundation and First Focus for sponsoring this research and to the authors of previous reports on children's budgets for laying the groundwork for this series. We also express appreciation to Ralph Forsht, Ed Walz, and Laudan Aron for their insightful comments.

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Executive Summary

Federal, state, and local governments provide critical investments in the nation's future through investments in the health, education, nutrition, safety, and overall development of children. To help assess the government's investment in children and changes over time, this eighth annual *Kids' Share* report provides an updated analysis of federal, as well as state and local, expenditures on children through 2013. It also updates projections of children's spending through 2024 if policy remains on its current path.

Current Expenditures on Children

Federal expenditures on children in 2013 totaled $464 billion, up slightly from the $460 billion spent in 2012, but well below the peak of $499 billion in 2010 (all figures are in inflation-adjusted 2013 dollars). About 75 percent of these expenditures were in the form of outlays (spending from federal programs and refundable tax credits) and about 25 percent were tax expenditures (tax breaks to families with children, the non-refundable portions of tax credits, and other tax provisions). Both outlays and tax expenditures benefiting children increased in 2013.

10.2%

The "kids' share" of the total federal budget (the share of outlays allocated to children) was 10.2 percent in 2013.

The "kids' share" of the total federal budget (the share of outlays allocated to children) was 10.2 percent in 2013, a half-point increase from 2012. The kids' share of tax expenditures fell by a half-point to 8.8 percent of all tax expenditures. The kids' share of the economy dropped in 2013, with total expenditures on children falling slightly over the past year from 2.9 to 2.8 percent of the gross domestic product (GDP).

More than 80 federal programs and tax provisions benefit children. **The largest single program is Medicaid, which spent $72 billion on children in 2013. The next three largest contributors to federal expenditures on children are tax provisions:** the earned income tax credit, the child tax credit, and the dependent exemption. Others, in order, among the ten largest are the Supplemental Nutrition Assistance Program (SNAP), the tax exclusion for employer-sponsored health insurance, Social Security benefits for dependents and survivors under 18, child nutrition programs, Title I funding for educating disadvantaged children, and the Temporary Assistance for Needy Families (TANF) block grant.

"**Sequestration" and spending caps** from the Budget Control Act of 2011 (BCA) constrained federal spending in 2013 but only affected certain children's programs. Spending on children fell by about 5 percent (in real terms) across programs subject to the BCA. However, many of the largest programs for children were exempted from sequestration, and spending on the exempt programs grew overall.

While the primary focus of *Kids' Share* is federal spending, state and local funding is the major source of spending on children. **In 2011, 62 percent of spending (not including tax expenditures) on children was from state and local sources**. Nearly all (96 percent) state and local spending on children is for either education or health. During the recent recession, spending on children by states and localities fell, even while federal spending on children increased. The federal spending increases were driven by the combined effect of increased spending on Medicaid and SNAP (entitlement programs where spending increased automatically in response to the increased needs of families) and special grants and spending provisions of the American Recovery and Reinvestment Act of 2009 (ARRA). As a result, total spending on children actually rose during the recession, through 2011. However, **as the temporary ARRA funding largely ended, federal spending fell** by $34 billion between 2011 and 2012. Preliminary data indicate that **state and local governments were unable to make up the shortfall, suggesting a fall in total spending on children between 2011 and 2012.**

Historical Trends in Federal Spending

Over the past half-century, newly created government programs and robust economic growth have supported a nearly sevenfold increase (in real terms) in total federal outlays: from $562 billion in 1960 to about $3.5 trillion in 2013. The most dramatic growth in outlays over the past 50 years has occurred in Social Security, Medicare, and Medicaid. Excluding amounts spent on children, by 2013 these programs expended $1.5 trillion, having grown from $64

billion in 1960. Spending on children, too, has grown in real dollar terms, though to a lesser degree, climbing from $18 billion in 1960 to $351 billion in 2013.

These patterns of growth can also be presented as a percentage of GDP. The non-child portions of Social Security, Medicare, and Medicaid grew from 2 percent of GDP in 1960 to 9 percent in 2013. This occurred without much change in total spending as a percentage of GDP (ranging from 18 to 25 percent over the past five decades), largely because of a decline in defense spending. Defense spending fell from 9.3 percent in 1960 to 3.0 percent in 2000, before rising back to 3.8 percent in 2013. Over the same period, spending on children increased, from a very small base of about 0.6 percent of GDP in 1960 to 2.1 percent in 2013.

Over the past 50 years, the mix of spending on children has shifted, in terms of how children receive benefits, which benefits they receive, and which children benefit. Tax provisions have changed dramatically in their growth and decline, relative to the size of the economy. **Two tax credits—the earned income tax credit and the child tax credit—have played a growing role since the late 1980s in providing federal support for children**. By contrast, the dependent exemption, which provided 68 percent of all federal support to children in 1960, has dwindled to just 8 percent of federal spending on children in 2013.

Another historical development has been away from programs that provide benefits more universally to all children. In 1960, the majority of children's expenditures was on survivors' and dependents' benefits under Social Security, the dependent exemption, and other benefits that were available to all children regardless of family income. As new federal programs such as food stamps, Medicaid, and SSI payments to disabled children were introduced to serve low-income populations, **a growing share of federal expenditures was on programs that were means tested—that is, only available to families below a certain income level**. In 2013, 63 percent of total expenditures on children were made through means-tested programs (51 percent) and tax provisions (12 percent).

While the primary focus of *Kids' Share* is spending on children, it is also valuable to examine trends in spending on the elderly, another group that is outside the working-age population and reliant on public or private support. Spending on the elderly is strikingly higher than spending on children, both in total and per capita. Per capita federal spending on the elderly rose from about $4,000 in 1960 to $27,975 in 2011 in inflation-adjusted (2013) dollars. Over the same period, per capita federal spending on children rose from $270 to $4,894. While the federal government spent nearly six times more on the elderly than on children in 2011, state and local spending is heavily slanted toward children, particularly through public schools. Combined federal and state/local spending on the elderly was just over twice the combined spending on children in 2011 ($28,754 to $12,770).

Projected Expenditures on Children

2¢

Children's programs will receive a very small portion of the growth—just 2 cents of every dollar of the projected increase.

In total, **federal spending under current law is projected to increase by nearly $1.4 trillion over the next 10 years, reaching $4.8 trillion in 2024. Children's programs will receive a very small portion of the growth—just 2 cents of every dollar of the projected increase**. Spending on children will increase by about $26 billion, or 2 percent of the $1.4 trillion increase in total spending. Excluding health care, which is driven significantly by costs, spending on children will decline. Almost all the increase in total spending goes toward interest on the debt and toward Social Security, Medicare, and Medicaid spending on adults.

Relative to the size of the economy, total federal outlays are scheduled to rise to 22 percent of GDP in 2024, with Social Security, Medicare, and Medicaid climbing to over 10 percent of GDP. **Federal outlays on children, however, are projected to slowly decline as a share of the economy over the next decade**, from 2.1 percent in 2013 to 1.7 percent in 2024.

Rising debt and interest rates also play a key role in these future trends. Because revenues keep falling short of spending and the current low interest rates are expected to end, spending on interest payments on the debt will exceed spending on children from 2017 onward, and by larger amounts each year.

Total expenditures on children, including both outlays and tax expenditures, are projected to fall relative to the size of the economy, from 2.8 percent of GDP in 2013 to 2.3 percent in 2024. All three types of expenditures on children—entitlement programs and other mandatory spending, discretionary spending on programs subject to annual appropriations actions, and tax provisions—declined over the past few years; they are projected to continue declining as a share of the economy through at least 2024, with the sharpest projected decline in discretionary spending programs. Considering spending by categories (such as education, nutrition, and health), **expenditures on children are expected to decline as a share of the economy between 2013 and 2024 across all spending categories except health**. In real dollars, the largest projected decline is in federal funding for K–12 education, which is projected to fall by 12 percent, from $43 billion in 2013 to $38 billion in 2024. Federal spending on health programs for children is projected to increase from 0.5 percent of GDP in 2013 to 0.6 percent in 2024. The growth in health spending is projected to occur almost entirely in Medicaid spending on children, which is projected to rise from $72 billion in 2013 to $113 billion in 2024.

The projected declines in federal expenditures on children over the next decade are troubling. Without changes to current law and a righting of the structural imbalance between revenues and spending, we risk not only the well-being of our children but the well-being of the nation as a whole.

Glossary of Terms

Children: Individuals ages 0 through 18.

Outlays: Direct spending from federal programs as well as the portions of tax credits that are paid out to families as a tax refund.

Tax expenditures: Reductions in families' tax liabilities resulting from tax provisions, including the portions of tax credits that are not paid out to families as tax refunds.

Expenditures on children: Expenditures from programs and tax provisions that 1) benefit only children or deliver a portion of benefits directly to children, 2) increase benefit levels when the family contains a child, or 3) require that the family contain a child in order to qualify.

Mandatory spending: Spending governed by programmatic rules, not constrained by annual appropriations acts; includes spending on entitlement programs, refundable tax credits, and interest on the debt.

Discretionary spending: Spending set by annual appropriations acts.

Introduction

In the face of many competing federal budget priorities, children have often been left on the sidelines, sometimes almost accidentally. Yet the federal, state, and local governments do provide critical investments in the education, health and safety, and general development of children. The federal government, in partnership with state and local governments, provides services to children, such as public education and child protective services. It also provides benefits that support parents in their role as primary caregivers of children (e.g., tax credits directed toward families with children, survivors' and dependent benefits under Social Security, and housing benefits). Public supports for children and families indicate that policymakers believe these provide essential investments in the nation's future.

The Urban Institute has been measuring and tracking government's investment in children since before the Great Recession.[1] This eighth annual *Kids' Share* report provides an updated analysis of federal, as well as state and local, expenditures on children through 2013. Additionally, it updates projections of children's spending through 2024, assuming no changes to current federal law. Past *Kids' Share* reports have provided a foundation for other Urban Institute studies on spending on children, including *Federal Health Expenditures on Children on the Eve of Health Reform: A Benchmark for the Future* (Hahn et al. 2012)*; How Do Public Investments in Children Vary with Age? A Kids' Share Analysis of Expenditures in 2008 and 2011 by Age Group* (Edelstein et al. 2012)*;* and *How Targeted Are Federal Expenditures on Children? A Kids' Share Analysis of Expenditures by Income in 2009* (Vericker et al. 2012).

This report focuses on the year 2013 when, despite several years of recovery from the Great Recession, conditions still remained difficult for families. While unemployment rates were falling, they remained higher than pre-recession years. Supplemental Nutrition Assistance Program (SNAP) participation reached an all-time high of 47.6 million individuals, an estimated 21.2 million of whom were children (US Department of Agriculture 2014).

Over the past 50 years, American society and family structure have changed dramatically. The number of children per family declined from 1.3 to 0.8 between 1960 and 2013, and children dropped from 37.2 percent of the population in 1960 to 24.6 percent. At the same time, there are more single-parent families. While the gross domestic product (GDP) per household has more than doubled since the early 1960s, the growth was not shared evenly across the population; rates of child poverty are largely unchanged. Employer-provided health insurance and other benefits have become more prevalent in the workforce. Families face health care costs that absorb larger shares of their income, whether covered directly or indirectly through taxes and reduced cash wages.

Meanwhile, between 1960 and 2013, the elderly's share of the population increased from 9.2 percent to 14.1 percent. The oldest baby boomers first reached the Social Security eligibility age of 62 in 2008; as more of them retire, the United States faces a declining employment rate among adults and rising expenditures for an aging population. By 2024, projections show the elderly comprising 18.4 percent of the population, while the children's share of the population remains relatively stable at 23.9 percent. Immigration also is shifting children's demographics: ethnic minorities make up 46 percent of children today compared with 23 percent in the mid-1970s (Steuerle et al. 2011).

Such dramatic demographic and economic shifts in the United States, and we have noted only a few, provide context for this analysis of government expenditures on children. The report begins with a discussion of current expenditures on children from the federal as well as state and local governments. Next, we discuss broad trends in federal spending, including a comparison of spending on the elderly and children. Finally, we provide a more detailed examination of trends in federal expenditures on children, both historically and projected for the future. For example, we examine which programs provide the most support to children and how much support children receive through direct spending or tax provisions, and through means-tested or universal programs. An appendix on methods explains how we estimate spending on children, which we define as individuals age 18 or younger. Further details are provided in a companion volume, *Data Appendix to Kids' Share 2014*, which provides the sources of expenditure data, and the methodologies for estimating the portions of programs that go specifically to children, for each program.

Current Expenditures on Children

Both the federal government and state and local governments make important investments in children. For 2013, the most recent year for which complete federal spending data are available, we detail total federal expenditures on children, including aggregate expenditures, spending by program and broad category, and estimates of the effects of the Budget Control Act (BCA) of 2011. We then report on state and local expenditures and examine whether temporary increases in federal dollars following the Great Recession compensated for state and local declines in spending on children.

Federal Expenditures on Children in 2013

Aggregate Federal Expenditures on Children in 2013

Federal expenditures on children in 2013 totaled $464 billion, a slight increase from the $460 billion spent in 2012, but well below the peak of $499 billion in 2010 (all figures are in inflation-adjusted 2013 dollars). About 75 percent of these expenditures were in the form of outlays (spending from federal programs and refundable tax credits) and about 25 percent were tax expenditures (tax breaks to families with children, the non-refundable portions of tax credits, and other tax provisions). As will be discussed further below, the largest increases during this one-year period were seen in the Medicaid program and the earned income tax credit (EITC).

During the recession, spending on programs such as SNAP and Medicaid increased because more children were living in poverty.

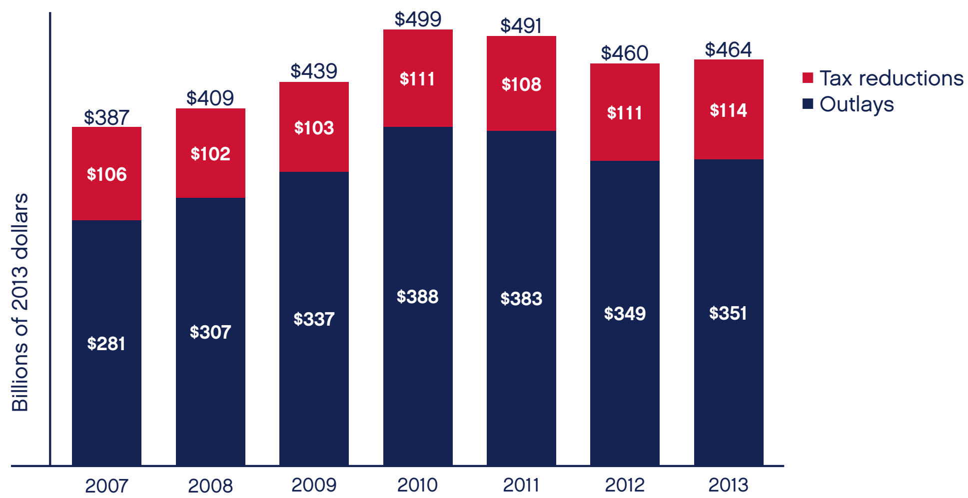
Both outlays on children and tax expenditures benefiting children increased in 2013. Outlays on children, which include spending on federal programs—such as Medicaid, child nutrition programs, special education, and many more—along with the outlay portion of tax provisions—chiefly the refundable portions of the EITC and the child tax credit—grew by 0.8 percent, reaching $351 billion. Tax expenditures—tax breaks to families with children provided through the dependent exemption, the non-refundable portions of tax credits, and other tax provisions—grew by 2 percent, from $111 billion in 2012 to $114 billion in 2013. We sum these two types of expenditures to report on total expenditures on children.

1/4

Almost one-quarter of ARRA funds benefited children.

