The US Safety Net and Work Incentives: Is There a Problem? What Should Be Done?

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Whether the US safety net discourages work is an age-old question that has been debated by policymakers, researchers, and the general public. Despite the many years of discussion, it still is an important topic, no less so today than it has been in the past. However, while this essay is concerned primarily with the issue of whether the country's system of safety net programs discourages work, it should be stated at the outset that this is an overly narrow framing of the issues, for a consideration of work disincentives in safety net programs cannot be isolated from the purposes of those programs themselves and what they intend to accomplish. Most would agree with the broad view that safety net programs are intended to provide assistance to those families, adults, and children who are in particularly dire need and circumstances, and that assistance should be provided in a way that leads to an improvement in the families' situations and that provides a route out of their desperate straits. Simply framing the question as whether safety net programs encourage or discourage work risks losing sight of the overarching goals we should be trying to achieve.

Nevertheless, the place to start is with the narrow question of whether the US system of safety net programs discourages work. The bulk of this essay will be devoted to that question. Only at the end will it turn to the broader issue, and that is where a number of policy changes will be proposed to address that broader issue. But on the narrow question, the essay will demonstrate the following points. First, the work disincentives in most safety net programs, taken individually, are modest and unlikely to have a major impact on work effort. Second, work disincentives are quite a bit higher for families who receive benefits from multiple programs, but the percentage of low-income families who receive multiple benefits is too small to make this an important factor. Third, the availability of tax credits to low-income families has a major impact in reducing work disincentives to families with very low incomes. Fourth, however, work disincentives are considerably greater for families with slightly higher incomes but who are still poor or almost poor. Fifth, work disincentives for families with very low incomes have dramatically fallen over the past 30 years while those for higher-income but still poor families have risen. At least the first of these trends is good news for those concerned about work effects of safety net programs. Sixth, the recent expansion of the Medicaid program and associated creation of health insurance exchanges have a variety of positive and negative work incentives whose net effect is unclear at this time. Seventh, the research evidence on whether financial work disincentives actually have an effect on work behavior shows very modest effects for most programs, with only occasional exceptions.

Despite what may seem to be a sanguine and optimistic view of the work disincentives in the nation's safety net programs, I will conclude that the system is doing very little at the moment to help families help themselves, and this is where policy could be markedly improved.

Work Incentives in US Safety Net Programs

The US system of safety net programs—or what analysts call means-tested programs, those for which eligibility requires that family or individual income or earnings fall below certain levels—is quite complex, and that complexity cannot be completely avoided when discussing the programs and their effects on work incentives. Different programs serve different needy groups and operate differently, and they have different, often complicated, structures of work disincentives that affect some families differently than others.

For a consideration of work incentives, the key traditional concept is that of the benefit-reduction rate, or BRR (sometimes also called the marginal tax rate), which denotes the rate at which benefits are reduced as income rises. A high BRR generally is interpreted as having higher work disincentives, and a low BRR is generally interpreted as having smaller work disincentives. The BRR varies dramatically across different safety net programs. For example, the second-largest program in the country in terms of recipients is the Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps, which provides food assistance to low-income families. It has an approximate 24 percent BRR after taking account of deductions. But the largest program in the country is the Medicaid program, which provides medical assistance to low-income families. Aside from some minor copays, the program has a 0 percent BRR up to the eligibility point—that is, benefits are not reduced as income rises—and then has a BRR in excess of 100 percent at the point at which eligibility is lost. That is, benefits drop to zero for work beyond that point, and the family's effective income not only does not rise, but actually drops. (The Affordable Care Act has an impact on this feature, as described below.) The third-largest program is the National School Lunch Program, which provides free or reduced-price lunches to low-income children. It also has a 0 percent BRR up to a certain income level (130 percent of the poverty line), but beyond that the child can only receive a reduced-price lunch, effectively representing a positive BRR. Then, as in the Medicaid program, subsidies are lost entirely when income goes beyond the income eligibility level. Other important programs are the Women, Infants, and Children program, which provides nutritional education and food purchase support for pregnant women and those with young children, and which has a 0 percent and 100 percent BRR as in the Medicaid program; subsidized housing programs, which have an approximate 30 percent BRR; and the Supplemental Security Income (SSI) program, which provides cash support to low-income disabled and aged individuals and which has a 50 percent BRR. The Temporary Assistance for Needy Families (TANF) program, serving low-income families with children, is smaller than any of these and has a BRR that ranges widely across states but averages about 40 percent.

