

KIDS'SHARE2015

REPORT ON FEDERAL EXPENDITURES
ON CHILDREN IN 2014 AND FUTURE PROJECTIONS



JULIA ISAACS
SARA EDELSTEIN
HEATHER HAHN
ELLEN STEELE
C. EUGENE STEUERLE





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 Sarah Kyle, Ralph Forsht, Ed Walz, Laudan Aron, Lisa Clemans-Cope, and Genevieve Kenney for their insightful comments.

Contents

- TABLES AND FIGURES 2**
- EXECUTIVE SUMMARY 3**
 - Current Expenditures on Children 4
 - Projected Expenditures on Children 5
- INTRODUCTION 8**
- FEDERAL EXPENDITURES ON CHILDREN IN 2014 10**
 - Aggregate Federal Expenditures on Children 10
 - Kids' Share in 2014 11
 - A Closer Look at Federal Expenditures on Children in 2014 12
 - Federal Expenditures on Children, by Program, in 2013 and 2014 15
 - Federal Expenditures on Children, by Category 17
 - Children's Spending and the Budget Control Act 18
- FUTURE TRENDS IN FEDERAL EXPENDITURES ON CHILDREN 20**
 - Broad Budgetary Trends 20
 - Kids' Share of the Budget 20
 - Kids' Share of Budget Growth 20
 - Kids' Share of the Population 22
 - Federal Spending on Children as a Share of GDP 23
 - A Closer Look at Future Expenditures on Children 24
 - Projected Expenditures on Children by Type of Spending 25
 - Projected Expenditures on Children by Category 26
 - Projected Spending on Children's Health Programs 28
- CONCLUSION 31**
- APPENDIX: METHODS 33**
 - Defining and Identifying Programs Benefiting Children 33
 - Collecting Expenditure Data 34
 - Calculating the Share of Program Spending on Children 34
 - Methods for Projections 35
 - Changes in Methods in This Year's Report 36
- REFERENCES 37**
- NOTES 40**

Tables and Figures

FIGURES

Figure ES.1 Share of Federal Budget Outlays Spent on Children and Other Items, 2014	4
Figure 1 Federal Expenditures on Children by Type of Expenditure, 2007–14	11
Figure 2 The 10 Spending and Tax Programs with the Highest Expenditures on Children, 2014.	14
Figure 3 Federal Expenditures on Children by Category, 2014	17
Figure 4 Federal Outlays on Children by Impact of Budget Control Act, 2007–14	19
Figure 5 Share of Federal Budget Outlays Spent on Children and Other Items, Selected Years, 2000–25	21
Figure 6 Share of Projected Growth in Federal Outlays from 2014 to 2025 by Major Budgetary Category	22
Figure 7 Federal Outlays and Revenues as a Share of GDP, 2007–25	24
Figure 8 Federal Expenditures on Children as a Share of GDP by Spending Type, 2007–25	25
Figure 9 Federal Expenditures on Children as a Share of GDP by Category, 2014 and 2025	27
Figure 10 Federal Expenditures on Children as a Share of GDP, Health and Non-health Programs and Tax Provisions, 2007–25	29

TABLES

Table 1 Federal Expenditures on Children by Program, 2014 (billions of 2014 dollars)	16
Table 2 Share of Projected Growth in Federal Outlays from 2014 to 2025 by Major Budgetary Category (billions of 2014 dollars, except where noted)	23
Table 3 Federal Expenditures on Children as a Share of GDP and in Real Dollars, by Category, 2014 and 2025	28

Executive Summary

Federal spending on children has remained fairly flat, in real dollars, over the past three years. Between 2012 and 2014, spending fell for children's education, nutrition, social services, and early education and care, and increased for children's health.

In the future, overall federal spending is projected to increase substantially, but virtually none of the additional funds will be directed toward children. Thus, the share of the economic pie and of the federal budget devoted to children is scheduled to decline. Almost all the projected growth in federal spending is committed to retirement and health spending on adults, and to interest on the debt. As federal spending continues to outpace revenues, interest payments continue to rise; payments on the debt will soon outstrip federal spending on children, underlining the extent to which the federal budget has been made dependent on past policy decisions rather than on current assessments of how best to invest in the future.

In the future, overall federal spending is projected to increase substantially, but virtually none of the additional funds will be directed toward children.



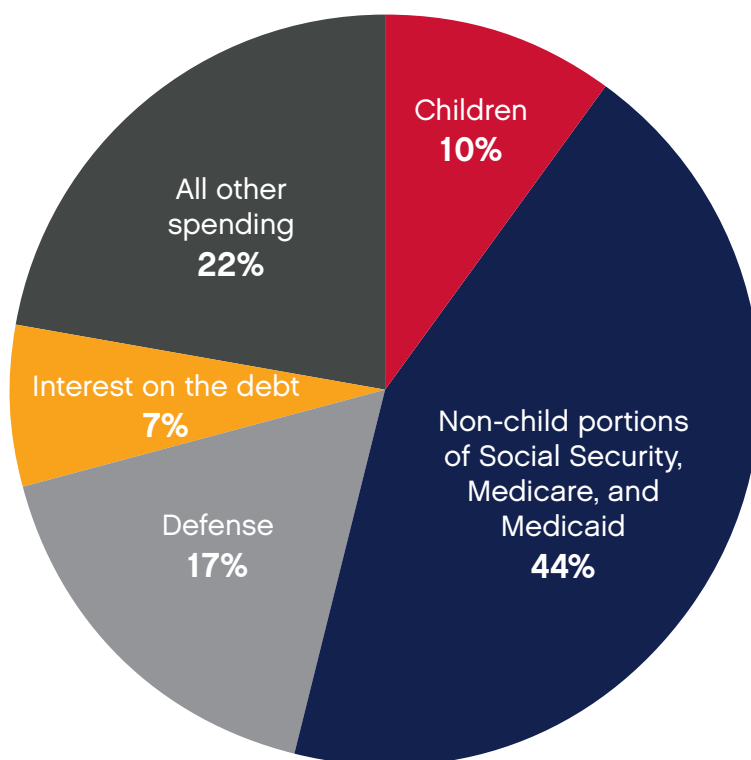
Public spending on children—across federal, state, and local levels of government—provides critical investments in the nation’s future by supporting the healthy development of all children. To help assess the government’s investment in children, this ninth annual *Kids’ Share* report provides an updated analysis of federal expenditures on children in 2014. It also updates projections of children’s spending through 2025, absent changes to current law, to provide a sense of how budget priorities may unfold.

Current Expenditures on Children

Analysis of federal outlay and tax expenditure data for 2014, the most recent year for which complete data are available, reveals the following:

- ▶ **The children’s share of the budget is flat, at 10 percent.** Federal expenditures on children in 2014 totaled \$463 billion, virtually the same as in 2013. This includes \$354 billion in outlays, or 10 percent of the \$3.5 trillion spent by the federal government in 2014, and nearly \$110 billion in tax breaks for families with children. As shown in figure ES.1, the 10 percent spent on children compares with 44 percent spent on adults

Figure ES.1 Share of Federal Budget Outlays Spent on Children and Other Items, 2014



Source: Urban Institute, 2015. Authors’ estimates based on the *Budget of the U.S. Government Fiscal Year 2016*.

Note: Social Security, Medicare, and Medicaid category excludes spending already captured as children’s spending.

through Social Security, Medicare, and Medicaid; 17 percent spent on defense; 7 percent on interest payments on the debt; and 22 percent on all other government functions.

- ▶ **Programs controlled by budget caps fall.** Spending on children’s programs constrained by the Budget Control Act of 2011 (BCA) declined by \$2.3 billion between 2013 and 2014, while spending on children’s programs exempt from the BCA increased by \$1.4 billion.
 - The largest declines in programs affected by the BCA were in federal K–12 education programs. Other children’s programs with declines include Head Start; the Special Supplemental Nutrition Program for Women, Infants, and Children; child care assistance; and selected social service programs. Not all of this change was due to the BCA.
 - In programs exempt from the BCA, the largest increase was in the children’s share of Medicaid, the largest source of spending on children, which increased by an estimated \$5 billion. This increase was partially offset by a \$3 billion decline in the children’s share of Supplemental Nutrition Assistance Program benefits and declines in other programs.
- ▶ **Tax policy accounts for 40 percent of federal investments in children.** Child-related tax provisions—including the Earned Income Tax Credit, the child tax credit, the dependent exemption, and the children’s share of the tax exclusion for employer-sponsored health insurance—accounted for two-fifths of all expenditures on children (including \$76 billion in refundable tax credits and \$109 billion in tax reductions).
- ▶ **Health is the second-largest category of spending.** Health programs accounted for one-fifth of expenditures on children (\$93 billion). The next-largest categories of spending were nutrition (e.g., the children’s share of Supplemental Nutrition Assistance Program benefits and child nutrition programs), income security (e.g., Social Security benefits to survivors and dependents and Temporary Assistance to Needy Families), and education, at \$58 billion, \$53 billion, and \$42 billion, respectively. The other categories are much smaller: early education and care (\$13 billion), social services (\$9 billion), housing (\$9 billion), and training (\$1 billion).

Projected Expenditures on Children

Future projections follow the same assumptions as the Congressional Budget Office baseline projections, including caps on discretionary spending and sequestration under the Budget Control Act. Absent policy change, these projections suggest the following:

- ▶ **Kids’ share of budget drops to less than 8 percent.** The kids’ share of the budget is projected to decline from 10 percent in recent years to less than 8 percent in 2025. The share of the population under 19 is projected to contract slightly, from 24 to 23 percent, but the children’s modest share of the budget will fall by close to a quarter.

- ▶ **Kids' share of budget growth is just 2 percent.** Federal spending, excluding tax subsidies, is projected to increase by more than \$1.4 trillion over the next decade, according to Congressional Budget Office projections of spending under current law. Nearly three-fifths of this growth will go to spending on the adult portions of Social Security, Medicare, and Medicaid. Children's programs will receive very little of this growth—just 2 cents of every dollar of the projected increase. All the children's share of the increase goes to health programs; excluding health care, fewer dollars will be spent on children in 2025 than in 2014, after adjusting for inflation.
- ▶ **Interest payments outpace kids' spending by 2018.** Projected revenues fall below outlays in every year of the projection period, as they have since 2001. As a result, the national debt will continue to rise and higher debt, combined with a return to more typical interest rates, will lead to rising interest payments. Spending on interest on the debt is projected to exceed spending on children from 2018 onward, by larger amounts every year.
- ▶ **Education and tax benefits face the largest declines.** Spending on children in the areas of K–12 education, early education and care, the refundable portion of tax credits, housing, and nutrition is projected to decline by 25 percent or more over the next decade, when measured as a percentage of GDP. The largest projected declines are in federal funding for K–12 education and the refundable portion of tax credits.
- ▶ **Health costs and policies drive increased spending on health.** Spending on children's health is projected to increase over the next decade because of several factors. Economy-wide health costs continue to rise faster than inflation, and the Affordable Care Act's policy changes, including the enrollment of many newly eligible parents, are expected to expand enrollment of children in Medicaid. The Affordable Care Act's Marketplace subsidies also offer the potential for new subsidized coverage options for uninsured children.

Baseline projections need not become reality. Congress chooses each year how much to appropriate for discretionary programs, whether to change the laws governing mandatory programs, and whether to change the tax code. In recent years, Congress has also had annual debates over broad budget packages to address the ongoing imbalance between revenues and spending. The goal of this series of annual *Kids' Share* reports is to measure and track how such budget packages, in combination with annual appropriations bills and legislation affecting individual children's programs or tax provisions, affect the overall level and composition of public resources invested in children.



