

THE AMERICAN SAFETY NET



A PRIMER ON WELFARE PROGRAMS
FOR LOW-INCOME FAMILIES

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The American Safety Net: A Primer on Welfare Programs for Low-Income Families

BY ANGELA RACHIDI

America has a long history of providing government support for the country's most vulnerable people. Reeling from the depths of the Great Depression, President Franklin Delano Roosevelt and the 74th Congress passed the Social Security Act of 1935, which was the first major federal legislation to provide government assistance to poor children. Beginning as a fairly modest cash grant to needy and dependent children, the Aid to Dependent Children program recognized that the federal government was in a position to help struggling poor families in ways that private charities and families themselves perhaps were not.

The government's social safety net in America since those early days has followed a complicated path, with constant pressures to adapt, and often failing to keep pace. When the first cash aid programs for poor families were put in place, mothers typically stayed home to care for children. But after mothers increasingly entered the labor market starting in 1960, it was quickly recognized that the social safety net was out of touch. Even so, it was not until 1996 that federal policy changed to require work in exchange for government cash aid.

In fact, the 1990s brought some of the most substantial shifts in the social safety net since perhaps its inception. Recognizing that Americans valued work and opportunity over government handouts, policymakers in the 1990s reformed the nation's cash welfare program and substantially expanded support for employed people, shifting the safety net's focus toward work over welfare.

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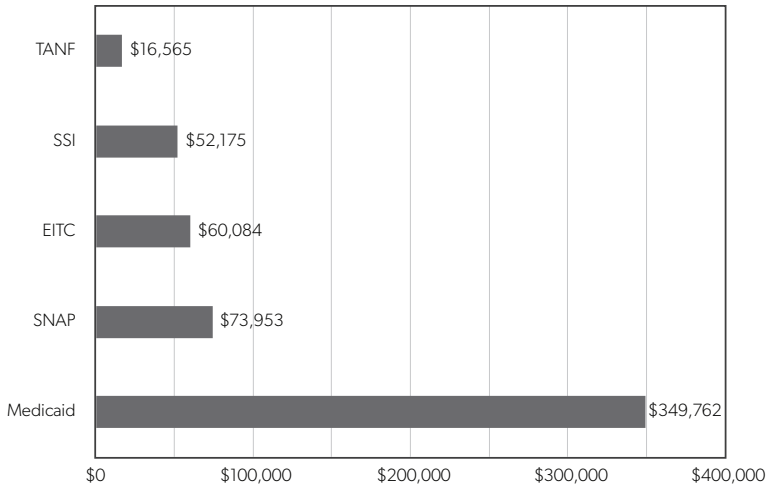
Even today we recognize that working people can struggle economically, and the American public continues to support government assistance for the poor.¹ The most pressing questions of today are how well current social policies match the realities of poor, work-able families and to what extent government hurts rather than helps them.

Some argue that the current social safety net is too large and mostly ineffective. To provide a sense of scale, the federal government spent \$744 billion on programs for low-income families in fiscal year (FY) 2013, or approximately 18 percent of all federal spending.² That is \$6,600 for every person with a family income below two times the federal poverty level (which is \$32,000 for a family of two and \$47,000 for a family of four). According to the Congressional Budget Office (CBO), this is an almost tenfold increase in spending since the early 1970s. Federal spending has increased because of increases in the number of people being served and the cost per participant.³ The social safety net has gone from aid primarily for vulnerable children and the elderly to the current structure of at least 80 federal programs targeting low-income individuals and families.⁴

Through this maze of federal programs, the bulk of spending still falls into five major programs: Medicaid, the earned income tax credit (EITC), the Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income (SSI), and the Temporary Assistance for Needy Families (TANF) program.⁵ In fact, more than two-thirds of federal spending on low-income families falls into these five programs (Figure 1).