Over the past seven years, expenditures on children increased during the recession and its aftermath, then decreased as the economy recovered. During the recession, spending on programs such as SNAP and Medicaid increased because more children were living in poverty. In addition, in 2009 Congress enacted the American Recovery and Reinvestment Act (ARRA), which had a powerful impact on spending on children. ARRA provided federal stimulus funds for the economy and supports for needy families (e.g., by expanding nutrition assistance benefits and the child tax credit) as well as relief to states and localities (e.g., by creating the State Fiscal Stabilization Fund, which was targeted toward education, and enhancing federal spending on Medicaid and child welfare). Almost one-quarter of ARRA funds benefited children.[2]

Figure 1 Federal Expenditures on Children by Type of Expenditure, Fiscal Years 2007–13



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years.

ARRA expansions boosted federal expenditures on children, mostly in 2009 through 2011. In 2010, total federal expenditures on children peaked at $499 billion, while ARRA expenditures on children peaked at $65 billion (data not shown). ARRA expenditures have fallen since and were almost completely exhausted by 2012; they accounted for just $7 billion in spending in 2013. Much of the decline in dollars spent on children after 2011 results from this depletion of ARRA funds.

10%

The "kids' share" of total federal outlays in 2013 was just over 10 percent.

The "kids' share" of total federal outlays in 2013 was just over 10 percent. While the federal government spent slightly more in outlays on children than last year, total federal outlays decreased, from $3.59 to $3.45 trillion. As a result, the share of the federal budget spent on children rose by half a percentage point. The remainder of the budget outlays was divided as follows: 43 percent of the federal budget, or nearly $1.5 trillion, was spent on adults receiving Social Security, Medicare, and Medicaid; 18 percent was spent on defense; 6 percent was spent on interest payments on the debt; and 23 percent was spent on all other government functions.

Turning to the share of *tax expenditures* that go to children, we find that children received only 8.8 percent of the approximately $1.3 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget (OMB) in 2013.[3] This is down from 9.3 percent in 2012. Summing federal outlays and tax expenditures ($464 billion) as a portion of total outlays and tax expenditures, the total spent on children in 2013 equaled approximately 9.8 percent of total federal expenditures, if total federal outlays and total federal tax expenditures are added together. This represents a small increase from the previous year, when child expenditures were 9.6 percent of combined federal outlays and estimated tax expenditures.

When compared to the size of the economy as measured by GDP, the kids' share dropped in 2013 from 2012: outlays on children fell from 2.2 to 2.1 percent of GDP, and total expenditures on children, including tax expenditures, dropped from 2.9 to 2.8 percent of GDP.

In sum, the kids' share did not change dramatically between 2012 and 2013; some measures show a small increase (i.e., total expenditures and share of federal outlays) while others show a small decrease (i.e., share of tax expenditures and share of GDP). The kids' share in 2013 continued to be lower than during the recession; this fact seems to signal a return to the long-term trends that are discussed later in this report.

Federal Expenditures on Children, by Program and Category

Dozens of programs and tax provisions are included in the $464 billion in total federal expenditures on children in 2013. The 10 largest programs and tax provisions for children (figure 2) together account for more than three-quarters (77 percent) of the total.

- Medicaid, as in prior years, is the largest program (an estimated $72 billion); spending on children increased by $4 billion, or about 6 percent, from 2012. We estimate that about one-quarter of all Medicaid spending goes to children, including spending on disabled individuals under age 19. The Children's Health Insurance Program (CHIP), which spent $9 billion on children, is counted separately in the budget.

- Three tax provisions—the EITC, the child tax credit, and the dependent exemption—make up the next-largest programs. The EITC and the child tax credit provide both tax refunds (cash outlays) to families as well as reductions in tax liabilities (tax expenditures) to those otherwise owing individual income tax. Most of the EITC's $55 billion in 2013 spending was in the form of tax refunds, while most (nearly 60 percent) of the child tax credit's $53 billion was in the form of tax reductions. The dependent exemption, a tax break for families with children, totaling $37 billion, fell by $2 billion from 2012.

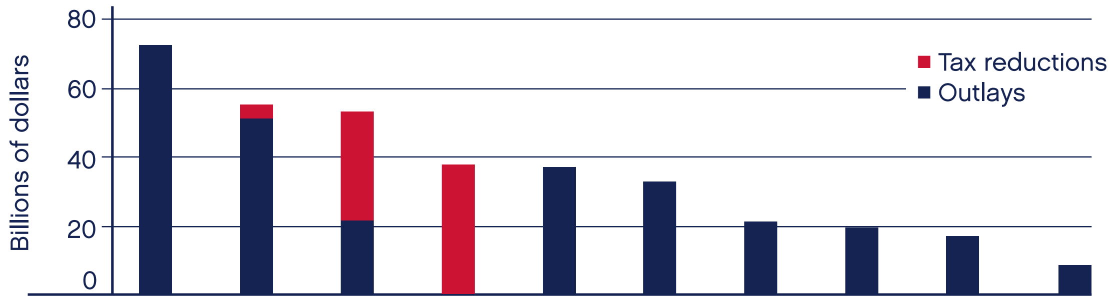
- SNAP benefits, formerly known as food stamps, grew slightly in 2013. Spending on children, who received nearly half of all SNAP spending for families, totaled $37 billion. Though SNAP spending grew from 2012, the program's growth was not as substantial as during recent years, and it is projected to drop in 2014 when families' post-recession needs and program caseloads are expected to decrease.

- The sixth-largest program supporting children is another tax provision: the employee exclusion from tax of income received in the form of employer-sponsored health insurance (ESI). We estimate that close to one-fifth of its total cost, or $33 billion, benefits children.

- Social Security, with an estimated $21 billion in survivors' and dependent benefits directed toward individuals under age 18, is the seventh-largest program.

- The remaining programs among the 10 largest are child nutrition programs (including the school lunch and breakfast programs), Title I/Education for the Disadvantaged, and Temporary Assistance for Needy Families (TANF). As was true last year, spending on special education and Individuals with Disabilities Education Act (IDEA) spending ($12 billion) is no longer high enough to place the program among the 10 largest.

Figure 2 The Ten Largest Spending and Tax Programs by Expenditures on Children, Fiscal Year 2013



	Medicaid	EITC	Child tax credit	Dependent exemption	SNAP	Employer-sponsored insurance	Social Security	Child nutrition	Title I	TANF
Tax Reductions		4	31	37		33				
Outlays	72	51	22		37		21	19	17	13

Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015.*

Several programs for children that often receive more public and press attention and may be very important to their young beneficiaries do not appear in this list. Early education and care programs like Head Start (including Early Head Start) and the Child Care and Development Block Grant amounted to $8 billion and $5 billion in spending in 2013, respectively. CHIP spent $9 billion on children in 2013, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) spent $6 billion. Child support enforcement and foster care were each under $5 billion, as shown in table 1.

While 10 programs and tax provisions dominate children's spending, more than 80 programs and tax provisions are included in our analysis. Table 1 provides estimates for each program or tax provision with spending of at least $1 billion in 2013, grouped into 11 budget categories (health, income security, education, etc.), highlighting the types of spending that dominate the children's budget. The table includes estimates for 2013 and the change in amount from 2012 for each program and category.

After Medicaid (which increased by $4 billion, or 6 percent), the largest growth in dollar terms from 2012 occurred in the non-refundable portion and refundable portions of the EITC ($2.2 billion and $1.7 billion, respectively) and the exclusion for employer-sponsored health insurance ($1.7 billion).[4] SNAP and child nutrition programs each contributed approximately another billion dollars in growth. Several major income security programs also grew modestly: TANF ($0.7 billion), veterans compensation benefits for children ($0.6 billion), and Supplemental Security Income or SSI ($1.0 billion). The increase in SSI spending is partially an artifact of the SSI payment schedule: the program made only 11 months of payments in 2012.

Other programs saw declines in 2013: early education and care, housing, social services, and training programs declined modestly, while a significant decline occurred in the dependent

Table 1 Federal Expenditures on Children by Program, 2013

	2013	Change from 2012
1. Health	87.0	3.9
Medicaid	72.1	4.1
CHIP	9.1	0.3
Vaccines for children	3.6	-0.4
Other health	2.1	*
2. Nutrition	61.8	1.6
SNAP (food stamps)	36.8	1.1
Child nutrition	19.2	0.8
Special Supplemental Food (WIC)	5.8	-0.3
Other nutrition (CSFP)	*	*
3. Income Security	52.8	2.4
Social Security	20.9	*
Temporary Assistance for Needy Families	12.9	0.7
Supplemental Security Income	11.1	1.0
Veterans compensation (disability compensation)	3.6	0.6
Child support enforcement	3.5	0.1
Other income security	0.8	0.1
4. Education	42.9	-5.4
Education for the disadvantaged (Title I, Part A)	16.8	-0.6
Special education/IDEA	12.4	-1.4
School improvement	4.8	0.1
Impact Aid	1.3	*
Dependents' schools abroad	1.2	-0.1
Innovation and improvement	1.1	0.1
State Fiscal Stabilization Fund	1.0	-0.3
Other education	4.4	-3.5
5. Early Education and Care	12.9	-0.3
Head Start (including Early Head Start)	7.8	-0.2
Child Care and Development Fund	5.0	*
6. Social Services	9.3	-0.2
Foster care	4.2	-0.1
Adoption assistance	2.3	-0.1
Other social services	2.8	-0.1
7. Housing	9.2	-0.3
Section 8 Low-Income Housing Assistance	7.2	-0.2
Low-rent public housing	1.0	-0.1
Other housing	1.0	-0.1
8. Training	1.2	-0.3
9. Refundable Portions of Tax Credits	73.9	0.3
Earned Income Tax Credit	51.3	1.7
Child Tax Credit	21.6	-0.8
Other refundable tax credits	1.0	-0.6
10. Tax Expenditures	76.3	4.5
Exclusion for employer-sponsored health insurance	32.6	1.7
Child Tax Credit (nonrefundable portion)	31.3	-0.2
Dependent care credit	4.0	0.7
Earned Income Tax Credit (nonrefundable portion)	3.6	2.2
Other tax expenditures	4.7	0.1
11. Dependent Exemption	37.2	-2.0
TOTAL EXPENDITURES ON CHILDREN	464.4	4.0
OUTLAYS SUBTOTAL (1–9)	350.9	1.5
TAX EXPENDITURES SUBTOTAL (10–11)	113.5	2.4

Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past year.
Notes: Because this analysis shows outlays, rather than appropriated or authorized levels, and because the dollars are adjusted for inflation, these estimates may differ from other published estimates. **Other health** covers immunizations, Maternal and Child Health (block grant), children's graduate medical education, lead hazard reduction, children's mental health services, birth defects/developmental disabilities, Healthy Start, emergency medical services for children, universal newborn hearing, home visiting, school-based health care, and health insurance exchanges. **Child nutrition** includes the National School Lunch Program (NSLP), the School Breakfast Program (SBP), the Child and Adult Care Food Program (CACFP), the Summer Food Service Program (SFSP), and Special Milk. **Other nutrition** is the Commodity Supplemental Food program. **Other income security** includes Emergency Assistance, Railroad Retirement, survivors compensation, veterans compensation, survivors pensions, and veterans pensions. **Other education** includes Indian education, English language acquisition, domestic schools, Promise Neighborhoods, the Institute of Education Sciences, safe schools and citizenship education, hurricane education recovery, Junior ROTC, the Education Jobs Fund, Safe Routes to Schools, and vocational (and adult) education. **Other social services** includes the Social Services Block Grant, the Community Services Block Grant, child welfare services and training, Safe and Stable Families, juvenile justice, guardianship, independent living, missing children, children's research and technical assistance, PREP and abstinence education, and certain children and family services programs. **Other housing** includes rental housing assistance, rent supplement, and low-income home energy assistance. **Training** includes WIA Youth Formula Grants, Job Corps, Youth Offender Grants, and YouthBuild Grants. **Other refundable tax credits** include outlays from Qualified Zone Academy Bonds, Qualified School Construction Bonds, and the adoption credit and exclusion. **Other tax expenditures** include exclusion of employer-provided child care, employer-provided child care credit, exclusion of certain foster care payments, adoption credit and exclusion, assistance for adopted foster children, exclusion for Social Security retirement and dependents & survivors' benefits, exclusion for Social Security disability benefits, exclusion for public assistance benefits, exclusion for veterans death benefits and disability compensation, Qualified Zone Academy Bonds, and Qualified School Construction Bonds.
* Less than $50 million.

40%

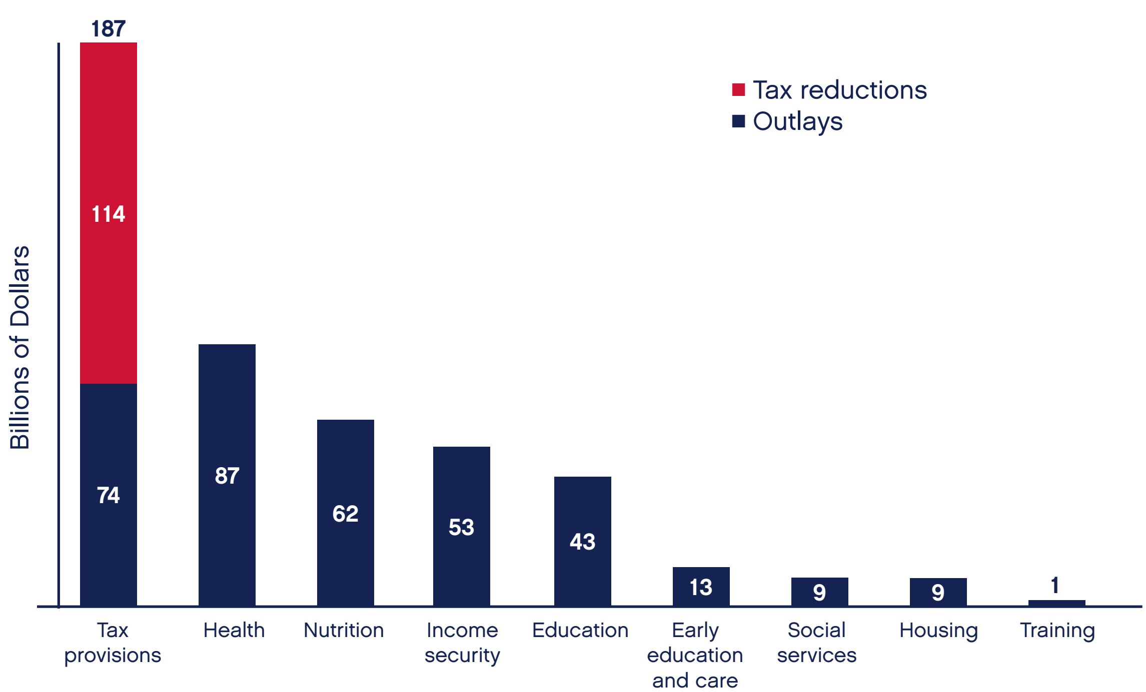
Child-related tax provisions provided $187 billion in combined outlays and tax expenditures in 2013, or 40 percent of total expenditures on children. The next-largest category, health ($87 billion), was less than half as large.

exemption ($2 billion) and education programs ($5.4 billion). Among education programs, the largest spending decline was in the Education Jobs Fund, a temporary program enacted in 2010, which fell by $3.3 billion to $0.2 billion in 2013 as funds were depleted. Significant drops in spending also occurred in Special Education ($1.4 billion) and Title I ($0.6 billion), as spending from ARRA was exhausted.

