The Lost Social Security Benefit for Students

Stronger Together

Fourth in a Series of Fact Sheets on Intergenerational Public Policy Solutions

Introduction

All over the country, Social Security is making a difference in people's lives. Social Security was founded on the belief that those who work long and hard should not become destitute due to retirement or disability, nor should their families suffer in the event of early death. As the nation's most successful income protection program, Social Security supports families, not just individuals.

Social Security is more than a retirement program and its benefits impact all generations. Roughly a third of the benefits paid out by Social Security go to the spouses and children of deceased or disabled individuals. Currently, more than six and a half million children in the United States receive part of their family income from Social Security through survivors, retirement, and disability benefits. For these families, Social Security is an indispensable support.

Since 1939, children have received benefits from Social Security for access to food, clothing, and shelter. In 1965, Congress recognized the growing importance of a college education and extended Social Security child benefits through the age of 22 for those enrolled in college. The expanded eligibility of these benefits allowed young adults to complete their education without having to enter the workforce at 18 to support their families. Thousands of dedicated young adults were able to pursue higher learning thanks to the 1965 legislation.

In 1981, however, Congress eliminated the Social Security student benefit. Generations United urges policymakers to reinstate the student benefit to help today's students become the educated workforce our country's economy needs.

Why was the Student Benefit Eliminated?

In the early 1980s, the Reagan Administration was confronted with an immediate funding crisis for Social Security brought on by short-term economic conditions such as runaway inflation, high unemployment, and slow wage growth. In early 1981, the Reagan Administration offered a comprehensive budget and tax proposal to tackle the problem. One of the cost-reducing measures included was the elimination of the student benefit for children enrolled in post-secondary education. Today's circumstances are vastly different and merit the resoration of the benefit.

Critics of the student benefit argued that it was no longer required because of the growth of "needs-based" financial aid programs administered by the Department of Education. It was widely assumed at the time that if student benefits were reduced, government programs such as Pell Grants would fill the funding void left...
for students. This has never been the case. Adjusted for inflation, the average Pell Grant award today is 8 percent smaller than it was in 1981 and the maximum Pell Grant award is 19 percent smaller.\(^4\)

Also, at the time the Social Security Administration had some difficulty verifying student enrollment and eligibility for the benefit. Today, the electronic verifications through the Free Application for Federal Student Aid (FAFSA) application (a requirement for almost all schools) would make such concerns moot.

**Reasons to Reinstate the Student Benefit**

When the original student benefit program was created in 1965, Congress recognized that young adults attending college were still largely dependent on the income of their parents. In the event of the unexpected loss of a parent, it is the expressed purpose of Social Security to ensure that some portions of that parent's earnings are replaced to protect the wellbeing of the child. In light of the increased cost of higher education, the rationale for having this support in place is stronger now than it was even at the inception of the student benefit.

**The Importance of Higher Education**

To remain competitive in a global market, our economy needs educated workers. On average, college graduates earn 61 percent more than high school graduates over the course of their lifetimes.\(^5\) Access to higher education also makes a worker less likely to become unemployed even if the economy takes a downturn. In addition, better educated workers are also more likely to receive important job benefits, such as health insurance and retirement savings.\(^6\)

**The Skyrocketing Cost of Higher Education**

The cost of higher education has dramatically outpaced the Pell Grant. With rising tuition costs and other higher education factors, the maximum Pell Grant today would only cover 32 percent of the cost of attendance at a four-year public university and 13 percent of the cost of attendance at a four-year private university. In 1981, the maximum Pell Grant covered 58 percent and 26 percent of those costs respectively.\(^7\)

**Provides Assistance to Low-income Students**

Before the benefit was cut in 1981, students had an opportunity to pursue a higher education that would otherwise have been out of reach. Many of these students came from minority and blue-collar backgrounds, and two thirds of the students receiving the benefit in 1978 had household incomes below the poverty line.\(^8\) For many students, Social Security benefits were the deciding factor in whether or not they were able to continue their education. A 2003 study concluded that termination of student benefits brought a disproportionate drop in college attendance among black and low-income young adults because these students were more likely to have disabled or deceased parents.\(^9\)

**Americans Support the Student Benefit**

The facts are overwhelmingly in favor of increasing access to higher education, and so is the polling. In a nationally representative poll, 78 percent of Americans supported extending benefits to children of a deceased or disabled parent until age 22.\(^10\) Young people, in particular, strongly support the restoration of the student benefit to its pre-1981 level.

