Kids' SHARE 2016

FEDERAL EXPENDITURES ON CHILDREN THROUGH 2015 AND FUTURE PROJECTIONS

Sara Edelstein
Heather Hahn
Julia Isaacs
Ellen Steele
C. Eugene Steuerle

URBAN INSTITUTE

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 John Monsif, Bruce Lesley, and Laudan Aron for their insightful comments. The views expressed in this report are those of the authors and should not be attributed to our funders, the Urban Institute, or its trustees.

Kids' Share 2016 is the tenth report in the annual Kids' Share series monitoring government investment in children through analyses of federal expenditures, including both tax expenditures and outlays.

Annual monitoring allows federal policymakers and the public to track the level of, changes to, and scheduled trends in spending on children. Monitoring also allows us to consider whether and how to address the ongoing imbalance between spending (scheduled to grow steadily in programs that largely exclude children) and revenues (which fall far short of actual spending levels). As past Kids' Share reports have shown, broad-reaching bills such as the American Recovery and Reinvestment Act and the Budget Control Act, although not typically viewed as "children's legislation," can have large impacts on expenditures on children.

Kids' Share reports are frequently cited by researchers, commentators, and media concerned with the development of our children. These reports play an important role in informing decisions on future federal budget priorities and document how broad budget actions can affect children. We hope that Kids' Share 2016 will continue to focus attention on these vital matters.

The Kids' Share Team

CONTENTS

TABLES and FIGURES

FIGURES

TABLES

Executive ***SUMMARY***

Total federal spending on children has been fairly flat over the past four years, in real dollars. However, spending in 2015 was slightly up from 2014, with increases in children's health and nutrition and other areas more than offsetting declines in children's education and income security. Spending remains lower than in 2010, in part because of recovery from the recession but also because budgetary pressures have squeezed the share of resources devoted to children.

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 shares of the economy and of the federal budget devoted to children are 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 is being driven by past policy decisions rather than by current assessments of how best to invest in the future. Recent trends in state and local spending on children also reflect a declining focus on children, particularly in education.

Public spending on children by federal, state, and local governments is an investment in the nation's future—this spending supports the healthy development of children, helping them grow into healthy and productive adults. To help interested stakeholders assess the government's investment in children, this 10th annual *Kids' Share* report provides an updated analysis of federal expenditures on children from 1960 through 2015. It also updates projections of spending on children through 2026, to provide a sense of how budget priorities may unfold absent changes to current law.

RECENT EXPENDITURES ON CHILDREN

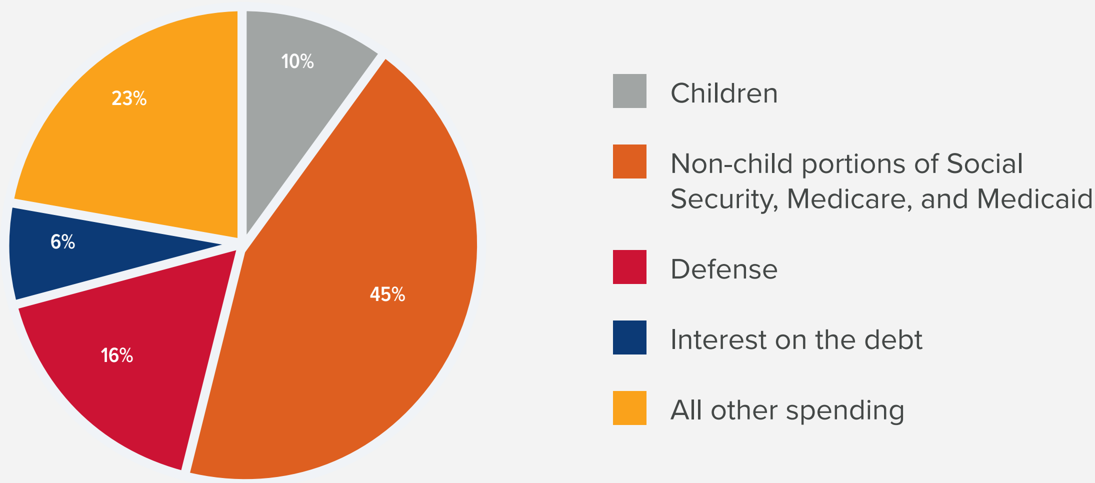
Analysis of federal outlay and tax expenditure data for 2015, the most recent year for which complete data are available, reveals the following:

- **Federal expenditures on children in 2015 totaled $471 billion.** About 77 percent of 2015 expenditures were outlays (spending from federal programs such as Medicaid and child nutrition programs, as well as refundable tax credits) and about 23 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).

- **The children's share of the budget is roughly flat, at 10 percent.** The $471 billion in federal expenditures on children in 2015 is an increase of $5 billion from 2014, with much of the estimated growth in Medicaid. Expenditures include $364 billion in outlays, or 10 percent of the $3.7 trillion spent by the federal government in 2015, and $107 billion in tax expenditures (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 through Social Security, Medicare, and Medicaid; 16 percent spent on defense; 6 percent on interest payments on the debt; and 23 percent on all other government functions (agriculture, commerce, the environment, transportation, veterans' benefits, etc.).

- **Tax provisions, the largest source of support for children, account for nearly two-fifths of federal investments in children.** Child-related tax provisions—including the Earned Income

FIGURE ES.1 Share of Federal Budget Outlays Spent on Children and Other Items, 2015



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017.*
NOTE: The Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

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 39 percent all expenditures on children (including $77 billion spent on refundable tax credits and $107 billion in tax reductions).

- **Health is the next-largest category of spending after tax provisions.** Health programs accounted for one-fifth of expenditures on children ($98 billion). The next-largest categories of spending were nutrition (e.g., child nutrition programs and the children's share of Supplemental Nutrition Assistance Program benefits), at $60 billion; income security (e.g., Social Security benefits to survivors and dependents and Temporary Assistance to Needy Families), at $55 billion; and education, at $41 billion. The other categories are much smaller: early education and care ($13 billion), social services ($10 billion), housing ($9 billion), and training ($1 billion).

- **Spending fell for programs controlled by budget caps, though most children's programs do not fall under those caps.** Spending on children's programs constrained by the Budget Control Act of 2011 (BCA) declined by $0.8 billion between 2014 and 2015, while spending on children's programs exempt from the BCA increased by $5.6 billion. The largest declines in programs affected by the BCA were in federal K–12 education programs. In programs exempt from the BCA, the largest increase was in the children's share of Medicaid, which increased by an estimated $4.3 billion.

- **In 2013, 64 percent of spending (excluding tax expenditures) on children was from state and local sources.** While the primary focus of *Kids' Share* is federal spending, state and local funding is the major source of spending on children. State and local spending is driven by spending on public education.

- **Total spending per child, combining federal and state/local sources, fell between 2011 and 2013** (the last year with data on state and local spending). During the recession, spending on children by states and localities fell but federal spending on children increased even more, so total spending per child rose. As the recession ended, trends in federal and state spending reversed. From 2011 to 2013, state and local governments were not able to make up the shortfall in federal spending and overall spending per child decreased.

HISTORICAL TRENDS

Over the past half century, newly created government programs and robust economic growth have supported a sixfold increase (in real terms) in total federal outlays: from $580 billion in 1960 to about $3.7 trillion in 2015.

- **Over the past 50 years, the most dramatic growth in outlays has been in spending on adults in the Social Security, Medicare, and Medicaid programs.** By 2015, this spending reached $1.5 trillion, compared to $66 billion in 1960. This represents growth from 2 percent of gross domestic product (GDP) in 1960 to 9 percent in 2015.

- **Spending on children has also grown in real dollar terms, though to a lesser degree,** climbing from $19 billion in 1960 to $364 billion in 2015. In terms of GDP, spending on children grew from a very small base of about 0.6 percent of GDP in 1960 to 2.0 percent in 2015, down from a peak of 2.5 percent in 2010.

- **Defense spending has fallen as a percentage of GDP.** It fell from 9.0 percent of GDP in 1960 to 2.9 percent in 2000, before rising to 3.3 percent in 2015.

Over the past 50 years, the mix of spending on children has shifted, in terms of how children receive benefits, which benefits they receive, and which children benefit.

- **Expenditures for tax provisions for children have declined slightly relative to the size of the economy,** but have shifted dramatically toward tax credits and away from the dependent exemption. **Two tax credits—the Earned Income Tax Credit and the child tax credit—have played a growing role since the late 1980s in providing federal support for children.** By contrast, the dependent exemption, which provided 68 percent of all federal support to children in 1960, has dwindled to just 8 percent of federal spending on children in 2015.

- **Spending has shifted away from programs and tax provisions serving all children and toward means-tested programs serving low-income children.** In 1960, the majority of children's expenditures were on survivors' and dependents' benefits under Social Security, the dependent exemption, and other benefits that were available to all children regardless of family income. In 2015, 65 percent of total expenditures on children were made through means-tested spending programs (51 percent) and means-tested tax provisions (13 percent).

- **Spending by category has changed,** as many major programs of today did not exist in 1960. Health spending has risen most dramatically, from $0.2 billion in 1960 to $98 billion in 2015.

While the primary focus of *Kids' Share* is spending on children, we also examine trends in spending on the elderly, another group outside the working-age population and reliant on public or private support. Spending on the elderly is strikingly higher than spending on children, both in total and per capita. Per capita federal spending on the elderly rose from about $4,220 in 1960 to $28,482 in 2015 in inflation-adjusted (2015) dollars. Over the same period, per capita federal spending on children rose from $278 to $4,673. While the federal government spent over six times more on the elderly than on children in 2015, state and local spending is heavily slanted toward children, particularly through public schools. Combined federal and state/local spending on the elderly was 2.3 times the combined spending on children in 2013 ($29,308 to $12,816).

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 show the following:

- **Kids' share of the budget will drop 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 2026. The share of the population under 19 is projected to contract slightly, from 24 to 23 percent, but children's modest share of the budget will fall by close to a quarter.

- **Kids' share of budget growth will be just 2 percent.** Federal spending, excluding tax subsidies, will increase by nearly $1.5 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, and a significant share of the remainder to higher costs of interest on the debt. Children's programs will receive very little of this growth—just 2 cents of every dollar of the projected increase. The children's entire share of the increase goes to health programs; excluding health care, fewer dollars will be spent on children in 2026 than in 2015, after adjusting for inflation.

- **Interest payments will outpace kids' spending by 2019.** 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 2019 onward, by larger amounts every year.

- **Education and tax benefits will decline the most.** Spending on children for K–12 education, early education and care, nutrition, housing, and social services is scheduled under current law 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 early education and care.

- **Health costs and policies will drive increased spending on health.** Spending on children's health is projected to increase over the next decade for many reasons. 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 could also offer new subsidized coverage options for uninsured children.

Baseline projections need not become reality. Each year, Congress chooses 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 annual *Kids' Share* reports 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. The goal of the *Kids' Share* series is not to advocate for any particular change or level of spending, but rather to provide the detailed information necessary to understand the implications of federal spending decisions.

Introduction

Children have always been among the most vulnerable members of society, as they depend largely on others to provide nutrition, housing, safety, education, and health care. Though parents and families provide most of children's basic needs, the broader society also plays a role in supporting children's healthy development. Nutrition benefits, housing assistance, and health insurance programs help protect children from hunger, homelessness, and poor health, while investments in early education and public schools help promote equality of opportunity. These supports provide children with the resources to develop into tomorrow's productive workforce.

Increased understanding of children's developmental needs and the long-term impact of childhood environment on adult outcomes has increased public support for investment in children. Even so, spending on children is not always prioritized relative to other categories of the federal budget. The Urban Institute's *Kids' Share* report tracks government spending on children each year.[1] We track how investments in children change over time, both in quantity and by priority. Our annual reports provide a comprehensive picture of recent expenditures from federal, state, and local sources. They also provide long-term trends in federal spending, including historical spending to 1960 and projected spending 10 years into the future, assuming no changes to current law. These reports have served as the foundation for additional analyses, including spending on low-income children (Vericker et al. 2012), spending on children by age group (Edelstein et al. 2012), and the Children's Budget series of reports produced by First Focus.[2]

This report, the 10th in the annual series, quantifies federal spending in the fiscal year 2015. In 2015, unemployment reached new post-recessionary lows, with rates falling to 5 percent by the end of the calendar year, down from a high of 10 percent in 2009. Many fewer children were living with unemployed parents than at the height of the recession. However, wages continued to recover only slowly, with wage growth hovering around 2 percent since 2012.

Despite the economic recovery, children remain vulnerable to poverty. Children face the highest poverty rates of all age groups, with more than one in five children (21.1 percent) living in poverty in 2014, compared to 13.5 percent for adults (18 to 64) and 10.0 percent for adults 65 and older. The United States faces a high child-poverty rate compared to other developed countries, with a UNICEF 2013 report ranking the US child poverty rate the second-highest among 41 developed countries. The report also shows the high income inequality among children in the United States, ranking the country 30th in equality, near Turkey and Chile. Though there are legitimate debates over how well poverty is measured, 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).[3]

The continued high child poverty in 2015 provides context for this Kids' Share report. The report first considers expenditures on children in 2015 and in recent years, looking first at federal and then state and local spending. A second section examines broad trends in the federal budget from 1960 to 2026, then compares spending on children with spending on other priorities. Finally, the third section delves more deeply into the composition of federal expenditures on children, looking back to 1960 and projecting forward to 2026. We provide an appendix detailing our methodology for developing our estimates, as well as additional detail in the companion brief *Data Appendix to* Kids' Share 2016 (Steele et al. 2016).

The *Kids' Share* series does not intend to judge whether current expenditures on children meet their needs, nor does it measure or incorporate private spending on children. The report does not prescribe an optimal division of public dollars or resources. Instead, *Kids' Share* provides a detailed analysis of government support for children and its change over time.

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.

Recent Expenditures ***ON CHILDREN***

In this section we describe federal expenditures on children for fiscal year 2015, the most recent year for which complete federal spending data are available, and changes in expenditures in recent years. We first present federal expenditures on children, examining them in the aggregate, by program and category, as well as by whether they are affected by the Budget Control Act (BCA) of 2011. This is followed by an examination of state and local spending in recent years.