Next we add programs into broad budget categories such as tax, health, and nutrition. When all nine tax code provisions, whether showing up in the budget as tax expenditures or outlays, are counted together, they far exceed any other major budget category of spending (see figure 3). Child-related tax provisions provided $187 billion in combined outlays and tax expenditures in 2013, or 40 percent of total expenditures on children. The next-largest category, health ($87 billion), was less than half as large. Nutrition takes the third spot at $62 billion, and income security the fourth at $53 billion. Each of these four largest categories of spending was higher in 2013 than in 2012.

The remaining categories of spending are significantly smaller, and all fell from 2012 to 2013. Education, which in 2010 and 2011 was larger than both income security and nutrition, was nearly $10 billion less than income security in 2013, with $43 billion in spending. It declined by $5 billion, or 11 percent, from the previous year. Early education and care spending fell to just under $13 billion. (This category includes Head Start and child care assistance, but it excludes preschool spending within Title I, special education, and other broad education

Figure 3 Federal Expenditures on Children by Category, Fiscal Year 2013



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015.*

programs.) Spending on social services for children (e.g., foster care and adoption assistance), housing benefits, and training programs all fell from 2012, and none surpassed $10 billion in spending. Declines in spending often were driven both by exhaustion of the boost of funds provided under ARRA and the spending restrictions imposed by the Budget Control Act.

Federal Outlays and the Budget Control Act

While overall federal outlays on children increased slightly in 2013 (though declining as a share of the economy), different parts of the budget were affected very differently by the spending restrictions under the Budget Control Act (BCA) of 2011. That act places caps on defense and non-defense discretionary spending; in addition, it requires automatic spending reductions ("sequestration") to achieve an additional $1.2 trillion in spending cuts over 2013–21 (CBO 2011). Defense bears half of these sequestration cuts. While the BCA has a considerable impact in certain areas of spending that benefit children (e.g., education, early care, training, and housing), it has a relatively small impact on children's spending overall because of factors specific to the design of these budget cuts, including reliance on cuts in defense as well as non-defense discretionary spending, and exemption of tax credits and most mandatory programs from spending restrictions.

Among the mandatory programs exempted from sequestration were Social Security, veterans' programs, refundable tax credits, and many low-income programs: SSI, TANF, family support programs (which include child support enforcement), Medicaid, CHIP, SNAP, child nutrition, payments for foster care and permanency, and the child care entitlement to states (2 USC Section 905). As a result, the majority of children's outlays—nearly 80 percent in 2013—were exempt from the BCA.

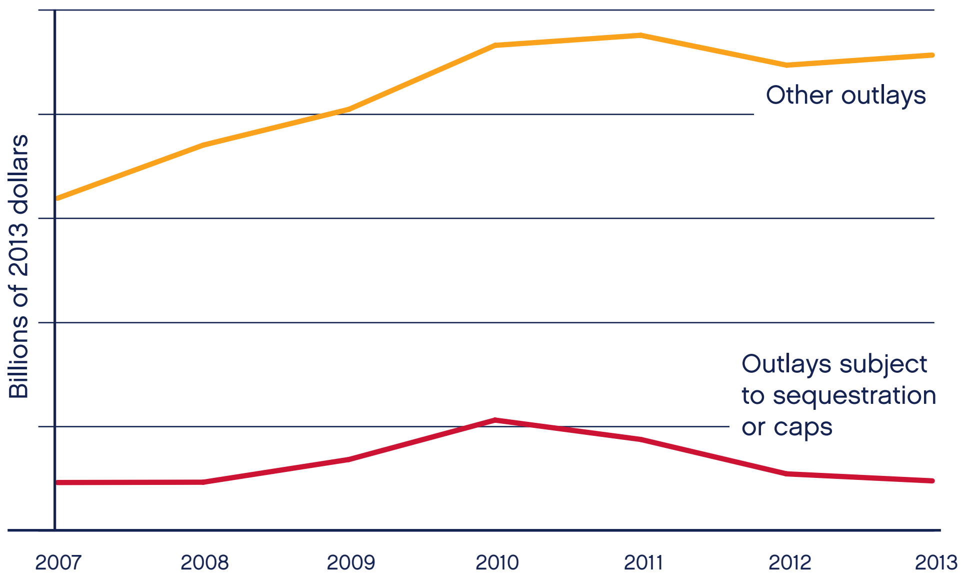
The other 20 percent of children's programs, however, did not fare so well. Discretionary spending on education, children's housing benefits, youth training, nutrition, early education and care, and social service programs has declined because of the BCA. A few mandatory social services programs (e.g., Social Services Block Grant and Safe and Stable Families) have also been cut.

Figure 4 presents trends in federal outlays on children, comparing outlays subject to the BCA to other outlays. Outlays subject to sequestration and/or caps declined in 2013 from $77 to $73 billion, or about 5 percent, continuing the general trend of the previous two years and almost reaching their pre-recession level of $72 billion. Other outlays on children increased, from $274 to $279 billion, buffering the effect of the BCA-induced decline in outlays, though the other outlays total is still below its recession-era peak in 2010 and 2011.

State and Local Spending on Children

While *Kids' Share* focuses primarily on federal spending, state and local spending on children is the largest component of government efforts to invest in children. In this section, we examine recent trends in state/local spending and what these trends, combined with federal spending, mean for children. The spending estimates in this section of the report include spending on education, health, income security, child care, social services, and so on, but exclude tax

Figure 4 Federal Outlays on Children by Impact of Budget Control Act, 2007–13



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years.

expenditures other than the EITC; there are no reliable nationwide estimates of state and local spending on child-related tax provisions other than the EITC.[5]

The rise in federal spending on children during the recession occurred while state budgets suffered from significant shortfalls and funding cuts. In fact, one purpose of ARRA was to support state and local governments, in addition to stimulating the national economy and providing assistance to families facing unemployment and poverty. State and local spending on children fell during the recession, declining by $349 per child between 2008 and 2011, the last year for which we have complete data. Federal spending per child increased over these same three years, by $974 per child. As a result, total spending for children actually rose during the recession: from $12,146 per child in 2008 to $12,770 per child in 2011, as shown in figure 5.

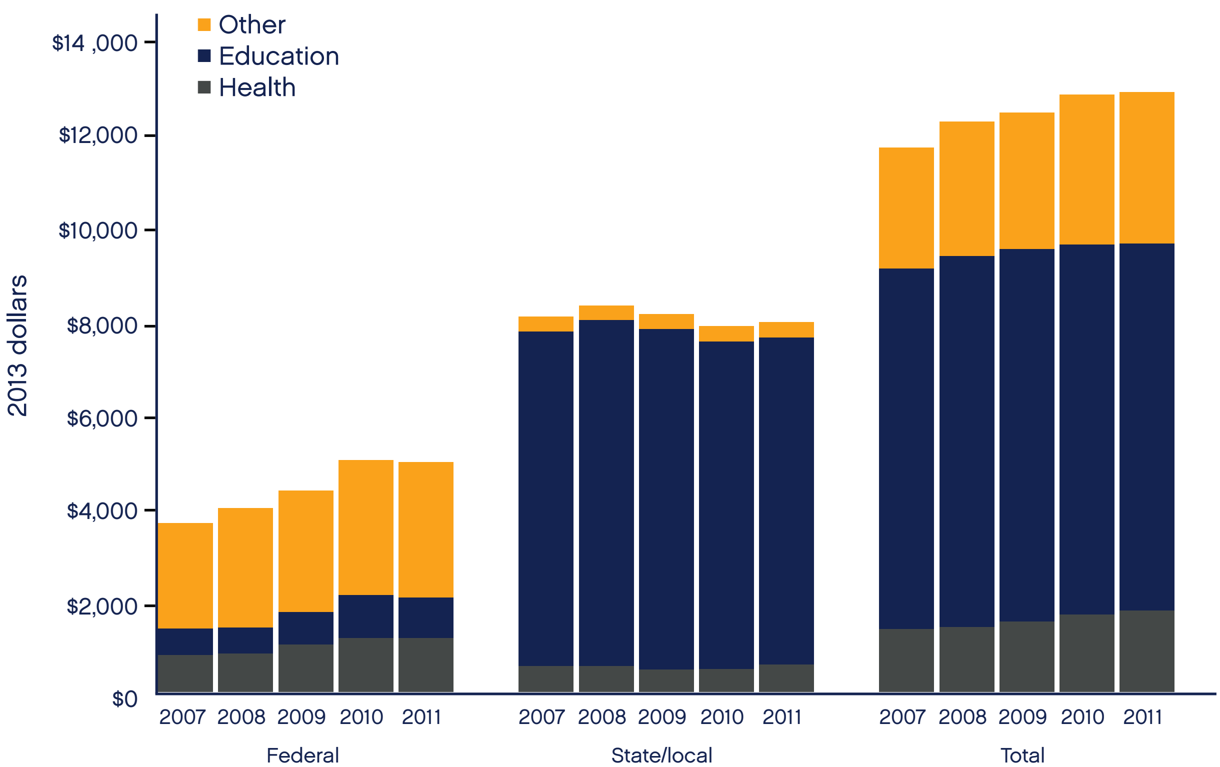
The fact that total spending on children rose during the recession testifies to the success of ARRA and the ways some federal programs such as Medicaid and SNAP expand automatically in times of increased need. The expanded benefits did mitigate, though not eliminate, the rise in economic hardship among families with children. Child poverty rose during the recession, but the increase was smaller under the supplemental poverty measure (SPM) than the official poverty measure. The former explicitly takes into account the value of tax credits and nutrition assistance benefits, while the latter focuses on cash income only. For example, between 2009 and 2010, the official child poverty rate rose 1.3 percentage points while the SPM rose 0.9 percentage points.[6] Both measures show little change in economic status for children between 2010 and 2012; child poverty under the SPM has hovered near 18 percent (Short 2013).

When federal spending on children fell in 2012, state and local governments were not able to make up the shortfall, according to preliminary state estimates. As a result, we expect total spending per child to fall between 2011 and 2012. The reduction appears largest in education; as one indication, the number of people employed in local public schools (e.g., K–12 teachers, principals, support staff) fell 3 percent between 2010 and 2012, despite rising student enrollment.[7]

While state and local funding remains the major source of spending on children, its share of total spending has been declining. As federal funds have increased in recent years, the share of funding from state and local sources declined from 70–72 percent in 1998–2001 to 61–62 percent in 2010–11.

State and local spending is driven by spending on public education, the largest form of public investment in children. In 2011, state and local government spent $546 billion (in 2013 dollars) on public schools, more than total federal spending across all categories (education, health, tax provisions, etc.). The federal government spent $67 billion on education, or 11

Figure 5 Federal, State, and Local Spending per Child, 2007–11



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and past years, the Rockefeller Institute of Government State Funding for Children Database, and various sources.

Note: Tax expenditures are not included in these estimates.

cents of each education dollar—up from 7 cents per dollar before the recession, but still low relative to state and local spending. Combined, federal, state, and local spending on education represents 61 percent of total spending on children.

State and local governments also contribute significantly to health spending on children, though not as much as the federal government. Two-thirds (66 percent) of health spending on children was funded by the federal government in 2011, with the remaining 34 percent from state governments. The elevated federal share in 2009–11 resulted from the enhanced federal match rate for Medicaid authorized by ARRA; in earlier years the federal share of health spending on children was 59 percent. In total, health spending accounted for 14 percent of total public investments in children in 2011.

State and local governments fund only 10 percent of spending on children outside health and education. They spend very little on nutrition, housing, or training, and their contributions to income security, tax credits, child care, foster care, and social services, while important, are small relative to federal spending.

Trends in Federal Spending

We turn now from examining current expenditures to analyzing historical and expected future spending on children in the context of the federal budget as a whole. Our projections follow the assumptions of the Congressional Budget Office's baseline projections, supplemented by other sources, and our own assumptions about the shares of individual programs allocated to children (see methodological appendix). We focus on federal outlays only, first examining broad federal budget trends over time, then turning to historical trends in spending on children and the elderly.

Broad Budget Trends, 1960–2024

Because of the creation of new government programs as well as robust economic growth, total federal outlays for all purposes, not just children, have increased nearly sevenfold over the past half-century in real terms, from $562 billion in 1960 to about $3.5 trillion in 2013. Federal outlays peaked in 2009 at $3.73 trillion because of increased spending on account of the recession. They fell to $3.63 trillion in 2010, rose back to $3.72 trillion in 2011, and fell again to $3.59 trillion in 2012. By 2013 they had almost returned to pre-recession levels of $3.45 trillion.

The most dramatic growth in outlays over the past 50 years has occurred in Social Security, Medicare, and Medicaid spending on adults. Excluding amounts spent on children, by 2013 these programs expended $1.5 trillion, having grown from $64 billion in 1960. Overall spending on children has also grown in real dollar terms, though to a lesser degree, climbing from $18 billion in 1960 to $351 billion in 2013.

These patterns of growth can also be presented as percentages of GDP (see figure 6). Federal outlays totaled 18 percent of GDP in 1960, and they increased modestly to 21 percent by 2013. The non-child portions of Social Security, Medicare, and Medicaid grew from 2 percent of GDP in 1960 to 9 percent in 2013. Thus, other programs generally declined. Defense spending, in particular, fell from 9.3 percent of GDP in 1960 to 3.0 percent in 2000, before rising to 3.8 percent in 2013. Spending on children nonetheless grew from a very small base of about 0.6 percent of GDP in 1960 to 2.1 percent in 2013.

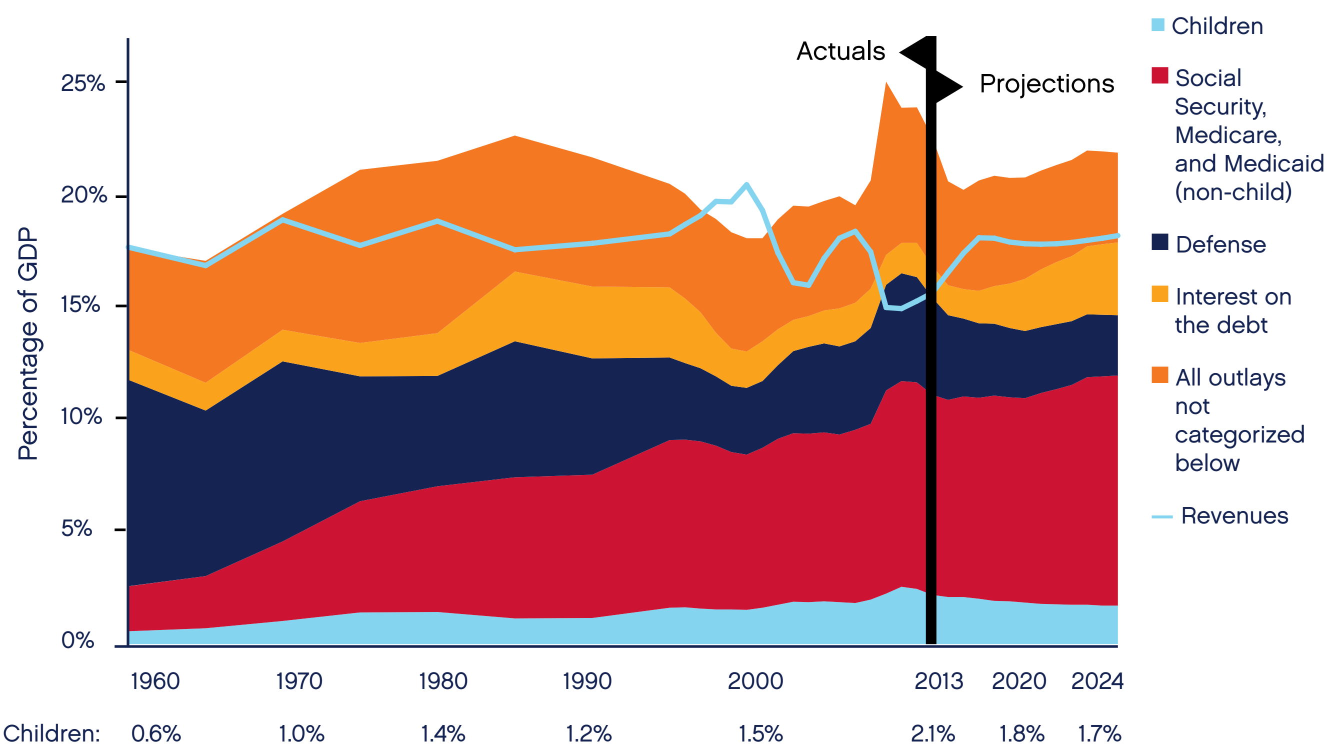
Under current policies, spending on interest payments on the debt will exceed spending on children from 2017 onward.