In a special category are tax credits, particularly the well-known Earned Income Tax Credit (EITC) and the child tax credit (CTC), both administrated through the tax system and the IRS. While not ordinarily thought of as safety net programs, they are essentially equivalent because they provide benefits only to families with incomes below certain levels. These tax credit programs have negative BRRs, meaning that additional income actually increases the tax benefit incurred. The EITC "BRR" can be as high as –45 percent, which is a major subsidy to work, while the CTC has a smaller negative BRR and provides credits much lower in magnitude than those in the EITC. However, both tax credits are phased out eventually, and the BRR in the phaseout region—where additional income lowers the tax credit—can be high, as high as 21 percent for the EITC, for example.

Are these financial penalties large or small? On intuitive grounds and before considering any research evidence, that is a difficult question to answer. However, one criterion is to compare these BRRs to the top marginal tax rate in the federal income tax. That top rate is almost 40 percent, so one criterion to use is to ask whether the BRRs in safety net programs are above the rate paid by the highest-income families in the society. By this criterion, the 100 percent rates in Medicaid and a few food programs for low-income families are obviously high. However, it should be kept in mind that most people don't really look at the effect of earning one more dollar but rather the effect of working full-time instead of part-time, or of working part-time or not at all. The BRR created by the Medicaid program is much less than 100 percent for those choices but could still approach 40 percent. However, the SSI BRR of 50 percent would also seem high when compared to the 40 percent tax criterion as well. But the other programs have BRRs less than 40 percent and, of course, the tax credits have negative BRRs.

While this implies that the individual BRRs in safety net programs are usually not excessive, it misses the fact that many families receive benefits from multiple programs. In that case, increases in income can result in greater total BRRs, as several benefits are phased out at the same time. Take, for example, a family receiving benefits from SNAP and TANF and who is living in subsidized housing. The Congressional Budget Office (CBO) has calculated that BRRs for such a family in 2012 ranged from 17 to 52 percent at very low incomes (e.g., below $10,000 annually) but rose to 66 to 95 percent at somewhat higher ranges (e.g., $10,000 to $20,000).[1] Moreover, these total BRRs include the federal tax credits; in their absence, the BRRs at very low incomes would be even higher. These rates also exclude the Medicaid program, which, as noted above, should add a high 100 percent BRR at the point at which eligibility is lost (typically around $7,000 of income in 2012). By the criterion used above—anything above 40 percent should be regarded as excessive—these BRRs are very high indeed.

However, such calculations greatly overstate the problem because the fraction of families who actually participate in multiple programs is modest. Table 1 shows the fractions of US low-income families participating in multiple programs in 2013 separately by whether their private income is below 50 percent of the official government poverty line or between 50 percent and 100 percent of that line. Among all families in the lower income range, 45 percent—almost half—receive benefits from no programs at all. Another 30–31 percent receive benefits from only one program, with sole receipt of SNAP the most common. Another 17 percent receive benefits from only two programs, and only 1 percent receive all three of the programs used in the CBO example just described. The percentages are even smaller for those with slightly higher income ranges but still in poverty. They are larger for single-parent families, but even for them, only 4 percent of families receive the three programs. There is no other program combination that has more than 1 percent of families participating in it.