TOTAL FEDERAL EXPENDITURES ON CHILDREN IN 2015

Federal expenditures on children in 2015 totaled $471 billion (see figure 1). About 77 percent of 2015 expenditures were outlays (spending from federal programs such as Medicaid and child nutrition programs, as well as refundable tax credits) and about 23 percent were tax expenditures (tax breaks provided to families with children through the dependent exemption, the non-refundable portions of child-related tax credits, and other tax provisions).

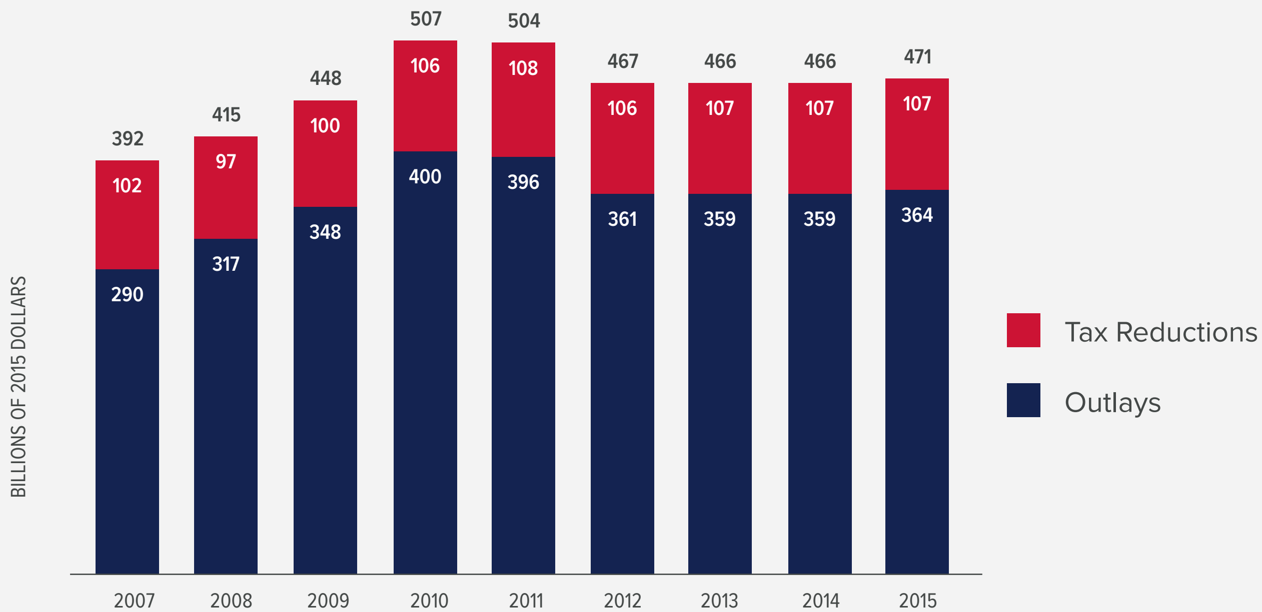
Neither outlays nor tax expenditures on children changed substantially between 2014 and 2015. In fact, total expenditures have been fairly flat since 2012 and well below the peak of $507 billion in 2010, during the recession. Between 2014 and 2015, total outlays on children increased modestly (by $4.7 billion), with estimated increases in Medicaid, nutrition, and other areas more than offsetting declines in children's education and income security. Tax expenditures benefiting children increased to a lesser degree, by $0.6 billion (i.e., they appear to have stayed virtually the same, given limits in the precision of tax expenditure estimates). We sum these two types of expenditures to arrive at total expenditures on children.

Federal expenditures over the past nine years have 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 significantly affected 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 several federal education and early education programs, including Title I/Education for the Disadvantaged, special education, Head Start, and the Child Care and Development Fund. Almost one-quarter of ARRA funds benefited children.[4]

The ARRA stimulus package boosted federal expenditures on children mostly in 2009 through 2011. In 2010, total federal expenditures on children peaked at $507 billion, including an estimated $61 billion in spending due to ARRA. ARRA expenditures on children have since fallen and were almost completely exhausted by 2012; they accounted for just over $2 billion in spending in 2015. Much of the decline in dollars spent on children after 2011 has resulted 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, 2007–15



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.
NOTE: Numbers may not sum to totals because of rounding.

Kids' Share in 2015

The $364 billion in federal outlays on programs and services benefiting children represents 10 percent of $3.7 trillion in total federal outlays. The share of the federal budget spent on children remained virtually the same as in 2013 and 2014 (both total federal outlays and outlays on children increased modestly). 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.

This report examines not only outlays, 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 $1.4 trillion in individual and corporate tax expenditures identified by the Office of Management and Budget in 2015.[5] This is the same share as in 2013 and 2014, but down from 9 percent in 2012 and 10 percent in 2009–11.

The sum of federal outlays and tax expenditures on children ($471 billion) made up about 9 percent of total federal outlays and tax expenditures in 2015, down from 10 percent in 2010–14.

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 economy as measured by gross domestic product (GDP). Total expenditures on children (outlays and tax expenditures) rose from 2.4 percent of GDP in 2007 to 3.2 percent in 2010, but have since fallen to 2.7 percent in 2013 and 2014, then 2.6 percent in 2015.

In sum, kids' share of government spending did not change much between 2014 and 2015. While total outlays on children increased slightly in absolute dollars, total government spending also rose so that kids' share of outlays remained stable. The overall economy grew faster than spending on children, and so spending on children fell modestly as a percentage of GDP. Spending for many individual programs and tax provisions was also fairly stable between 2014 and 2015, though some programs saw increases and others saw decreases, as detailed on the following pages.

FEDERAL EXPENDITURES ON CHILDREN, BY PROGRAM AND CATEGORY

Dozens of programs and tax provisions are included in the $471 billion in total federal expenditures on children in 2015. The 10 programs and tax provisions with the highest expenditures on children (figure 2) together account for more than three-quarters (76 percent) of total expenditures on children.

- Medicaid, as in prior years, is the largest source of spending on children. An estimated $83 billion was spent on children through Medicaid in 2015. This estimate is based on Congressional Budget Office (CBO) projections of Medicaid spending on non-disabled children, which we have adjusted to include spending on disabled children and a proportional share of administrative costs.[6] (An additional $9 billion was spent on the Children's Health Insurance Program, tracked separately from Medicaid in this analysis.) We estimate that the children's share of Medicaid spending is $4 billion, or 6 percent, higher in 2015 than in 2014. Over the same period, total federal spending on Medicaid rose by 16 percent—likely a continuing effect of more than half of states expanding their Medicaid programs in 2014.[7] Because Medicaid expansions largely served newly eligible low-income adults, the *share* of federal Medicaid spending on children declined, even as the dollar level of spending on children increased.

- Three tax provisions—the Earned Income Tax Credit (EITC), the child tax credit, and the dependent exemption—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 2015, as in previous years, most of the EITC's $62 billion in spending was in the form of tax refunds, and nearly $30 billion of the child tax credit's $50 billion was in tax reductions. The EITC grew by over $1 billion from 2014, while the child tax credit shrank by $2 billion. The dependent exemption provided families with children a tax break of $39 billion, similar in size to 2014. Together, Medicaid and these three tax provisions provide half (50 percent) of all federal expenditures on children.

- Spending on children's SNAP benefits fell for the second consecutive year, after five years of growth from 2008 to 2013. The drop in 2014 was attributable to the expiration (in November 2013) of increased maximum benefit levels originally raised under ARRA. Reduced spending in 2014 and 2015 also reflects program caseloads declining as the economy improves, though caseloads for adults and children are still well above pre-recession levels. Children received an estimated $33 billion from SNAP, making it the fifth-largest program benefiting children.

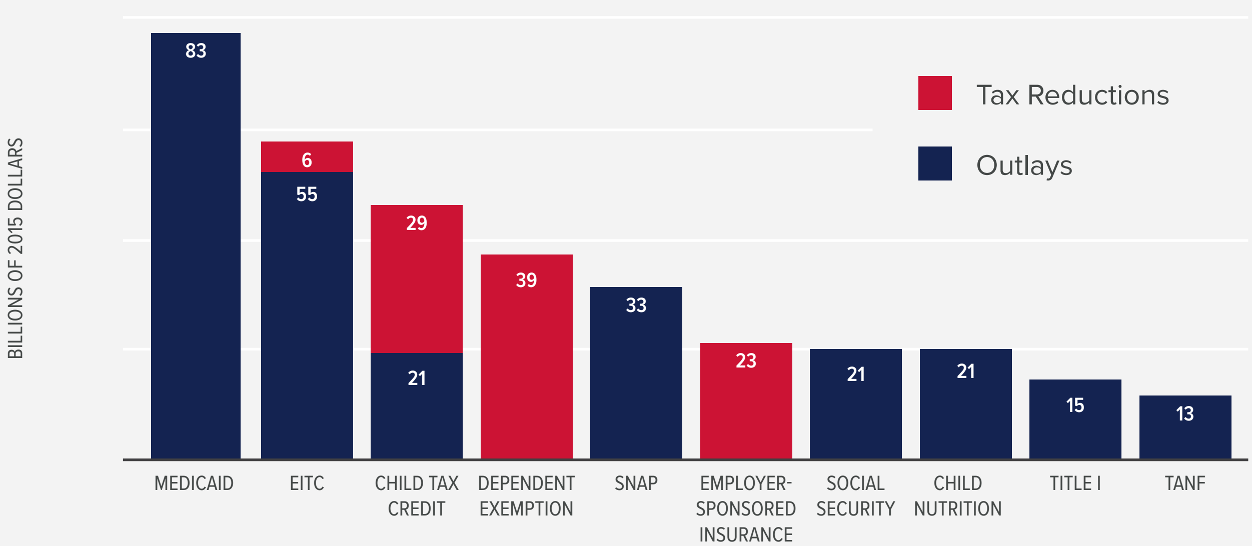
- The exclusion from tax of income received as employer-sponsored health insurance was the sixth-largest program or tax provision. Employer-sponsored insurance spending grew slightly since 2014, reaching about $23 billion in spending on children.[8]
- Social Security, with an estimated $21 billion in survivors' and dependents' benefits directed toward individuals younger than 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 ($21 billion), Title I/Education for the Disadvantaged ($15 billion), and Temporary Assistance for Needy Families ($13 billion; TANF). Unlike 2014 but as in 2013, spending on special education and related services as covered by the Individuals with Disabilities Education Act is no longer high enough to place the program among the 10 largest ($12 billion).

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 Fund spent $8 billion and $5 billion, respectively, on children in 2015. Supplemental Security Income (SSI) spent $11 billion on disabled children, the Children's Health Insurance Program (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.

Federal Expenditures on Children, by Program, in 2014 and 2015

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 11 budget categories of programs (such as health, income security, and education) and

FIGURE 2 The 10 Spending and Tax Programs with the Highest Expenditures on Children, 2015



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017.*
NOTE: Child nutrition spending includes the National School Lunch Program (NSLP), the School Breakfast Program (SBP), the Child and Adult Care Food Program (CACFP), the Summer Food Service Program (SFSP), and the Special Milk Program.

TABLE 1 Federal Expenditures on Children by Category and Program, 2015 (billions of 2015 dollars)

		2015	Change from 2014
1.	**Health**	**97.6**	**4.3**
	Medicaid	82.8	4.3
	CHIP	8.9	-0.2
	Vaccines for children	3.8	0.3
	Other health	2.1	-0.1
2.	**Nutrition**	**59.7**	**1.0**
	SNAP (food stamps)	33.2	-0.3
	Child nutrition	20.9	1.3
	Special Supplemental food (WIC)	5.6	*
3.	**Income Security**	**55.3**	**-0.2**
	Social Security	21.0	-0.2
	Temporary Assistance for Needy Families	12.7	-0.4
	Supplemental Security Income	11.2	-0.1
	Veterans compensation (disability compensation)	5.9	0.4
	Child support enforcement	4.0	-0.1
	Other income security	0.4	0.1
4.	**Education**	**40.7**	**-1.5**
	Education for the Disadvantaged (Title I, Part A)	15.2	-0.7
	Special education/IDEA	12.3	-0.5
	School improvement	4.3	-0.2
	Innovation and improvement	1.5	0.2
	Impact Aid	1.4	0.2
	Dependents' schools abroad	1.1	*
	Other education	4.9	-0.3
5.	**Early Education and Care**	**13.5**	**0.6**
	Head Start (including Early Head Start)	8.3	0.5
	Child Care and Development Fund	5.1	*
6.	**Social Services**	**9.7**	**0.3**
	Foster care	4.6	0.2
	Adoption assistance	2.4	0.2
	Other social services	2.7	*
7.	**Housing**	**9.3**	**0.03**
	Section 8 low-income housing assistance	7.4	0.1
	Low-rent public housing	1.1	*
	Other housing	0.8	*
8.	**Training**	**1.2**	*****

		2015	Change from 2014
9.	**Refundable Portions of Tax Credits**	**76.7**	**0.1**
	Earned Income Tax Credit	54.9	0.9
	Child Tax Credit	20.6	-1.1
	Other refundable tax credits	1.3	0.2
10.	**Tax Expenditures**	**68.0**	**0.2**
	Exclusion for employer-sponsored health insurance	22.6	0.7
	Child Tax Credit (nonrefundable portion)	29.0	-1.0
	Earned Income Tax Credit (nonrefundable portion)	7.1	0.2
	Dependent care credit	4.4	*
	Other tax expenditures	4.9	0.3
11.	**Dependent Exemption**	**39.5**	**0.4**
TOTAL EXPENDITURES ON CHILDREN		**471.2**	**5.3**
OUTLAYS SUBTOTAL (1–9)		363.7	4.7
TAX EXPENDITURES SUBTOTAL (10–11)		107.4	0.6

SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past year.
NOTES: Because this analysis shows outlays, rather than appropriated or authorized levels, and because the dollars are adjusted for inflation, these estimates may differ from other published estimates. Other health covers immunizations, the Maternal and Child Health block grant, children's graduate medical education, lead hazard reduction, children's mental health services, birth defects/developmental disabilities, Healthy Start, emergency medical services for children, universal newborn hearing, home visiting, and school-based health care. Child nutrition includes the National School Lunch Program (NSLP), the School Breakfast Program (SBP), the Child and Adult Care Food Program (CACFP), the Summer Food Service Program (SFSP), and Special Milk. Other income security includes Railroad Retirement, survivors' compensation, veterans' compensation, survivors' pensions, veterans' pensions, and the federal share of child support collections (-$689 million). Other education includes Indian education, English language acquisition, domestic schools, the Institute of Education Sciences, safe schools and citizenship education, Junior ROTC, Safe Routes to Schools, and vocational (and adult) education. Other social services includes the Social Services Block Grant, the Community Services Block Grant, child welfare services and training, Safe and Stable Families, juvenile justice, guardianship, independent living, missing children, children's research and technical assistance, PREP and abstinence education, and certain child 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, the employer-provided child care credit, exclusion of certain foster care payments, adoption credit and exclusion, assistance for adopted foster children, exclusion for Social Security retirement and dependents' & survivors' benefits, exclusion for Social Security disability benefits, exclusion for public assistance benefits, exclusion for veterans' death benefits and disability compensation, Qualified Zone Academy Bonds, Qualified School Construction Bonds, and the premium tax credit for insurance bought on the exchange.
* Less than $50 million

tax provisions that spent at least $1 billion on children in 2014. The table includes estimates for 2015 and the change (in real dollars) from 2014 for each program and category.