The trend in total outlays is expected to continue in the future; total federal spending will reach 22 percent of GDP in 2024, with spending on Social Security, Medicare, and Medicaid (excluding children) climbing above 10 percent. Federal outlays on children, however, are projected to slowly decline as a share of the economy over the next decade, from 2.1 percent in 2013 to 1.7 percent in 2024. With rising debt and interest rates, interest payments are projected to increase substantially. Under current policies, spending on interest payments on the debt will exceed spending on children from 2017 onward, and by larger amounts each year.

Meanwhile, as total outlays grow, revenues will fall below outlays in every year of the projected period, as they have each year since 2001. Between 1960 and 2000, federal outlays fluctuated between 17 and 23 percent of GDP, while federal revenues fluctuated between 17 and 20 percent of GDP. While outlays surpassed revenues in most years, the size of the deficit varied, and for a few brief years (1998–2001), there was a small surplus. This surplus vanished through a combination of factors: a substantial decline in revenues following the tax bill of 2001; increased spending on both domestic priorities and defense; and, during the recession, a dramatic growth in total federal spending in response to the increased needs of unemployed families, struggling industries, and cash-strapped states and localities.

In 2013, federal spending accounted for 21 percent of GDP, while revenues were 17 percent, leading to a deficit of 4 percent of GDP. While this deficit is below the record-level deficit at the height of the recession (10 percent of GDP in 2009), a structural imbalance between revenues and spending is projected to continue over the next decade. While the spending restrictions required under the BCA are expected to reduce spending somewhat (and, consequently, reduce the deficit and interest payments on the debt), further measures to address spending—and revenues—are needed if the country is to reduce the size of the deficit relative to the economy. Any broad changes to the federal budget are likely to have implications for children.

Figure 6 Federal Outlays and Revenues as a Share of GDP, 1960–2024



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2014–24*.

Examining major categories of federal spending (as percentages of the total) further illuminates the historical and predicted trends. Figure 7 demonstrates how the growth in spending on the non-child portions of Social Security, Medicare, and Medicaid has coincided with decreases in the share of the budget devoted to other spending. Spending on these three programs as a share of the budget has steadily increased over the past half-century, growing between 1960 and 2013 from about one-tenth to over two-fifths (43 percent) of the budget. Over the same period, the share of the federal budget allocated to children has grown in fits and starts. In 1960, very few federal programs were targeted to children, and only 3 percent of total outlays were spent on children. The children's share grew to nearly 7 percent in 1980, dropped back to 5 percent in 1985, and has been near 10 percent for the past decade, fluctuating between 9.0 and 10.7 percent. From 2012 to 2013, the children's share of the budget grew slightly, from 9.7 to 10.2 percent.

Yet another important historical trend is the share of the budget spent on defense. This share fell dramatically between 1960 and 2000, from 52 to 16 percent of the budget. The drop in defense essentially financed the broad expansion of domestic programs without any significant increase in average tax rates. From 2003 onward, defense spending has mostly varied between 19 and 20 percent, in response to the wars in Iraq and Afghanistan, though it dropped to 18 percent in 2013. The rest of the budget has not shown such consistent trends. Interest payments on the debt have fluctuated over the past half-century and accounted for 6 percent of all budget outlays in 2013. A residual category, which includes all other federal spending priorities such as agriculture, commerce, the environment, transportation, and veterans benefits, has accounted for about one-quarter to one-third of all government spending over the past several decades, and represented just over one-fifth (23 percent) of all spending in 2013. This category was at its highest since 1980 in 2009, a peak year for ARRA and other recessionary spending, when it made up 31 percent of federal outlays.

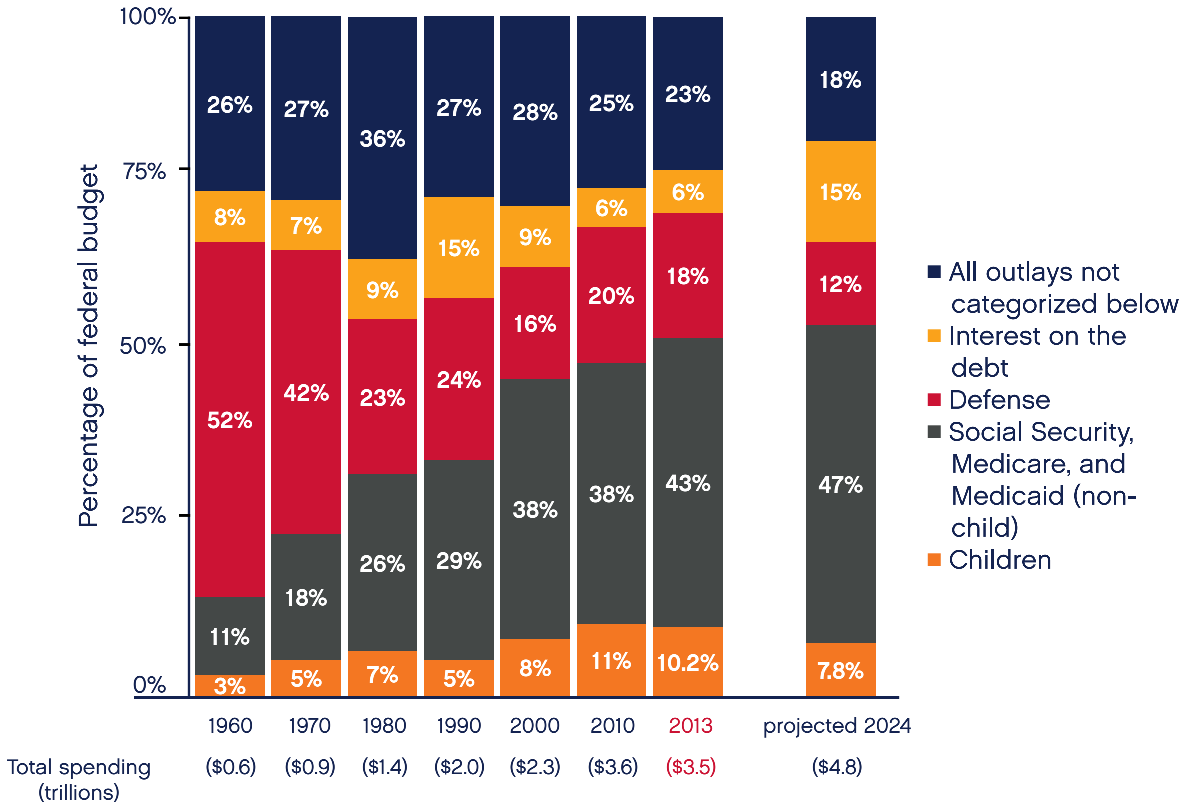
1/4

While the share of the population under age 19 will contract slightly, from 25 percent to 24 percent, children's relatively modest share of the budget will fall by close to a quarter.

While recent federal budgets have been affected by ARRA and other federal spending increases implemented in response to the recession, future budgets will be shaped by the persistent historical trend of increased spending on health and retirement programs, unless current laws are changed. Because these programs start from a higher base share of the economy every year, any percentage growth tends to take up larger and larger shares of any remaining pie. By 2024, nearly half the entire federal budget (47 percent) will be spent on the non-child portions of Social Security, Medicare, and Medicaid; this growth extends continually beyond then. Budget projections suggest that the children's share of the budget will decline further in the future, shrinking to 7.8 percent by 2024—a significant departure from the past decade, when the share spent on children remained close to 10 percent. The shrinking share of the budget devoted to children's spending over the next 10 years is not explained by population trends: while the share of the population under age 19 will contract slightly, from 25 percent to 24 percent, children's relatively modest share of the budget will fall by close to a quarter.

Interest payments are the other major portion of the budget pie with significant growth projected into the future, because of both continued deficits and rising interest rates. Under the Budget Control Act's caps on discretionary spending, defense spending is projected to shrink further as a share of federal outlays to a post–World War II low of 12 percent in 2024, while "other" spending, including other discretionary spending subject to caps, will shrink to an all-time low of 18 percent of the budget by 2024.

Figure 7 Share of Federal Budget Outlays Spent on Children and Other Items, Selected Years, 1960–2024



Source: Urban Institute, 2014. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2014–24*.

Note: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Totals shown along the horizontal axis are federal outlays in 2013 dollars.

Consider children's spending not as a share of the total pie, but as a share of the projected addition to the size and filling of the pie. Federal spending is projected to increase by nearly $1.4 trillion over the next 10 years, reaching $4.8 trillion in 2024. As shown in table 2, the non-child portions of Medicare, Medicaid, and Social Security will consume 58 percent of the anticipated $1.4 trillion increase in federal spending between 2013 and 2024. Current law provides for significant growth in real health and Social Security benefits per person, even while an increasing share of the population becomes eligible for retirement and related health benefits: baby boomers began retiring in 2008, and the share of the population age 65 and older is projected to increase from 14 percent to 18 percent by 2024. Social Security and Medicaid are exempt from the Budget Control Act, and Medicare is largely protected from it, so the growth of these programs is mostly unconstrained.

58%

The non-child portions of Medicare, Medicaid, and Social Security will consume 58 percent of the anticipated $1.4 trillion increase in federal spending between 2013 and 2024.

While these programs continue to grow, political resistance to raising revenues in order to cover spending remains. As a result, national debt grows, even with the spending constraints introduced by the BCA. With an increasingly higher national debt and higher expected interest rates, interest payments are projected to more than triple, from $221 billion in 2013 to more than $714 billion in 2024. Thus, more than one-third (36 percent) of the increase in federal outlays between 2013 and 2024 will go to interest payments on the national debt. Another 8 percent of the increase in spending supports programs in the broad "other" spending category.

Together, Social Security, Medicare, Medicaid, and interest on the debt essentially garner almost all the growth in spending, while everything else almost stagnates in dollar terms while declining as a share of the economy and the budget. Children's programs receive a very small portion of the dollar growth—just $26 billion or 2 cents of every dollar of the projected increase. Only excess cost growth in health care pushes children into positive territory; non-health spending on children actually *decreases*. Note that these budget projections assume that all non-defense, discretionary spending programs are affected equally by the constraints of the spending caps in the BCA. Also, as we repeat continually, these are projections of where current law and current law trends lead. But laws and policies do not stay constant. At the same time, never before has so much been baked into the pie in terms of laws that attempt to preordain what future policy will be before that future arrives.

Table 2 Share of Projected Growth in Federal Outlays from 2013 to 2024 Going to Children and Other Major Budget Items (billions of 2013 dollars, except where noted)

Major budget items	2013	2024	Growth (2013–24)	Share of growth
Social Security, Medicare, and Medicaid	1,472	2,259	787	58%
Interest on the debt	221	714	493	36%
Children	351	377	26	2%
Defense	633	590	-43	-3%
All other outlays	777	881	104	8%
Total federal outlays	3,455	4,821	1,366	100%

Source: Urban Institute, 2014. Authors' 2013 estimates based on *the Budget of the U.S. Government Fiscal Year 2015* and authors' 2024 estimates based on CBO's *Updated Budget Projections: 2014–24*.

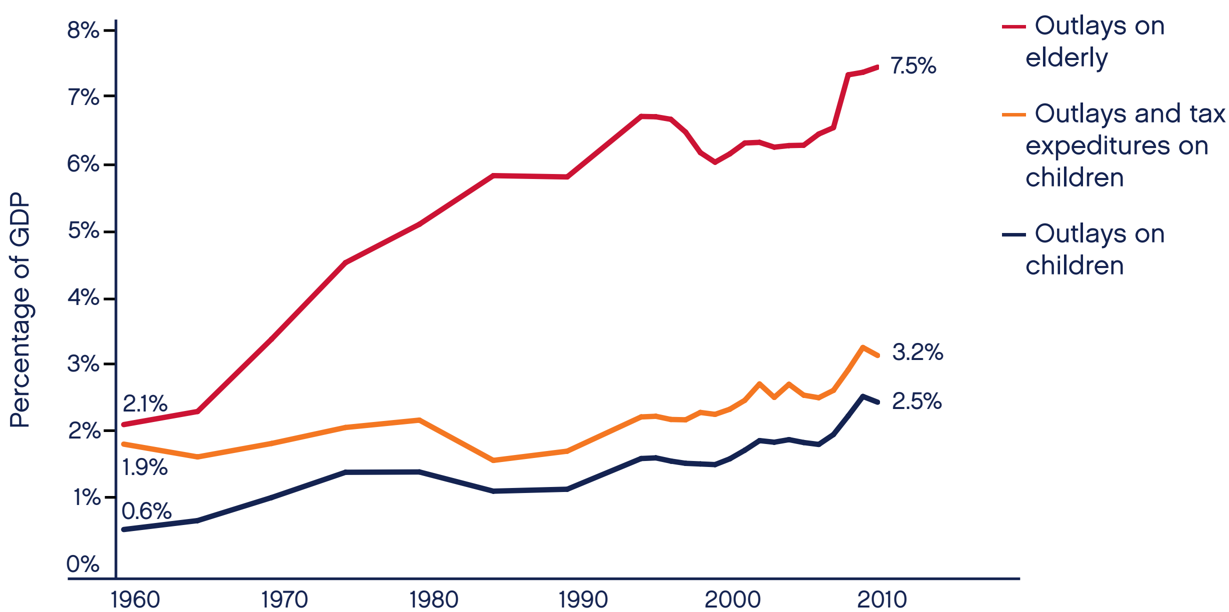
Note: Numbers may not sum to totals because of rounding. Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

Spending on Children and Elderly, 1960–2011

While the primary focus of *Kids' Share* is to examine spending on children, defined as those under age 19, it is also valuable to examine trends in spending on the elderly, defined as those age 65 and older, another group that is outside the working-age population and hence reliant on public or private support. As the population ages, spending on the elderly has been growing as a proportion of total spending; aggregate spending is expected to grow further in the future, potentially squeezing all other parts of the federal budget. Even absent demographic changes, per capita spending on the elderly is significantly higher than per capita spending on children.

Federal spending on the elderly has risen from 2.1 percent of GDP in 1960 to 7.5 of GDP in 2011 (the last year for which we have estimated spending on the elderly). Over this same period, spending on children has also risen, though from a much smaller base; outlays on children have risen from 0.6 to 2.5 percent of GDP, and total expenditures, including tax expenditures, have increased from 1.9 to 3.2 percent of GDP, as shown in figure 8. (The inclusion of tax expenditures provides a fuller picture, but the elderly spending estimates are only available for the outlay side of the budget, so most of this section focuses on outlays on children, to provide an apples-to-apples comparison with the elderly spending estimates).