Medicaid is the largest program and provides health insurance to income-eligible individuals and families, including working and nonworking families. Approximately half (\$150 billion) of Medicaid spending is on long-term care for seniors who have likely exhausted other resources, and the remaining is largely for health insurance for low-income people.⁶ SSI, accounting for \$52 billion per year, provides cash assistance to individuals who are determined too ill or disabled to work. Both programs are crucial components of the social safety net but have purposes that go beyond the needs of work-able families, including ensuring that all Americans have access to health insurance and that people who cannot work have some income support.

Figure 1. Spending on Five Major Need-Tested Safety Net Programs, 2015 (in Millions \$)



Note: Approximately \$150 billion per year is spent on long-term care through Medicaid, which largely funds services for elderly people who have exhausted their other resources. See Erica Reaves and Mary Beth Musumeci, *Medic and Long-Term Services and Supports: A Primer*, Kaiser Family Foundation, 2015, <http://kff.org/medicaid/report/medicaid-and-long-term-services-and-supports-a-primer/>.

Source: For Medicaid, EITC, and SSI: Office of Management and Budget, “Historical Table 8.5 Outlays for Mandatory and Related Programs.” For TANF: Administration for Children and Families, “TANF Financial Data FY 2014.” For SNAP: US Department of Agriculture, Food and Nutrition Service, “SNAP Participation and Costs,” 2015.

The three remaining programs—the EITC, TANF, and SNAP—have issues that particularly affect work-able families, which is the subject of this monograph. The EITC is a refundable tax credit that is provided only to individuals and families who work. SNAP (formerly Food Stamps) provides food assistance to low-income households, including many who are working. In FY 2012, 51 percent of SNAP households with children, or 5.1 million households, had earned income in the household.⁷ TANF is the country’s main cash assistance program and serves more than four million parents and children in the average month.⁸ Along with the EITC and SNAP, TANF’s primary aim is to

get low-income (mostly single) mothers into the labor market quickly through strong work requirements and a focus on employment-related services and supports.

Together, these three programs account for approximately \$150 billion in federal spending each year. But how have they performed? And what changes, if any, are needed to better help those who are able to work but remain economically vulnerable? The following pages describe each of these three major need-tested safety net programs, along with key issues and recommendations for improvements.

Overall Performance: Poverty Measurement

One of the most useful ways to assess how safety net programs have performed is to look at poverty rates. But different poverty rates tell different stories. The official poverty rate produced by the US Census Bureau remains the go-to measure when thinking about poverty in the United States, but it has well-documented flaws, mainly that it does not take into account a large portion of government benefits for low-income families, such as noncash and post-tax benefits (like SNAP and the EITC). It does, however, count cash benefits (like TANF and SSI).⁹ As a result, the official measure reflects the extent to which families escape poverty without much government assistance. However, it fails to provide a complete picture of material well-being.

The supplemental poverty measure (SPM) is another poverty rate produced by the US Census Bureau that accounts for all noncash and tax-based government benefits (although it does not factor in the value of Medicaid). But the SPM is not produced historically, and it uses a relative (versus absolute) threshold. A relative threshold varies in relation to something else. In the case of the SPM, the threshold changes based on how much people spend on necessity items each year according to survey data.¹⁰ This contrasts with an absolute threshold, which is set at a certain number and, in the case of the official poverty measure, changes each year based on only inflation. The use of a relative threshold and the lack of historical context limit

the ability to assess government safety net programs and poverty using the SPM.

A third poverty measure may be most useful in assessing the impact of government safety net programs on poverty. The measure, produced by researchers at Columbia University, is called the anchored supplemental poverty measure.¹¹ It is similar to the US Census Bureau's SPM in that it factors in all government benefits, but it uses an absolute threshold that only varies according to inflation across time, and the researchers produced it going back to the 1960s.