The program with the largest growth from 2014 in dollar terms was Medicaid, which increased by $4.3 billion, or 6 percent. This was followed by the EITC (a $0.9 billion increase in the refundable portion and a $0.2 billion decrease in the tax expenditure portion), child nutrition programs ($1.3 billion), and the tax exclusion for employer-sponsored health insurance ($0.7 billion). Head Start outlays grew by $0.5 billion. Housing and training programs grew overall, with most individual housing and training programs having small increases and some having small decreases.

About as many programs declined as grew in 2015. The largest decline was in the child tax credit (a $1.1 billion decrease in the refundable portion and a $1.0 billion decrease in the tax expenditure portion). Education programs dropped as well ($1.5 billion), with large drops in Title I ($0.7 billion) and special education ($0.5 billion). Spending on the three largest income security programs also decreased—Social Security ($0.2 billion), TANF ($0.4 billion), and SSI ($0.1 billion). SNAP spending fell by $0.3 billion.

Federal Expenditures on Children, by Category

Federal spending on children can be further described by grouping programs into broad budget categories such as tax, health, and nutrition. When all 19 tax code provisions benefiting children are counted together, including the refundable portions counted in the budget as outlays as well as the tax breaks, tax expenditures far exceed any other major budget category of spending (see figure 3). Child-related tax provisions provided $184 billion in combined outlays and tax reductions in 2015. Expenditures on tax provisions constituted 39 percent of total 2015 expenditures on children.

Health was the next largest; with $98 billion in spending representing 21 percent of total expenditures on children, this category was about half as large as tax provisions. 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 $60 billion and $55 billion, respectively. While tax provisions, health, and nutrition spending grew in 2015, income security spending declined.

Education spending was also substantially lower, at $41 billion—a decline of $1.5 billion, or 4 percent, from the previous year, the same percentage decline as in 2014. Education spending amounted to less than half of the amount spent on children's health in 2015; 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 within Title I, special education, and other broad education programs—remained at about $13 billion. Spending on social services for children (e.g., foster care and adoption assistance) grew to about $10 billion, while housing assistance benefitting children ($9 billion) grew by less than half a percent. Spending on the youth components of job training programs also grew only marginally in 2015. Declines in spending were often driven by both exhaustion of the funds provided under ARRA and the spending restrictions imposed by the BCA.

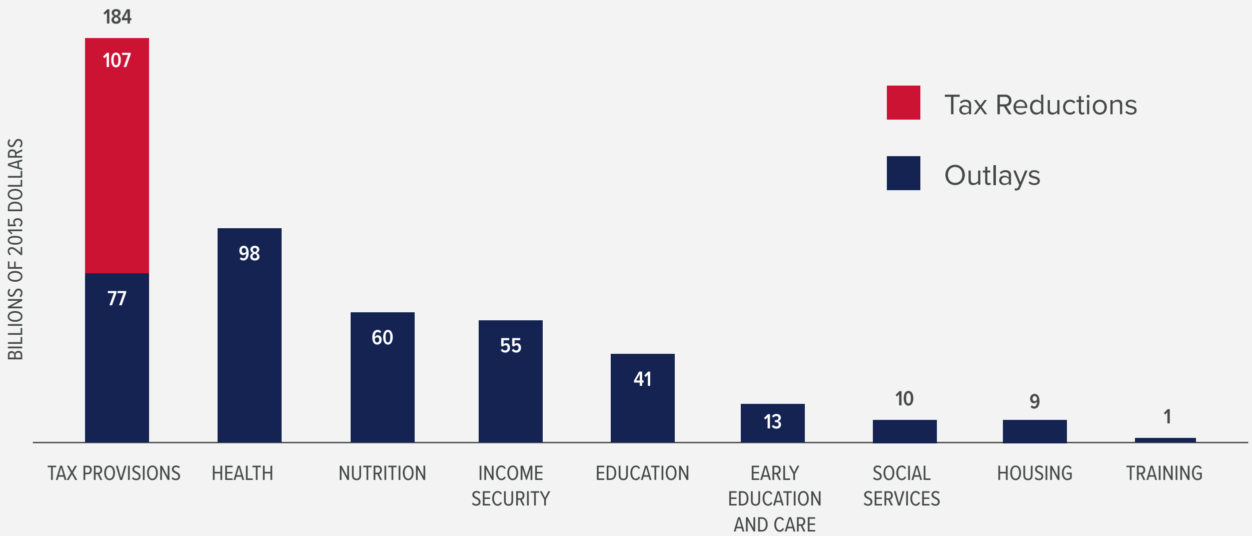
Children's Spending and the Budget Control Act

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, reducing some areas of children's spending but not others. The BCA constrains the budget 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 has a considerable effect on certain areas of spending on children (e.g., education, early care, training, and housing), it has a smaller impact on 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 exempt from automatic spending reductions are 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—79 percent in 2015—are exempt from the BCA.

The roughly 20 percent of children's programs that fell under BCA caps have not fared well. Spending on children's programs subject to the caps and sequestration fell by $1 billion in 2015. Most declines were in discretionary programs that had to compete with other non-defense discretionary programs for funding. Specifically, spending fell for federal K–12

FIGURE 3 Federal Expenditures on Children by Category, 2015

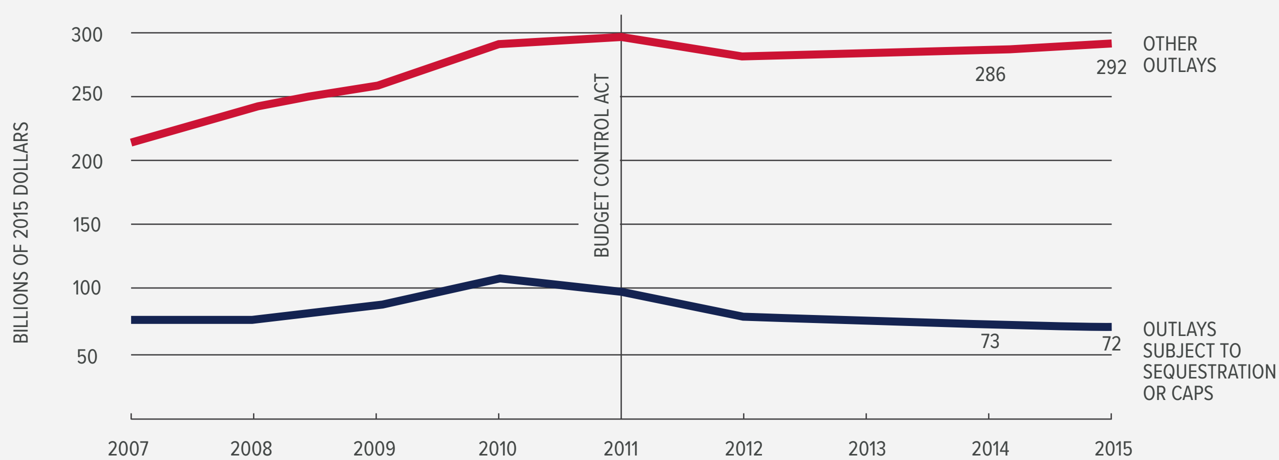


SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017.*

education and selected social service programs. Two mandatory social services programs (the Social Services Block Grant and children's research and technical assistance) also declined as a result of sequestration under BCA. WIC, early education and care, and the children's shares of housing benefits and youth training were subject to the caps but did not decline in 2015.

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 or caps, from $73 billion to $72 billion between 2014 and 2015, continues the general trend of a $27 billion decline in this category since 2011 and keeps outlays for these programs below their pre-recession level of $76 billion. Outlays on the large set of children's programs exempt from the BCA increased

FIGURE 4 Federal Outlays on Children by Impact of Budget Control Act, 2007–15



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.

to $292 billion in 2014, a $5.6 billion increase from the previous year. This set of programs has exhibited substantial growth relative to 2007, driven by growth in Medicaid, SNAP, the EITC, child nutrition programs, CHIP, and SSI.

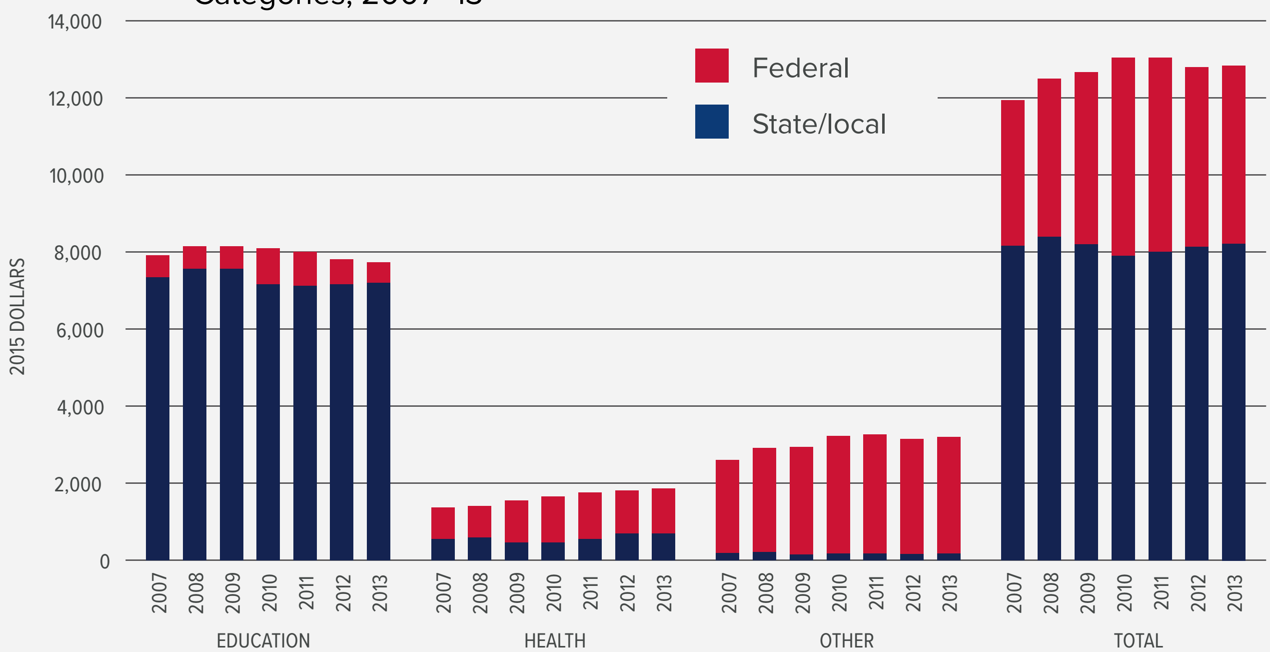
STATE AND LOCAL SPENDING ON CHILDREN

While *Kids' Share* focuses primarily on federal spending, state and local spending on children is a much larger share of government investments in children. In this section, we examine recent trends in state and local spending and what these trends, combined with federal spending, mean for children. Our spending estimates in this section include spending on education, health, income security, child care/support, and social services but exclude tax expenditures other than the EITC; there are no reliable nationwide estimates of state and local spending on child-related tax provisions other than the EITC.[9]

Federal spending on children rose during the recession at the same time as state budgets suffered from significant shortfalls and funding cuts. In fact, one purpose of ARRA was to support state and local governments, in addition to stimulating the national economy and providing assistance to families facing unemployment and poverty. State and local spending on children fell during the recession, declining by more than $500 per child between 2008 and 2010. Federal spending per child increased over the same period, by more than $1,000 per child. As a result, total spending for children actually rose during the recession: from $12,500 per child in 2008 to slightly over $13,000 per child in 2010, as shown in figure 5.

That total spending on children rose during the recession testifies to the success of ARRA and the ways some federal programs, such as Medicaid and SNAP, expand automatically in times of increased need. As the recession ended, trends in federal and state spending reversed. From 2011 to 2013 (the last year for which we have complete data), federal spending dropped by $443 to $4,613 per child, with the largest decrease in education. State and local governments made up less than half of this shortfall in federal funding, with the result that total spending per child fell between 2011 and 2013, by $240 per child.

FIGURE 5 Federal, State, and Local Spending per Child on Education, Health, and Other Categories, 2007–13



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and past years, the Rockefeller Institute of Government's State Funding for Children Database, and various sources.
NOTE: Tax expenditures are not included in these estimates.

EDUCATION SPENDING IN DECLINE

Education spending declined more than any other category of federal spending from 2014 to 2015. Federal spending on education was $41 billion in 2015, a decline of $1.5 billion from 2014. This is the lowest spending since 2002, when $35 billion was spent on education, and a major fall from its peak of $74 billion in 2010. Some decline from the ARRA years was to be expected, but it is notable that federal education spending remains 9 percent lower than in pre-recession 2008.

Meanwhile, state and local spending on education fell with the recession and has not picked back up. It dropped by $36 billion from 2008 to 2011, and only rose by $0.2 billion from 2011 to 2013. These aggregate trends also apply to per child spending on education. Education spending had the largest decline per child of any category of state and local spending from 2008 to 2013. Moreover, federal education spending is projected to have the greatest decline ($1.5 billion) from 2015 to 2026 of any category of federal spending. (State and local projections are not available.)