Introduction

Children depend upon others to meet their needs for nutrition and housing, safety and parenting, educational opportunities, and reliable health care. Parents and family members are primarily responsible, but broader society also plays a role in supporting the healthy development of children. The United States has a long tradition of investing in public schools to promote more equal opportunity, and the public safety net helps protect our most vulnerable citizens against hunger, disease, and poverty. Broad support for public spending on children reflects our growing scientific understanding of the impact of childhood circumstances on adult health and productivity, as well as the knowledge that our nation's prosperity hinges on our children's ability to enter adulthood as productive workers and citizens. Public investment in children and families today builds capacity for the generations who will lead the country in the future.

Despite strong interest in supporting children's well-being, children have often been left on the sidelines given competing budget priorities and pressures. Through its *Kids' Share* reports, the Urban Institute tracks government investment in children each year.¹ Using our federal expenditures database, which includes spending estimates from scores of federal programs and tax provisions, we can see how investments in children change in both amount and focus over time. We have produced a series of annual reports that provide a comprehensive picture of current expenditures from federal, state, and local sources; track federal expenditures back to 1960; and include federal projections a decade into the future. These reports have served as the foundation for additional analyses of spending on children, including special reports on spending on low-income children (Vericker et al. 2012), spending on children by age group (Edelstein et al. 2012), spending on children's health on the eve of health reform (Hahn et al. 2012), and the *Children's Budget* series of reports produced by First Focus.²

This ninth annual report, *Kids' Share 2015*, is shorter than in most prior years and focuses on federal spending in fiscal year 2014 (the latest year of complete federal data) and on projections through 2025, assuming no changes to current federal law. Analyses of historical trends and of state and local spending are not included in this report, except in references to highlights from last year's report. In addition, certain elements of the estimating methodology rely on last year's report.

In 2014, economic conditions faced by families with children were considerably better than in the recent years of the Great Recession. During fiscal year 2014, which ran from October 2013 to September 2014, unemployment rates averaged 6.5 percent—well below the recessionary peak of 10.0 percent.

Not all families shared in the economic recovery, however. One in five children (19.9 percent) lived in poverty in 2013, a poverty rate much higher than the rates for other age groups (13.6 percent for adults 18 to 64 and 9.5 percent for adults 65 and older).³ Moreover, child poverty is higher in the United States than in many other developed countries:

a recent international ranking places the United States as 28th out of 29 countries in relative child poverty rates, and 18th in percentage of children reporting low family affluence.⁴ The United States also ranked poorly on measures of low birth weight (23rd); preschool enrollment rates (26th); the percentage of youth not participating in education, employment, or training (23rd); and a composite measure of child well-being (26th out of 29, in the company of Greece, Lithuania, Latvia, and Romania).⁵

This juxtaposition of economic recovery with lingering high child poverty rates and other indicators of risk provides context for this analysis of public expenditures on children in 2014. The report begins with an examination of federal expenditures on children in 2014 in the aggregate, on the 10 largest programs, and across 11 broad categories. We then outline projected future federal expenditures on children in relationship to the budget as a whole and among different areas of spending on children. Many of the expenditures reported here, whether current or projected, are our own estimates. We include a brief methodological appendix outlining how we define spending on children, the sources for expenditure data, and the methodology for estimating the portions of programs that go specifically to children.

This report series does not investigate the adequacy of current levels of government support for children or the support children receive from private sources. Nor does it investigate whether those funds are spent well. However, it provides essential information on the level of government support for children.

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 and other programs designated as mandatory spending, as well as refundable tax credits.

Discretionary spending: Spending set by annual appropriations acts; policymakers decide each year how much money to provide.

Federal Expenditures on Children in 2014

In this section we describe federal spending on children for fiscal year 2014, the most recent year for which complete federal spending data are available, and changes in expenditures in recent years. We detail total federal expenditures on children, including aggregate expenditures, spending by program and broad category, and spending on programs affected by the Budget Control Act (BCA) of 2011.

Aggregate Federal Expenditures on Children

Federal expenditures on children in 2014 totaled \$463 billion (see figure 1), virtually the same as in 2013 (all estimates are in inflation-adjusted 2014 dollars). Expenditures remained well below the 2010 peak of \$500 billion, which included temporary increases related to recovery from the recession. About 76 percent of 2014 expenditures were outlays (spending from federal programs such as Medicaid and child nutrition programs, and refundable tax credits) and about 24 percent were tax expenditures (tax breaks to families with children provided through the dependent exemption, the non-refundable portions of child-related tax credits, and other tax provisions).

Both outlays and tax expenditures on children were essentially flat between 2013 and 2014, and, in fact, little changed from 2012. Though outlays on children decreased slightly in 2014, this decline was offset by a slight increase in tax expenditures benefiting children. Outlays on children declined by \$0.8 billion, to \$354 billion. Estimated tax expenditures grew by \$1.0 billion, from \$108 billion in 2013 to \$109 billion in 2014 (i.e., they stayed virtually the same, especially given limits in the precision of tax expenditure estimates). We sum these two types of expenditures to arrive at total expenditures on children.

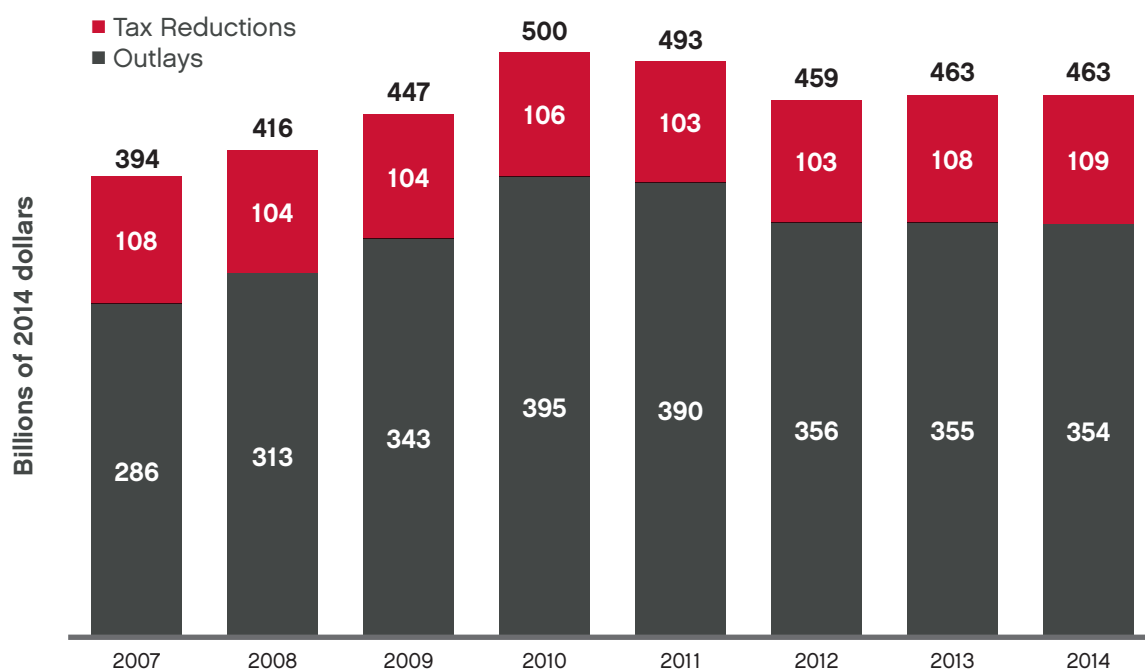
Over the past eight years, the trend in federal expenditures has been shaped primarily by the recession. Expenditures on children increased during the recession and in subsequent years, and then decreased as the economy recovered while still remaining higher than pre-recession levels. During the recession, spending on programs such as Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) automatically increased because more children were living in poverty.

The American Recovery and Reinvestment Act of 2009 (ARRA) also had a significant impact on spending on children. ARRA provided federal stimulus funds for the economy and supports for needy families (e.g., it expanded nutrition assistance benefits and the child tax credit) as well as relief to states and localities (e.g., it created the State Fiscal Stabilization Fund, which was targeted toward education, and increased the federal share of spending on Medicaid and child welfare). ARRA also increased funding for a number of federal education and early

education programs, including Title I/Education for the Disadvantaged, special education, Head Start, and the Child Care and Development Block Grant. Almost one-quarter of ARRA funds benefited children.⁶

The ARRA stimulus package boosted federal expenditures on children mostly in 2009 through 2011. In 2010, total federal expenditures on children peaked at \$500 billion, including an estimated \$66 billion in spending due to ARRA. ARRA expenditures on children have since fallen and were almost completely exhausted by 2012; they accounted for less than \$4 billion in spending in 2014. Much of the decline in dollars spent on children after 2011 results from the depletion of ARRA funds. In addition, the BCA constrained certain types of spending on children, as discussed below.

Figure 1 Federal Expenditures on Children by Type of Expenditure, 2007–14



Source: Urban Institute, 2015. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2016* and past years.

Note: Numbers may not sum to totals because of rounding.

Kids' Share in 2014

The \$354 billion in federal outlays on programs and services benefiting children represents 10 percent of \$3.5 trillion in total federal outlays. The share of the federal budget spent on children remained virtually the same as in 2013; outlays on children declined slightly as total federal outlays also decreased. As detailed in later sections of this report, the remaining 90 percent of the federal budget

was spent on adults' Social Security, Medicare, and Medicaid; defense; interest payments on the debt; and a range of other government functions. The non-children's portions of the budget declined slightly after adjusting for inflation because of constraints put in place by the BCA and declines in spending on unemployment insurance, activities funded by ARRA, and overseas contingency operations in Afghanistan and elsewhere.

This report examines not only outlays on children, but also over \$100 billion in tax reductions for families with children, including child-related tax credits and the dependent exemption. These child-related tax expenditures represent 8 percent of the approximately \$1.3 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget in 2014.⁷ This is the same share as in 2013, down from 9 percent in 2011 and 11 percent in 2008. The sum of federal outlays and tax expenditures on children (\$463 billion) made up about 10 percent of total federal outlays and tax expenditures in 2014, similar to levels in prior years.

The *Kids' Share* series tracks public spending on children not only in inflation-adjusted dollars and as a share of the federal budget but also relative to the overall economy as measured by gross domestic product (GDP). Total expenditures on children (outlays and tax expenditures) rose from 2.5 percent of GDP in 2007 to 3.2 percent in 2010, but have since fallen to 2.7 percent in 2013 and 2014, and are projected to decline in the future.

In sum, the kids' share of government spending did not change much between 2013 and 2014. While total outlays on children declined slightly, most other measures remained stable (i.e., share of outlays, share of GDP). Spending levels for many individual programs and tax provisions were also fairly stable between 2013 and 2014, though some programs saw increases and others saw decreases, as detailed on the following pages.

A Closer Look at Federal Expenditures on Children in 2014

The \$463 billion in total federal expenditures on children in 2014 includes dozens of programs and tax provisions. The 10 programs and tax provisions with the highest expenditures on children (figure 2) together account for more than three-quarters (77 percent) of total expenditures on children.

- Medicaid, as in prior years, is the largest source of spending on children. We estimate that \$78 billion was spent on children through Medicaid in 2014. This estimate is based on Congressional Budget Office (CBO) projections of Medicaid spending on non-disabled children that we have adjusted to include spending on disabled children and a proportional share of administrative costs.⁸ An additional \$9 billion was spent on the Children's Health Insurance Program (CHIP), which is tracked separately in this analysis. We estimate that the children's share of Medicaid spending is \$5 billion, or 7 percent, higher in 2014 than 2013. Over the same period, overall federal spending



on Medicaid rose by 14 percent as more than half the states expanded their Medicaid programs. Because Medicaid expansions largely served newly eligible low-income adults, the *share* of federal Medicaid spending on children declined, according to our estimates, even as the dollar level of spending on children increased.