Figure 8 Federal Spending on Children and the Elderly as a Share of GDP, 1960–2011

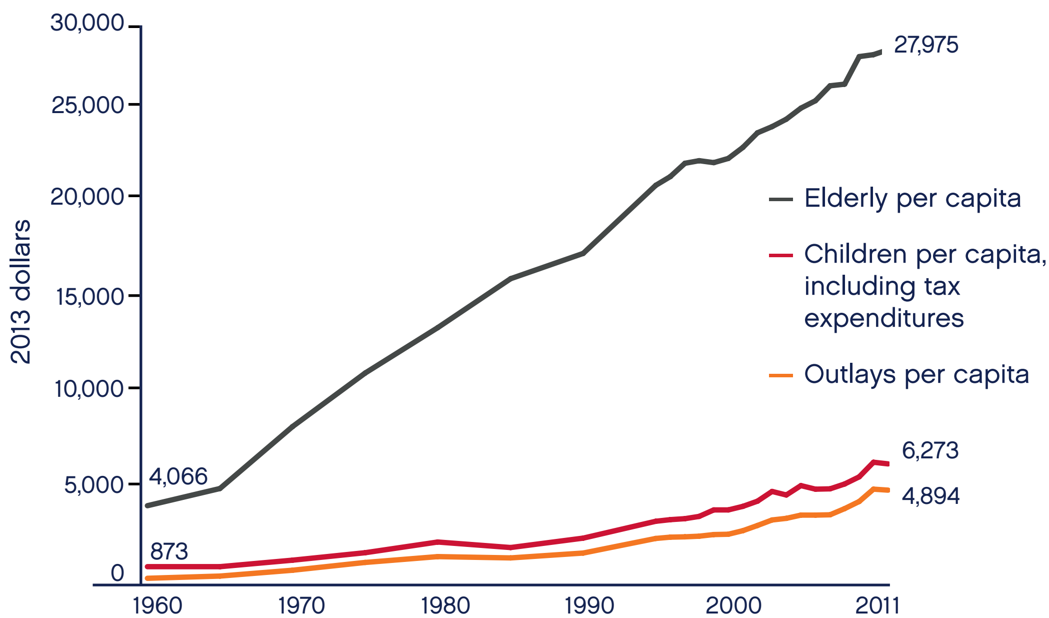


Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years and the Urban-Brookings Tax Policy Center Microsimulation Model.

Some of the growth in spending on the elderly is driven by a growth in the share of the population that is over 65; this share increased between 1960 and 2011 from 9.2 to 13.3 percent. In addition, the past decades have seen a significant expansion of programs serving the elderly, including enactment of the Older Americans Act of 1965 and the establishment of Medicare and Medicaid in that same year, several legislative increase in Social Security benefits, and the indexing of benefits for each cohort of retirees to grow automatically as wages in the economy grow. Accordingly, as shown in figure 9, federal spending on the elderly has increased significantly, from about $4,000 to $28,000 per capita, between 1960 and 2011, in inflation-adjusted (2013) dollars.

Federal spending on children has also risen dramatically over this same period, from $270 to $4,894 per capita, in 2013 dollars. This has occurred while the share of the child population has fallen somewhat, from more than a third in 1960 (37.2 percent) to one-quarter (25.1 percent) in 2011. That is, over the past half-century, spending on both children and the elderly has increased, whether measured in absolute dollars, as a share of the economy, or per capita. As noted earlier, declines in spending on defense have helped allow higher spending on domestic priorities without significant increases in tax rates over much of the second half of the 20th century.

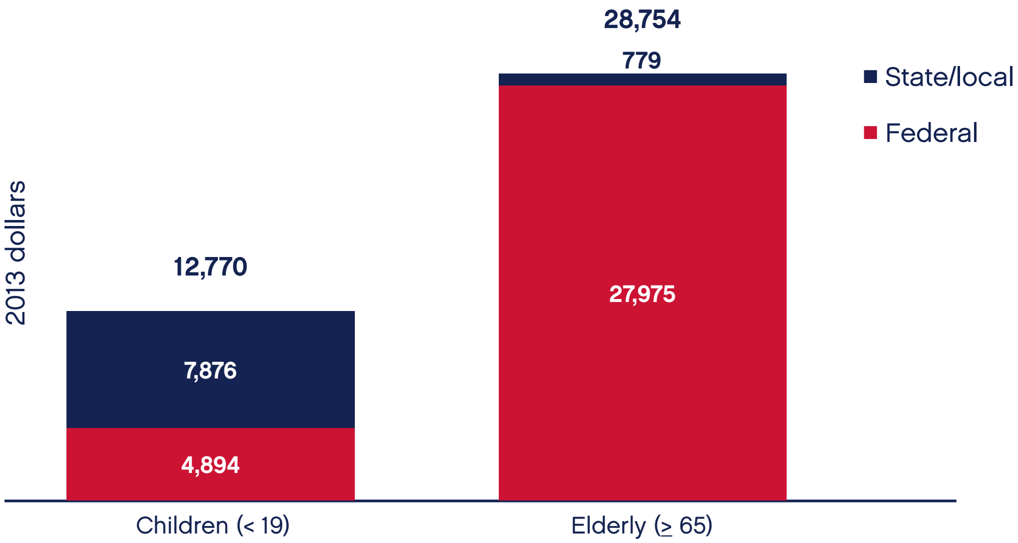
Figure 9 Per Capita Federal Spending on Children and the Elderly, 1960–2011



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years and the Urban-Brookings Tax Policy Center Microsimulation Model.

While spending has increased for both children and the elderly, per capita spending is much higher on the elderly than on children. In 2011, the federal government spent nearly $6 on the elderly for every $1 spent on children ($27,975 vs. $4,894, as shown in figure 10). The ratio drops to 2.3 to 1 ($28,754 to $12,770) when adding state/local spending, which is heavily slanted toward public schools. Health care expenses are a significant portion of public expenditures on the elderly—more than $12,000 per person—but per capita spending on the elderly remains considerably higher than per capita spending on children even when health spending is excluded.

Figure 10 Per Capita Spending on Children and the Elderly in 2011



Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2013* and various sources.

Note: These estimates do not include tax expenditures.

A Closer Examination of Trends in Federal Expenditures on Children

We shift now from examining broad budget trends to examining more closely how spending on children has shifted among different categories and types of spending. We first look back at historical expenditures on children from 1960 to 2013, then look forward at expenditures on children projected through 2024.

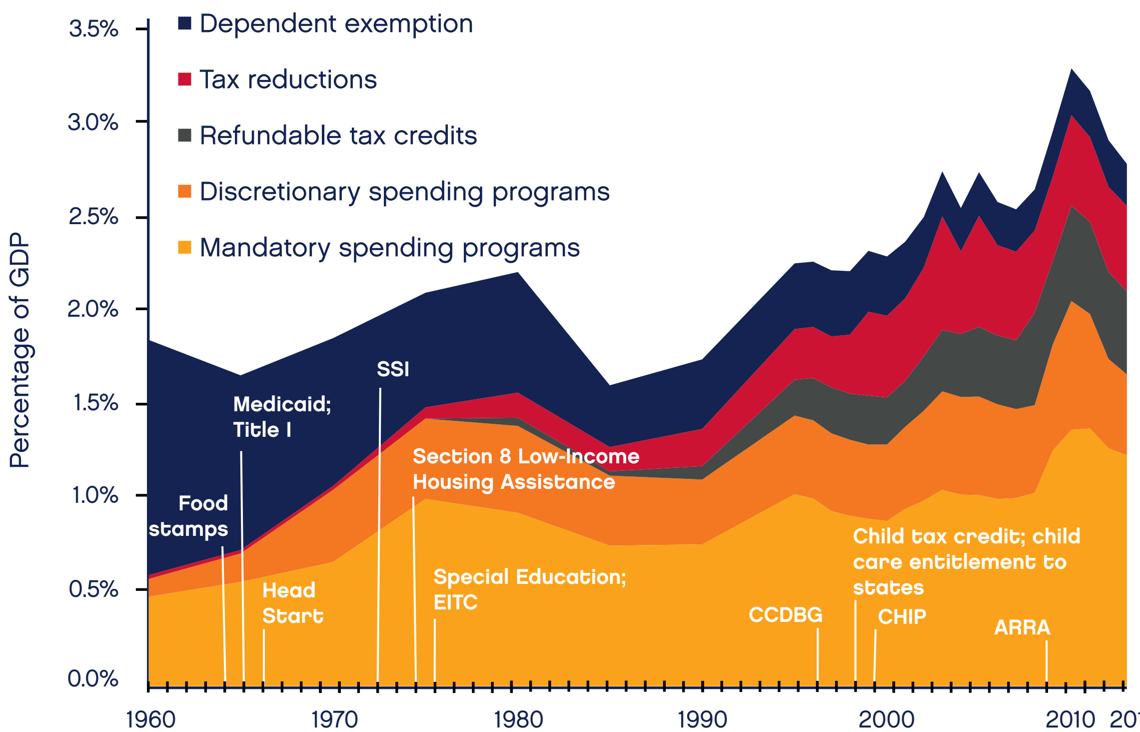
Historical Expenditures on Children, 1960–2013

Over the 1960s and early 1970s, federal outlays on children increased as a share of the economy as new programs and initiatives were introduced. With the adoption of food stamps (1964), Medicaid (1965), and SSI (1972), spending rose on entitlements and other mandatory programs. Spending increased over this same period on discretionary programs (programs subject to annual appropriations), with the introduction of Title I/education for the disadvantaged (1965), Head Start (1966), and Section 8/Low-Income Housing Assistance (1974), as shown in figure 11.

Discretionary spending on children remained relatively flat, as a percentage of GDP, from the mid-1970s through 2008, when discretionary spending increased temporarily in 2009–11 under the ARRA stimulus package. Mandatory spending on children has experienced growth and decline relative to the size of the economy. Children's spending has trended upward in the past 15 years or so, largely driven by increases in children's health spending as the Medicaid program expanded to serve more children and families, CHIP was introduced (1998), and medical costs rose rapidly. Mandatory spending increased sharply after 2009, owing to the combined effects of the automatic expansions of SNAP and Medicaid spending during recessions and the additional expansions under ARRA. However, since 2011, mandatory spending has fallen back somewhat, as the effects of the recession and ARRA have subsided.

Since the late 1980s, tax credits have played a growing role in providing federal support for children. The EITC, originally introduced in the 1970s, was expanded significantly in 1986, 1990, and 1993, and modestly in other years, while the child tax credit was introduced in 1997 and then doubled in size in the early 2000s. Both the refundable portion of these tax credits (cash payments provided to working families without a net tax liability) and the tax expenditure portion (the reduction in taxes to families with higher taxable incomes) have grown substantially over the past three decades. Spending on refundable tax credits grew to an even larger share of the economy during the recession. While spending on refundable tax credits has fallen from its 2010 peak, it remained above pre-recession levels in 2013. Expenditures for reductions in taxes, on the other hand, remained relatively flat through the recession years.

Figure 11 Federal Outlays and Revenues as a Share of GDP, 1960–2013



Source: Uban Institute, 2014. Authors' estimates based on *the Budget of the U.S. Government Fiscal Year 2015* and past years.

This growth in the child tax credit and other tax expenditures has occurred, however, against the backdrop of a large decline in estimated expenditures associated with the dependent exemption. The decline was particularly dramatic between 1960 and 1985, but it has continued since then. In fact, the combined value of all tax provisions benefiting children (refundable tax credits, tax expenditures, and the dependent exemption) as a share of GDP was slightly lower in 2013 than it was in 1960 (1.1 percent compared with 1.3 percent). The long-term decline in the dependent exemption should be interpreted with some care. Some of the decline reflects the eroding value of the exemption amount, which remained a flat $600 from 1948 to 1969 and, although increased by legislation to $2,000 by 1988, was not indexed to inflation until after 1984. However, some of the reduction in expenditures on the dependent exemption results from overall reductions in tax rates. Since the dependent exemption reduces taxable income, its value is determined by the tax rate facing the taxpayers claiming the exemption. Thus, the dependent exemption provides less benefit to low-income families than to higher-income families, and it provides less benefit when tax rates are reduced across the board, as occurred in 2001.[8]

Cash Payments and In-kind Benefits and Services

Federal spending also has shifted in how children receive benefits. The most common ways to receive benefits in the 1960s were cash payments to parents on behalf of their children and reductions in taxes; less than 10 percent of all benefits were in-kind benefits (for example, health, housing and nutrition benefits). Over time, as new programs providing in-kind benefits and services were introduced, noncash benefits became an increasingly important share of the benefits provided to children, as shown in figure 12. By the mid-1990s, in-kind benefits and services accounted for roughly half of all expenditures on children. This trend accelerated during the recent recession, as recession-related participation in programs like Medicaid (providing health services) and SNAP (providing food) sharply increased spending for children through in-kind benefits. After peaking at 1.8 percent of the economy in 2010 and 54 percent of total expenditures on children in 2011, in-kind benefits have fallen again both as a share of GDP and as a share of total expenditures on children. They still accounted for just over half of total expenditures on children in 2013.

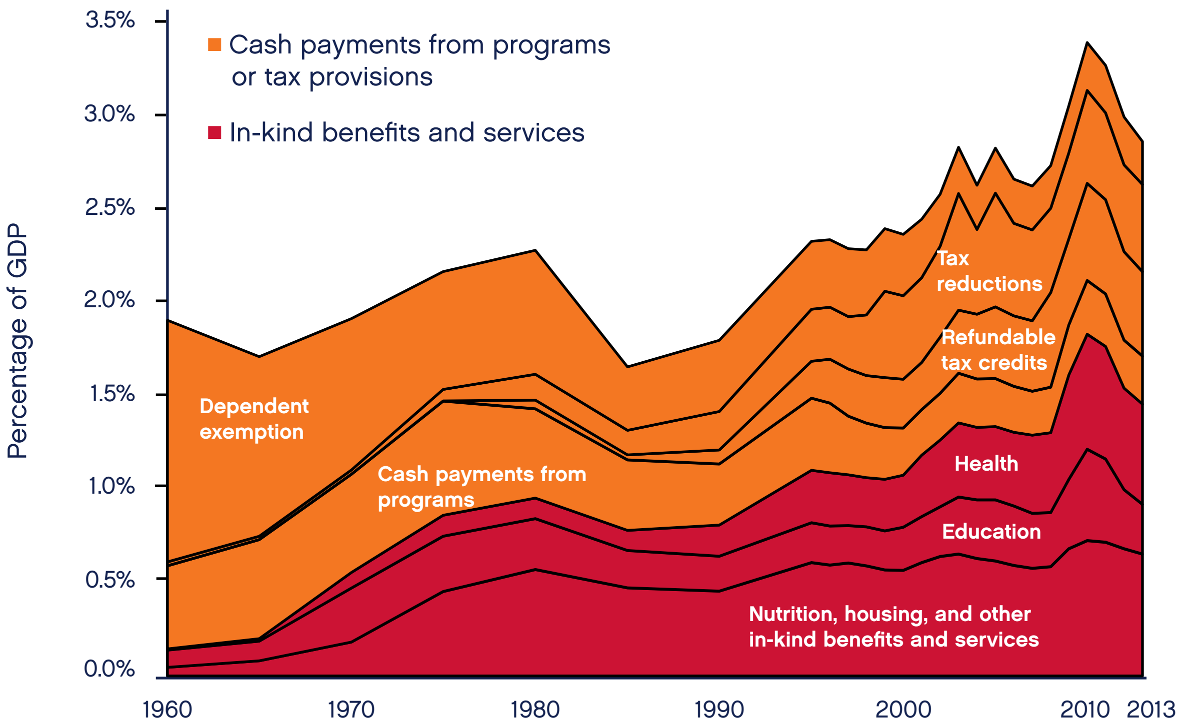
Almost all tax code benefits for children come in the form of cash, either direct payments or tax reductions. The two main tax credits, the EITC and child tax credit, provided over $100 billion in support to families with children in 2013, including $73 billion in refundable tax credits and $35 billion in tax reductions.