These trends are troubling given that education programs are key to ensuring children's well-being and future opportunity. While states and localities play the largest role in supporting K–12 education for all children, federal education spending promotes equity in children's opportunities. Federal education spending supports young children (who do not benefit from state K–12 spending), low-income children (who may be less served by states owing to the role of local property taxes in funding state education), and children with special needs (through special programs) (Edelstein et al. 2012; Vericker et al. 2012).

Federal programs can also promote equity across states, by filling spending gaps in states where education spending is lower.

State and local funding remains the major source of spending on children. Its share of total spending declined during the recession, as federal funds increased, and then rose following the recession, but not to previous levels. The share of funding from state and local sources declined from 71 to 72 percent in 1998–2001 to 61 percent in 2010–11, and then rose to 64 percent in 2012 and 2013.

State and local spending is driven by spending on public education, the largest form of public investment in children. In 2013, state and local governments spent $544 billion (in 2015 dollars) on public schools, more than total federal spending across all categories (education, health, tax provisions, etc.). The federal government spent $44 billion on education, or 8 cents of each education dollar—the same as in 2008 before the recession, but lower than the 11 cents in 2011 during the recession. Combined, federal, state, and local spending on education represents 60 percent of total spending on children. In contrast, from 1999 to 2001, education spending was 69 percent of total child spending. State and local governments also contribute significantly to health spending on children, though not as much as the federal government. The federal government funded 61 percent of health spending on children in 2013, with state governments funding the remaining 39 percent. This is down from a federal share ranging between 68 and 71 percent in 2009–11 owing to an enhanced federal match rate for Medicaid authorized by ARRA; in 2007–08, the federal share of health spending on children was 59 percent. In total, health spending accounted for 15 percent of total public investments in children in 2013—nearly double the 8 percent it accounted for in 1998.

Only 9 percent of non-health, non-education spending is funded by state and local governments. States and localities spend little on nutrition, housing, or training, and their contributions to income security, tax credits, child care, foster care, and social services, while important, are small relative to federal spending.

Trends in FEDERAL SPENDING

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

BROAD BUDGET TRENDS, 1960–2026

With the creation of new government programs and robust economic growth over the past half century, total federal outlays for all purposes, not just for children, have increased more than sixfold in real terms, from $580 billion in 1960 to about $3.7 trillion in 2015. Federal outlays peaked in 2009 at $3.85 trillion because the recession prompted increased spending. Following the recession, total federal outlays fell between 2011 and 2014 before rising slightly in 2015.

Outlays over the past five decades have grown most dramatically in Social Security, Medicare, and Medicaid spending on adults. Excluding amounts spent on children, by 2015 these programs expended $1.5 trillion, having grown from $66 billion in 1960 in real dollar terms. Overall spending on children has also grown in real dollar terms, though to a lesser degree, climbing from $19 billion in 1960 to $364 billion in 2015.

These patterns of growth can also be presented as percentages of GDP (figure 6). Federal outlays totaled 17 percent of GDP in 1960, and were a modestly higher 21 percent in 2015. Total federal outlays reached 24 percent during the peak of recession-related spending in 2009. The non-child portions of Social Security, Medicare, and Medicaid grew from 2 percent of GDP in 1960 to 9 percent in 2015. Thus, other programs generally declined. Defense spending, in particular, fell from 9.0 percent of GDP in 1960 to 2.9 percent in 2000, before rising to 3.3 percent in 2015. Spending on children nonetheless grew from a very small base of about 0.6 percent of GDP in 1960 to 2.0 percent in 2015, down from a peak of 2.5 percent in 2010.

The growth in total outlays is expected to continue under current law estimates; total federal spending will reach 23 percent of GDP in 2026, with spending on Social Security, Medicare, and Medicaid (excluding children) climbing above 10 percent. Federal outlays on children, however, are projected to continue to slowly decline as a share of the economy over the next decade, from 2.0 percent in 2015 to 1.8 percent in 2026. With rising debt and interest rates, interest payments are projected to increase substantially. Under current policies, spending on interest payments on the debt will exceed spending on children from 2019 onward, and by larger amounts each year.

While growth in health spending, particularly through Medicare and Medicaid, dominates federal spending, the projected rate of growth has slowed somewhat since the Affordable Care Act was implemented. A recent Urban Institute report comparing projections made in 2010 to those made in 2015 found "the United States continues to be on track to spend much less on health care over the next several years than projected in late 2010." The updated projections incorporate the Medicare Access and CHIP Reauthorization Act, which permanently eliminated the sustainable growth-rate system for setting physician payment rates in Medicare. The projections also reflect large declines in Medicare, Medicaid, private insurance, and other health spending projections (McMorrow and Holahan 2016).

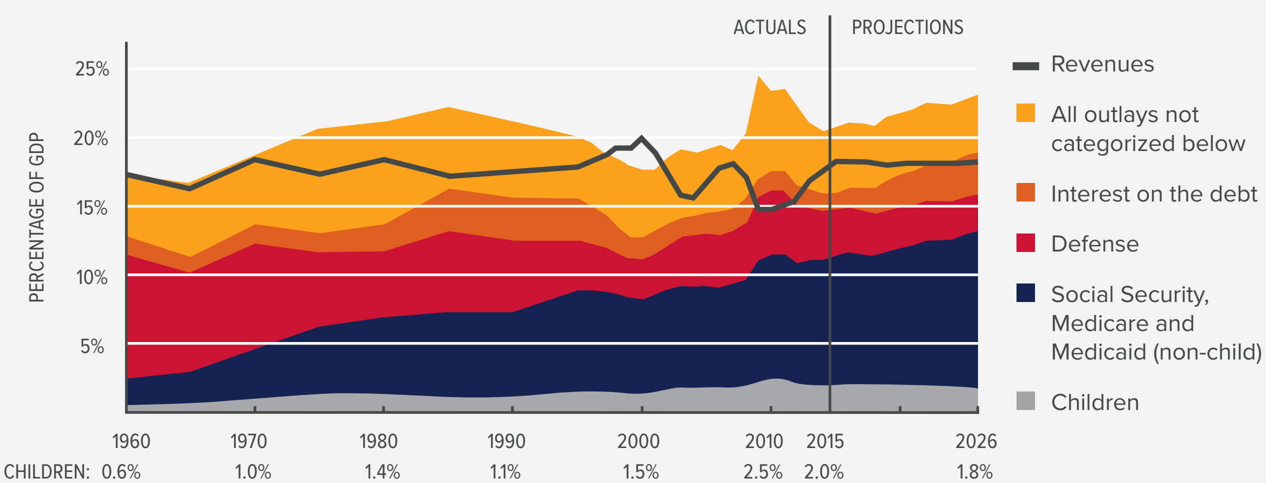
Nonetheless, as total outlays grow, revenues will fall below outlays in every year of the projected period, as they have since 2001. Between 1960 and 2000, federal outlays fluctuated between 17 and 22 percent of GDP, while federal revenues fluctuated between 16 and 20 percent of GDP. While outlays surpassed revenues in most years, the size of the deficit varied. For a few brief years (1998–2001), there was even a small surplus. This surplus vanished through a combination of factors: a substantial though temporary decline in revenues following the tax bill of 2001; increased spending on domestic priorities and, temporarily, on defense; and, during the recession, a dramatic growth in total federal spending in response to the increased needs of unemployed families, struggling industries, and cash-strapped states and localities.

In 2015, federal spending accounted for almost 21 percent of GDP, while revenues were just over 18 percent, leading to a deficit of 2.5 percent of GDP. While this deficit is below the record deficit at the height of the recession (10 percent of GDP in 2009), a structural imbalance between revenues and spending is projected to continue and widen over the next decade. While the spending restrictions required under the BCA are expected to reign in spending from what it otherwise would have been, spending is expected to somewhat increase nonetheless, further increasing the deficit and interest payments on the debt. Further measures to address spending—and revenues—are needed if the country is to reduce the size of the deficit relative to the economy. These broad changes to the federal budget are likely to have implications for children well beyond what is reported here.

Kids' Share of the Budget

Examining major categories of federal spending as percentages of the total federal budget further illuminates historical and predicted trends. Future increases in expenditures will continue to be dominated by the persistent historical trend of increased spending on health and retirement programs, unless current laws are changed. Figure 7 demonstrates how the growth in spending on the non-child portions of Social Security, Medicare, and Medicaid has coincided with decreases in the share of the budget devoted to other spending. Spending on these three programs as a share of the budget has steadily increased over the past half century, growing between 1960 and 2015 from about one-tenth (11 percent) to over two-fifths (45 percent) of the budget. Because these programs start from a higher base share of the economy every year, any percentage growth tends to take up larger and larger shares of any remainder. By 2026, nearly half the entire federal

FIGURE 6 Federal Outlays and Revenues as a Share of GDP, 1960–2026



SOURCE: Urban Institute, 2016. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2016–26.*
NOTE: The Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

budget (49 percent) will be spent on the non-child portions of Social Security, Medicare, and Medicaid; this growth extends continually beyond then.

The share of the federal budget allocated to children grew in fits and starts from 1960, when few federal programs were targeted to children and only 3.2 percent of total outlays were spent on children, to a peak of 10.7 percent in 2010. By 2015, the children's share of the budget had fallen to 9.9 percent. Budget projections suggest that the children's share of the budget will decline further in the future, shrinking to 7.7 percent by 2026.

Another important historical trend is the share of the budget spent on defense. This share fell dramatically between 1960 and 2000, from 52 to 16 percent of the budget. The drop in defense essentially financed the broad expansion of domestic programs without any significant increase in average tax rates. From 2003 through 2012, defense spending ranged between 19 and 20 percent, in response to the wars in Iraq and Afghanistan, before falling to 16 percent in 2015. Under BCA's caps, defense spending is projected to shrink further as a share of federal outlays to a post–World War II low of 12 percent in 2026.

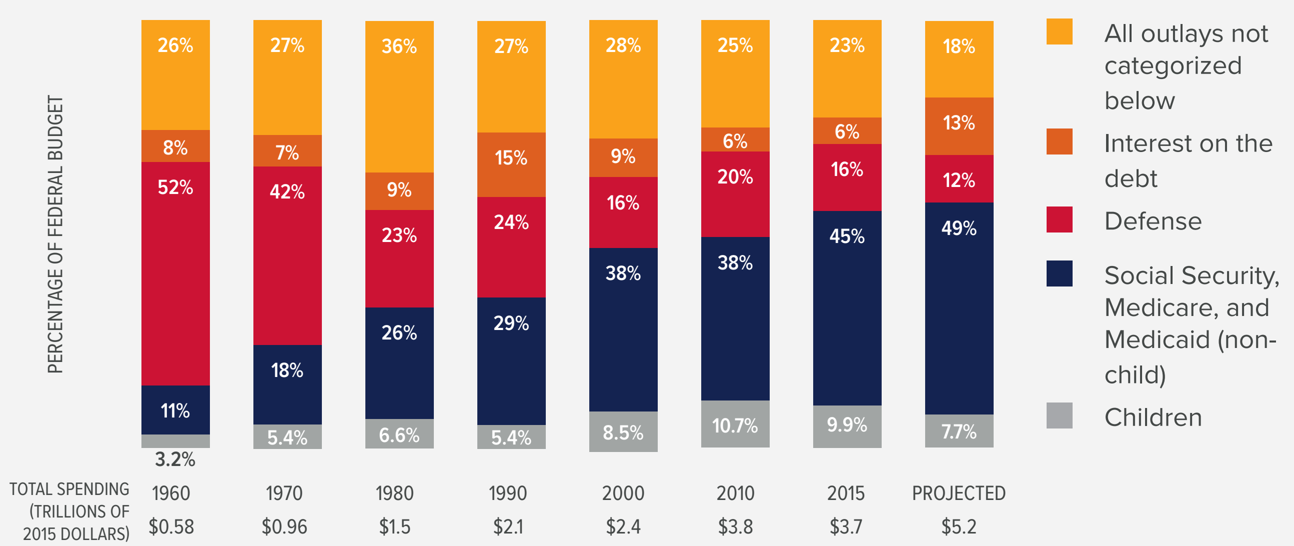
Interest payments are the other major portion of the budget, with significant growth projected into the future because of both continued deficits and projected rising interest rates. Interest payments on the debt fluctuated over the past half century and accounted for 6 percent of all budget outlays in 2015. They are projected to grow to 13 percent by 2026. As described earlier for spending as a share of GDP, spending on interest as a share of the federal budget is projected to exceed the share spent on children in 2019 and every year beyond then.

A residual category, which includes all other federal spending priorities such as agriculture, commerce, the environment, transportation, and veterans' benefits, accounted for about one-quarter to one-third of all government spending over the past several decades, but by 2015 represented just over one-fifth (23 percent) of all spending. Spending in this "other" category, including other discretionary spending subject to BCA caps, is projected to shrink to an all-time low of 18 percent of the budget by 2026.

Kids' Share of Budget Growth

Consider children's spending not as a share of the total, but as a share of the projected addition to its size and composition. Federal spending is projected to increase

FIGURE 7 Share of Federal Budget Outlays Spent on Children and Other Items, Selected Years, 1960–2026



SOURCE: Urban Institute, 2016. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2016–26*.

by nearly $1.5 trillion over the next 10 years, reaching $5.2 trillion in 2026. As shown in table 2 and figure 8, children's programs receive a very small portion of the dollar growth—just $33 billion, or 2 cents of every dollar of the projected increase. Only cost growth in health care pushes children into positive territory; non-health spending on children actually *decreases*.

The non-child portions of Medicare, Medicaid, and Social Security will consume 59 percent of the anticipated $1.5 trillion increase in federal spending between 2015 and 2026. Current law provides for significant growth in real health and Social Security benefits per person, even while an increasing share of the population becomes eligible for retirement and related health benefits: baby boomers began retiring in 2008, and the share of the population age 65 and older is projected to increase from 15 percent to 19 percent by 2026. Social Security and Medicaid are exempt from the BCA and Medicare is largely protected from it, so the growth of these programs is mostly unconstrained.