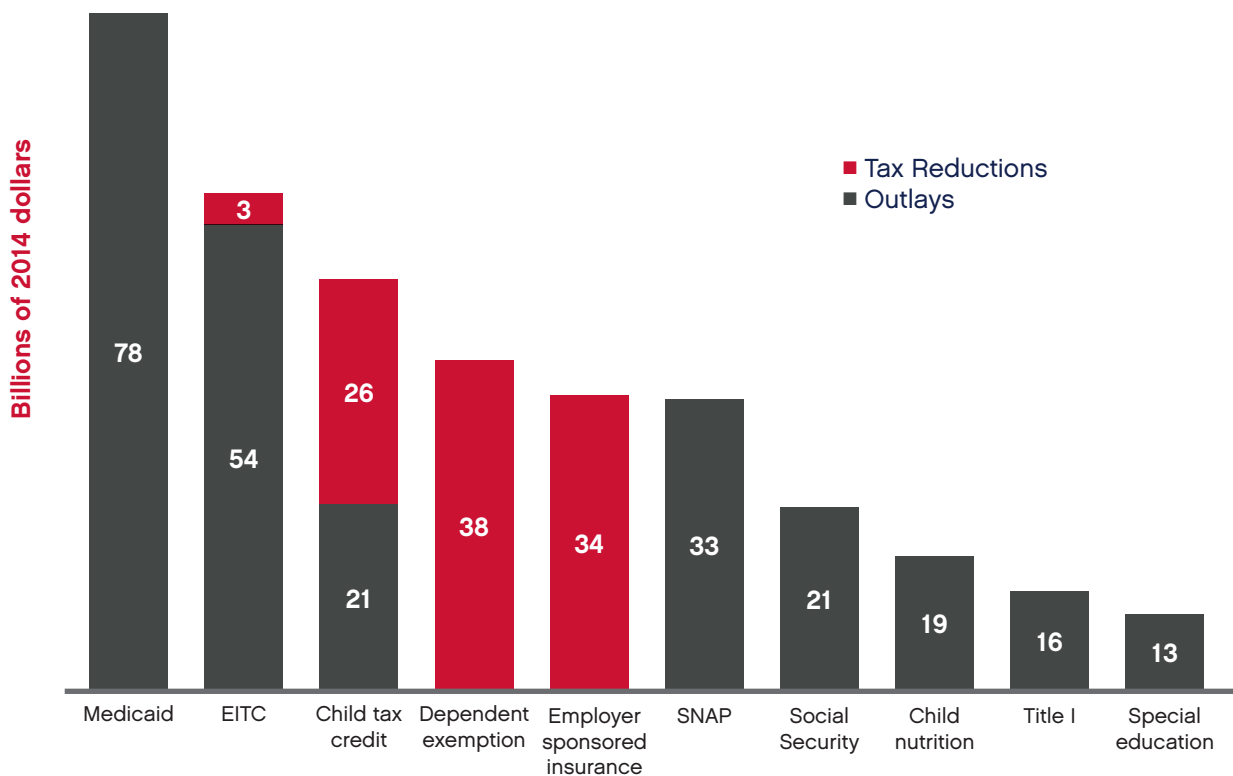
- ▶ Four tax provisions—the Earned Income Tax Credit (EITC), the child tax credit, the dependent exemption, and the exclusion from tax of income received in the form of employer-sponsored health insurance—make up the next-largest programs. The EITC and the child tax credit provide tax refunds (cash outlays) to families, as well as reductions in tax liabilities (tax expenditures) to those otherwise owing individual income tax. In 2014, as in previous years, most of the EITC’s \$57 billion in spending was in the form of tax refunds, and more than half of the child tax credit’s \$47 billion was in the form of tax reductions. The dependent exemption was estimated to provide families with children a tax break of \$38 billion in 2014, similar in size to 2013. Employer-sponsored insurance spending grew; it rose to be the fifth-largest source of expenditures on children, with about \$34 billion in spending on children making up about one-fifth of the program’s total cost. Together, Medicaid and these four tax provisions provide over half (55 percent) of all federal expenditures on children.
- ▶ Spending on children’s SNAP benefits fell by \$3 billion in 2014. This is the first decline in seven years; SNAP spending increased each year from 2008 to 2013. The drop is attributable to the expiration (in November 2013) of increased maximum benefit levels originally raised under ARRA. Reduced spending also reflects declining program caseloads as a result of an improving economy, though caseloads for adults and children are still well above pre-recession levels. Children received an estimated \$33 billion from SNAP, making it the sixth-largest program benefiting children.

Because Medicaid expansions largely served newly eligible low-income adults, the share of federal Medicaid spending on children declined, according to our estimates, even as the dollar level of spending on children increased.

- Social Security, with an estimated \$21 billion in survivors' and dependent benefits directed toward individuals under age 18, is the seventh-largest program, with spending slightly lower than in 2013.
- 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 spending on special education and related services as covered by the Individuals with Disabilities Education Act. Unlike the prior two years, Temporary Assistance for Needy Families (TANF) spending (\$12 billion) is no longer high enough to place the program among the 10 largest.

Not appearing in this list are several children's programs that often receive more public and press attention and may be very important to their young beneficiaries' well-being. Early education and care programs Head Start (including Early Head Start) and the Child Care and Development Block Grant spent \$8 billion and \$5 billion, respectively, on children in 2014. Supplemental Security Income (SSI) spent \$11 billion on disabled children, CHIP spent \$9 billion on children, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) spent \$6 billion. Child support enforcement and foster care each accounted for less than \$5 billion, as shown in table 1.

Figure 2 The 10 Spending and Tax Programs with the Highest Expenditures on Children, 2014



Source: Urban Institute, 2015. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2016*.

Federal Expenditures on Children, by Program, in 2013 and 2014

While children's spending is dominated by these 10 programs and tax provisions, our analysis includes more than 80 programs and tax provisions. Table 1 provides estimates for each program or tax provision that spent at least \$1 billion on children in 2014, grouped into 11 broad budget categories such as health, income security, and education. The table includes estimates for 2014 and the change (in real dollars) from 2013 for each program and category.

The program with the largest growth from 2013 in dollar terms was Medicaid, which increased by \$5.3 billion, or 7 percent. This was followed by growth in the tax exclusion for employer-sponsored health insurance (\$2.0 billion) and the EITC (\$1.5 billion increase in the refundable portion, partially offset by a \$0.4 billion decrease in the tax expenditure portion). No other programs grew significantly in 2014—the next-largest growth was in veterans' compensation related to children (e.g., dependent benefits), which grew by \$0.3 billion.

More programs saw declines than growth in 2014. The largest decline was in SNAP (\$3.1 billion), though spending went down to some degree in all nutrition programs, resulting in a total drop of \$3.6 billion. Spending on income security also dropped significantly (\$1.0 billion), with the largest drop in this category in TANF (\$0.9 billion). Education programs dropped as well (\$1.8 billion), with large drops in Title I (\$1.3 billion) and school improvement (\$0.4 billion). Early education and care programs declined by \$0.3 billion and social services programs declined by \$0.2 billion, while training and housing remained virtually the same. Individual tax provisions had relatively small changes, particularly given the size of the programs and lack of precision in tax modeling.



Table 1 Federal Expenditures on Children by Program, 2014 (billions of 2014 dollars)

	2014	Change from 2013
1. Health	92.6	5.2
Medicaid	77.6	5.3
CHIP	9.0	-0.3
Vaccines for children	3.6	-0.1
Other health	2.4	0.3
2. Nutrition	58.3	-3.6
SNAP (food stamps)	33.4	-3.1
Child nutrition	19.4	-0.1
Special Supplemental food (WIC)	5.5	-0.3
Other nutrition (CSFP)	*	*
3. Income Security	52.6	-1.0
Social Security	21.0	-0.3
Temporary Assistance for Needy Families	12.2	-0.9
Supplemental Security Income	11.3	0.1
Veterans compensation (disability compensation)	3.9	0.3
Child support enforcement	3.4	-0.2
Other income security	0.8	*
4. Education	41.8	-1.8
Education for the Disadvantaged (Title I, part A)	15.8	-1.3
Special education/IDEA	12.6	*
School improvement	4.4	-0.4
Impact Aid	1.1	-0.2
Dependents' schools abroad	1.2	*
Innovation and improvement	1.2	0.2
State Fiscal Stabilization Fund	1.1	0.1
Other education	4.3	-0.2
5. Early Education and Care	12.8	-0.3
Head Start (including Early Head Start)	7.7	-0.2
Child Care and Development Fund	5.1	-0.1
6. Social Services	9.3	-0.2
Foster care	4.3	0.1
Adoption assistance	2.3	-0.1
Other social services	2.7	-0.2
7. Housing	9.3	0.04
Section 8 low-income housing assistance	7.3	*
Low-rent public housing	1.1	*
Other housing	1.0	*
8. Training	1.2	*
9. Refundable Portions of Tax Credits	75.9	0.9
Earned Income Tax Credit	53.6	1.5
Child Tax Credit	21.5	-0.4
Other refundable tax credits	0.8	-0.2
10. Tax Expenditures	71.3	1.0
Exclusion for employer-sponsored health insurance	33.8	2.0
Child Tax Credit (nonrefundable portion)	25.6	-0.4
Dependent care credit	4.3	0.2
Earned Income Tax Credit (nonrefundable portion)	3.3	-0.4
Other tax expenditures	4.4	-0.4
11. Dependent Exemption	37.9	0.1
TOTAL EXPENDITURES ON CHILDREN	463.1	0.2
OUTLAYS SUBTOTAL (1–9)	353.8	-0.8
TAX EXPENDITURES SUBTOTAL (10–11)	109.2	1.0

Source: Urban Institute, 2015. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2016* 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. Numbers may not sum to totals because of rounding. **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 and 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 (SFSFP), and Special Milk. **Other nutrition** is the Commodity Supplemental Food program. **Other income security** includes Railroad Retirement, survivors' compensation, veterans' compensation, survivors' pensions, and veterans' pensions. **Other education** includes Indian education, English language acquisition, domestic schools, 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** include 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 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 and Qualified School Construction Bonds. **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' and 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.

Federal Expenditures on Children, by Category

Another method of describing federal spending on children is by grouping programs into broad budget categories such as tax, health, and nutrition. When all 16 tax code provisions benefiting children are counted together, including those refundable portions counted in the budget as outlays rather than tax expenditures, they far exceed any other major budget category of spending (see figure 3). Child-related tax provisions provided \$185 billion in combined outlays and tax expenditures in 2014. Tax provisions constituted about 40 percent of total 2014 expenditures on children.

The next-largest category, health (\$93 billion), was half as large and represented 20 percent of total expenditures on children. The third- and fourth-largest categories of spending were nutrition (e.g., the children’s share of SNAP benefits and child nutrition programs) and income security (e.g., Social Security benefits to survivors and dependents and Temporary Assistance to Needy Families) at \$58 billion and \$53 billion, respectively. While tax provisions and health spending grew in 2014, nutrition and income security spending declined.