Means Testing of Children's Programs and Tax Provisions

In addition to changes in how children receive benefits, *which* children receive benefits has

changed over time (see figure 13). In 1960, the majority of children's expenditures were on survivors' and dependents' benefits under Social Security, the dependent exemption, and other benefits that were available to all children regardless of family income. The focus of children's spending changed as new federal programs such as food stamps, Medicaid, and SSI payments

Figure 12 Federal Expenditures on Children: In-Kind versus Cash, 1960-2013



Source: Uban Institute, 2014. Authors' estimates based on *the Budget of the U.S. Government Fiscal Year 2015* and past years.

to disabled children were introduced to serve low-income populations. By 1980, half (48 percent) of total federal expenditures were on programs that were means-tested—that is, available only to families below a certain level of financial means.

Since then, expenditures on means-tested programs and tax provisions have continued to rise as a share of total expenditures on children, although the mix between programs and tax provisions has fluctuated. In 2013, 63 percent of total expenditures on children were made through means-tested spending programs (51 percent) and means-tested tax provisions (12 percent). The growth in the means-tested share of the total since 2000 has been driven largely by the effects of the recession on family income and the ARRA expansions of SNAP, the EITC, Medicaid, and other programs providing assistance to families in financial need.

The data can be parsed different ways if "means testing" is applied to programs that phase out at higher income levels. For example, the child tax credit is not counted among means-tested programs in this analysis because it is phased out only at fairly high income levels.[9] In addition, the key health programs—Medicaid and CHIP—are still counted in our analysis as means-tested but have been made available to children higher up the income ladder today than in the past. The new health subsidy for health insurance bought on the exchange phases out at high income levels but was not available in 2013; in any case, it will apply only modestly to children in the future.

Also, while this historical analysis of spending classifies an entire program as means-tested or not, economically disadvantaged children generally receive resources from universal programs, and children from higher-income families sometimes receive services from means-tested programs. A recent report in the *Kids' Share* series examined the targeting of children's expenditures and found that 70 percent of 2009 federal expenditures on children (including their share from universal programs) served those 42 percent of all children who were low-income or living below 200 percent of the federal poverty level (Vericker et al. 2012). The report also found that state and local spending is much less targeted than federal spending, as most of it is spent on universal public education.

Historical Spending on Children by Program and Category

Table 3 shows trends in federal expenditures in children from 1960 to 2013 by program category. For example, health spending has grown from almost 0 to 19 percent of total expenditures on children, while refundable tax credits have grown from 0 to 16 percent. On the other hand, the dependent exemption has fallen from 68 to 8 percent of expenditures on children, and income security spending has fallen from 23 to 11 percent. And, while total support to children was primarily in the form of tax reductions (69 percent) rather than outlays (31 percent) in 1960, the split is now 24 percent tax reductions and 76 percent outlays. Table 4 details the dollars spent on major programs within each category over time.

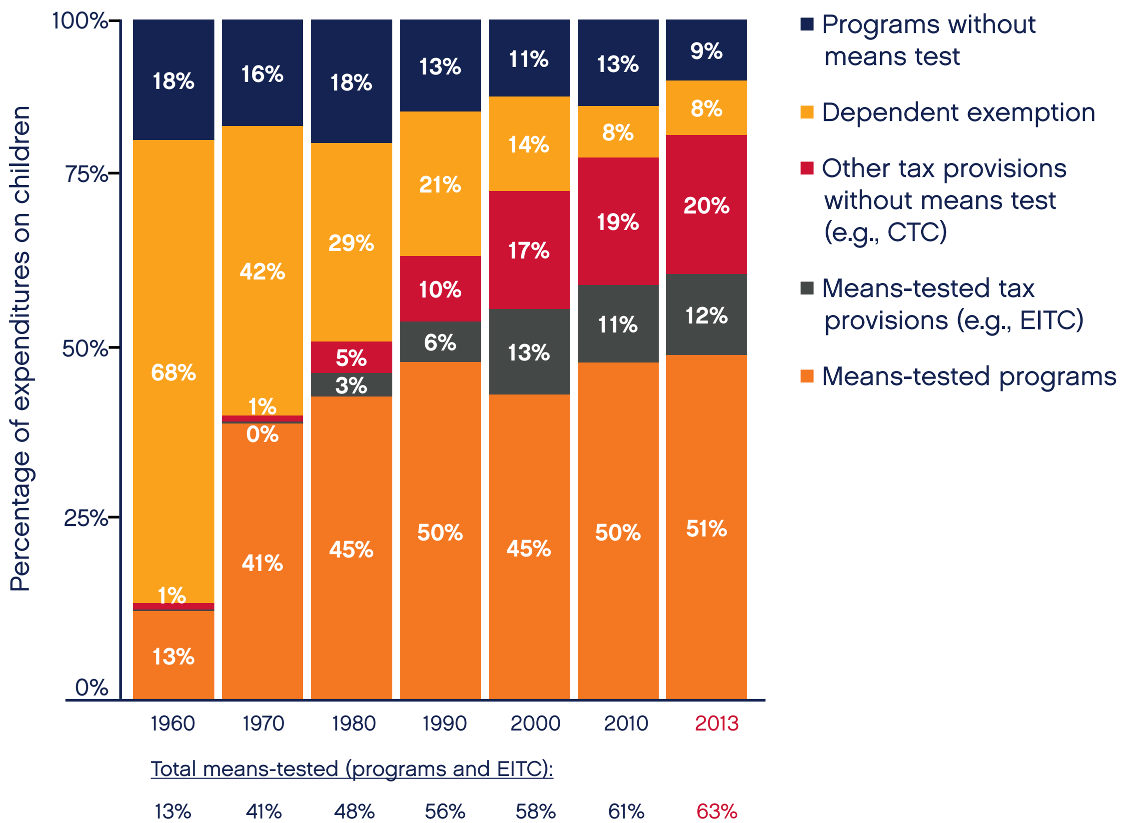
Future Expenditures on Children: A Closer Look

This section examines future spending on children in detail. We first examine future spending by type and category, then focus on projected spending on children's health. Our projections follow the assumptions of the Congressional Budget Office's baseline projections, supplemented by tax projections from the Urban-Brookings Tax Policy Center and other sources, and our own assumptions about the shares of individual programs allocated to children (see methodological appendix).

Projected Expenditures on Children by Type and Category

Total expenditures on children, including both outlays and tax expenditures, are projected under current law to fall relative to the size of the economy, from 2.8 percent of GDP in 2013 to 2.3 percent in 2024. While the share of the population under age 19 is contracting slightly over this period, from 25 to 24 percent, its relatively modest share of the economy will fall by about one-fifth.

Figure 13 Means Testing of Federal Children's Programs and Tax Provisions, 1960–2013



Source: The Urban Institute, 2014. Authors' projections based on the *Budget of the U.S. Government Fiscal Year 2015* and past years.

Table 3 Share of Federal Expenditures on Children by Category, Selected Years, 1960–2013

	Major budget items	1960	1980	2000	2010	2013
1.	Health	0.3	4.9	11.8	18.2	18.7
2.	Nutrition	2.4	14.3	9.9	11.5	13.3
3.	Income security	23.4	21.6	14.9	10.9	11.4
4.	Education	4.9	11.9	9.7	14.4	9.2
5.	Early education and care	--	1.3	3.4	2.9	2.8
6.	Social services	--	2.9	3.4	2.1	2.0
7.	Housing	--	1.8	2.7	2.0	2.0
8.	Training	--	4.1	0.5	0.4	0.3
9.	Refundable portions of tax credits	--	2.0	11.0	15.4	15.9
10.	Tax expenditures	1.1	6.0	19.0	14.8	16.4
11.	Dependent exemption	68.0	29.1	13.8	7.6	8.0
TOTAL FEDERAL OUTLAYS		100	100	100	100	100
OUTLAYS SUBTOTAL (1–9)		30.9	64.8	67.2	77.8	75.6
TAX EXPENDITURES SUBTOTAL (10–11)		69.1	35.2	32.8	22.3	24.4

Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years.

Table 4 Federal Expenditures on Children by Program, Selected Years, 1960–2013 (billions of 2013 dollars)

	1960	1980	2000	2010	2013
1. Health	0.2	7.1	34.6	90.6	87.0
Medicaid	--	6.4	30.8	76.8	72.1
CHIP	--	--	1.6	8.0	9.1
Vaccines for children	--	--	0.7	3.7	3.6
Other health	0.2	0.7	1.5	2.2	2.1
2. Nutrition	1.4	21.1	29.1	57.2	61.8
SNAP (food stamps)	--	11.0	12.6	34.0	36.8
Child nutrition	1.4	8.6	11.9	17.2	19.2
Special Supplemental Food (WIC)	--	1.5	4.5	6.0	5.8
Other nutrition (CSFP)	--	*	*	*	*
3. Income Security	13.7	31.8	43.7	54.2	52.8
Social Security	6.6	16.6	17.4	21.0	20.9
Temporary Assistance for Needy Families	4.5	9.9	14.0	15.5	12.9
Supplemental Security Income	--	0.9	6.3	10.3	11.1
Veterans compensation (disability compensation)	0.9	1.3	1.6	2.7	3.6
Child support enforcement	--	0.9	3.9	4.1	3.5
Other income security	1.7	2.2	0.5	0.6	0.8
4. Education	2.8	17.5	28.5	71.7	42.9
Education for the disadvantaged (Title I, Part A)	--	7.8	11.1	20.5	16.8
Special education/IDEA	--	2.0	6.4	18.2	12.4
School improvement	--	1.9	3.3	5.6	4.8
Impact Aid	1.6	1.7	1.1	1.3	1.3
Dependents' schools abroad	0.2	0.8	1.2	1.2	1.2
Innovation and improvement	--	--	--	1.0	1.1
State Fiscal Stabilization Fund	--	--	--	17.6	1.0
Other education	0.1	2.4	3.6	6.2	4.4
5. Early Education and Care	--	2.0	10.1	14.6	12.9
Head Start (including Early Head Start)	--	2.0	5.8	8.4	7.8
Child Care and Development Fund	--	--	4.3	6.2	5.0
6. Social Services	--	4.3	10.1	10.7	9.3
Foster care	--	0.7	5.7	4.6	4.2
Adoption assistance	--	--	0.2	2.5	2.3
Other social services	--	3.6	4.2	3.5	2.8
7. Housing	--	2.6	7.8	10.1	9.2
Section 8 Low-Income Housing Assistance	--	1.3	6.1	7.5	7.2
Low-rent public housing	--	0.5	1.0	1.3	1.0
Other housing	--	0.8	0.7	1.3	1.0
8. Training	--	6.0	1.4	2.1	1.2
9. Refundable Portions of Tax Credits	--	3.0	32.4	76.9	73.9
Earned Income Tax Credit	--	3.0	31.3	51.5	51.3
Child Tax Credit	--	--	1.1	23.8	21.6
Other refundable tax credits	--	--	--	1.5	1.0
10. Tax Expenditures	0.6	8.9	55.8	73.6	76.2
Exclusion for employer-sponsored health insurance	NA	5.5	18.5	28.9	32.6
Child Tax Credit (nonrefundable portion)	--	--	25.2	31.4	31.3
Dependent care credit	--	--	3.0	3.5	4.0
Earned Income Tax Credit (nonrefundable portion)	--	1.7	5.6	4.6	3.6
Other tax expenditures	0.6	1.8	3.6	5.2	4.7
11. Dependent Exemption	39.8	42.9	40.7	37.7	37.2
TOTAL EXPENDITURES ON CHILDREN	58.6	147.2	294.0	498.9	464.4
OUTLAYS SUBTOTAL (1–9)	18.1	95.5	197.6	388.0	350.9
TAX EXPENDITURES SUBTOTAL (10–11)	40.5	51.8	96.5	111.3	113.5

Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past year.

Note: See table 1 for list of programs included in other health, other education, and so on.
* Less than $50 million.
NA Not available

All three types of expenditures on children—mandatory spending, discretionary spending, and tax provisions (outlays and tax reductions)—declined over the past few years and are projected to continue declining as a share of the economy through at least 2024 (figure 14). As a share of GDP, discretionary spending on children is projected to decline by 2024 by 31 percent, tax provisions by 19 percent, and mandatory spending by 9 percent. The sharpest projected decline for expenditures on children is in discretionary spending programs, where the funding levels are set annually by congressional actions. In contrast, spending levels for tax provisions and mandatory spending are governed by program rules (e.g., benefit or tax parameters) and the number of qualifying families applying for services. Also, because of the discretionary spending caps in place through 2021 under the Budget Control Act, discretionary spending on children will fall in real terms. The trend, apparent at least back to 2007, was only hidden temporarily by ARRA.

Spending on tax provisions related to children is projected to decline overall as a share of the economy from 2013 to 2024. Decreased spending in real dollars on the child tax credit drives the long-term projected decline. In 2018, the child tax credit's earnings threshold—that is, the minimum income level required before any benefits are allowed—will return to $10,000 (indexed for inflation) from $3,000, where it has been since ARRA. In addition, the child tax credit is not automatically adjusted for inflation and thus loses value over time. Between 2013 and 2024, spending on the child tax credit (both the refundable portion and reductions in taxes) is projected to decline by more than $10 billion, or 20 percent. Most of the drop relative to GDP in tax provisions is concentrated in the outlay or refundable portion of tax credits, which are projected to drop by one-third; expenditures on tax reductions for children are projected to decline by one-tenth between 2013 and 2024.

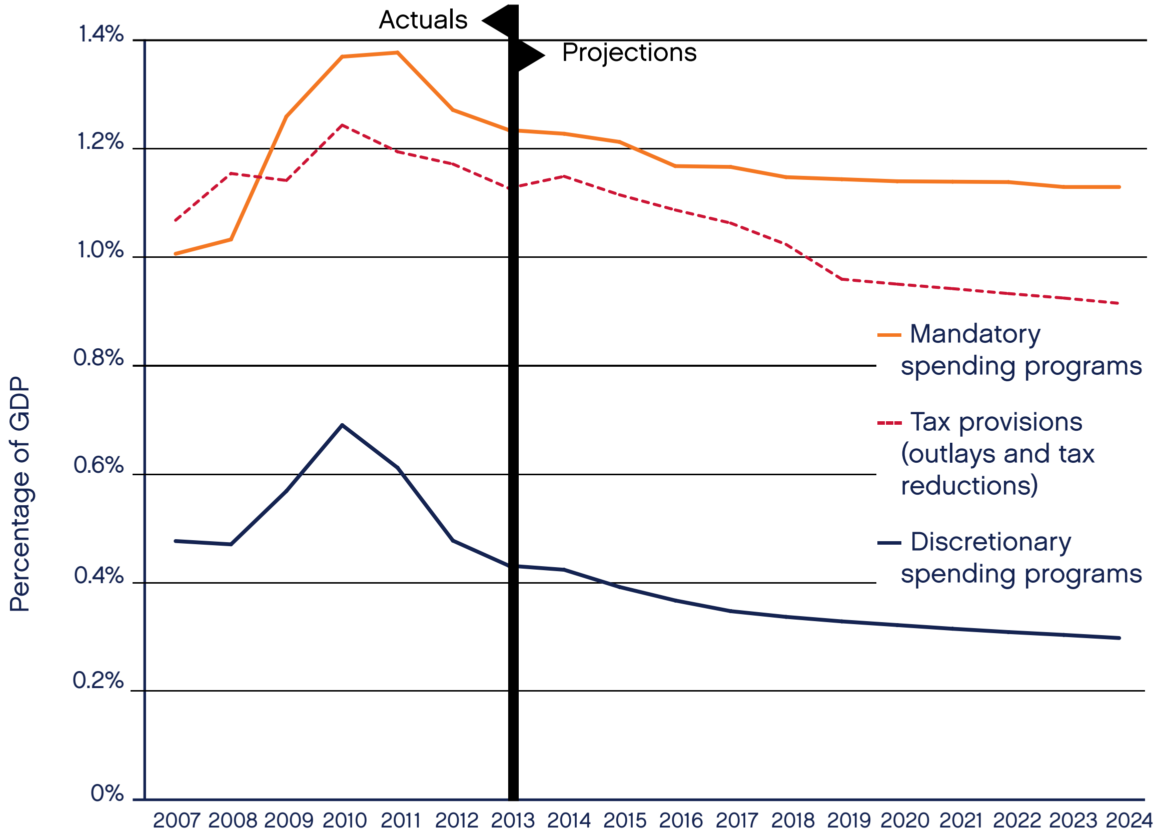
20%

Between 2013 and 2024, spending on the child tax credit (both the refundable portion and reductions in taxes) is projected to decline by more than $10 billion, or 20 percent.