However, this table excludes Medicaid, which, as already noted, is the most widely received program. But when Medicaid is added in, CBO calculations show that the largest and most common

Table 1. Percent of US Low-Income Families Receiving Multiple Safety Net Benefits, 2013

	All Families		Single-Parent Families	
	Very Low Income	Low Income	Very Low Income	Low Income
No Program	45	58	25	30
One Program Only				
SNAP	23	24	32	41
TANF	<1	0	<1	0
Housing	2	1	2	3
SSI	5	4	2	3
Two Programs Only				
SNAP, TANF	2	1	5	2
SNAP, Housing	7	5	14	13
SNAP, SSI	8	3	6	3
Three Programs				
SNAP, TANF, Housing	1	1	4	4

Notes: Very-Low-Income Families have private income between 0 and 50 percent of the government poverty line. Low-Income Families have private income between 50 percent and 100 percent of the government poverty line.
Source: Author calculations from the Survey of Income and Program Participation.

multiple-benefit receipt combination among low-income families with children is simply the combination of Medicaid and SNAP, which was received by 10 percent of all families with income below 250 percent of the poverty line and 22 percent of single-parent families in 2012.[2] For families receiving only SNAP without Medicaid, but receiving all federal tax credits and also paying payroll taxes and other state and federal income taxes, the median BRR for families with very low incomes was only 13 percent, and it was only 24 percent for those with incomes just below the poverty line.[3] If Medicaid is lost around $7,000 of income, the latter BRR would not be affected, but the former would be higher, depending on what range of earnings one were to examine, although it would still be modest if a wide range were considered. The CBO estimates these BRRs to be almost identical in 2016, after the implementation of the Affordable Care Act, with the only difference that Medicaid in some states will not be lost until much higher income levels are reached (see below).[4]

Another approach to the question of what BRRs are for low-income families who receive multiple benefits is to calculate the total amount of benefits received by all families at different levels of income, and to determine how those totals change as family income rises. Column 1 of Table 2 shows those figures for low-income families in 2013. Families with very low private incomes in that year received, on average, $442 in total monthly benefits from the 12 leading programs (excluding Medicaid), including families who received nothing. Table 1 showed that 45 percent of these families were in this category. Families with somewhat higher incomes, but still below the poverty line, received $590, a greater amount because of tax credits from the EITC and CTC, which disproportionately flow to those families with higher incomes. This implies a BRR of –18 percent for a family moving from a very low income to a low income. But for families with income just above the poverty line, only $332 are received per month, implying a BRR of 30 percent when moving from income just below the poverty line to income just above it. For single-parent families, the first BRR is about the same, at –19 percent, but the BRR at the higher income levels is greater, at 42 percent. This is because single-parent families receive more benefits than other families, and hence more benefits are lost as income rises.

These figures show that work incentives are unlikely to be much of a problem for very-low-income families, even if payroll taxes and Medicaid were added, for BRRs are negative without those programs and would be positive but small with them. Work incentives are more of an issue for families with higher incomes who, when working more, face both the loss of traditional safety net benefits as well as a phaseout of the tax credits. However, one cannot have one without the other. If work is subsidized for families with very low incomes, then those subsidies have to be phased out later unless they are continued all the way up to high-income families, which would make the programs no longer means-tested. An important question is whether the larger BRRs for higher-income families

Table 2. Total Real Monthly Benefits Received and Benefit-Reduction Rates for US Low-Income Families, 1983 and 2013

	2013	1983
All Families		
Average Monthly Benefits		
Very Low Income	$442	$606
Low Income	590	255
Near Poverty	332	168
Benefit-Reduction Rate (BRR)		
From Very Low to Low Income	–0.18	0.42
From Low Income to Near Poverty	0.30	0.10
Single-Parent Families		
Benefit-Reduction Rate (BRR)		
From Very Low to Low Income	–0.19	0.75
From Low Income to Near Poverty	0.42	0.12

Notes: Nonaged, nondisabled families only. Very Low Income corresponds to private income between 0 and 50 percent of the poverty line, Low Income corresponds to private income between 50 and 100 percent of the poverty line, and Near Poverty corresponds to private income between 100 and 150 percent of the poverty line. Total benefits are the sum of actual benefits, received from SNAP, TANF, subsidized housing, SSI, General Assistance, WIC, veterans benefits, other cash welfare, the EITC and CTC, and social insurance benefits from Unemployment Insurance and Social Security retirement in real 2009 dollars. The BRR is calculated as the change in benefits divided by $833 of monthly private income, which is the change in monthly income from moving from the midpoint of each poverty rate to the midpoint of the next higher range. Payroll and income taxes other than the EITC and CTC are ignored.
Source: Author calculations from the Survey of Income and Program Participation.

induce less work among them, and the answer to that question should come from a review of the research evidence on the issue, reviewed below.