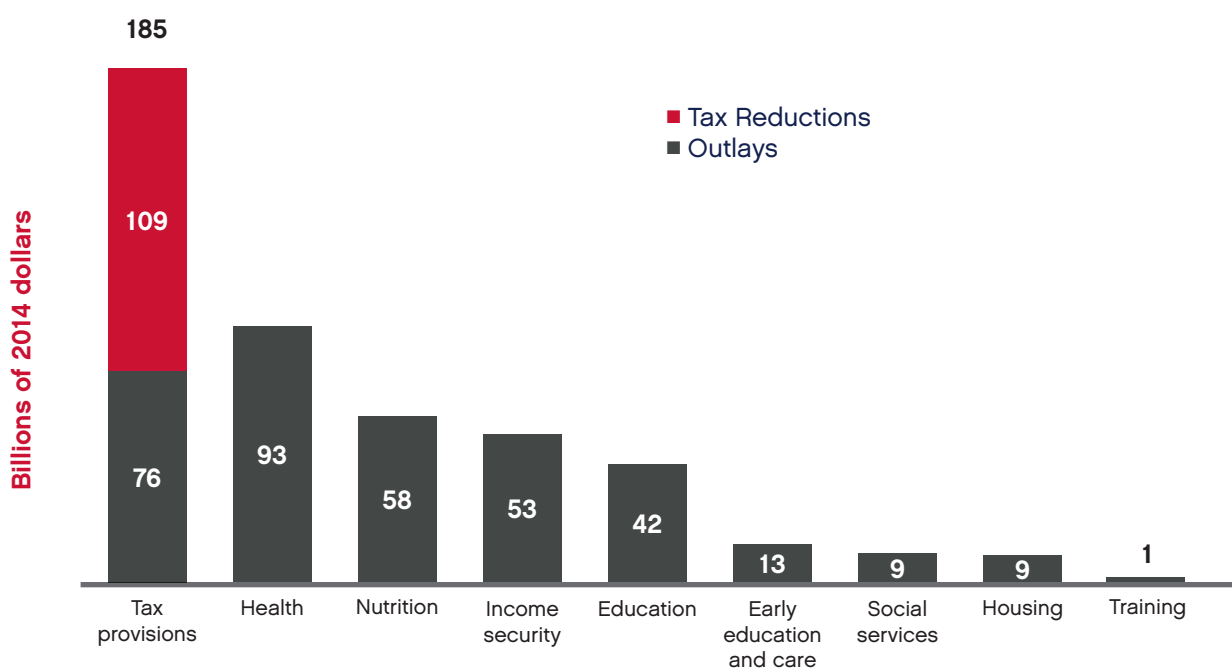
Education spending was considerably lower, at \$42 billion—a decline of \$1.8 billion, or 4 percent, from the previous year. Education spending amounted to less than half of the amount spent on children’s health in 2014; in 2011 (when boosted by ARRA) it was nearly three-quarters as high as health.

The remaining four types of spending are significantly smaller. Early education and care spending—which includes Head Start and child care assistance, but excludes preschool spending

40%

Tax provisions constituted about 40 percent of total 2014 expenditures on children.

Figure 3 Federal Expenditures on Children by Category, 2014



Source: Urban Institute, 2015. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2016*.

within Title I, special education, and other broad education programs—fell to just under \$13 billion. Spending on social services for children (e.g., foster care and adoption assistance), about \$9 billion, also fell, while housing benefits (also \$9 billion) grew by about a half a percent. Spending on the youth components of job training programs also grew only marginally in 2014. Declines in spending were often driven both by exhaustion of the boost of funds provided under ARRA and the spending restrictions imposed by the Budget Control Act.

Children's Spending and the Budget Control Act

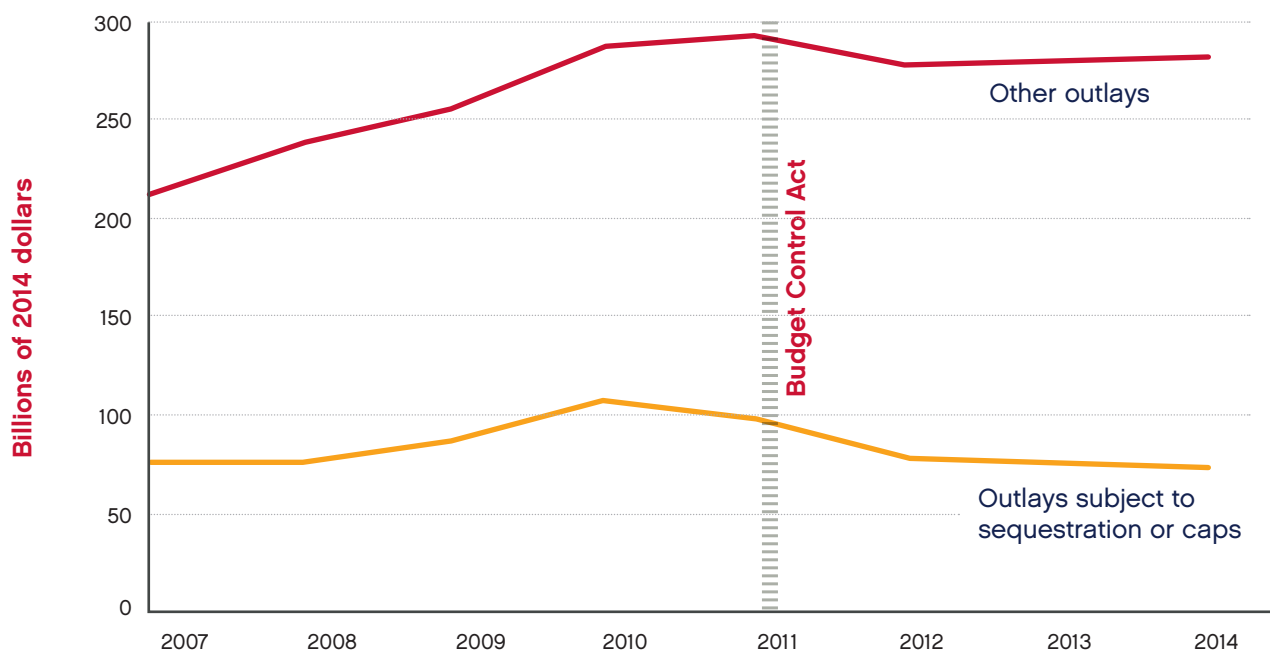
Designed to curb overall federal spending, the Budget Control Act of 2011 (as amended by the American Taxpayer Relief Act of 2012 and the Bipartisan Budget Act of 2013), did not affect the budget uniformly, leading to reductions in some areas of children's spending but not others. The BCA constrained spending through a combination of automatic spending reductions ("sequestration") and caps on defense and non-defense discretionary spending; these caps are in place through 2021. While the BCA had a considerable impact in certain areas of spending on children (e.g., education, early care, training, and housing), it had a relatively small impact on the total expenditures on children because of factors specific to its design. Specifically, the BCA relies on caps in both defense and non-defense spending, and it exempts tax credits and most mandatory programs from its spending restrictions.

Among the mandatory programs exempted from the automatic spending reductions were Social Security, veterans' programs, refundable tax credits, and many programs serving low-income individuals: SSI, TANF, family support programs (which include child support enforcement), Medicaid, CHIP, SNAP, child nutrition programs, payments for foster care and permanency, and the mandatory portion of the Child Care and Development Fund. As a result, the majority of children's outlays—nearly 80 percent in 2014—were exempt from the BCA.

The roughly 20 percent of children's programs that fell under the caps did not fare so well. Spending on children's programs subject to the caps and sequestration fell by \$2.3 billion, or 3 percent, between 2013 and 2014. Most of the declines were in discretionary programs that had to compete with other nondefense discretionary programs for funding under the caps. Specifically, spending fell for federal K–12 education, Head Start, WIC, the Child Care and Development Block Grant, and selected social service programs. Two mandatory social services programs (the Social Services Block Grant and the Promoting Safe and Stable Families child welfare initiative) also declined as a result of sequestration under BCA. The children's shares of housing benefits and youth training were subject to the caps but did not decline in 2014.

Figure 4 compares trends for children's programs that are subject to the BCA with those that are exempt. The decline in outlays subject to automatic spending reductions and/or caps, from \$74 billion to \$72 billion between 2013 and 2014, continues the general trend since 2011 and brings outlays for this set of programs below their pre-recession level of \$75 billion. Outlays on the large set of children's programs that are exempt from the BCA increased to \$282 billion in 2014, a \$1.4 billion increase from the previous year. There has been substantial net growth in this set of programs relative to 2007, driven by growth in Medicaid, SNAP, the EITC, child nutrition programs, CHIP, and SSI.

Figure 4 Federal Outlays on Children by Impact of Budget Control Act, 2007–14



Source: Urban Institute, 2015. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2016* and past years.

State and Local Spending

Although this brief focuses on federal spending, state and local governments provide more than three-fifths of total public spending on children. In 2011, for example, of the total \$12,770 spent per child (in inflation-adjusted 2013 dollars as reported in *Kids' Share 2014*), 38 percent of the funds were federal and 62 percent were state and local. (These figures focus on outlays only because state and local tax expenditures are not readily available). State and local spending on public schools makes up the bulk of this spending. The state and local share of spending has declined since 1998–2001, when 70–72 percent of spending was from state and local sources.

In contrast, the vast majority of public spending on the elderly is federally funded, primarily through Social Security and Medicare. Less than 3 percent comes from state and local governments.

In 2011, the federal government spent nearly \$6 on the elderly for every \$1 spent on children. The ratio drops to 2.3 to 1 when state and local spending are included.

Future Trends in Federal Expenditures on Children

We turn now from current expenditures to expected future spending on children. We first examine spending on children in the context of the federal budget as a whole, then focus on the individual components of spending on children. 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). The CBO baseline projections use assumptions set out in budget legislation and generally assume a continuation of current laws governing revenues and spending under mandatory programs. They assume that appropriations for discretionary spending will be constrained by the caps in the Budget Control Act through 2021 and will rise with inflation in subsequent years.

Broad Budgetary Trends

As already noted, about 10 percent of all federal outlays in 2014 went to children. The remaining 90 percent of spending was as follows: 44 percent of spending, or about \$1.6 trillion, was on adult portions of Social Security, Medicare, and Medicaid; 17 percent on defense; 7 percent on interest payments on the debt; and 22 percent on all other government functions, ranging from agriculture subsidies and highway construction to unemployment compensation, veterans' benefits, higher education, and environmental protection. Tax expenditures are not included in these figures (see figure 5).

Kids' Share of the Budget

Budget projections suggest that the children's share of the federal budget will decline in the future, shrinking from 10 percent in recent years to less than 8 percent in 2025. Spending on defense and on the broad range of other functions (e.g., agriculture, environment, transportation, veterans) is also projected to fall as a percentage of the federal budget. Future budgets are shaped in part by the spending limits of the Budget Control Act of 2011, as amended, which are incorporated into the CBO baseline projections used in this analysis. Most of the built-in growth in future spending comes from the steady increase in federal spending on health and retirement programs. By 2025, nearly half of federal spending (49 percent) is projected to go toward the adult portions of Social Security, Medicare, and Medicaid. If projections were carried beyond 2025, growth trends in these three major entitlement programs would continue. Interest payments are also projected to consume a growing share of the federal budget over time because of a rising national debt and an expected return to more typical interest rates.