Children's spending through mandatory programs, or entitlements, is projected to decline steadily as a share of GDP between 2013 and 2024, although not as dramatically as the other types of spending. Mandatory spending increased substantially during the recession, as a growing number of needy families turned to Medicaid and SNAP for assistance, and as Congress provided temporary increases in these and other programs to both stimulate the economy and support needy families. Since the end of the recession in 2011, spending has sloped downward. In contrast to the other two types of spending, mandatory spending is projected to remain a bit higher in 2024 than it was in 2007, before the recession.

Turning from broad budgetary classifications to more customary categories (such as education, nutrition, and health), expenditures on children are expected to decline as a share of the economy between 2013 and 2024 across all spending categories except health (figure 15). Social services and training has the largest decline (38 percent), but child-related spending on education, nutrition programs, and housing also are projected to decline by 25 percent or more over the next decade, when measured as a percentage of GDP. In stark contrast to the overall trend, health expenditures on children are projected to increase by 15 percent as a share of GDP, a trend we discuss later in this report.

Figure 14 Federal Expenditures on Children as a Share of GDP by Spending Type, 2007–24



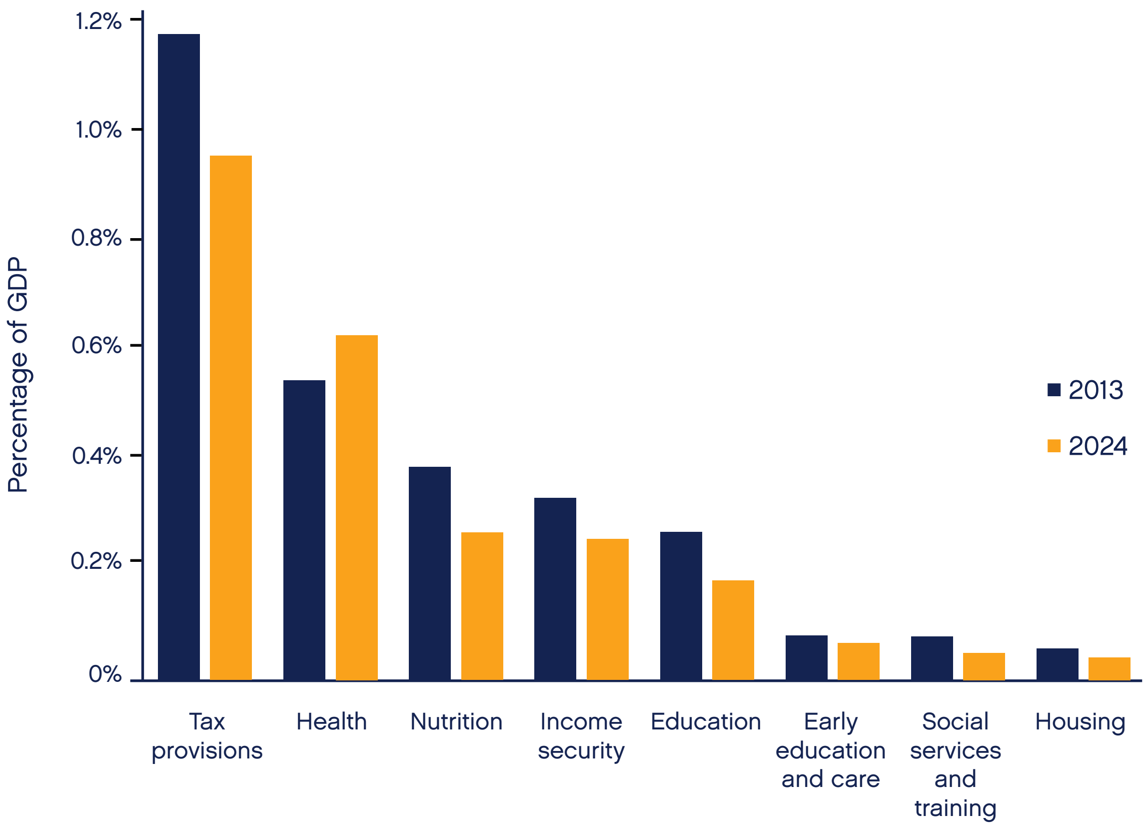
Source: Urban Institute, 2014. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2014–24* and the Urban-Brookings Tax Policy Center Microsimulation Model

Education spending will fall because of the 2013 sequester and the additional constraints of the discretionary spending caps imposed by the Budget Control Act.

In real dollars, the largest projected decline is in federal funding for K–12 education, which is projected to fall by 12 percent, from $43 billion in 2013 to $38 billion in 2024 (data not shown). Education spending will fall because of the 2013 sequester and the additional constraints of the discretionary spending caps imposed by the Budget Control Act. (Even without these caps, discretionary programs would be projected to decline relative to the economy because the baseline assumption is that they are adjusted for inflation but not for growth in income or population.) Early education and care, social services, training, and housing face similar constraints because they also largely comprise discretionary programs that must compete annually for appropriations. Early education and care spending has fallen in the past few years after the temporary boost from ARRA, but is projected to increase modestly in real dollars by 2024 (from $13 billion to $14 billion). Despite the dollar increase, early education and care will fall 17 percent as a share of GDP.

Nutrition programs face relatively large declines in spending over the next decade, both as a share of GDP and in real dollars, as caseloads gradually decline in the wake of the recession,

Figure 15 Federal Expenditures on Children as a Share of GDP, by Category, 2013 and 2024



Source: Urban Institute, 2014. Authors' 2013 estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years; authors' 2024 estimates based on CBO's *Updated Budget Projections: 2014–24* and the Urban-Brookings Tax Policy Center Microsimulation Model.

and because the temporary boost in SNAP benefits under ARRA ended in November 2013. As a share of GDP, spending on nutrition programs is projected to decline by 31 percent and, in real dollars, by 9 percent, from $62 billion in 2013 to $56 billion in 2024.

Child-related spending on tax provisions and income security programs also is projected to decrease relative to GDP, though more moderately than in other areas. As noted earlier, child-related tax provisions are projected to decline with the scheduled expiration of certain EITC and child tax credit expansions and because the child tax credit is not indexed to inflation. As for income security spending, the decline is moderate because reductions in the value of the TANF block grant are partially offset by rising spending on survivors' and dependents' benefits under Social Security (unlike almost all other social welfare programs, Social Security benefits are indexed to real wage growth) and on disabled children's benefits under Supplemental Security Income.

31%

As a share of GDP, spending on nutrition programs is projected to decline by 31 percent.

For both income security and tax provisions, spending on children is projected to increase in real dollars but fall relative to GDP. Between 2013 and 2024, spending on tax provisions for

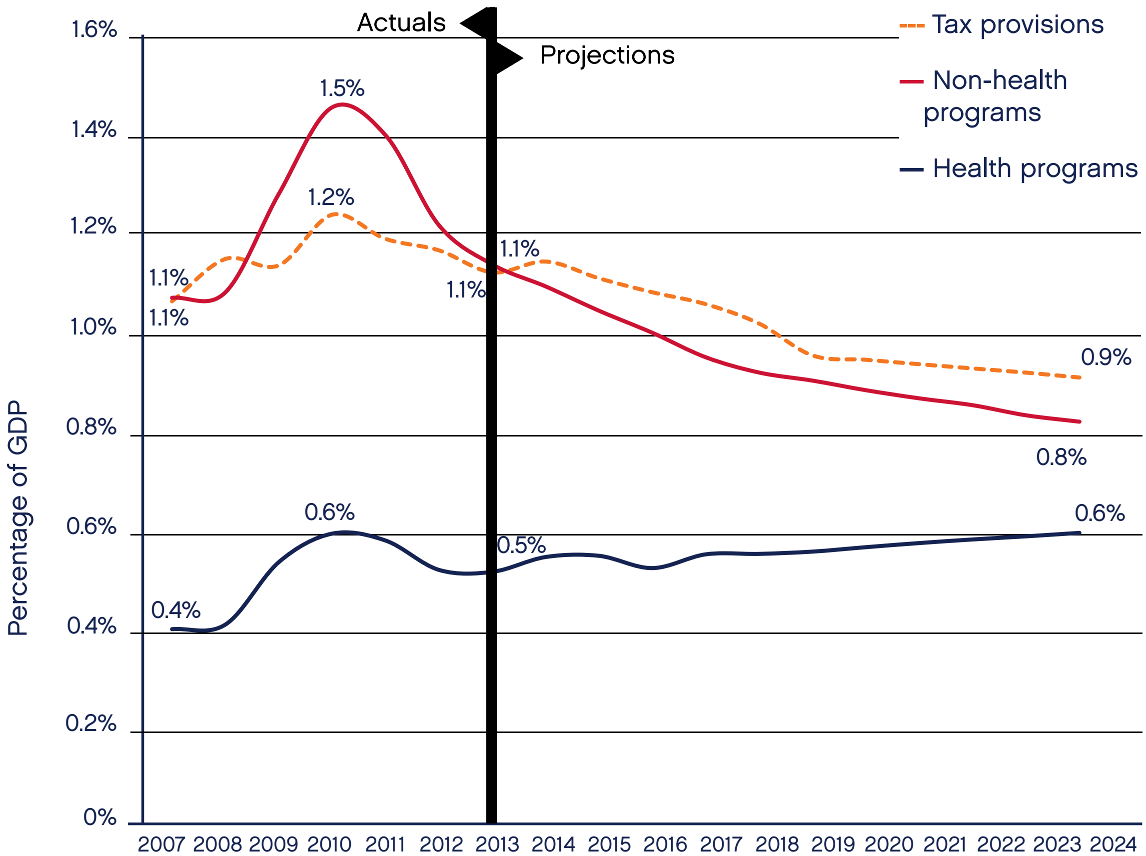
children is projected to increase 7 percent, from $187 billion to $200 billion, and spending for children's income security is projected to increase 2 percent, from $53 billion to $54 billion. Despite the increasing dollar amounts, expenditures on tax provisions for children will fall by 19 percent as a share of the economy, and spending on children's income security will fall by 23 percent.

Projected Spending on Children's Health Programs

Over the next decade, federal spending on children is projected to grow as a share of the economy in only one category: health. As shown in figure 16, spending on non-health programs is projected to decline from 1.1 percent of GDP in 2013 to 0.8 percent in 2024. Tax provisions (outlays and tax reductions), also currently 1.1 percent of the economy, are projected to decline similarly to 0.9 percent of GDP in 2024. Federal spending on health programs for children is projected to increase from 0.5 percent of GDP in 2013 to 0.6 percent in 2024.

The growth in health spending is projected to occur almost entirely in Medicaid spending on children, which is projected to rise from $72 billion in 2013 to $113 billion in 2024. As shown in figure 17, spending on Medicaid dwarfs all other health spending for children, and it is projected to increase further as health care costs rise and as more families with children participate in the program following implementation of the Affordable Care Act. CHIP spending is projected to increase from $9 billion in 2013 to $12 billion by 2015; however, the authorization for CHIP ends after September 2015. Under CBO baseline projections, CHIP is assumed to continue at a reduced level, and the drop in CHIP spending in 2016 is large

Figure 16 Federal Expenditures on Children as a Share of GDP, Health and Non-health Programs and Tax Provisions, 2007–24



Source: Urban Institute, 2014. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2014–24* and the Urban-Brookings Tax Policy Center Microsimulation Model.

enough to cause a decline in total child-health spending that year.[10] From 2017 to 2024, child-health spending is projected to rise again as continued high growth in economy-wide health care costs leads to increasing expenditures through Medicaid.

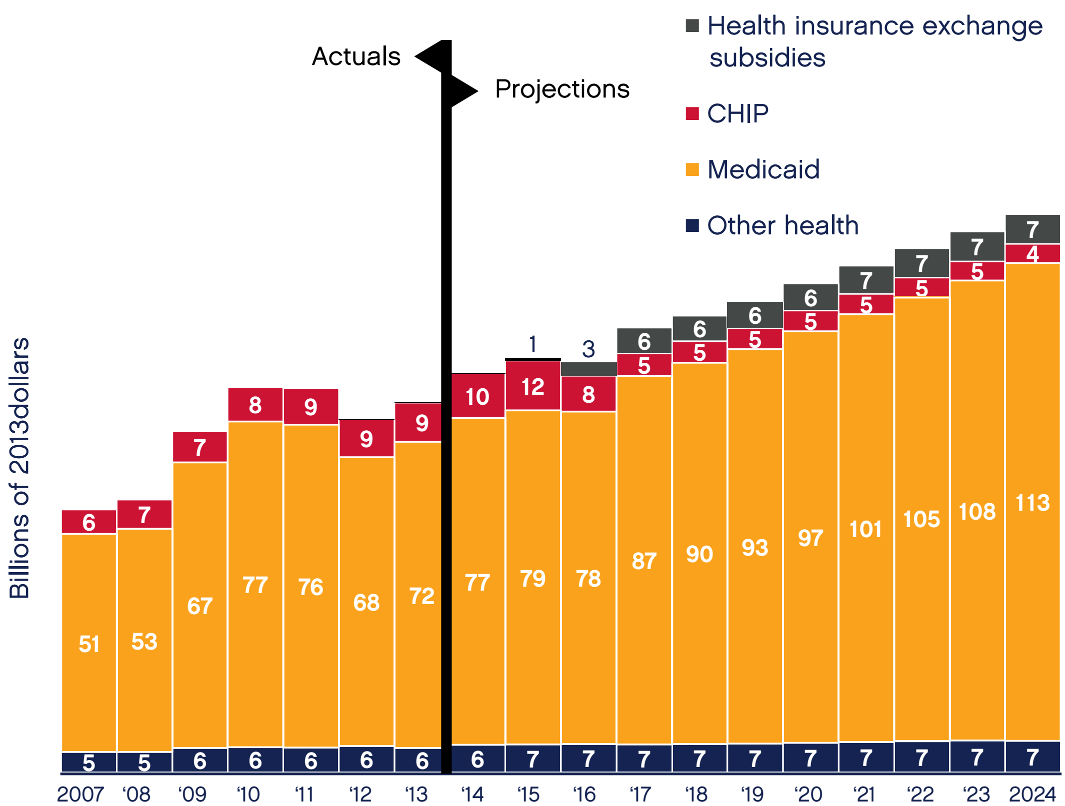
Some children also benefit from premium subsidies under the new health insurance exchanges. The share of health insurance exchange subsidies for children (an estimated $1 billion in 2015) is relatively low compared to the other forms of health spending, owing to the large share of children covered by Medicaid and CHIP and not using the exchange subsidies. We estimate that 7 percent of the beneficiaries of the exchange subsidies are children and that 1.4 percent of spending on exchange subsidies supports children's health insurance costs.[11] Costs per child are relatively low for at least two reasons. First, children's insurance premiums are considerably lower than adult premiums. Children tend to be healthier than adults, and, when receiving help, get services from less expensive providers. Second, because of CHIP eligibility thresholds,

1.4%

1.4 percent of spending on exchange subsidies supports children's health insurance costs.

the children in subsidized marketplace coverage tend to be at the upper end of the income range, where the subsidies are much less generous than at lower incomes. Our estimates of increased spending on health insurance exchange subsidies in 2017–24 assume that CHIP spending falls, even though not all children losing CHIP coverage would be able to access exchange subsidies. Regardless of the specific assumptions, spending on health insurance exchange subsidies for children will be dwarfed by Medicaid.