While these programs continue to grow, political resistance to raising revenues in order to cover spending remains. As a result, national debt grows, even with the spending constraints introduced by the BCA. With an increasingly higher national debt and higher expected interest rates, interest payments are projected to more than triple, from $223 billion in 2015 to more than $679 billion in 2026. Thus, almost one-third (31 percent) of the increase in federal outlays between 2015 and 2026 will go to interest payments on the national debt. Another 7 percent of the increase in spending supports programs in the broad "other" spending category.

Together, Social Security, Medicare, Medicaid, and interest on the debt essentially garner almost all the growth in spending, while everything else almost stagnates in dollar terms while declining as a share of the economy and the budget. Note that these budget projections assume that all non-defense discretionary spending programs are affected equally by the constraints of the BCA spending caps. Also, as we repeat continually, these are projections of where current law and current law trends lead. But laws and policies do not stay constant. At the same time, never before has so much of future spending been preordained by existing policies.

Kids' Share of the Population

The shrinking share of the budget that will be devoted to children's spending over the next 10 years is not explained by population trends: while the share of the population under age 19 will contract slightly, from 24 percent to 23 percent, children's relatively modest share of the budget will fall by close to a quarter (from 9.9 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

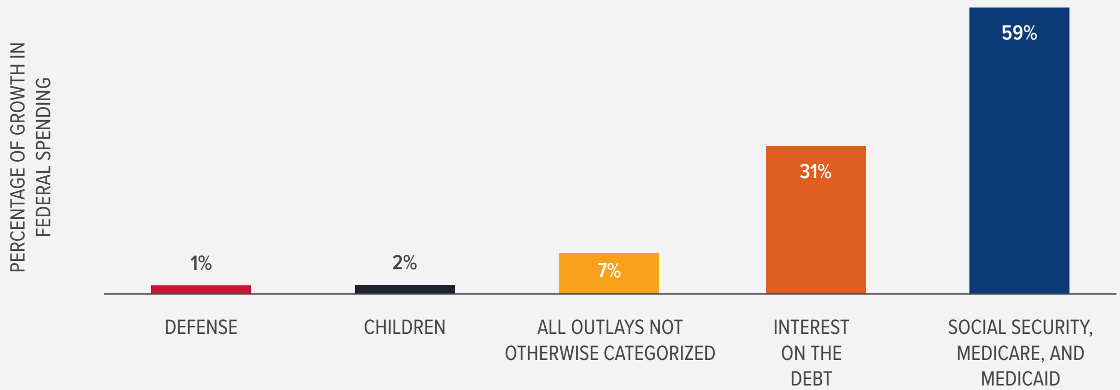
TABLE 2 Share of Projected Growth in Federal Outlays from 2015 to 2016 Going to Children and Other Major Budget Items

Major budget items	2015	Projected 2026	Growth (2015–26)	Share of Growth
Social Security, Medicare, and Medicaid	1,668	2,547	879	59%
Interest on the debt	223	679	456	31%
Children	364	397	33	2%
Defense	590	602	12	1%
All other outlays	844	947	103	7%
Total federal outlays	**3,688**	**5,172**	**1,484**	**100%**

SOURCE: Urban Institute, 2016. Authors' 2015 estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and authors' 2026 estimates based on CBO's *Updated Budget Projections: 2016–26*.

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

FIGURE 8 Share of Projected Growth in Federal Outlays from 2015 to 2016 Going to Children and Other Major Budget Items



SOURCE: Urban Institute, 2016. Authors' 2015 estimates based on the *Budget of the U.S. Government Fiscal Year 2017*; authors' 2026 estimates based on CBO's *Updated Budget Projections: 2016–26.*

NOTE: The Social Security, Medicare, and Medicaid category excludes spending already captured as children's spending.

the next 10 years. In comparison, overall per capita spending is projected to increase to a greater degree, by 29 percent.

SPENDING ON CHILDREN AND THE ELDERLY

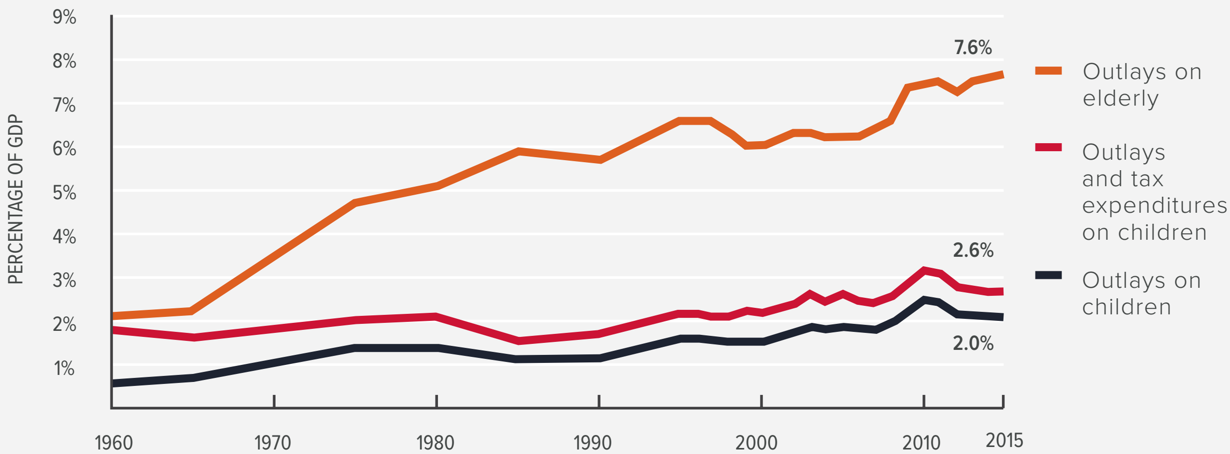
Though spending on children is the primary focus of *Kids' Share,* we also track trends in spending on the elderly, defined as those age 65 and older. Like children, the elderly are outside of the working-age population and thus more likely to rely on public or private support. Because of the payments for Social Security and Medicare, per capita spending on the elderly is significantly higher than per capita spending on children. As the baby boom generation reaches retirement, spending on the elderly has increased as a share of total federal spending and is expected to continue to do so in the near future, squeezing all other categories of the federal budget.

Federal spending on the elderly rose from 2.1 percent of GDP in 1960 to 7.6 of GDP in 2015. Over this same period, spending on children also rose, though from a much smaller base; outlays on children rose from 0.6 to 2.0 percent of GDP, and total expenditures on children, including tax expenditures, increased from 1.8 to 2.6 percent of GDP, as shown in figure 9. The inclusion of tax expenditures provides a more complete picture, but estimates on spending for the elderly are only available for the outlay side of the budget. Thus, most of this section focuses on outlays on children, to provide an apples-to-apples comparison with the estimates on spending for the elderly. However, the elderly benefit from important tax expenditures, including the whole or partial exclusion of Social Security and Medicare benefits and certain other pensions and retirement earnings from taxable income, as well as credits for the elderly or disabled.

Some of the growth in spending on the elderly is driven by the aging of the population; over the last five years, as the baby boomers began to retire, the number of elderly Americans grew by 18 percent. The share of the population age 65 or older increased between 1960 and 2015 from 9.2 to 14.9 percent. (By 2026, the share of the population that is elderly will reach 19.4 percent.) In addition, the past decades have seen a significant expansion of programs serving the elderly, including enactment of the Older Americans Act of 1965 and the establishment of Medicare and Medicaid in that same year, several legislative increases in Social Security benefits, and the indexing of benefits for each cohort of retirees to grow automatically as wages in the economy grow. Accordingly, federal spending on the elderly has increased significantly, from about $4,000 to more than $28,000 per capita between 1960 and 2015, in inflation-adjusted (2015) dollars.

Federal spending on children has also risen dramatically over this same period, from $278 to $4,673 per capita, in 2015 dollars. This has occurred while the share of the child population has fallen somewhat, from more than one-third in 1960 (37.2 percent) to less than one-quarter (24.2 percent) in 2015. That is, over the past 55 years, spending on both children and the elderly has increased, whether measured in absolute dollars, as a share of the economy, or per capita. As noted earlier, declines in spending on defense have helped

FIGURE 9 Federal Spending on Children and the Elderly as a Share of GDP, 1960–2015



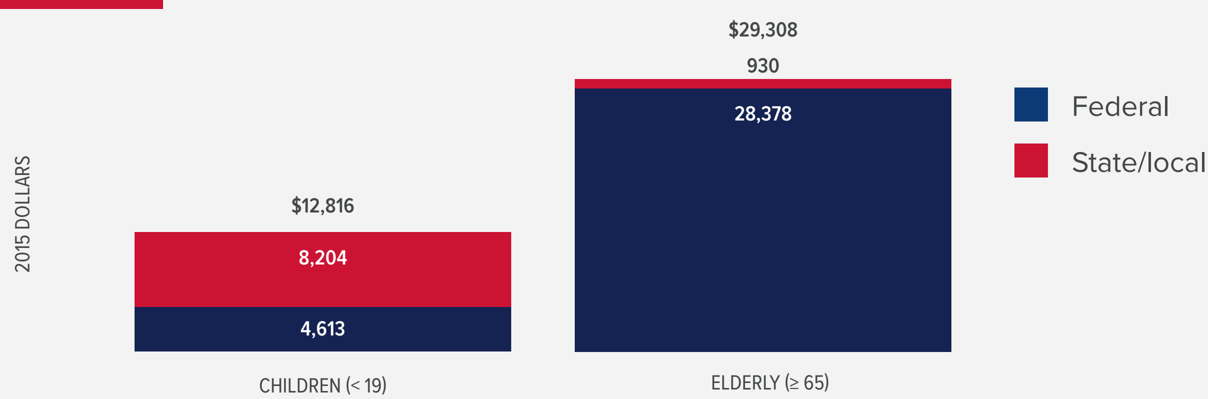
SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years and the Urban-Brookings Tax Policy Center Microsimulation Model.
NOTE: Estimates of tax expenditures on the elderly are not readily available.

allow higher spending on domestic priorities without significant increases in tax rates over the second half of the 20th century.

Though spending has increased for both children and the elderly, per capita spending on the elderly is much higher than per capita spending on children. The federal government spent $6 on the elderly for every $1 spent on children, whether measured in 2015 (the latest year for federal data) or 2013 (the latest year for state and local data, as shown in figure 10).

While the federal government spends considerably more per capita on the elderly than on children, states and localities disproportionately support children, especially through spending on public schools. The combined spending of federal, state, and local governments on the elderly ($29,308 per capita) was 2.3 times their combined spending on children ($12,816 per capita) in 2013. Health care expenses are a significant portion of public expenditures on the elderly—roughly $11,800 per person, compared to about $1,900 per child in 2013—but per capita spending on the elderly remains considerably higher than per capita spending on children even when health spending is excluded.

FIGURE 10 Per Capita Federal, State, and Local Spending on Children and the Elderly, 2013



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2015* and various sources.
NOTE: These estimates do not include tax expenditures.

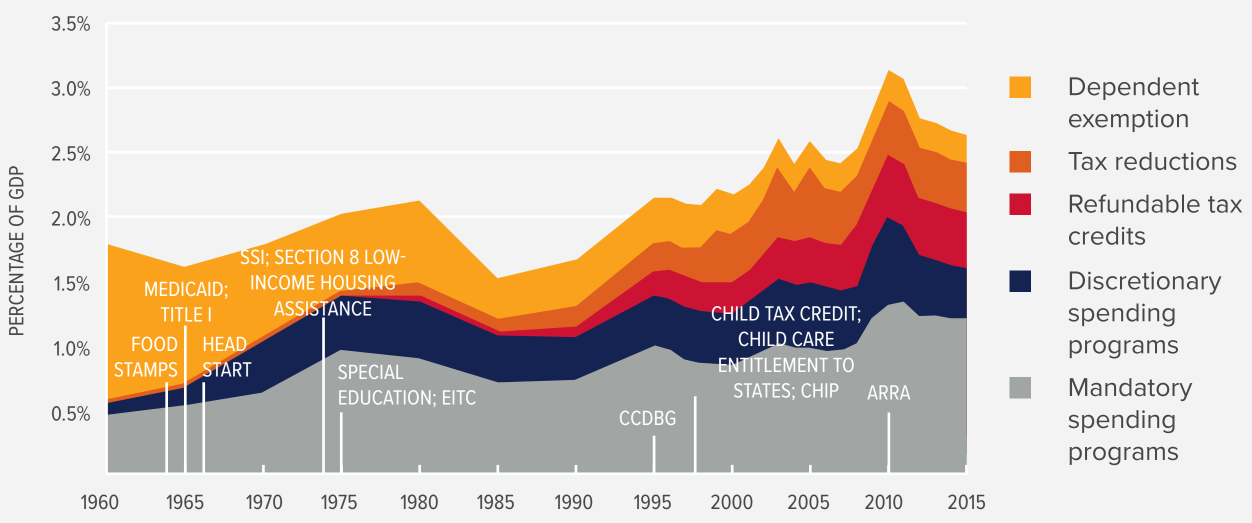
A Closer Look at Trends in Federal Expenditures *ON CHILDREN*

HISTORICAL EXPENDITURES ON CHILDREN, 1960–2015

Over the 1960s and early 1970s, federal outlays on children increased as a share of the economy as new programs and initiatives were introduced. With the adoption of food stamps (1964), Medicaid (1965), and SSI (1974), spending rose on entitlements and other mandatory programs. Spending increased over this same period on discretionary programs, with the introduction of Title I/Education for the Disadvantaged (1965), Head Start (1966), and Section 8/low-income housing assistance (1974), as shown in figure 11.

Discretionary spending on children remained relatively flat as a percentage of GDP from the mid-1970s through 2008, when discretionary spending increased temporarily in 2009–11 under the ARRA stimulus package. Mandatory spending on children has both grown and declined relative to the size of the economy over time. In the past 15 years or so, mandatory spending on children has trended upward, largely driven by increases in children's health spending as the Medicaid program expanded to serve more children and families, CHIP was introduced (1998), and medical costs rose rapidly apart from new programs being introduced. Mandatory spending increased sharply

FIGURE 11 Components of Federal Expenditures on Children, 1960–2015



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.

after 2009, owing to the combined effects of SNAP and Medicaid automatic expansions during the recession and additional expansions under ARRA. However, since 2011, mandatory spending has fallen somewhat, as the effects of the recession and ARRA have subsided.