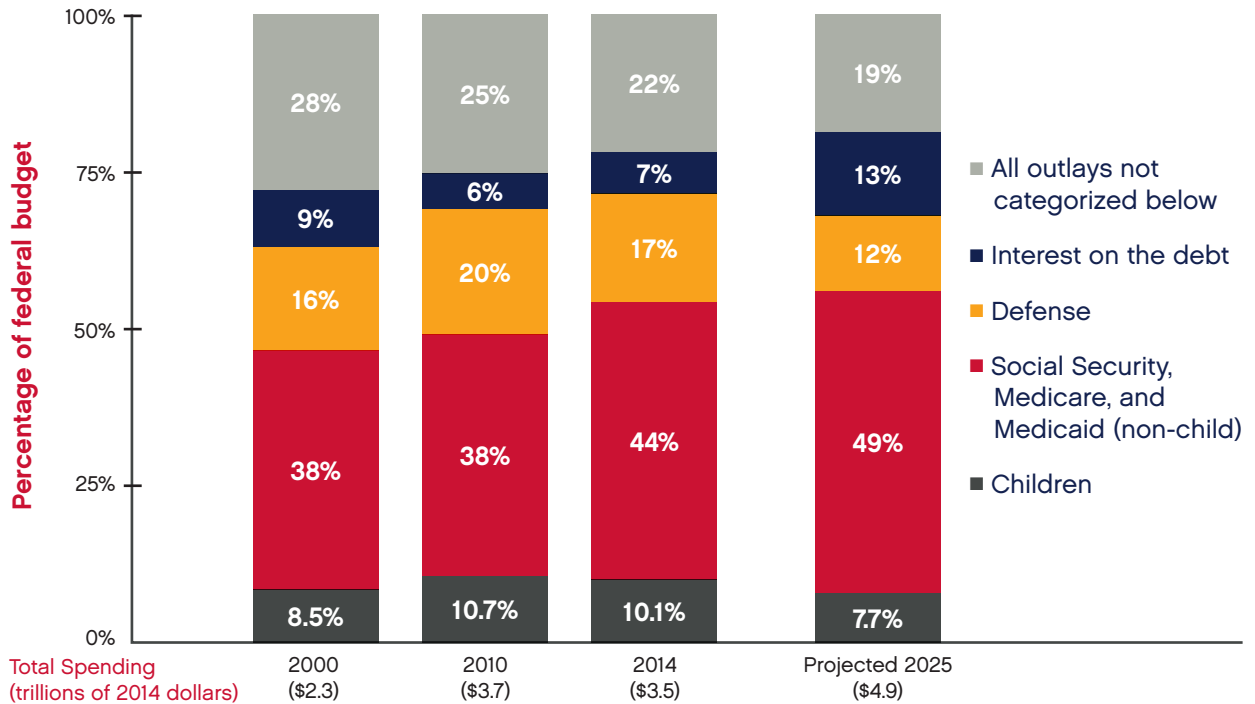
Kids' Share of Budget Growth

The projections do not show an absolute decline in spending on children so much as a lack of sharing in the growth of the economy, revenues, and government spending overall. Federal

49%

By 2025, nearly half of federal spending (49 percent) is projected to go toward the adult portions of Social Security, Medicare, and Medicaid.

Figure 5 Share of Federal Budget Outlays Spent on Children and Other Items, Selected Years, 2000–25



Source: Urban Institute, 2015. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2016* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2015–25*.

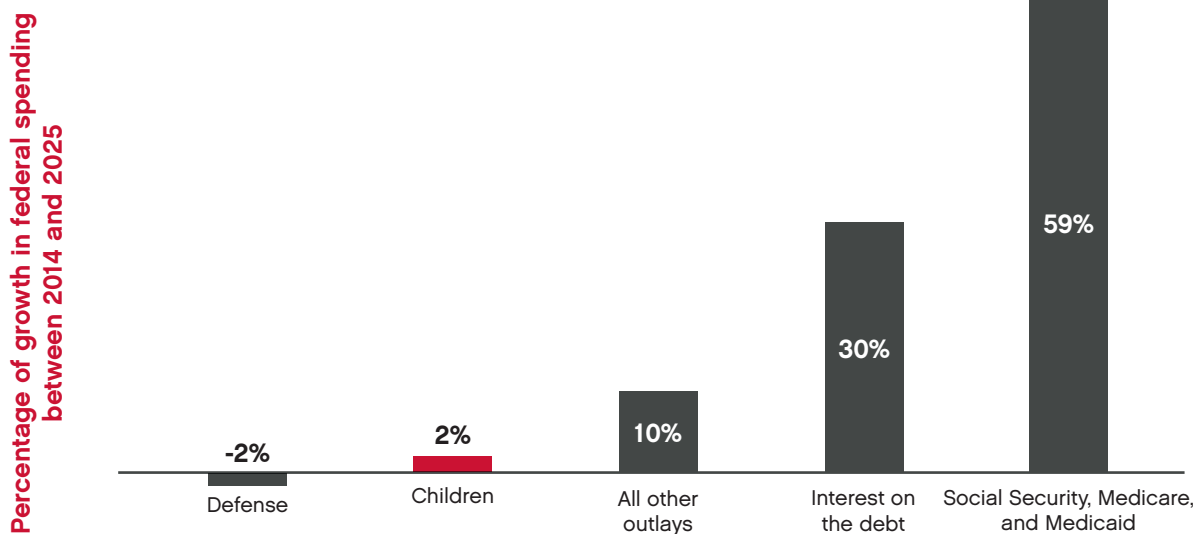
Notes: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Percentages may not sum to 100 because of rounding.

spending is projected to increase by more than \$1.4 trillion over the next decade. Nearly three-fifths of this growth (more than \$800 billion) will be spent on elderly and disabled adults through Social Security, Medicare, and the federal share of Medicaid (see figure 6 and table 2). Interest payments will consume an additional 30 percent of the anticipated growth in federal spending, as interest payments on the national debt nearly triple. Defense spending is estimated to increase less than inflation, and thus decline slightly in real terms. Finally, outlays on a diverse range of other functions are projected to increase modestly.

Unless Congress changes course, only 2 cents of every dollar of growth in federal spending between 2014 and 2025 (\$26 billion of \$1.4 trillion) will go to children. As we will discuss in further detail, this includes an increase in spending on children's health and a reduction in other areas of spending.

These budget projections assume that all non-defense discretionary spending programs are affected equally by the constraints of the spending caps in the Budget Control Act. Future spending on children could, of course, be larger or smaller, depending on how discretionary spending is allocated among many competing priorities under the discretionary spending caps.

Figure 6 Share of Projected Growth in Federal Outlays from 2014 to 2025 by Major Budgetary Category



Source: Urban Institute, 2015. Authors' 2014 estimates based on the *Budget of the U.S. Government Fiscal Year 2016*; authors' 2025 estimates based on CBO's *Updated Budget Projections: 2015–25*.

Notes: Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending. Percentages may not sum to 100 because of rounding.

Kids' Share of the Population

Some of the increase in the share of the budget spent on health and retirement reflects the aging of the population. As more baby boomers reach retirement age, the share of the population 65 and older is projected to increase from 15 to nearly 19 percent of the population, contributing to the growing cost of Social Security, Medicare, and Medicaid programs. However, population growth is not the only factor driving up the cost of the three major entitlement programs. Five additional factors contribute further to the growth of these entitlements: 1) average Social Security benefits are projected to rise faster than inflation; 2) the size of the non-elderly disabled population is growing modestly; 3) health care costs are rising faster than inflation and per capita incomes, albeit more slowly than in the past; 4) more than half the states are expanding Medicaid to serve more low-income adults; and 5) individuals receive more years of old age and Medicare benefits as they live longer (though this is a very important long-term factor, it plays out modestly over a period of 5 or 10 years).⁹

Although the child population is expected to grow slightly in absolute numbers, the children's share of the population is expected to decrease. However, the kids' share of the budget is dropping much more substantially than the kids' share of the population. While the share of the population under age 19 will contract slightly, from 24 to 23 percent, the children's relatively modest share of the budget will fall by close to a quarter (from 10.1 to 7.7 percent).

Putting population and spending trends together, we project that spending per child will increase modestly in the future, by 7 percent over the next 10 years. In comparison, overall per capita spending is projected to increase more rapidly, by 30 percent.¹⁰

The kids' share of the budget is dropping much more substantially than the kids' share of the population.

Table 2 Share of Projected Growth in Federal Outlays from 2014 to 2025 by Major Budgetary Category (billions of 2014 dollars, except where noted)

Major budget items	2014	2025	Growth (2014-2015)	Share of growth
Social Security, Medicare, and Medicaid	1,553	2,389	836	59%
Interest on the debt	229	655	426	30%
Children	354	380	26	2%
Defense	604	582	-22	-2%
All other outlays	766	913	147	10%
Total federal outlays	3,506	4,918	1,412	100%

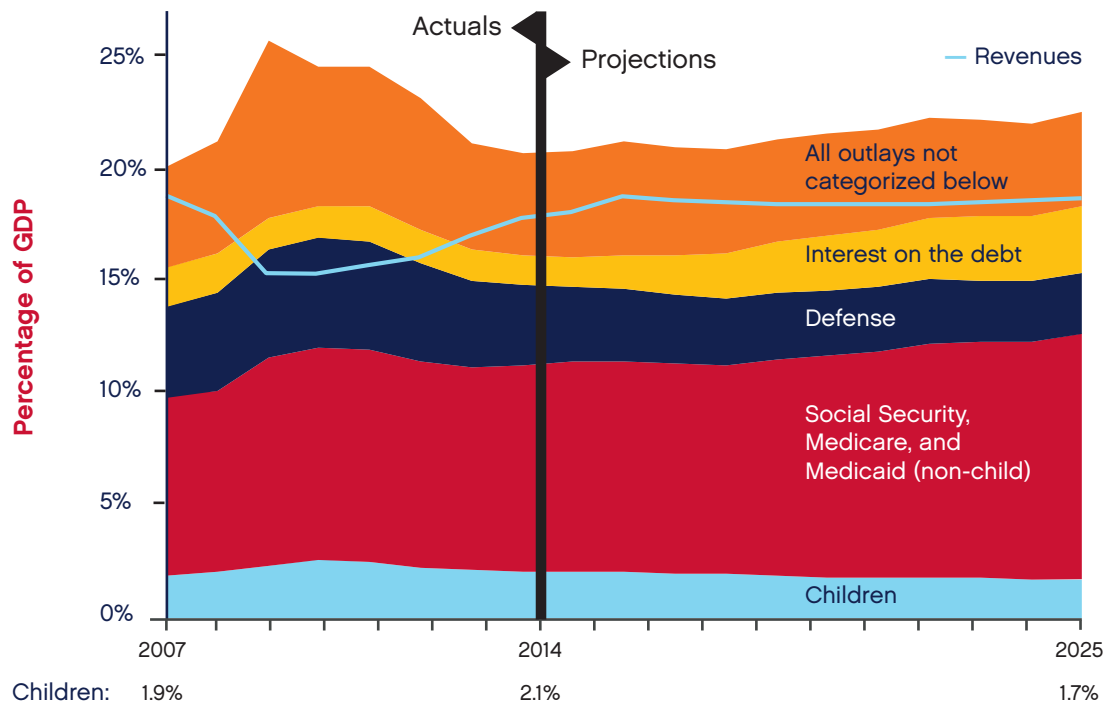
Source: Urban Institute, 2015. Authors' 2014 estimates based on the *Budget of the U.S. Government Fiscal Year 2016*; authors' 2025 estimates based on CBO's *Updated Budget Projections: 2015-25*.

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

Federal Spending on Children as a Share of GDP

Federal spending is growing not just in real terms, but also relative to the size of the economy, as shown in figure 7, which shows spending from 2007 to 2025 as a percentage of GDP. Total federal spending is projected to grow from 20 percent of the economy (in both 2007 and 2014, before and after the recession) to 22 percent in 2025.