Looking at these different measures tells us that the social safety net has done a fairly good job of reducing material hardship, especially for children, when all government benefits are considered. According to the anchored supplemental poverty measure, child poverty has been cut by one-third since the early 1990s when all government programs were factored in.¹² The US Census Bureau's SPM shows that 10 million people were lifted out of poverty in 2014 because of tax-based transfers alone (for example, the EITC and the Child Tax Credit), and SNAP reduced poverty by almost five million people.¹³

However, the social safety net has done less well at helping people help themselves. As President Lyndon Johnson said in 1964 referencing his Great Society programs, "Our American answer to poverty is not to make the poor more secure in their poverty but to reach down and to help them lift themselves out of the ruts of poverty."¹⁴

By this account, government has largely failed. According to the official poverty rate (which, again, measures cash-based income), little progress has been made in the past few decades. The official poverty rate was 14.8 percent in 2014, only slightly below the 15 percent in poverty in 1970.¹⁵

But helping people lift themselves out of poverty requires a crucial component: work. And too little progress has been made in helping low-income Americans secure employment to make any substantial gains on poverty. Labor force participation rates are at historic lows, and more than 60 percent of working-age people in poverty do not work at all.¹⁶ If helping people achieve self-sufficiency through work is to remain a key American value, reforms to our safety net programs aimed at work-able families are needed.

Temporary Assistance for Needy Families

Although TANF receives the smallest amount of federal funding of the three programs at \$16 billion per year, it still receives a good deal of attention given its history. It was created almost 20 years ago, and whether it has been a success or failure is still debated.

In August 1996, President Bill Clinton signed the Personal Responsibility and Work Opportunity Act (PRWORA) into law, which among other things, replaced the former Aid to Families with Dependent Children (AFDC) with TANF. Welfare reform was considered a major legislative achievement and one of the few bipartisan efforts to reform our country's safety net.

The PRWORA replaced the entitlement AFDC program with TANF, which gave block grants to states. In contrast to an entitlement program that provides benefits to anyone meeting certain eligibility criteria, the block grants meant that states had flexibility (within the parameters of the law) to design and implement their own TANF program. States could spend their TANF money on anything that was related to at least one of the four TANF purposes, which were:

- Provide assistance to needy families so that children can be cared for in their own homes;
- Reduce the dependency of needy parents by promoting job preparation, work, and marriage;
- Prevent and reduce out-of-wedlock pregnancies; and
- Encourage the formation and maintenance of two-parent families.

If states were to provide direct cash assistance to families, they had to implement work programs—at least 50 percent of a state's TANF caseload had to be engaged in work or work activities—and states had to sanction people for nonparticipation in work activities. In addition, recipients faced a lifetime limit of five years of cash benefits as an adult head of household, but the law allowed some exceptions.

Although states are required to operate work programs, the 50 percent work participation rate means that states can exempt some recipients. In addition to making exemptions, states can reduce the 50 percent required rate if they reduce the number of people receiving benefits (the caseload reduction credit) or spend state money beyond what they are required to spend (excess maintenance of effort [MOE] funding).

Initially, the caseload reduction credit was based on caseloads in FY 1995—for example, a 15 percent reduction in cases receiving assistance between 1995 and 2001 reduced the required work participation rate in 2001 by 15 points. But TANF was reauthorized in 2006, which recalibrated the base year to FY 2005. Even with the recalibration, many states still have work participation rate requirements below 50 percent.¹⁷

Two other exclusions from the work participation rate are allowed under federal law, at the state's discretion: (1) for mothers with children under age one, but only for a lifetime maximum of 12 months; and (2) for families who have been sanctioned for nonparticipation, but only for 3 months in every 12-month period. A hardship exemption is also allowed under the federal law, which allows up to 20 percent of the average monthly caseload to be exempted from the lifetime limit on TANF due to hardship or because they were “battered or subjected to extreme cruelty.”

Together, these exclusions mean that states have flexibility to serve the varying needs of their TANF population, that not all TANF recipients are required to work to receive benefits, and that states are not required to subject all TANF recipients to the five-year lifetime limit on benefits. In reality, states have a great deal of discretion in how to serve families that have difficulties working or participating in work activities.