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**As a child, Bill Libro didn’t know the role Social Security played in his life after his father died.**

“What eight-year-old knows about the checks that come in the mail? It only occurred to me later how important it was for Social Security to help us get by back then. The student benefit made a huge difference and helped me remain in college and get my degree. It was a big help to my sister, who also received Social Security student benefits in going to college too.”

—Bill Libro

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**The Return on Investment of Reinstating the Student Benefit**

Social Security is currently facing very real long-term financial challenges. Nevertheless, the predicted shortfall is neither as large nor as immediate as it was in 1981 when the student benefit was cut. The best way to invest in and protect our nation’s most vulnerable citizens is to strengthen Social Security, not cut it.
Reinstating the student benefit would have a very tangible and positive effect on the economy. Beyond the direct benefit to the students themselves, our society-at-large would benefit from a better-educated workforce. As previously mentioned, more highly educated workers earn more than their counterparts who only have a high school degree. Higher income for workers means more tax revenue for the government and less spending on public programs, such as unemployment insurance, Medicaid, and food stamps.

Reinstating the student benefit up to the age of 22 for children of deceased and disabled workers would only cost approximately 0.07 percent of taxable payroll over the 75-year actuarial horizon. This increase is very small compared to the current overall cost of Social Security. There are a number of policy options to raise revenues for Social Security. One option is to raise the cap on covered earnings, so that higher-income workers would pay Social Security taxes on more of their earnings. Another option is to simply raise payroll taxes slightly. For instance, an increase of 0.07 percent of wages would mean that a worker earning $50,000 per year would pay an extra $35 in Social Security contributions per year – split between the worker and their employer.

A Time of Opportunity

The short-term threats that faced Social Security in the early 1980s have long passed. Other funding measures meant to take the place of student benefits have not succeeded in filling the gap. Consequently, maintaining the cuts to the student benefit is difficult to justify.

To safeguard our country’s economic future, and the future of our children and grandchildren, we must make higher education affordable to all. The people have spoken: more than three out of every four Americans support returning the student benefit to pre-1981 levels. By simply raising Social Security contributions by only $35 per year, we can help ensure that children whose parents have died or become disabled can still have an opportunity to attain their dream of a higher education. That’s a very small price to pay for enormous long-term benefits. Now is the time for Congress to take decisive action that will bolster our standing in the global market and expand educational and economic opportunity for all young Americans. It’s an opportunity this country cannot afford to miss.

Children of Retirees

In addition to reinstating the student benefit for children whose parents are deceased or disabled, there are situations where the benefit would be appropriate for children of retirees.

In many cases, workers must retire early due to health problems or layoffs. There are also a growing number of grandparents and other relatives raising children. As the most recent Census shows, nearly 7.8 million children across the country now live in households headed by grandparents or other relatives (US 2010 Census). These grandparents never expected to care for a second family and as a result, grandparents are often raising grandchildren solely on their Social Security retirement benefit.

When examining the issue of extending benefits to the children of retirees, family circumstances are varied and as a result, things are more complicated. Generations United urges more empirical research be conducted to better understand the family and economic status of children of retirees.
Generations United is the only national membership organization focused solely on improving the lives of children, youth, and older people through intergenerational strategies, programs, and public policies. Since 1986, Generations United has served as a resource for educating policymakers and the public about the economic, social, and personal imperatives of intergenerational cooperation. Generations United acts as a catalyst for stimulating collaboration between aging, children, and youth organizations, providing a forum to explore areas of common ground while celebrating the richness of each generation.

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GU’s web site, www.gu.org, contains additional information about intergenerational topics.
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3 Ibid.
4 ACE Fact Sheet on Higher Education. Retrieve at http://www.acenet.edu/AM/Template.cfm?Section=Home&CONTENTID=33963&TEMPLATE=/CM/ContentDisplay.cfm
7 Ibid.
6 Ibid.
10 Ibid.
11 Ibid.