Figure 7 Federal Outlays and Revenues as a Share of GDP, 2007–25



Source: Urban Institute, 2015. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2016* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2015-25*.

Under current policies, spending on interest payments on the debt is projected to exceed spending on children in 2018...

In contrast, federal outlays on children are projected to decline as a share of the economy, from 2.1 percent in 2014 to 1.7 percent in 2025. The percentage of the economy allocated to federal investments in children in 2025 is projected to be lower than it was before the Great Recession—in fact, lower than in any year since 2001.

Even as total federal spending is projected to increase, revenues will remain insufficient to cover those costs. As shown in figure 7, revenues are projected to fall below outlays in every year of the projected period, as they have each year since 2001. In 2014, the gap between federal spending and revenues was 2.8 percent of GDP. While this deficit is below the record-level deficit at the height of the recession (9.8 percent of GDP in 2009), a structural imbalance between revenues and spending is projected to continue over the next decade.

As a result, the national debt will continue to grow, even with the spending constraints introduced by the BCA. With an increasing national debt and higher expected interest rates, interest payments are projected to rise steadily each year. Under current policies, spending on interest payments on the debt is projected to exceed spending on children in 2018 and each subsequent year, by larger amounts each year.¹¹

Policies do not stay constant, so these 10-year projections of spending on children and other components of the federal budget are inherently uncertain. They are not projections of what will happen, but of what, under reasonable economic assumptions, would happen if policy did not change. Even so, these projections suggest that the share of the federal budget and the share of GDP invested in children are declining, and to a greater extent than the decline in children as a share of the population.

A Closer Look at Future Expenditures on Children

We shift now from examining broad budget trends to examining future spending on children in more detail, noting trends among different types and categories of spending. Whereas the preceding section focused exclusively on outlays (on children and in the overall budget), this section analyzes future trends in both outlays and tax expenditures on children.

Historical Trends in the Kids' Share of the Budget

As documented in *Kids' Share 2014* the children's share of the budget has grown in fits and starts over the past half century. In 1960, very few federal programs were targeted to children and only 3 percent of total federal 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.

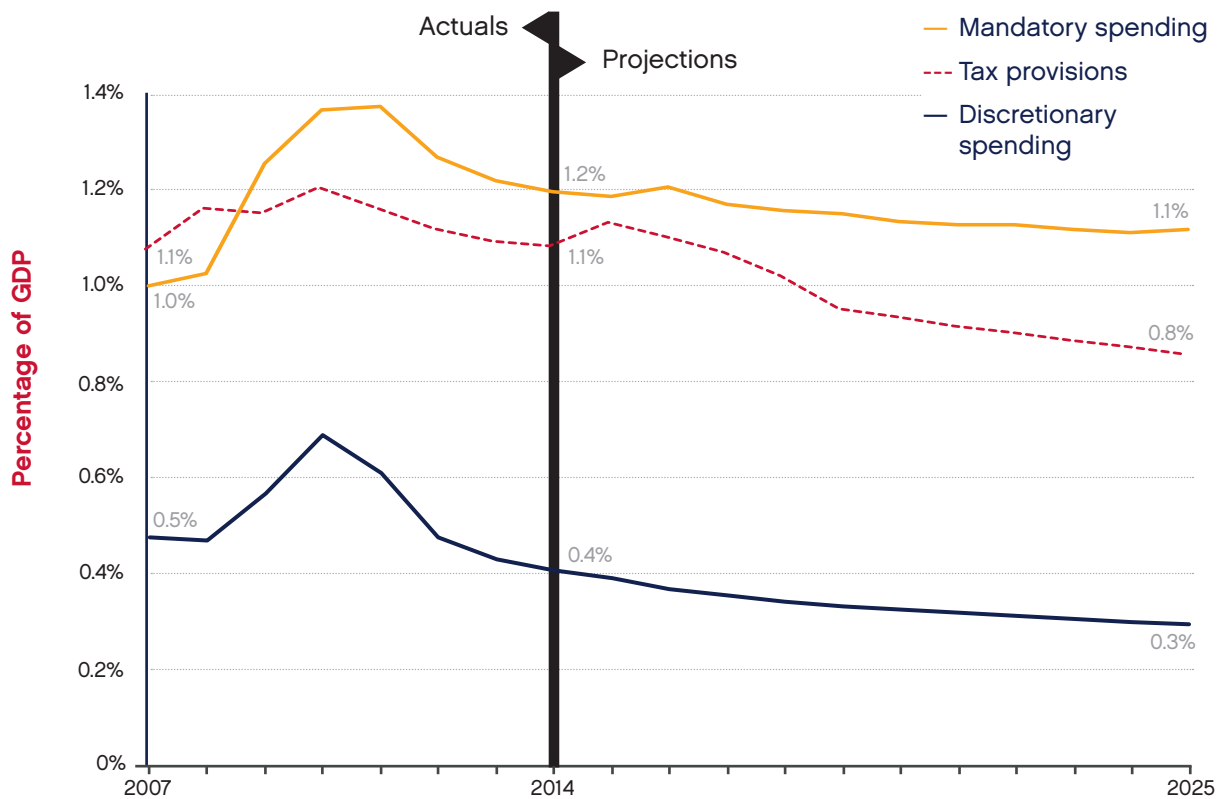
Over this same period, the adult portions of Social Security, Medicare, and Medicaid have risen from 11 percent of the budget in 1960 to 44 percent in 2014. Another important historical trend was a dramatic decline in the share of the budget spent on defense, from 52 percent in 1960 to 17 percent in 2014. This decline in defense spending essentially financed expansion of domestic programs without any significant increase in revenues relative to GDP.

Projected Expenditures on Children by Type of Spending

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 2.7 percent of GDP in 2014 to 2.3 percent in 2025. All three types of expenditures on children—discretionary spending, mandatory spending, and tax provisions (outlays and tax reductions)—are projected to decline as a share of the economy through at least 2025 (figure 8). As a share of GDP, discretionary spending on children is projected to decline by 25 percent by 2025, tax provisions by 24 percent, and mandatory spending by 6 percent. Funding levels for discretionary programs are set annually by congressional actions, whereas the spending levels for tax provisions and mandatory spending are generally governed by program rules (e.g., benefit or tax parameters) and the number of qualifying families applying for services.

The sharpest projected decline in expenditures on children is in discretionary spending programs, which compete annually for funding and are constrained by the caps set in the Budget Control Act of 2011. These programs include special education and other federal K–12 education programs, Head Start and other early education and care, the youth share of Job Corps and other training programs, the children’s share of housing benefits, WIC, and child

Figure 8 Federal Expenditures on Children as a Share of GDP by Spending Type, 2007–25



Source: Urban Institute, 2015. Authors’ current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2016* and past years; authors’ projected estimates based on CBO’s *Updated Budget Projections: 2015–25* and the Urban-Brookings Tax Policy Center Microsimulation Model.

abuse prevention and other social service programs. The downward trend, apparent since at least 2007, was temporarily hidden by ARRA's increased appropriations for education, early education and care, and other discretionary programs.

Child-related tax credits and most mandatory programs affecting children are exempt from the Budget Control Act. Even so, spending on tax provisions related to children is projected to decline as a share of the economy from 2014 to 2025. Decreased spending on the child tax credit drives much of the long-term projected decline in tax expenditures, as discussed further below.

Mandatory spending on children 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. As the recession ended, mandatory spending on children declined, and it is projected to decline slightly relative to GDP in the future. Of the three types of spending, mandatory spending is the only one that is projected to remain a higher percentage of GDP in 2025 than it was in 2007, before the recession.

Projected Expenditures on Children by Category

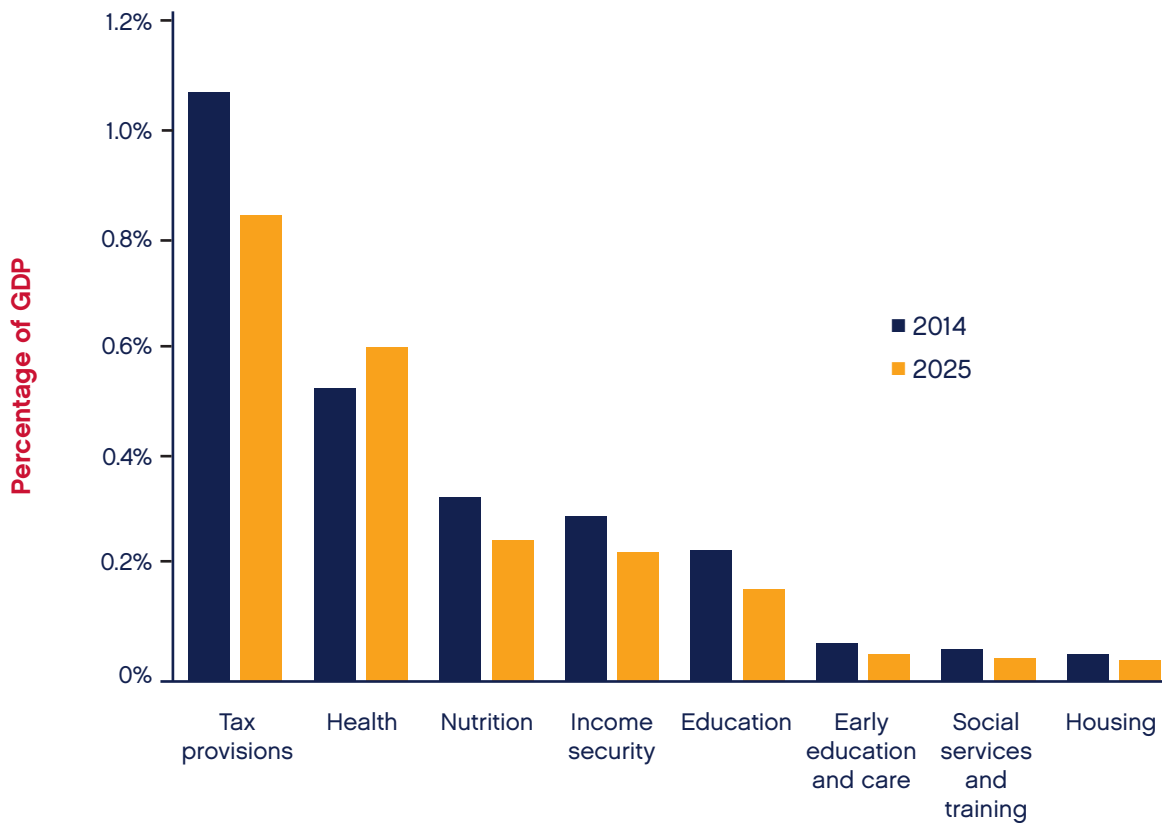
Turning from broad budgetary classifications to more customary categories (such as education, nutrition, and health), expenditures on children are expected to decline as a share of the economy between 2014 and 2025 across all spending categories except health (figure 9). Over the next decade, education, early education and care, and child-related spending on housing and nutrition have the largest declines: 25 percent or more, when measured as a percentage of GDP.

The largest projected decline is in federal funding for K–12 education. Education spending is projected to fall not only as a share of GDP but also in real dollars, from \$42 billion in 2014 to \$38 billion in 2025, as shown in table 3. Federal education spending on programs such as Title I/Education for the Disadvantaged and special education will fall because of the end of ARRA, the 2013 sequestration, and the BCA discretionary spending caps. Even when the caps expire in 2021, discretionary programs are still 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 (e.g., Head Start and child care), housing (e.g., Section 8 and public housing), and the youth portions of training (e.g., Job Corps and Work Investment Act youth formula grants) face similar constraints because most programs in these categories must compete annually for appropriations.