Since the late 1980s, tax credits have played a growing role in providing federal support for children. The EITC, originally enacted in 1975, was expanded significantly in 1986, 1990, and 1993, and modestly in other years, while the child tax credit was introduced in 1997 and then doubled in nominal size in the early 2000s. Both the refundable portion of these tax credits (cash payments provided to working families without a net tax liability) and the tax expenditure portion (the reduction in taxes to families with higher taxable incomes) have grown substantially over the past three decades. Spending on refundable tax credits grew to an even larger share of the economy during the recession.

While spending on refundable tax credits has fallen from its 2010 peak, it remained above pre-recession levels in 2015. Expenditures for reductions in taxes, on the other hand, remained relatively flat through the recession years.

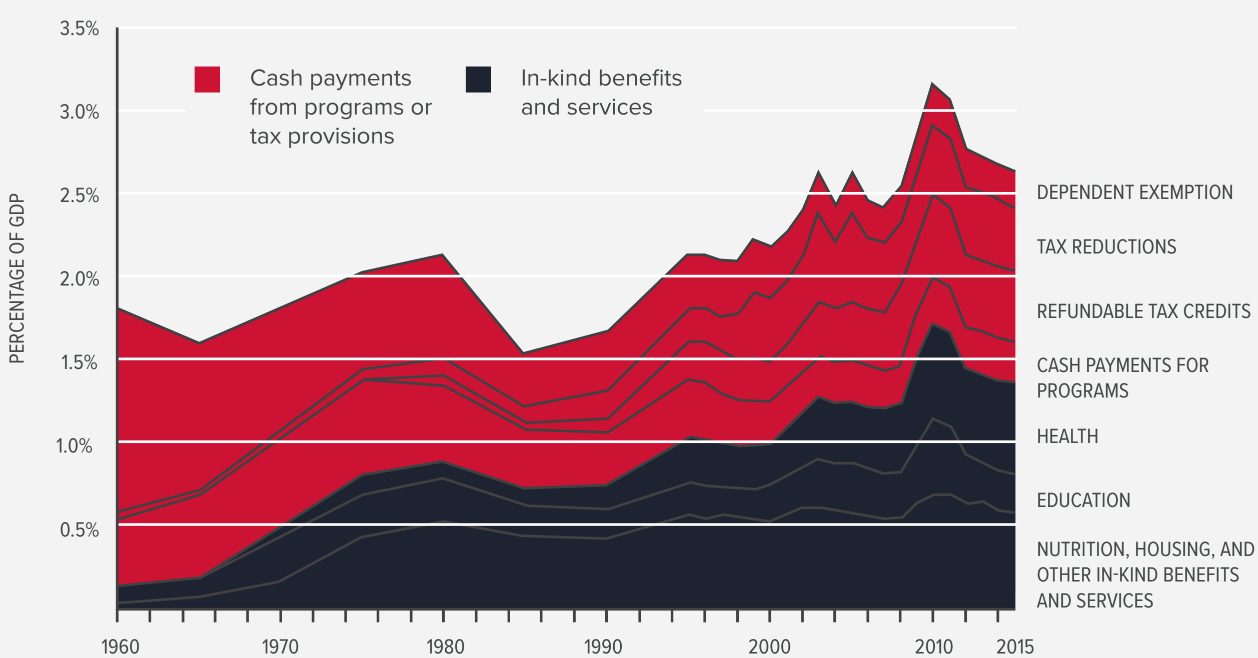
The child tax credit and other tax expenditures have grown, however, against the backdrop of a large decline in estimated expenditures associated with the dependent exemption. The decline was particularly dramatic between 1960 and 1985, but it has continued since then. In fact, the combined value of all tax provisions benefiting children (refundable tax credits, tax expenditures, and the dependent exemption) as a share of GDP was lower in 2015 than it was in 1960 (1.0 percent compared to 1.2 percent). The long-term decline in the dependent exemption should be interpreted with some care. Some of the decline reflects the eroding value of the exemption amount, which remained a flat $600 from 1948 to 1969 and, although increased by legislation to $2,000 by 1988, was not indexed to inflation until after 1984. However, some change in expenditures on the dependent exemption results from overall reductions and increases in tax rates. Since the dependent exemption reduces taxable income, its value is determined by the tax rate facing the taxpayers claiming the exemption. Thus, the dependent exemption provides less benefit to low-income families than to higher-income families. It also provides less benefit when tax rates are reduced across the board, as in 2001, and more benefit when growing incomes reach tax brackets with higher rates through what is called bracket creep.[10]

Cash Payments and In-Kind Benefits and Services

Federal spending also has shifted in terms of how support is delivered. The most common ways government supported children in the 1960s were through cash payments to parents on behalf of their children and reductions in taxes; in 1960, just 8 percent of all benefits were in-kind supports (for example, health, education, housing, and nutrition benefits). Over time, as new programs providing in-kind benefits and services were introduced, non-cash benefits became an increasingly important share of the supports provided to children, as shown in figure 12. By the mid-1990s, in-kind benefits and services accounted for roughly half of all expenditures on children. This trend accelerated during the recent recession, as recession-related participation in programs like Medicaid (providing health services) and SNAP (providing food) sharply increased spending for children through in-kind supports. After peaking at 55 percent of total expenditures on children and 1.7 percent of the economy in 2011, in-kind supports have fallen again both as a share of total expenditures on children and as a share of GDP. Still, they accounted for over half of total expenditures on children in 2015.

Almost all tax code benefits for children come in the form of cash—either direct payments or tax reductions. The two main tax credits, the EITC and the child tax credit, provided nearly $112 billion in support to families with children in 2015, including $75 billion in refundable tax credits and $36 billion in tax reductions.

FIGURE 12 Federal Cash and In-Kind Expenditures on Children, 1960–2015



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.

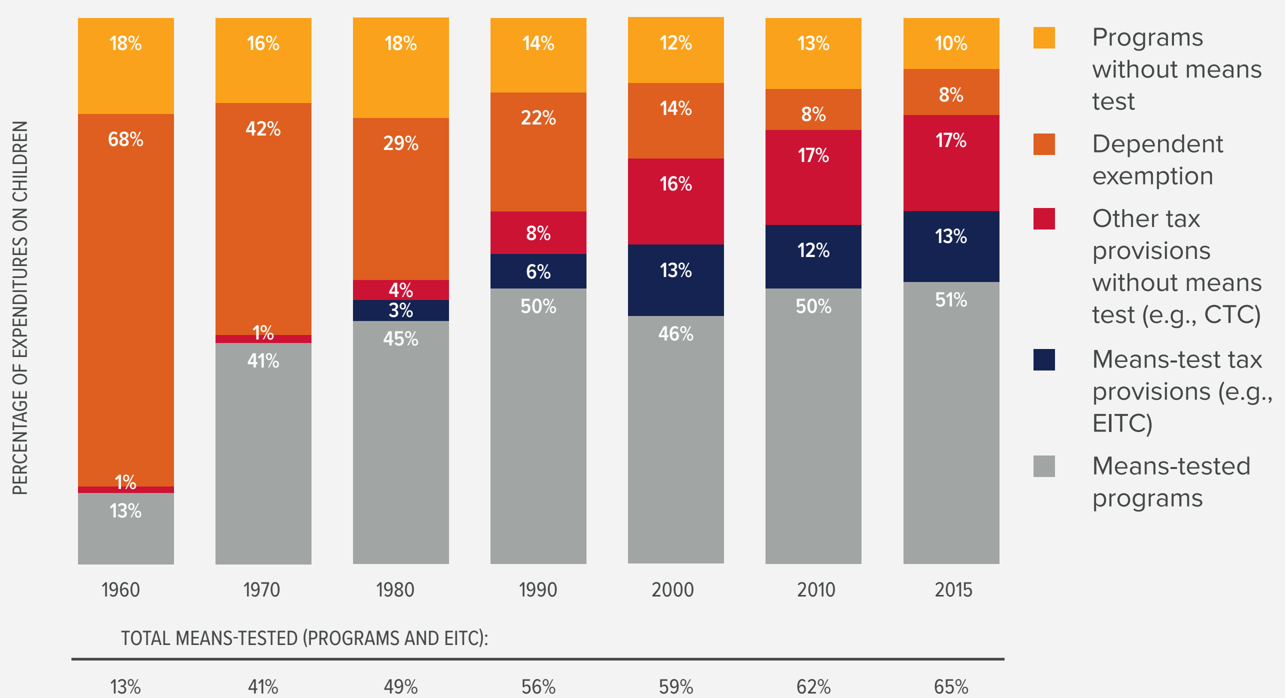
Means Testing of Children's Programs and Tax Provisions

How children receive supports has changed over time. In addition, *which* children receive supports has changed (figure 13). In 1960, most children's expenditures were for survivors' and dependents' benefits under Social Security, the dependent exemption, and other benefits available to all children regardless of family income (that is, they were not targeted to low-income children). The focus of children's spending changed as new federal programs such as food stamps, Medicaid, and SSI payments to disabled children were introduced to serve low-income populations. By 1980, half (49 percent) of total federal expenditures were on programs and tax provisions that were means tested—that is, available only to families below a certain level of financial means.

Since then, expenditures on means-tested programs and tax provisions have continued to rise as a share of total expenditures on children, although the mix between programs and tax provisions has fluctuated. In 2015, 65 percent of total expenditures on children were made through means-tested spending programs (over 51 percent) and means-tested tax provisions (over 13 percent). Growth in the means-tested share of the total since 2000 has been driven largely by the effects of the recession on family income and the ARRA expansions of SNAP, the EITC, Medicaid, and other programs assisting families in financial need.

The data can be parsed different ways if "means testing" is applied additionally to programs that phase out at higher incomes. For example, the child tax credit is not counted among means-tested programs in this analysis because it starts phasing out only at higher incomes.[11] In addition, the key health programs—Medicaid and CHIP—are still counted as means tested in our analysis but today have been made available to children higher up the income ladder than in the past. The subsidy for health insurance bought on the exchange (i.e., the premium tax credit) starts phasing out at moderate incomes, even though it is available up to about four

FIGURE 13 Means Testing of Federal Children's Programs and Tax Provisions, 1960–2015



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.

times the federal poverty level. It is therefore counted as means tested; its spending on children is much smaller than Medicaid's and CHIP's, however.

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

Historical Spending on Children by Program and Category

As shown in table 3, which details federal expenditures on children from 1960 to 2015 by category and program, many major programs of today did not exist in 1960. Early education and care, social services, and housing programs rose from $0 in 1960 to $13 billion, $10 billion, and $9 billion respectively in 2015. Refundable portions of tax credits now have $77 billion in spending, and tax expenditures went from under $1 billion to $68 billion. Health spending has risen most dramatically, from $0.2 billion in 1960 to $98 billion in 2015. Among large programs, the dependent exemption has declined, discussed above in more detail.

TABLE 3 Federal Expenditures on Children by Category and Program, Selected Years, 1960–2015 (billions of 2015 dollars)

		1960	1980	2000	2010	2015
1.	**Health**	0.2	7.4	35.7	93.5	97.6
	Medicaid	--	6.6	31.8	79.2	82.8
	CHIP	--	--	1.6	8.2	8.9
	Vaccines for children	--	--	0.7	3.8	3.8
	Other health	0.2	0.7	1.5	2.2	2.1
2.	**Nutrition**	**1.5**	**21.8**	**30.0**	**59.0**	**59.7**
	SNAP (food stamps)	--	11.4	13.0	35.1	33.2
	Child nutrition	1.5	8.9	12.3	17.7	20.9
	Special Supplemental food (WIC)	--	1.5	4.6	6.2	5.6
3.	**Income Security**	**14.1**	**32.6**	**45.0**	**56.2**	**55.3**
	Social Security	6.8	17.1	18.0	21.7	21.0
	Temporary Assistance for Needy Families	4.7	10.6	15.4	16.7	12.7
	Supplemental Security Income	--	0.9	6.5	10.7	11.2
	Veterans compensation (disability compensation)	1.0	1.4	1.6	2.8	5.9
	Child support enforcement	--	0.9	4.3	4.8	4.0
	Other income security	1.7	1.7	-0.8	-0.3	0.4

		1960	1980	2000	2010	2015
4.	**Education**	**2.9**	**18.1**	**29.4**	**74.0**	**40.7**
	Education for the Disadvantaged (Title I, Part A)	--	8.1	11.5	21.2	15.2
	Special education/IDEA	--	2.1	6.7	18.8	12.3
	School improvement	--	2.0	3.4	5.8	4.3
	Innovation and improvement	--	--	--	1.1	1.5
	Impact Aid	1.6	1.7	1.2	1.3	1.4
	Dependents' schools abroad	0.2	0.9	1.2	1.3	1.1
	Other education	0.1	2.4	3.8	24.5	4.9
5.	**Early Education and Care**	**--**	**2.0**	**10.4**	**15.0**	**13.5**
	Head Start (including Early Head Start)	--	2.0	6.0	8.7	8.3
	Child Care and Development Fund	--	--	4.4	6.4	5.1
6.	**Social Services**	**--**	**4.5**	**10.4**	**10.8**	**9.7**
	Foster care	--	0.7	5.9	4.8	4.6
	Adoption assistance	--	--	0.2	2.6	2.4
	Other social services	--	3.7	4.3	3.5	2.7
7.	**Housing**	**--**	**2.7**	**8.1**	**10.4**	**9.3**
	Section 8 low-income housing assistance	--	1.4	6.3	7.7	7.4
	Low-rent public housing	--	0.5	1.1	1.3	1.1
	Other housing	--	0.8	0.7	1.4	0.8
8.	**Training**	**--**	**6.2**	**1.4**	**2.2**	**1.2**
9.	**Refundable Portions of Tax Credits**	**--**	**3.0**	**33.4**	**79.3**	**76.7**
	Earned Income Tax Credit	--	3.0	32.3	53.2	54.9
	Child Tax Credit	--	--	1.1	24.6	20.6
	Other refundable tax credits	--	--	--	1.5	1.3
10.	**Tax Expenditures**	**0.7**	**7.5**	**51.9**	**67.2**	**68.0**
	Exclusion for employer-sponsored health insurance	NA	4.0	13.5	21.0	22.6
	Child Tax Credit (nonrefundable portion)	--	--	26.0	32.4	29.0
	Earned Income Tax Credit (nonrefundable portion)	--	1.7	5.8	5.1	7.1
	Dependent care credit	--	--	3.1	3.7	4.4
	Other tax expenditures	0.7	1.8	3.5	5.0	4.9
11.	**Dependent Exemption**	**41.1**	**44.3**	**42.0**	**38.9**	**39.5**
TOTAL EXPENDITURES ON CHILDREN		**60.4**	**150.1**	**297.6**	**506.5**	**471.2**
OUTLAYS SUBTOTAL (1–9)		18.7	98.3	203.8	400.5	363.7
TAX EXPENDITURES SUBTOTAL (10–11)		41.8	51.8	93.8	106.1	107.4

SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.
NOTE: See table 1 for list of programs included in other health, other education, and so on. NA Estimate not available.
-- Program did not exist.