Table 2 also shows corresponding figures for BRRs in 1983, 30 years prior. In that year, receipt of benefits from the Aid to Families with Dependent Children (AFDC), the precursor to TANF, was high. In addition, the EITC was much smaller in generosity, and the CTC had not been enacted. As a consequence, BRRs for all very-low-income families was a positive 42 percent and was a very high

75 percent for very-low-income, single-parent families. But the BRR at higher income levels was only 10 to 12 percent. These results show how work disincentives have changed over the last 30 years for US low-income families: they have dramatically fallen for very-low-income families while they have risen for higher-income families. The major source of this change has been the major reduction in receipt of AFDC and TANF benefits for nonworkers, on the one hand, coupled with an increase in tax credits for higher-income families, on the other.

The impact of the Affordable Care Act on these BRRs is an important new consideration when thinking about work incentives among low-income families, for the act changes some of the financial penalties associated with work by low-income families, especially for those receiving Medicaid. For states who adopt the Medicaid plans in the law, the law requires an increase in the upper income limit for eligibility from its past levels, which have often been less than half of the government poverty line, to 138 percent of the poverty line. Such an increase in eligibility will provide greater work incentives to those who might have been dissuaded from work by the 100 percent BRRs at low income levels existing before the law, for now Medicaid eligibility will only end at a much higher income level. In addition, the provision of health care exchanges means that when Medicaid eligibility ends, health insurance coverage will not end completely but will transition to a government-subsidized plan, thus eliminating the high 100 percent BRRs altogether. In addition, even without any change in the Medicaid program, the introduction of the exchanges will mean that low-income families who were not working or working at low levels will now have a greater incentive to work enough to qualify for exchange coverage, which they may not have had before if they could only find uncovered jobs. This effect will occur even for families in states that do not adopt the new Medicaid program.

As against these positive effects on work, the ACA has negative effects as well. The Medicaid provisions extend coverage to childless adults and some adults with children, and that will induce some increase in work disincentives because such families will now be offered benefits if not working that they did not have before. (Although, again, this will be ameliorated by the introduction of the exchanges, so there will still be an incentive to work up to 138 percent of the poverty line.) There are also new work disincentives for families at higher income levels, especially above 150 percent or 200 percent of the poverty line, because of the introduction and phase-out of the exchange subsidies. However, while they are important for policy more generally, these effects are not of major importance to the low-income families under discussion here.

There are many other complicated features, and possible effects, of the ACA on work incentives other than these simple ones. However, those will make the net effect of the ACA on work incentives of low-income families even more uncertain than they already are. Actual evidence on how families respond must be obtained to understand the implications of this important new government policy for work among the poor.

What We Know About How Families Respond to Work Incentives

There has been a tremendous amount of research on the work disincentives of safety net programs and the specific effect of changes in the BRRs in those programs. The largest body of research has been conducted on the TANF program, but a significant number of studies have been conducted for the SNAP, Medicaid, and EITC programs as well. A much smaller amount of research has been directed to subsidized housing, SSI, and child food programs. The interesting conclusion one draws from this research is that, despite the obvious financial incentives and disincentives created by the sometimes high BRRs just described, it is actually very difficult to find in this literature much evidence of large effects on work effort for any of these programs.

One important aspect of the question worth noting at the start is that much of the research literature has concerned itself with whether safety net programs have work-disincentive effects because they provide high levels of benefits to nonworkers. That can occur even if the BRR is low. The main issue I am discussing in this essay is the effect of the BRR per se, and it should be stressed that that is not the only issue when discussing the total effects of safety net programs on work.