Over the next decade, child-related spending on nutrition programs is projected to decline by 25 percent as a share of GDP and by \$2 billion in real dollars. Most of this decline reflects a decline in SNAP caseloads in the wake of the recession.¹² Proportionally similar declines are projected in the much smaller category of social services and training (e.g., child welfare and the youth portions of job training programs).

The largest projected decline is in federal funding for K–12 education.

Figure 9 Federal Expenditures on Children as a Share of GDP by Category, 2014 and 2025



Source: Urban Institute, 2015. Authors' 2014 estimates based on the *Budget of the U.S. Government Fiscal Year 2016*; authors' 2025 estimates based on CBO's *Updated Budget Projections: 2015–25* and the Urban-Brookings Tax Policy Center Microsimulation Model.

Child-related spending on tax provisions and income security programs also is projected to decrease relative to GDP, though more moderately than spending in other areas. As shown in table 3, most of the decline in tax-related expenditures is concentrated in the outlay or refundable portion of tax credits, which is projected to drop by more than one-third relative to GDP (or \$12 billion in real dollars). Tax reductions (excluding refundable portions of credits) decline by more than one-tenth relative to GDP by 2025, though they increase in real dollars. In 2018, barring new legislation, 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. This will reduce the outlay portion of the child tax credit. In addition, the child tax credit is not automatically adjusted for inflation and thus loses value over time.

Table 3 Federal Expenditures on Children as a Share of GDP and in Real Dollars, by Category, 2014 and 2025

Category of Spending	As Percentage of GDP			In Billions of 2014 Dollars		
	2014	2025	Percent change	2014	2025	Dollar change
Health	0.54	0.61	14	93	136	44
Nutrition	0.34	0.26	-25	58	57	-2
Income security	0.31	0.24	-22	53	53	0.5
Education	0.24	0.17	-29	42	38	-3
Early education and care	0.07	0.05	-28	13	12	-1
Social services and training	0.06	0.05	-23	11	10	-0.1
Housing	0.05	0.04	-26	9	9	-0.4
Tax credits	0.44	0.29	-35	76	64	-12
Tax reductions	0.63	0.56	-11	109	125	16
Total expenditures	2.7	2.3	-15	463	505	42
Total outlays (all but tax reductions)	2.1	1.7	-17	354	380	26

Source: Urban Institute, 2015. Authors' 2014 estimates based on the *Budget of the U.S. Government Fiscal Year 2016*; authors' 2025 estimates based on CBO's *Updated Budget Projections: 2015–25*.

Note: Numbers may not sum to totals because of rounding.

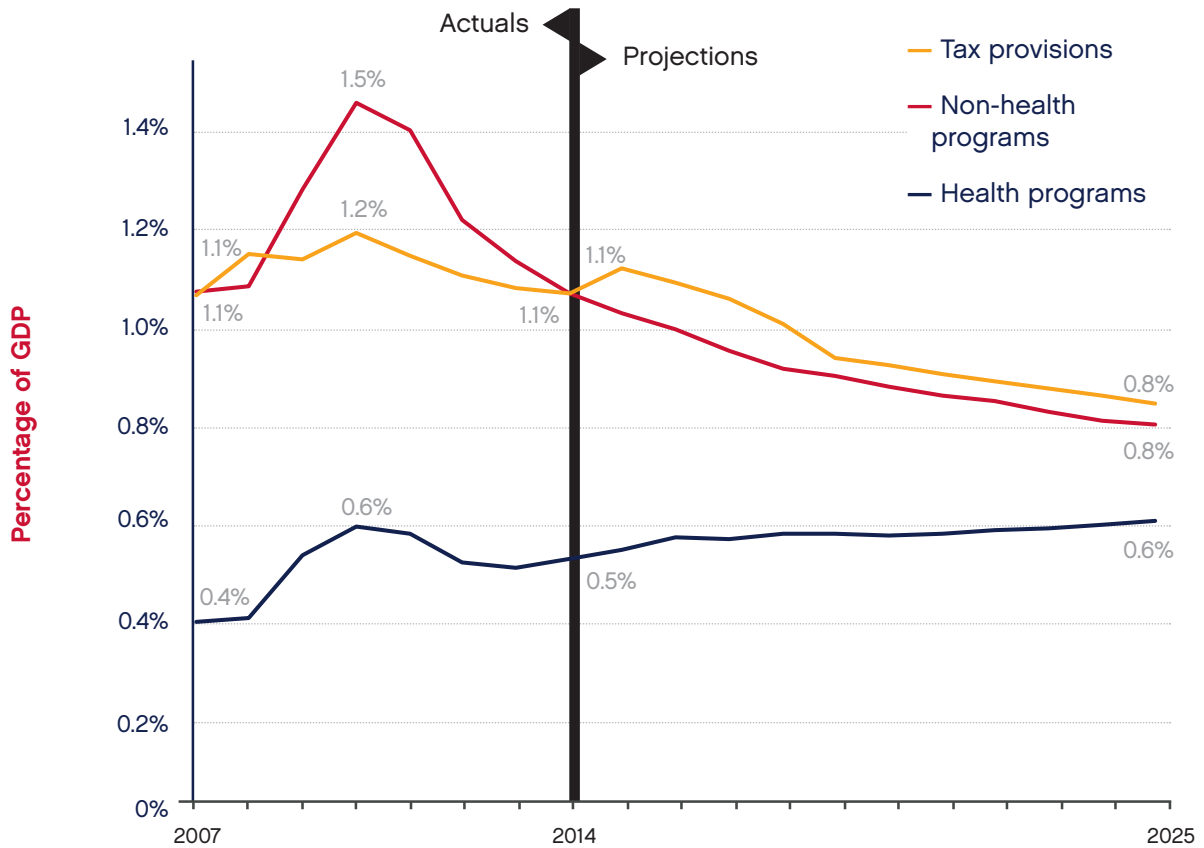
As for income security spending, the decline is moderate because reductions in the value of the TANF block grant are partially offset by rising spending on disabled children's benefits under Supplemental Security Income and on survivors' and dependents' benefits under Social Security (unlike almost all other social welfare programs, Social Security benefits are indexed to real wage growth).

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 10, spending on non-health programs is projected to decline from 1.1 percent of GDP in 2014 to 0.8 percent in 2025. Tax provisions (outlays and tax reductions), are projected to decline similarly, from 1.1 percent of GDP in 2014 to 0.8 percent of GDP in 2025. 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, an increase of 14 percent.

The growth in health spending is projected to occur almost entirely in Medicaid spending on children, which is projected to rise from \$78 billion in 2014 to \$119 billion in 2025. (This includes spending on disabled children under age 19 and a portion of administrative costs, and so is larger than estimates showing non-disabled children only.) Economy-wide health costs continue to rise and the Affordable Care Act's policy changes are expected to expand Medicaid and CHIP enrollment through additional outreach, "no wrong door" provisions for applicants, the individual mandate on health insurance coverage and associated penalties, and new data-driven enrollment and retention procedures to enroll eligible but uninsured children in Medicaid and CHIP. The fact that many parents are newly eligible for Medicaid may also result in coverage gains for eligible uninsured children.

Figure 10 Federal Expenditures on Children as a Share of GDP, Health and Non-health Programs and Tax Provisions, 2007–25



Source: Urban Institute, 2015. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2016* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2015–25* and the Urban-Brookings Tax Policy Center Microsimulation Model.

Overall growth for the federal Medicaid program is projected to be even higher, as many states opt to extend coverage to certain low-income adults (childless adults as well as parents) under the Affordable Care Act, and as these newly eligible adults are funded under an enhanced federal matching rate.

The Affordable Care Act's Marketplace subsidies, which offer the potential for new subsidized coverage options to uninsured children who are not eligible for Medicaid or CHIP, will also contribute modestly to growth in child spending. Spending on the children's share of Marketplace subsidies is projected to be low (about \$1 billion in 2015 and \$5 billion annually starting in 2017), owing to the relatively large share of children already covered by Medicaid and CHIP. In addition, children are less costly to insure, on average, since they use medical services less frequently. Moreover, because some lower-income families in the income range for Marketplace subsidies have CHIP- or Medicaid-eligible children, 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.

Spending on children's health may even be modestly higher than shown here, particularly in 2016 and 2017, because legislation extending CHIP funding for two more years, through 2017, was signed *after* CBO's March 2015 baseline used in this analysis was finalized. Updated projections incorporating this legislation were not available in time to include in this analysis, but would increase spending on children's health by small amounts according to CBO. The bill's impact on projected health spending is small because it only extends CHIP funding for two years, the CBO baseline projections already assumed some level of CHIP funding, and increased CHIP spending is assumed by CBO to be partially offset by costs for Medicaid and Marketplace subsidies.¹³



Conclusion

Federal expenditures on children have remained flat for three years now, despite the pressures of successive waves of budgetary reforms (the Budget Control Act of 2011, the American Taxpayer Relief Act of 2012, and the Bipartisan Budget Act of 2013). Expenditures are lower than at the height of the recession but remain higher than before the recession, largely because of growth in Medicaid, SNAP, and the Earned Income Tax Credit.

Under baseline projections, which assume a continuation of current law, federal expenditures on children are expected to decline, both as a share of total federal spending and as a share of the economy. Relative to other outlays and uses of our national income, children are scheduled to become an ever-declining priority. The largest projected declines are in education and refundable tax credits, but declines are also projected in nutrition, housing, early education and care, social services, training, and every other program category except health and tax expenditures. Excluding health, children's expenditures will decline even in absolute dollars.

Baseline projections need not become reality. Congress chooses each year how much to appropriate for discretionary programs, whether to change the laws governing mandatory programs, and whether to change the tax code. However, budgetary choices feel increasingly constrained. As an increasing share of the budget is committed to health and retirement entitlement programs, it is harder and harder to squeeze discretionary funding beneath the caps. Even with the caps, spending outstrips revenues every year, contributing to a growing national debt and an increasing share of the budget spent on interest payments.

Budgetary reform packages are likely to continue in years to come, as the executive and legislative branches wrestle with the structural imbalance between revenues and spending, as well as the built-in growth in spending on health and retirement programs supported by our current laws. The goal of this series of annual *Kids' Share* reports is to measure and track how such budget packages, in combination with annual appropriations bills and legislation introducing or amending specific children's programs or tax provisions, affect the overall level and composition of public resources invested in children.



Appendix: Methods

Estimating the portion of government spending on children requires making assumptions and decisions regarding federal, state, and local data. First, we identify programs that directly benefit children or households with children. Second, we collect expenditure data from federal sources, particularly the Office of Management and Budget’s *Budget of the United States Government* for fiscal year 2016 (OMB 2015) and past years, drawing on the *Appendix* volume of the budget for information on spending and the *Analytical Perspectives* volume for tax expenditures. Finally, we estimate the share of each program’s spending that directly benefits children. These methodological steps are described below, followed by a discussion of methods for future projections and methodological changes made in this year’s report.

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 *Kids’ Share 2014* data appendix (Steele et al. 2014).