FUTURE EXPENDITURES ON CHILDREN

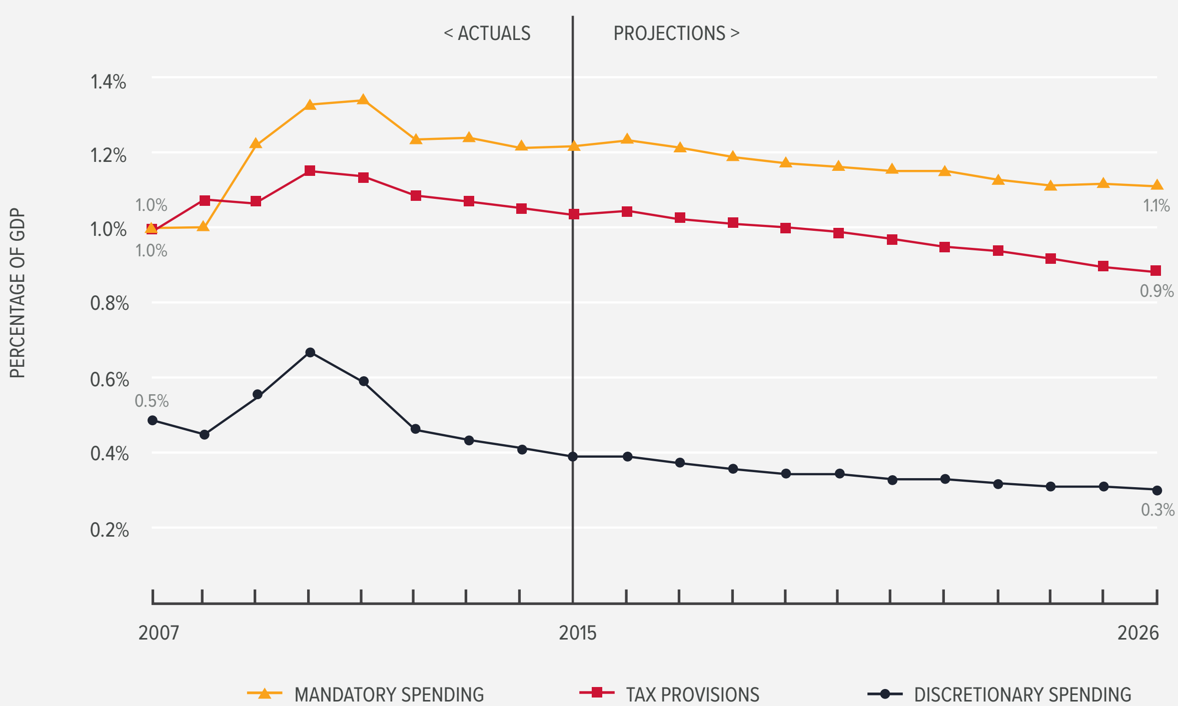
This section examines future spending on children in more detail. Our projections follow the Congressional Budget Office's assumptions in constructing a baseline budget, supplemented by tax projections from the Urban-Brookings Tax Policy Center and other sources, and our own assumptions about the shares of individual programs allocated to children (see appendix).

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 2.6 percent of GDP in 2015 to 2.3 percent in 2026. This is below the 2.4 percent level in 2007, before the recession. 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 2026 (figure 14). As a share of GDP, discretionary spending on children is projected to decline by 23 percent by 2026, tax provisions by 15 percent, and mandatory spending by 9 percent. Funding for discretionary programs is set annually by congressional actions, whereas tax provisions and mandatory spending are generally governed by both program rules (e.g., benefit or tax parameters) and the number of qualifying families applying for services.

The sharpest projected decline, particularly relative to GDP, in expenditures on children is in discretionary spending programs, which compete annually for funding and are constrained by caps set in the BCA. These programs include special education and other federal K–12 education programs, Head Start and other

FIGURE 14 Federal Expenditures on Children as a Share of GDP by Spending Type, 2007–26



SOURCE: Urban Institute, 2016. Authors' estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years.
NOTES: See table 1 for list of programs included in other health, other education, and so on. NA Estimate not available.
-- Program did not exist.

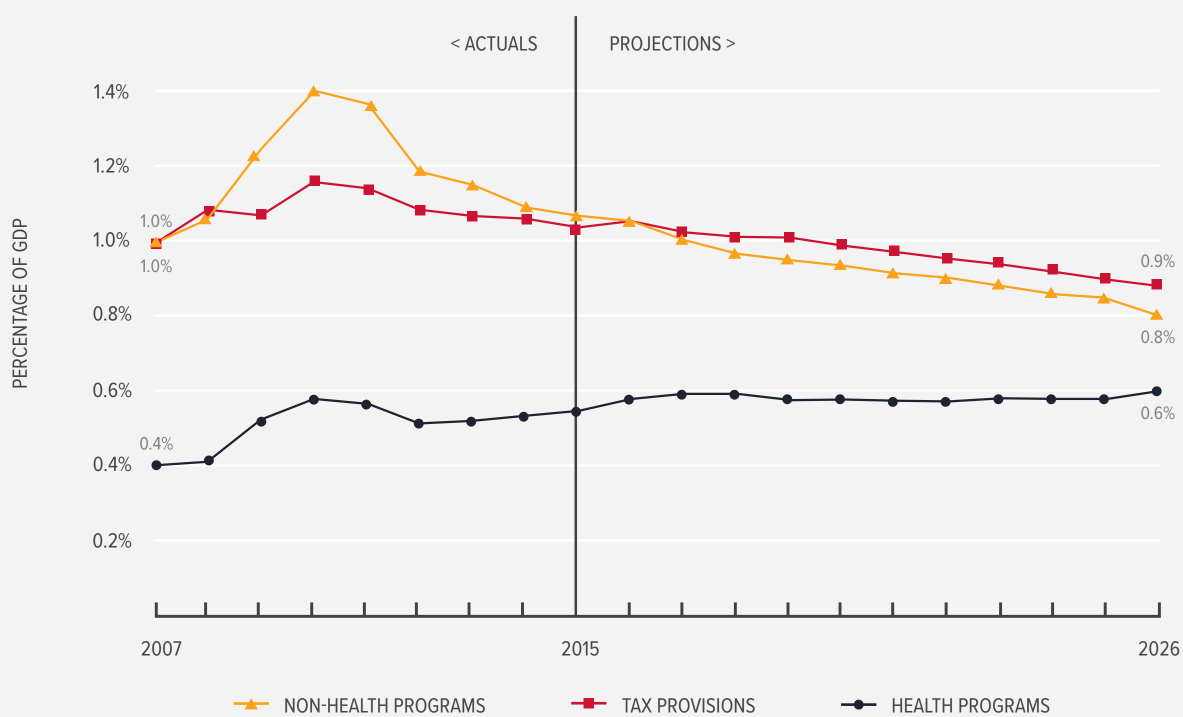
early education and care, the youth share of Job Corps and other training programs, the children's share of housing benefits, WIC, and child abuse prevention and other social service programs. The downward trend, apparent since at least 2007, was temporarily hidden by ARRA's increased appropriations for education, early education and care, and other discretionary programs.

Child-related tax credits and most mandatory programs affecting children are exempt from the BCA. Even so, spending on tax provisions related to children is projected to decline as a share of the economy from 2015 to 2026. 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 projected to remain a higher percentage of GDP in 2026 than it was in 2007, before the recession.

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 15, spending on non-health programs is projected to decline from 1.1 percent of GDP in 2015 to 0.8 percent in 2026. Tax provisions (outlays and tax reductions) are projected to decline to an only slightly lesser degree, from 1.0 percent of GDP in 2015 to 0.9 percent in 2026. Conversely, federal spending on health programs for children is projected to increase from 0.5 percent of GDP in 2015 to 0.6 percent in 2026.

FIGURE 15 Federal Expenditures on Children as a Share of GDP, Health and Non-health Programs and Tax Provisions, 2007–26



SOURCE: Urban Institute, 2016. Authors' current and historical estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years; authors' projected estimates based on CBO's *Updated Budget Projections: 2016–26* and the Urban-Brookings Tax Policy Center Microsimulation Model.

The growth in health spending will be driven almost entirely by growth in Medicaid spending on children, which is projected to rise from $83 billion in 2015 to $118 billion in 2026. (This includes spending on disabled children younger than 19 and an allocated portion of Medicaid 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. Many parents' new eligibility for Medicaid may also increase coverage for eligible uninsured children. The growth in health spending shown in figure 15 does not include growth in health-related tax provisions from 2015 to 2026, such as the children's share of the exclusion from tax of employer-sponsored health insurance, which is projected to grow from $23 billion to $31 billion, or the children's share of the premium tax credit for insurance bought on the exchange, projected to rise from less than half a billion to $6 billion.

Projected Expenditures on Children by Category

Considering projected expenditures among more detailed categories (such as education, nutrition, and health), expenditures on children are expected to decline as a share of the economy between 2015 and 2026 across all spending categories except health (figure 16). Over the next decade, nutrition, education, early education and care, social services and training, and housing will each decline by over 20 percent, when measured as a percentage of GDP.

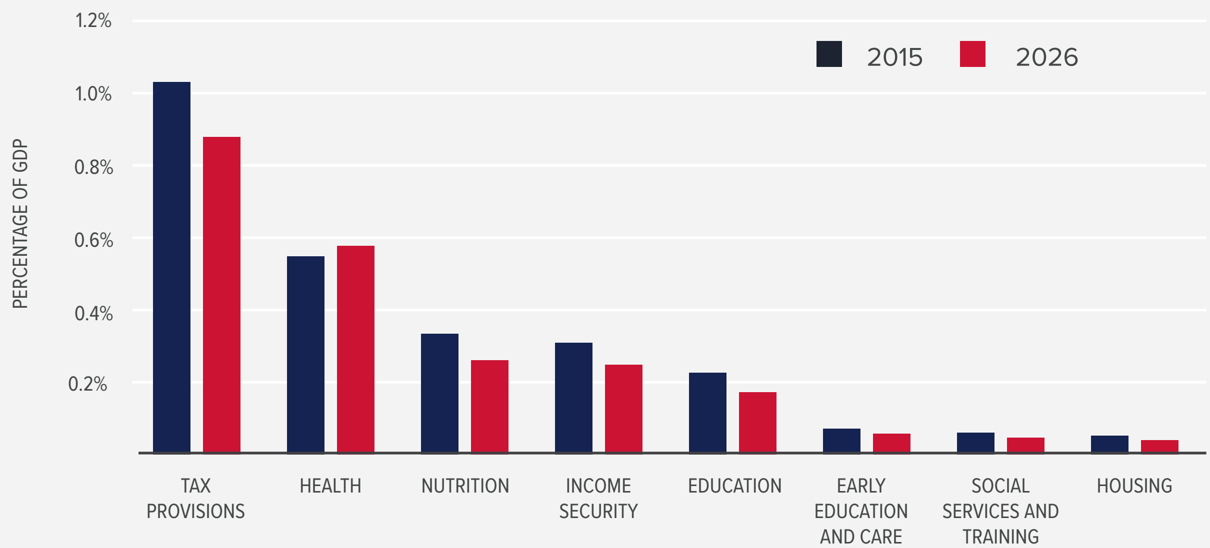
The largest projected decline is in federal funding for K–12 education. Education spending is projected to fall not only as a share of GDP but also in real dollars, from $41 billion in 2015 to $39 billion in 2026, as shown in table 4. Federal education spending on programs such as Title I/Education for the Disadvantaged and special education will fall in part because of 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, early education and care spending is projected to decline by 24 percent as a share of GDP and $0.6 billion in real dollars. Similarly, child-related spending on nutrition programs is projected to decline by 21 percent as a share of GDP and by $0.7 billion in real dollars. Most of the nutrition program decline reflects SNAP caseloads declining in the wake of the recession. Proportionally similar declines are projected in the much smaller categories of social services and training (e.g., child welfare and the youth portions of job training programs) and housing.

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 and not in billions of real dollars. The refundable portion of tax credits is projected to drop by 17 percent relative to GDP. Tax reductions (excluding refundable portions of credits) will decline by 13 percent relative to GDP by 2026. 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.

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 SSI 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.)

FIGURE 16 Federal Expenditures on Children as a Share of GDP, by Category, 2015 and 2026



SOURCE: Urban Institute, 2016. Authors' 2015 estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years; authors' 2026 estimates based on CBO's *Updated Budget Projections: 2016–26* and the Urban-Brookings Tax Policy Center Microsimulation Model.

TABLE 4 Federal Expenditures on Children as a Share of GDP and in Real Dollars, by Category, 2015 and 2026

	As a Share of GDP			In Billions of 2015 Dollars		
Category of Spending	**2015**	**2026**	**Percent Change**	**2015**	**2026**	**Dollar Change**
Health	0.55%	0.58%	6%	98	130	32
Nutrition	0.34%	0.26%	-21%	60	59	-1
Income security	0.31%	0.25%	-19%	55	56	1
Education	0.23%	0.17%	-23%	41	39	-1
Early education and care	0.08%	0.06%	-24%	13	13	-1
Social services and training	0.06%	0.05%	-21%	11	11	*
Housing	0.05%	0.04%	-22%	9	9	-0.1
Refundable Portions of Tax Credits	0.44%	0.37%	-17%	77	79	2
Tax Expenditures	0.59%	0.51%	-13%	107	118	11
Total expenditures	2.6%	2.3%	-13%	471	515	44
Total outlays (all but tax expenditures)	2.1%	1.8%	-13%	364	397	33

SOURCE: Urban Institute, 2016. Authors' 2015 estimates based on the *Budget of the U.S. Government Fiscal Year 2017* and past years; authors' 2026 estimates based on CBO's *Updated Budget Projections: 2016–26* and the Urban-Brookings Tax Policy Center Microsimulation Model.