The large volume of research conducted on the TANF program has mostly concentrated on the effects of the landmark 1996 welfare reform law on levels of work among single mothers. Here the evidence is very strong that that law increased average employment rates and hours of work among that group. Single mothers on the program prior to reform never worked more than 10 percent of the time, yet their employment rates jumped to over 60 percent or more after leaving the welfare rolls.[5] However, most of the positive effects of the law were the result of moving single mothers off welfare, not from increasing work incentives for those on the program. The reductions in the BRR that accompanied the law have not resulted in high levels of work among remaining beneficiaries, among whom only about a third worked in 2013, and that was probably more because of work participation requirements than low BRRs.[6]

The largest program, Medicaid, has also seen a number of studies examining its effects on work effort. Most of these do not directly examine the effect of changing the BRR but rather the overall effects of making families eligible in the first place. Some have studied the major expansions of eligibility that occurred in the 1980s and early 1990s on work levels. Most of those studies have found essentially no statistically significant impact of those expansions. A handful of studies have looked at expansions of eligibility to adult parents and even childless adults, and here there is a considerable range of estimates, ranging from, again, no effects at all to fairly sizable ones.[7] And, as I have already noted, the implementation of the ACA is too recent for much research to have been conducted on it.

One important issue discussed in this research literature is that a program like Medicaid could have smaller effects on work levels than expected because it only subsidizes medical care, not larger needs. Most low-income families would spend very little on medical care themselves in the absence of the program, and hence receiving free medical care from the government does little to free up income to spend on other things. A plainer way to state the problem is: you can't eat Medicaid, or use it to pay the rent or buy clothes for your children. You still have to find income for those items, and that generally means that you have to work.

Studies of the second-largest program, SNAP, have likewise found almost no significant effects on work levels of recipients.[8] There are certain methodological challenges in researching work effects of the program that make it difficult to study, and hence the conclusion that it has almost no work disincentives has to be treated cautiously. In addition, the one study that did find important negative effects was a study of the program in the 1970s, when the program and the general safety net environment were quite different than what they are today. Again, some have suggested that the reason for the lack of an important effect is the noncash nature of the benefit. Unlike with Medicaid, however, most low-income families would spend quite a bit of income on food in the absence of the program, so the program more easily frees up income for spending on other things. But the amount of income freed up is limited because the benefit itself is not large. It is difficult to imagine how a nonworking family could survive on SNAP and Medicaid alone, without other sources of income like earnings.

The EITC is the only other program that has been studied extensively. And here the largest effects have shown positive effects on work levels, not negative ones.[9] Those effects have been most marked for single mothers. The effects of the positive and fairly high BRRs for somewhat-higher-income families during the phaseout of the tax credit may, however, be the cause of the findings from some studies that married women reduce their hours of work by a modest amount because of the program. If their spouses are earning enough to put the family into the phaseout region of the program, additional work by married women reduces the benefit.

The lack of responsiveness to BRRs and other program features in this body of research is most likely for a combination of reasons, including that the BRRs are often not excessive together with the noncash nature of the benefit. It should be emphasized that it does not imply that there might not be significant work disincentives from BRRs that are excessively high. Furthermore, it should also be emphasized that the nature of the research on these programs does not imply that absolutely no recipient works less or earns less because of the program, only that in aggregate, the responses are too small to be detected statistically, and that may be because other determinants of whether a low-income family works swamp the effects of BRRs.

Broadening the Question

Despite the evidence that financial penalties to work are not large for most low-income families and that those penalties that exist do not have major negative impacts on work levels, it is still the case that some BRRs are large for some families and for some programs. Lowering those BRRs would be a reasonable strategy, although its limits need to be understood. Removing the 100 percent BRRs for programs and states that still have them, which result in sudden losses of benefits after a family obtains a single extra dollar of income, could be addressed by a more gradual phaseout achieved by copays tied to income (as in the ACA exchanges). Such a lowering of the BRR would simply spread out the phaseout of the benefit over a wider range of income instead of concentrating it at one income point. It would also increase, not decrease, the caseload of the program and government expenditures. Lowering the BRR in SSI below 50 percent would have the same effect, for example, and lowering some of the high total BRRs in the phaseout region of the EITC would extend eligibility for the program even higher up into the income distribution than it goes already. These are the trade-offs that must be faced when thinking about a strategy of using lower BRRs to encourage more work.