To be included in this analysis (as a whole or in part), a program 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., SSI payments for disabled children, Medicaid services for children);
- ▶ family benefit levels increase for households with children (e.g., SNAP, low-rent public housing); or
- ▶ children are necessary for a family to qualify for any benefits (e.g., 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 for inclusion 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 programs, and education programs. In other places, we focus solely on federal outlays on children; for example, when we report the share of total federal outlays spent 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 come from the *Appendix, Budget of the United States Government, Fiscal Year 2016* (and prior years). The *Analytical Perspectives* volume of the budget provides tax expenditure data. For programs not included in the *Appendix*, we obtain expenditure data from the relevant agencies' budgetary documents or their representatives. In this report, all budget numbers represent fiscal years, and we have expressed them in 2014 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, with the amount of benefits 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, assuming equal benefits per capita within the family (e.g., TANF and SNAP).

For large programs, such as SNAP, Medicaid, and 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 are unavailable, other Urban Institute researchers provide carefully crafted estimates using, for example, the Urban Institute's Transfer Income Model. In some cases, we scour government websites or contact federal agency staff directly to obtain program participation information. As noted below, we did not update the share of spending for all programs this year.

Methods for Projections

To predict spending trends for children, we primarily use the Congressional Budget Office's projections from *Updated Budget Projections: 2015 to 2025*. 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, 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 *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 2015 to 2025. 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

In this condensed *Kids’ Share* report, we did not fully update our estimates of the share of spending that goes to children, but instead mostly relied on estimating methods and, in particular, the shares of particular outlays or tax expenditures produced for last year’s report. All outlays were updated, however, as were the estimates of the children’s share of three of the seven largest programs: Medicaid, SNAP, and Social Security. (Two of the other largest programs—the child tax credit and the dependent exemption—needed no update on the share allocated because 100 percent of their expenditures are assumed to benefit children.)

Further methodological details are provided in last year’s *Kids’ Share* report and in its companion publication, [Data Appendix to Kids’ Share 2014](#) (Steele et al. 2014).

References

- Carasso, A., C. E. Steuerle, and G. Reynolds. 2007. *Kids' Share 2007: How Children Fare in the Federal Budget*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/kids-share-2007>.
- Carasso, A., C. E. Steuerle, G. Reynolds, T. Vericker, and J. Macomber. 2008. *Kids' Share 2008: How Children Fare in the Federal Budget*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/kids-share-2008-how-children-fare-federal-budget>.
- CBO (Congressional Budget Office). 2014. *Updated Budget Projections: 2014 to 2024*. Washington, DC: CBO.
- . 2015a. *The Budget and Economic Outlook: 2015 to 2025*. Washington, DC: CBO. <https://www.cbo.gov/sites/default/files/cbofiles/attachments/49892-Outlook2015.pdf>
- . 2015b. *Updated Budget Projections: 2015 to 2025*. Washington, DC: CBO.
- Clark, R., R. B. King, C. Spiro, and C. E. Steuerle. 2000. *Federal Expenditures on Children: 1960–1997*. Assessing the New Federalism Occasional Paper 45. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/federal-expenditures-children-1960-1997>.
- DeNavas-Walt, C., and B. D. Proctor. 2014. *Income and Poverty in the United States: 2013*. Current Population Reports, P60-249. Washington, DC: U.S. Census Bureau.
- Edelstein, S., J. Isaacs, H. Hahn, and K. Toran. 2012. *How Do Public Investments in Children Vary with Age? A Kids' Share Analysis of Expenditures in 2008 and 2011 by Age Group*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/how-do-public-investments-children-vary-age-kids-share-analysis-expenditures-2008-and-2011-age-group>.
- Hahn, H., G. Kenney, C. Coyer, and K. Toran. 2012. *Federal Health Expenditures on Children on the Eve of Health Reform: A Benchmark for the Future*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/federal-health-expenditures-children-eve-health-reform-benchmark-future>.
- Hahn, H., J. Isaacs, S. Edelstein, E. Steele, and C. E. Steuerle. 2014. *Kids' Share 2014: Report on Federal Expenditures on Children through 2013*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/kids-share-2014-report-federal-expenditures-children-through-2013>.
- Isaacs, J., C. E. Steuerle, S. Rennane, and J. Macomber. 2010. *Kids' Share 2010: Report on Federal Expenditures on Children through 2009*. Washington, DC: Urban Institute and Brookings Institution. <http://www.urban.org/research/publication/kids-share-2010-report-federal-expenditures-children-through-2009>.

- Isaacs, J., T. Vericker, J. Macomber, and A. Kent. 2009. *Kids' Share: An Analysis of Federal Expenditures on Children through 2008*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/kids-share-analysis-federal-expenditures-children-through-2008>.
- Isaacs, J., S. Edelstein, H. Hahn, K. Toran, and C. E. Steuerle. 2013. *Kids' Share 2013: Federal Expenditures on Children in 2012 and Future Projections*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/kids-share-2013-federal-expenditures-children-2012-and-future-projections>.
- Isaacs, J., H. Hahn, S. Rennane, C. E. Steuerle, and T. Vericker. 2011. *Kids' Share 2011: Report on Federal Expenditures on Children through 2010*. Washington, DC: Urban Institute and Brookings Institution. <http://www.urban.org/research/publication/kids-share-2011>.
- Isaacs, J., K. Toran, H. Hahn, K. Fortuny, and C. E. Steuerle. 2012. *Kids' Share 2012: Report on Federal Expenditures on Children through 2011*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/kids-share-2012>.
- Kent, A., J. Macomber, J. Isaacs, T. Vericker, and E. Bringewatt. 2010. *Federal Expenditures on Pre-Kindergarteners and Kindergarteners in 2008 (Ages 3 through 5)*. Washington, DC: Urban Institute. <http://www.urban.org/publications/412059.html>.
- Kyle, S., ed. 2015. *Children's Budget 2015*. Washington, DC: First Focus. <http://firstfocus.org/resources/report/childrens-budget-2015/>.
- Macomber, J., J. Isaacs, T. Vericker, and A. Kent. 2010. *Public Investment in Children's Early and Elementary Years (Birth to Age 11)*. Washington, DC: Urban Institute. <http://www.urban.org/publications/412061.html>.
- Macomber, J., J. Isaacs, T. Vericker, A. Kent, and P. Johnson. 2009. *Federal Expenditures on Infants and Toddlers in 2007*. Washington, DC: Urban Institute. <http://www.urban.org/publications/411875.html>.
- OMB (Office of Management and Budget). 2015. *Budget of the United States Government, Fiscal Year 2016*. Washington, DC: US Government Printing Office.
- Short, K. 2014. *The Supplemental Poverty Measure: 2013*. Current Population Report 60-521. Washington, DC: US Census Bureau.
- Steele, E., J. Isaacs, H. Hahn, S. Edelstein, and C. E. Steuerle. 2014. *Data Appendix to Kids' Share 2014: Report on Federal Expenditures on Children through 2013*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/data-appendix-kids-share-2014-report-federal-expenditures-children-through-2013>.
- UNICEF Office of Research. 2013. *Child Well-Being in Rich Countries: A Comparative Overview*. Innocenti Report Card 11. Florence: UNICEF Office of Research.

Vericker, T., J. Macomber, A. Kent, and E. Bringewatt. 2010. *Federal Expenditures on Elementary-Age Children in 2008 (Ages 6 through 11)*. Washington, DC: Urban Institute. <http://www.urban.org/research/publication/federal-expenditures-elementary-age-children-2008-ages-6-through-11>.

Vericker, T., J. Isaacs, H. Hahn, K. Toran, and S. Rennane. 2012. *How Targeted Are Federal Expenditures on Children? A Kids' Share Analysis of Expenditures by Income in 2009*. Washington, DC: Urban Institute and the Brookings Institution. <http://www.urban.org/research/publication/how-targeted-are-federal-expenditures-children>.



Notes

1. The earlier *Kids' Share* reports include Carasso, Steuerle, and Reynolds (2007); Carasso et al. (2008); Clark et al. (2000); Hahn et al. (2014); and Isaacs et al. (2009, 2010, 2011, 2012, 2013).
2. Additional reports that build on the *Kids' Share* database include previous analyses of spending on children by age of child (Kent et al. 2010; Macomber et al. 2009; Macomber et al. 2010; Vericker et al. 2010). The First Focus *Children's Budget* series, including *Children's Budget 2015* (Kyle 2015), provides detailed, program-by-program information on appropriation levels for children's programs for 2011 through 2015, as well as the president's proposed funding levels for 2016.
3. See DeNavas-Walt and Proctor (2014). The child poverty rate is somewhat lower (one in six children, or 16.4 percent, in 2013) under the federal government's new supplemental poverty rates, which adjust for receipt of Supplemental Nutrition Assistance Program benefits, the Earned Income Tax Credit, and other non-cash assistance (Short 2014).
4. See UNICEF Office of Research (2013). The relative child poverty rate examines the percentage of children living in households below 50 percent of the national median income, which is higher in the United States than in many other countries. In contrast, the "low family affluence" measure looks at the percentage of children living in families without specific possessions (e.g., cars, computers, family vacations, and children's own bedrooms), providing a more comparable standard for all countries. These metrics represent two different ways of measuring children's material well-being.
5. Ibid. Children in the United States did rank above children in other rich countries on certain measures, including low rates of smoking and alcohol use and high rates of physical exercise, and in the mid-range on other measures, including the low family affluence measure noted above and educational achievement at age 15.
6. See *Kids' Share 2012* by Isaacs and colleagues (2012). An estimated 24 percent of ARRA outlays were targeted toward children over the 2009–19 period.
7. 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 Office of Management and Budget (OMB) 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 \$1.29 trillion in 2014 (OMB 2015). To this we add \$38 billion (\$0.038 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 include the dependent exemption in our analyses of expenditures on children.

8. We used CBO projections for Medicaid for the 2014 estimates because data on actual Medicaid claims (needed to fully analyze spending on individuals under age 19) are released with a time lag; the most recent data available at the time of this analysis were for 2011.
9. See CBO (2015a), especially pages 62–70, for further information about the factors driving the projected increases in Social Security, Medicare, and Medicaid spending.
10. Total spending per capita is calculated as total outlays divided by total population, with total outlays including spending on children, adults, the elderly, and functions such as defense and transportation that are not directed toward any age group.
11. In last year’s report, we projected that interest payments would exceed children’s spending in 2017, based on CBO’s projection that interest payments would total \$400 billion in 2017 (CBO 2014). We have changed our estimate to 2018, because CBO has lowered its projections of interest rates and net interest payments: CBO now projects that net interest payments will total \$331 billion in 2017 and \$405 billion in 2018 (CBO 2015b).
12. In addition, a provision of the Agriculture Act of 2014 that tightens the way energy assistance payments are treated when calculating SNAP benefits will be phased in during 2015, resulting in lower average SNAP benefits in certain states.
13. In notes accompanying its baseline projections, CBO reports 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. CBO’s March 2015 baseline assumes that CHIP would expire at the end of fiscal year 2015 (current law at the time). H.R. 2, which was signed April 2, 2015, provided \$39.7 billion to extend CHIP through 2017. CBO estimates that this two-year extension increases outlays by only \$7.0 billion over the 2015–25 projection period. The increase is minimal because the baseline already assumes some continuation of CHIP and because the increase in CHIP spending is assumed to be partially offset by spending on Medicaid and the health insurance exchanges and employer-sponsored health insurance. For CHIP baseline assumptions see CBO (2015b) and, in particular, data provided in the table “Detail of Spending and Enrollment for the Children’s Health Insurance Program—CBO’s March 2015 Baseline,” accessed July 21, 2015, <http://www.cbo.gov/publication/44189>. For CBO estimates of H.R. 2, see “Cost Estimate and Supplemental Analyses for H.R. 2, the Medicare Access and CHIP Reauthorization Act of 2015,” accessed July 21, 2015, <https://www.cbo.gov/publication/50053>.





2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org