Figure 17 Actual and Projected Federal Spending on Children's Health by Program, 2007–2024



Source: Urban Institute, 2014. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2014–24.*

Conclusion

As the nation slowly recovers from the recession and looks to the future, attention to our national investments in children is vital. Federal expenditures on children that were boosted during the recession in response to increased need have since fallen, although need has not fallen to pre-recession levels. While federal spending on children increased slightly in aggregate real dollars between 2012 and 2013, that spending lagged behind the expanding economy, leaving children with a smaller share.

Looking further ahead gives cause for concern. Without changes to current law, federal spending on children is expected to continue declining both as a share of total federal spending and a share of the economy. The kids' share of federal spending is projected to shrink in mandatory programs, discretionary programs, and tax provisions, in education, nutrition, housing, early education and care, social services, training, and every other category of program except health.

Without adequately funded education, nutrition, housing, early education and care, and other basic supports, the foundation of children's well-being is at risk.

Without adequately funded education, nutrition, housing, early education and care, and other basic supports, the foundation of children's well-being is at risk. When children grow up without adequate supports, they are less able to support themselves and to contribute to economic growth as adults. This report does not investigate the adequacy of current levels of government support for children or the support children receive from private sources. Nonetheless, a continuous decline in federal support for children over the next decade bodes poorly for their future or the future of the nation.

The reason for the declining investment in children is not a deliberate rejection of children and their needs. Rather, it is largely the result of a structural imbalance between revenues and spending, as well as the built-in growth in spending on other programs supported by our current laws. While revenues are projected to remain steady from 2014 onward, spending on debt payments and on the non-child portions of Medicare, Medicaid, and Social Security will squeeze out nearly all other spending. A decade from now, the federal government is projected to spend $1.4 trillion more than it does now, but 94 percent of that increase will be in these areas. Measures to address spending in these areas are needed if the country is to reduce the size of the deficit relative to the economy.

Those who wish to improve federal supports for children should attend not only to programs that focus specifically on children, but also to the broad budget trends that create the context in which programs that support children are struggling to make do with an ever shrinking piece of the pie.

Appendix: Methods

Estimating the portion of government spending on children requires making assumptions and decisions regarding federal, as well as state and local, data. First, programs are designated for inclusion if they directly benefit children or households with children. Second, we collect expenditure data from federal sources, particularly the Office of Management and Budget's *Appendix to the Budget of the US Government, Fiscal Year 2015* (and past years) for information on spending, and the *Analytical Perspectives* volume of the budget for tax expenditures. Finally, we estimate the share of each program's spending that directly benefits children. These methodological steps are described below and in further detail in *Data Appendix to Kids' Share 2014.*

Defining and Identifying Programs Benefiting Children

Defining spending that goes to children is a complex task that could reasonably be calculated using different methodologies. Each dollar spent on a particular program must be determined to go to a particular recipient. This task is relatively straightforward for programs that spend directly on children—elementary education is a simple example. But for programs that serve both children and adults, it is more difficult to discern who benefits from the spending. For example, how should one determine the amount of refundable tax credits such as the earned income tax credit distributed to adults rather than to children? Calculating spending on children requires a concrete and consistent set of rules and assumptions.

For the purposes of this study, childhood is defined as extending from the date of birth until the child's 19th birthday. Thus, prenatal spending (for example, through Medicaid) and postsecondary vocational training are excluded. The general rule is to include 18-year-olds in the analysis; however, some programs exclude children beginning at their 18th birthday, so we cannot include 18-year-olds in these cases. Those programs are noted in the data appendix.

To be included in this analysis (as a whole or in part), a program must have reached spending of at least $50 million and must meet at least one of the following criteria:

- benefits or services provided entirely to children (e.g., elementary and secondary education programs, foster care payments); this also includes programs that serve all age groups, but deliver a portion of benefits directly to children (e.g., Supplemental Security Income [SSI] payments for disabled children, Medicaid services for children);
- family benefit levels increase for households with children (e.g., Supplemental Nutrition Assistance Program [SNAP]/food stamps, low-rent public housing); or
- children are necessary for a family to qualify for any benefits (e.g., Temporary Assistance for Needy Families [TANF], the child tax credit, the dependent exemption).

Therefore, some services that may benefit children are excluded from our calculations because they do not directly rely on the presence of a child. For example, unemployment insurance and some tax benefits for homeownership may benefit children, but because being a child or having a child are not prerequisites for these services, and having a child does not result in any additional direct monetary benefit, they do not meet the criteria to be included in our analysis. Additionally, we do not include programs that provide benefits to the general population, such as roads, communications, national parks, and environmental protection.

In reporting federal expenditures on children, our most comprehensive measure includes *tax expenditures* (e.g., reduced tax liabilities as a result of the child tax credit, the dependent exemption, or other provisions in the tax code) as well as direct *program outlays* from programs such as Medicaid, child nutrition, and education programs. In other places, we focus solely on federal outlays on children, as, for example, when we compare children versus elderly outlays, or federal versus state and local outlays on children. Some tax provisions are included in our estimates as outlays: the portions of the earned income tax credit and child tax credit that are paid out to families as a tax refund (and are treated by the Treasury Department as outlays rather than reductions in tax liabilities), as well as the outlay portions of other, smaller tax provisions (e.g., outlays associated with Qualified Zone Academy Bonds). The division of tax

subsidies between outlays for the refundable portion of credits and tax expenditures for the nonrefundable portion adheres to standard budget accounting practices.

Collecting Expenditure Data

Expenditure data on program outlays largely comes from the *Appendix to the Budget of the US Government, Fiscal Year 2015* (and prior years). The *Analytical Perspectives* volume of the budget provides tax expenditure data. For those programs not included in the Appendix, we obtain expenditure data from respective agency's budgetary documents or their representatives. In this report, all budget numbers represent fiscal years, and we have expressed them in 2013 dollars, unless otherwise noted.

Calculating the Share of Program Spending on Children

Some programs exclusively spend on children, while others benefit the general population, regardless of age. We calculate the share of spending going to children for particular programs in one of the following ways:

- For programs that serve children only, we assume 100 percent of program expenditures (including benefits and associated administrative costs) go to children.
- For programs that provide direct services to both children and adults (e.g., Medicaid), we determine the percentage of program expenditures that go to children.
- For programs that provide benefits only to households with children, and the amount of benefits are determined by the number of children (e.g., child tax credit, dependent exemption), we consider 100 percent of program expenditures as going to children.
- For other programs in which benefits are provided to families without any delineation of parents' and children's shares, we generally estimate a children's share based on the number of children and adults in the family and assuming equal benefits per capita within the family (e.g., TANF and SNAP).

For large programs, such as SNAP, Medicaid, or SSI, we put significant effort into correctly estimating the share of spending that goes to children. In some cases, programs publicly release administrative data on spending on children, but we occasionally must contact federal agency staff directly to obtain participation data. Using the best data available, the authors calculate spending on children. When program data is unavailable, other Urban Institute researchers provide carefully crafted estimates using, for example, the Urban Institute's Transfer Income Model. Further information is available in the data appendix.

Methods for Spending on the Elderly

While the focus is on federal expenditures on children, we also have developed rough estimates of spending on the elderly, focusing on spending in 14 programs: Social Security, Medicare, Medicaid, SSI, SNAP, civilian retirement, military retirement, veterans compensation and pensions, annuitants' health benefits, special benefits for coal miners and black lung, veterans' medical care, housing, Administration on Aging programs, and low income home energy assistance. (These 14 programs were included in a Congressional Budget Office study of federal spending on the elderly.) As with the methodology for children, we estimate the share of the program that goes to the elderly population; for example, we subtract spending on children and 18- to 64-year-old disabled adults to estimate the share of elderly spending on Social Security, Medicare and Medicaid. For the first time in this report we extend our estimate of spending on the elderly historically, back to 1960.

Methods for State and Local Estimates

Although it focuses on federal expenditures on children, this report also estimates state and local spending on children for 1998 to 2011. The Rockefeller Institute State Funding Database provided estimates of state and local spending on children in the period 1998 to 2008, drawing on expenditures for a dozen major programs, including elementary and secondary education, state programs associated with major federal programs (Medicaid, CHIP, Maternal and Child Health Bureau, TANF, child support enforcement, child care, child welfare, etc.), and state earned income tax credits (Billen et al. 2007). The *Kids' Share* authors estimated state and local spending for 2009–11, following the Rockefeller Institute methodology and using various federal programs' reports on state spending and state education sources.

Methods for Projections

To predict spending trends for children, we primarily use the Congressional Budget Office's projections from *Updated Budget Projections: 2014–24.* For projecting expenditures under tax provisions, we turn to the Urban-Brookings Tax Policy Center Microsimulation Model for major tax provisions and the Office of Management and Budget's projections in *Analytical Perspectives* for smaller tax provisions. The projection methodology differs depending on whether a program is mandatory (with spending governed by programmatic rules, such as Medicaid or Social Security), discretionary (with spending set by appropriations action annually and spending subject to the spending caps of the BCA), or a tax expenditure. In the mandatory spending area, the CBO baseline projections assume a continuation of current law, except that certain expiring programs that have been continually reauthorized in the past are assumed to continue.

For discretionary spending, the CBO traditionally uses a baseline assumption that spending is kept constant in real terms—that is, it is adjusted for inflation. However, under the BCA, the traditional CBO baseline is adjusted downward to reflect caps on defense and non-defense spending, legislative amendments to the caps through 2015, and further reductions in those caps in 2016 through 2021 under the law's automatic enforcement provisions.

The Urban-Brookings Tax Policy Center Microsimulation Model provides 10-year projections for the four largest tax provisions: the dependent exemption, the child tax credit, the earned

income tax credit, and the child and dependent care credit. These projections are made assuming continuation of current law. For all other, smaller tax provisions, we use the five-year projections provided in the *Analytical Perspectives* and then apply the average growth rate of these projections to the following five years.

In general, for programs serving both children and adults, we assume that the share of spending directed to children for each program will remain constant from 2014 to 2024. The exception is that we use CBO's detailed projections by age group for Medicaid, Social Security, and SSI. We do not publish program-specific projections because of their somewhat tentative nature, but we are able to provide broad statements about the future of children's spending as a whole and in broad budget categories, such as health and education.

Changes in Methods in This Year's Report

We have recently added a new tax provision to *Kids' Share*, namely, the children's share of the employee exclusion from tax of income received in the form of employer-sponsored health insurance (ESI). For the past three years we have provided one-year estimates of this provision; last year we incorporated them into our estimates of total expenditures and added projections; this year we added estimates back to 1975. We also revised upward our estimate of the children's share of ESI, based on a new methodology from the Urban Institute Health Policy Center.

We also revised—and lowered—our estimate of the children's share of the new health insurance subsidy exchange. We initially used 10 percent as a rough placeholder for the share of projected costs for health insurance subsidies going to children, loosely based on our estimate that 12 percent of the tax subsidy for employer-sponsored health insurance is for the marginal cost of providing dependent insurance coverage to children. Our new estimate, based on unpublished tabulations from the Urban's Institute's Health Policy Center's ACS-HIPSM 2014 model, is that 1.4 percent of health exchange spending would be on children in 2014.

We also added two new programs this year: Promise Neighborhoods and a veterans' pension program. Promise Neighborhoods was established in 2010; this past year (2013) was the first year that program outlays were over $50 million, our threshold for adding a program to our database. The program, established under the Fund for the Improvement of Education Program, issues grants for educational and family support programming to nonprofit organizations, institutions of higher education, and Indian tribes in designated Promise Neighborhoods across the country. Although participation data is not yet available, Urban Institute experts confirmed for us that the vast majority of spending will go to children.

We added the veterans pensions program, recognizing it fits our definition of a children's program because benefits are adjusted for family size. We added it to our historical as well as current estimates, with the result that the Kids' Share database now has four rather than three veterans' benefit programs affecting children. We also refined our methodology for estimating the children's share of veterans' pension spending, turning to survey data from the March Current Population Survey because administrative data are no longer available. Finally, we reclassified three of the four veterans' programs (all but veterans disability compensation) as means-tested.

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Endnotes

1 The earlier reports include Isaacs et al. (2009, 2010, 2011, 2012, 2013); Carasso et al. (2008); Carasso, Steuerle, and Reynolds (2007); and Clark et al. (2000).

2 See *Kids' Share 2013* by Isaacs et al. (2013).

3 To calculate the children's share of the tax expenditure budget, we first have to determine a total tax expenditure budget. To do this, we sum OMB's estimates of tax provisions for individuals and corporations, although such provisions are not strictly additive because of interaction effects. Tax expenditures identified by OMB totaled approximately $1.26 trillion in 2013. To this we add $37 billion ($0.037 trillion) for the dependent exemption, which OMB does not classify as a special tax provision resulting in a tax expenditure but instead views as part of the overall tax structure. We do include the dependent exemption in our analyses of expenditures on children.

4 The growth in employer-sponsored health insurance expenditures is not due to the revised methodology for estimating this program's expenditures. Rather, it appears using consistent methodology for 2012 and 2013.

5 While we made efforts to improve the comparability of the federal and state/local estimates (e.g., both use similar definitions of children as those under 19), differences remain. For example, much of the state and local expenditure data cover a July–June rather than an October–September fiscal year. In addition, the treatment of tax provisions is similar but not identical. The state and local estimates include one tax provision: the value of the state earned income tax credit in states that have such a credit. The federal estimates are restricted to outlays, which include the refundable portion (the vast majority) of the earned income tax credit as well as the refundable portion of the child tax credit. The value of the dependent exemption and other tax expenditures is excluded from the federal estimates to improve comparability with the state and local spending estimates.

6 See DeNavas-Walt et al. (2013) and Short (2011) for official and supplemental poverty rates. As Short explains, counting of tax credits and noncash assistance benefits is not the only difference between the SPM and official poverty measures; the SPM also differs in its definition of family, level of poverty threshold, treatment of differences in geographical costs of living, and other details.

7 Authors' analysis of Bureau of Labor Statistics data on number of employees in "local government education" accessed at http://www.bls.gov/data/#employment on July 22, 2014.

8 For example, a cut in tax rates from 28 to 25 percent would reduce the value of a $3,500 exemption from $980 to $875, thereby reducing the tax advantage of being a taxpayer with a child (relative to taxes for childless taxpayers) and, thus, child-related tax expenditures. This

does not mean, however, that families with children were paying higher taxes than before the tax cut, just higher taxes relative to childless taxpayers.

9 Information on how we classified each program by eligibility limitation (means-tested or not), as well as benefit type (cash vs. in-kind) and spending type (mandatory vs. discretionary), is provided in the data appendix.

10 In notes accompanying its baseline projections, CBO notes that consistent with statutory guidelines, its baseline projections for CHIP assume that the program is funded at $5.7 billion annually after the authorization expires; total projected outlays for the program exceed that number through 2017 due to other grant funding line items. See CBO (2014b) and, in particular, additional data provided in the table "Detail of Spending and Enrollment for the Children's Health Insurance Program for CBO's April 2014 Baseline," accessed July 22, 2014, http://www.cbo.gov/publication/44189.

11 Our estimate of the children's share of spending on health insurance exchange subsidies is much lower than our original estimate in *Kids' Share 2013*. Without better data at the time, we roughly estimated the children's share as 10 percent. However, the health insurance exchanges disproportionately include adults rather than children, who are already covered by Medicaid/CHIP. Unpublished tabulations from the Urban's Institute's Health Policy Center's ACS-HIPSM 2014 model provide us with our current estimate of 1.4 percent.

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