Given the limits on this strategy, others should be considered. One popular strategy is to increase work incentives for the poor by making work pay more than it does now through improving access to child care, transportation, and jobs programs. This would be a meritorious policy reform that would be equivalent to lowering the BRR because it effectively increases the net financial reward to work, and the research evidence on the EITC shows that it could have a positive effect on work levels of the very poor. But it should be kept in mind that the BRRs for very-low-income families are fairly low already. In addition, one has to keep firmly in mind the inevitable trade-off, which is that increasing work supports to the working poor means that BRRs have to be increased for families with slightly higher levels of income, which are already fairly high. Further, this strategy does nothing for the families who struggle to find jobs and cannot find them.

Another strategy would be to increase the human capital and work skills among the poor, either through better funding and more effective job training strategies for adolescents and young adults, improvements in K–12 educational quality, or investments in preschool education. Such policies are very attractive, but they are long-run strategies at best and do not address the problem of what kind of support to provide low-income families in the short run, families with immediate needs.

Another approach would be to follow the TANF strategy, which has increased work levels among single-parent families. However, that strategy has serious drawbacks. While work levels were increased by those reforms, incomes have only increased modestly on average and have decreased for some families. Deep poverty among single-parent families is the same today as it was before 1996 and has increased as a percent of total poverty among such families. The combined effect of work requirements, time limits, and block grants fixed in nominal terms has had the effect of reducing to 3 percent the fraction of single-parent families in deep poverty who receive TANF benefits, which puts downward pressure on their incomes. The work requirements imposed by the 1996 law and later modifications of it are rigid and inflexible, and do little to increase the long-run work skills of the poor and have led states to simply shed families with poor work skills from the welfare rolls.

While work requirements as implemented in TANF are not achieving all the goals one might want, however, the idea that low-income families have an obligation to perform if they receive benefits is an attractive one. A broader and more flexible conceptualization of those obligations is worthy of serious consideration. What may be needed are activity requirements, not work requirements, where activity requirements are those which involve some effort among low-income families to improve their situation. It may be through job training, education, or work, for example, which are all beneficial in the long run. For families with special problems like substance abuse or poor health more generally, it may be attending a substance abuse treatment program or visiting health care providers. For families with children, it may mean keeping the children in school or ensuring that they make health care visits on a regular basis. To make these activity requirements effective and not just an excuse to continue receiving benefits without effort, however, programs would have to actually be made available to families and offered to them. They would have to be offered training and education opportunities, supported work environments, substance abuse programs, good health care providers, and adequate child care to enable them to work. Such programs and others of a similar nature deserve further study to address one of the nation's most serious policy challenges.

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Notes

1. See Congressional Budget Office, *Effective Tax Rates for Low- and Moderate-Income Workers: Data Underlying Figures*, November 15, 2012, Figure 2, https://www.cbo.gov/publication/43709.

2. Ibid., 13, box 1.

3. Ibid., 24, Figure 5.

4. See Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers in 2016: Data Underlying Figures*, November 19, 2015, p. 55, Figure 4, https://www.cbo.gov/publication/50923.

5. James P. Ziliak, "Temporary Assistance for Needy Families," in

Economics of Means-Tested Transfers, ed. Robert A. Moffitt (Chicago: University of Chicago Press, forthcoming).

6. See US Department of Health and Human Services Office of Family Assistance, "Work Participation Rates: Fiscal 2013," Table 1A, http://www.acf.hhs.gov/programs/ofa/resource/wpr2013.

7. Thomas Buchmueller, John C. Ham, and Lara D. Shore-Sheppard, "The Medicaid Program," in *Economics of Means-Tested Transfers*.

8. Janet Currie, "Food and Nutrition Programs," in *Means-Tested Transfer Programs in the United States*, ed. Robert A. Moffitt (Chicago: University of Chicago Press, 2003), 199; and Hilary Hoynes and Diane Whitmore Schanzenbach, "US Food and Nutrition Programs," in *Economics of Means-Tested Transfers*.

9. Austin Nichols and Jesse Rothstein, "The Earned Income Tax Credit," in *Economics of Means-Tested Transfer Programs*.

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