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

* Less than 500,000.

CONCLUSION

Federal expenditures on children have changed little over the past four years, despite 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 EITC.

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 a growing share of the budget is committed to health and retirement entitlement programs, freeing up discretionary funding to expand beyond existing limits and caps is harder and harder. Additionally, spending outstrips revenues every year, contributing to a growing national debt, an increasing share of the budget spent on interest payments, and the likelihood of further deficit reduction that could affect all programs, including those for children.

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 annual series of *Kids' Share* reports is to measure and track how such budget packages, in combination with annual appropriations bills and legislation introducing or amending individual children's programs or tax provisions, affect the 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 2017 (OMB 2016) and prior years, drawing on its *Appendix* volume 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 estimating spending on the elderly, state and local estimates, future projections, and methodological changes made in this year's report. Further details regarding methods are available in *Data Appendix to* Kids' Share 2016 (Steele et al. 2016).

DEFINING AND IDENTIFYING PROGRAMS BENEFITING CHILDREN

Like all budget exercises that allocate spending to categories, defining spending that goes to children is a complex task that could 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, discerning who benefits from spending is more difficult. For example, how should one determine the amount of refundable tax credits, such as the EITC, distributed to adults rather than to children? Calculating spending on children requires a concrete and consistent set of rules and assumptions.

For this study, childhood is defined as extending from the child's date of birth until his or her 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 birthdays, so we do not include 18-year-olds in these cases. Those programs are noted in *Data Appendix to* Kids' Share 2016 (Steele et al. 2016).

To be included in this analysis, a program (as a whole or in part) must meet at least one of the following criteria:

- benefits or services are provided entirely to children (e.g., K–12 education programs, Head Start), or 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 if they have 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 because 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 for 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 EITC and the child tax credit paid out to families as a tax refund (and treated by the Treasury Department as outlays rather than as reductions in tax liabilities), as well as the outlay portions of 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 non-refundable 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 2017* (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 2015 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 each program's share of spending going to children 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 directly serve 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 that provide families benefits 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 must occasionally contact federal agency staff directly to obtain participation data. Using the best data available, we then 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.

METHODS FOR SPENDING ON THE ELDERLY

While *Kids' Share* focuses on federal expenditures on children, we also have developed rough estimates of spending on the elderly, namely, spending in 16 programs: Social Security, Medicare, Medicaid, SSI, SNAP, Veterans Benefits, Railroad Retirement, unemployment compensation, Federal Civilian Retirement, Military Retirement, Special Benefits for Coal Miners, Veterans Medical Care, annuitants' health benefits, housing, the Administration for Community Living (previously the Administration of Aging), and the Low Income Home Energy Assistance Program. As with the methodology for children, we estimate the share of the program that goes to the elderly population; for example, we subtract spending on children and 18- to 64-year-old disabled adults to estimate the elderly's share of spending for Social Security, Medicare, and Medicaid. In this year's report, we expanded programs and refined our sources for analysis of spending on the elderly, including adding Railroad Retirement, unemployment, and certain veterans' benefits.

METHODS FOR STATE AND LOCAL ESTIMATES

Although this report focuses on federal expenditures on children, it also estimates state and local spending on children for 1998 to 2013. Estimates for 1998 to 2008 are drawn from the Rockefeller Institute of Government's State Funding for Children Database, as described by Billen and colleagues (2007); estimates for 2009 to 2013 are by the *Kids' Share* authors. Both sets of estimates focus on state and local expenditures for K–12 education; Medicaid and six other major federal programs (CHIP, Maternal and Child Health Block Grants, TANF, child support enforcement, child care and child welfare); and state earned income tax credits. Separate state programs are included to the extent that they appear in federal reporting requirements. Specifically, TANF separate state programs are included, state education spending on prekindergarten is included, and state health, child care, and child welfare spending is included to the extent it is claimed as maintenance of effort or matching under federal health, child care, TANF, or child care programs. However, with the exception of state earned income tax credits, state-only spending not associated with or appearing in federal reporting is not included. One exception is state earned income tax credits, which are included. Spending on territories was not counted in the state and local estimates. Note that the annual reporting period for these estimates varies, from a school year (July 2012–June 2013) for education programs to the federal fiscal year (October 2014–September 2013) for major federal programs to the calendar year for the earned income tax credits.

Most of these programs were assumed to spend 100 percent on children; the exceptions are Medicaid, TANF, and CHIP. The "kids' share" of these programs was estimated on a state-by-state basis for 1998–2008 and 2013, but on an aggregate basis (i.e., one estimate for the entire nation) for 2009–2012.

Data sources for the 2009–2013 estimates are as follows. State and local spending on K–12 education are based on the US Census Bureau's Annual Survey of School System Finances. Medicaid spending on children is estimated from unpublished tabulations of Medicaid claims (MSIS data), by state and age, generated by the Urban Institute's Health Policy Center for this project. State spending on other major federal programs is drawn from the websites and reports of various federal agencies. State spending on state earned income tax credits is based on information from the IRS compiled by the Urban-Brookings Tax Policy Center.

METHODS FOR PROJECTIONS

To predict future spending trends for children, we primarily use the Congressional Budget Office's *Updated Budget Projections: 2016 to 2026.* 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 subject to BCA spending caps), 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 also assumed to continue.

For discretionary spending, the CBO traditionally uses a baseline assumption that spending is kept constant in real terms—that is, spending is adjusted for inflation. However, for 2016 through 2021, the CBO baseline is adjusted downward to reflect caps on defense and non-defense spending as established by the BCA and subsequent amendments.

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 EITC, 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 from *Analytical Perspectives* and then apply the projections' average growth rate 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 2016 to 2026. The exception is that we use the CBO's detailed projections by age group for Medicaid, Social Security, and SSI. We do not publish program-specific projections because they are somewhat tentative, but we are able to provide broad statements about future spending on children's as a whole and in broad budget categories, such as health and education.

CHANGES IN METHODS IN THIS YEAR'S REPORT

In this year's *Kids' Share,* we revised our estimates of the federal costs related to child support enforcement to include incentive payments to states and access and visitation grants. We updated historical outlays to reflect this change. We also revised the way we display spending on child support and AFDC/TANF. Previously, AFDC/ TANF spending was shown as a net expenditure, after accounting for offsetting child support collections retained by the federal government; we now show gross AFDC/TANF spending (including the TANF block grant and contingency funds), with the federal share of child support collections shown as a separate negative expenditure.

We slightly changed our methodology for assessing the children's share of Affordable Care Act provisions. Specifically, the premium tax credit, a tax credit with both refundable and non-refundable portions that helps families pay for health insurance on the insurance marketplace, is now classified as a tax provision rather than a health provision, consistent with our treatment of other tax provisions.

This year we reviewed and extended our estimates of spending on the elderly to estimate expenditures through 2015. Previously, we had estimated such spending on a two-year lag reflecting the latest year in which actual Medicaid, Medicare, and SSI spending on the elderly estimates were available (e.g., 2013). This year, we developed methods for projecting spending on the elderly to 2015. Other updates to our methodology for spending on the elderly include adding unemployment compensation, Railroad Retirement, and some housing programs, and developing improved sources for various programs.

We also reviewed and refined our estimates on state and local spending, drawing on a second grant from the Annie E. Casey Foundation that allowed us to estimate state and local spending on a state-by-state basis for 2013. In the process, we discovered and corrected small errors in our historical estimates. Specifically, we corrected our importing of 1998–2008 data from the Rockefeller Institute of Government's State Funding for Children Database to incorporate negative spending adjustments required to replicate the database's estimated totals. These negative adjustments, which total approximately $1.7 to $1.9 billion annually in nominal dollars, or 0.5 percent of total state and local spending, account for child support collections retained by states and child care spending that is counted twice (toward both CCDF and TANF). We also revised our TANF and child support estimates for 2009–2011 by subtracting child support collections states retained in that period, subtracting child support administrative costs that were funded by federal incentive payments rather than state and local sources, and excluding the portion of TANF benefits paid to adults (which had been left in our TANF estimates inadvertently).

REFERENCES

Billen, Patricia L., Donald Boyd, Lucy Dadayan, and Thomas Gais. 2007. *State Funding for Children: Spending in 2004 and How It Changed from Earlier Years*. Albany, NY: Nelson A. Rockefeller Institute of Government.

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). 2000. *Federal Spending on the Elderly and Children*. Washington, DC: CBO. https://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/23xx/doc2300/fsec.pdf.

———. 2011. *Estimated Impact of Automatic Budget Enforcement Procedures of the Budget Control Act*. Washington, DC: CBO.

———. 2016a. T*he Budget and Economic Outlook: 2016 to 2026*. Washington, DC: CBO. https://www.cbo.gov/publication/51129.

———. 2016b. U*pdated Budget Projections: 2016 to 2026* Washington, DC: CBO. https://www.cbo.gov/publication/51384

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. Proctor. 2014. *Income, Poverty, and Health Insurance Coverage in the United States: 2013*. US Census Bureau, Current Population Reports, P60-249. Washington, DC: US Government Printing Office.

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.

First Focus. 2016. *Children's Budget 2016*. Washington, DC: First Focus. https://firstfocus.org/resources/report/childrens-budget-2016/.

Hahn, H., G. Kenney, C. Conyer, 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, E. Steele, and C. E. Steuerle. 2015. *Kids' Share 2015: Report on Federal Expenditures on Children through 2014*. Washington, DC: Urban Institute. http://www.urban.org/research/publication/kids-share-2015-report-federal-expenditures-children-through-2014.

Isaacs, J., S. Edelstein, H. Hahn, K. Toran, and C. E. Steuerle. 2013. *Kids' Share 2013: Report on Federal Expenditures on Children through 2013*. Washington, DC: Urban Institute. http://www.urban.org/research/publication/kids-share-2013-federal-expenditures-children-2012-and-future-projections.

Isaacs, J., H. Hahn, C. E. Steuerle, S. Rennane, and T. Vericker. 2011. *Kids' Share 2011: Report on Federal Expenditures on Children through 2009*. 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, Adam, Tracy Vericker, Julia Isaacs, and Jennifer Macomber. 2009. *Data Appendix to Kids' Share: An Analysis of Federal Expenditures on Children through 2008.* Washington, DC: Urban Institute.

Macomber, Jennifer, Julia Isaacs, Tracy Vericker, and Adam Kent. 2010. *Public Investment in Children's Early and Elementary Years (Birth to Age 11).* Washington, DC: Urban Institute.

Macomber, Jennifer, Julia Isaacs, Tracy Vericker, Adam Kent, and Paul Johnson. 2009. *Federal Expenditures on Infants and Toddlers in 2007.* Washington, DC: Urban Institute.

McMorrow, S. and J. Holahan. 2016. *The Widespread Slowdown in Health Spending Growth: Implications for Future Spending Projections and the Cost of the Affordable Care Act—An Update*. Washington, DC: Urban Institute. http://www.urban.org/research/publication/widespread-slowdown-health-spending-growth-implications-future-spending-projections-and-cost-affordable-care-act-update.

OMB (Office of Management and Budget). 2016. *Budget of the US Government, Fiscal Year 2017.* Washington, DC: US Government Printing Office.

Steele, E., J. Isaacs, H. Hahn, S. Edelstein, and C.E. Steuerle. 2016. *Data Appendix to Kids' Share 2016: Report on Federal Expenditures on Children through 2015.* Washington, DC: Urban Institute. http://www.urban.org/research/publication/data-appendix-kids-share-2016-report-federal-expenditures-children-through-2015.

UNICEF Office of Research. 2013. *Child Well-Being in Rich Countries: A Comparative Overview.* Innocenti Report Card 11. , Florence, Italy: UNICEF Office of Research.

Vericker, Tracy, Jennifer Macomber, Julia Isaacs, Adam Kent, and Elizabeth H. Bringewatt. 2010. *Federal Expenditures on Elementary-Age Children in 2008 (Ages 6 through 11).* Washington, DC: Urban Institute.

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 Brookings Institution. http://www.urban.org/research/publication/how-targeted-are-federal-expenditures-children.

NOTES

1. The earlier *Kids' Share* reports are 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, and 2015).

2. Additional reports that build on the *Kids' Share* database include analyses of spending on children by age of child (Kent et al. 2010; Macomber et al. 2009, 2010; Vericker et al. 2010; Edelstein et al. 2012). The First Focus *Children's Budget* series, including *Children's Budget 2016* (First Focus 2016), provides detailed, program-by-program information on appropriations for children's programs from 2011 through 2016, as well as the president's proposed funding for 2017.

3. 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.

4. See *Kids' Share 2012* by Isaacs and colleagues (2012). An estimated 24 percent of ARRA outlays were targeted toward children from 2009 to 2019.

5. To calculate the children's share of the tax expenditure budget, we first have to determine a total tax expenditure budget. To do this, we sum OMB 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 $1.35 trillion in 2015 (OMB 2016). To this we add $39 billion ($0.039 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.

6. We used CBO projections for Medicaid for the 2015 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.

7. For most of these states, coverage under the Medicaid expansion became effective January 1, 2014. For Michigan and New Hampshire, coverage went into effect later in fiscal year 2014, and for Pennsylvania, Indiana, and Alaska, it went into effect in fiscal year 2014.

8. Last year, employer-sponsored insurance was the fifth largest program benefiting children, because of an outlier calculation of the proportion of spending directed toward children. This proportion has been corrected in this year's report.

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

10. For example, a cut in tax rates from 28 to 25 percent would reduce the value of a $3,500 exemption from $980 to $875, thereby reducing the tax advantage of being a taxpayer with a child (relative to taxes for childless taxpayers) and, thus, child-related tax expenditures. This does not mean, however, that families with children were paying higher taxes than before the tax cut, just higher taxes relative to childless taxpayers.

11. Information on how we classified each program by eligibility limitation (means tested or not), as well as benefit type (cash versus in kind) and spending type (mandatory versus discretionary), is provided in *Data Appendix* to Kids' Share 2016 (Steele et al. 2016).

URBAN INSTITUTE

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