The flexibility given to states through the block grant means that TANF can look different depending on the state. Some states spend the majority of their TANF funds on basic cash assistance and employment-related services, while others spend little on basic assistance, preferring to spend TANF money on things such as refundable tax credits, child welfare, or other services to low-income families.¹⁸ Even

across states that spend similar shares of their TANF money on basic assistance, programs can look different.

States can differ in terms of the amount of the monthly grant and the income level at which someone is eligible. Some states emphasize education and training, while others focus on quick job placement. Some have strict sanctions for noncompliance, such as ending assistance altogether, while others reduce assistance proportionally to the number of people in the household. TANF is unique because it gives states flexibility to tailor their TANF program to meet their residents' needs.

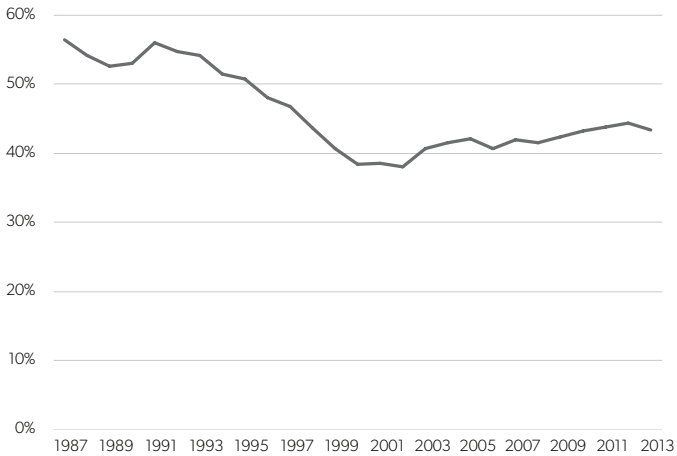
TANF's Successes. Data suggest that many families became better off with TANF. According to the anchored supplemental poverty measure, poverty declined from 17.5 percent in 1996 to 15.5 percent in 2012—a modest decline, but impressive enough given that the economy was much stronger in 1996 than in 2012. For children, the decline was 4 percentage points during this time, and for those in deep poverty, the rates were virtually the same.¹⁹

Exploring official poverty rates (again, not factoring in noncash and tax-based government benefits) for those most likely to be affected by changes to TANF reveals significant and lasting improvements. The poverty rate for working-age, never-married mothers was 50.8 percent in 1995; in 2013, it was 43.4 percent (Figure 2).

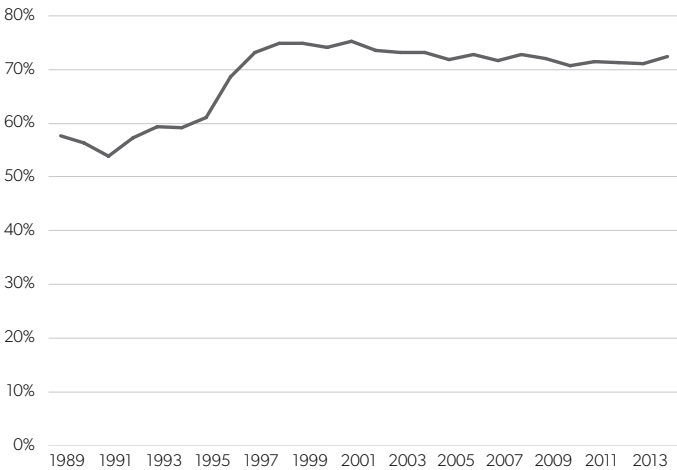
The passage of TANF also coincided with increases in labor force participation among never-married mothers. In 1995, 61.1 percent of never-married mothers were in the labor force, compared to 74.2 percent in 2014 (Figure 3).

Critics of TANF often point to the fact that poverty and labor force participation gains for never-married mothers largely predated the passage of TANF in 1996 or that TANF had only a limited role in these positive changes for never-married mothers, with the EITC and the economy given more credit. But it is hard to argue that TANF had no role.

In fact, a review of the literature by James Ziliak in 2015, echoing previous reviews, shows that TANF had positive effects on employment, earnings, and poverty at least through the early 2000s, even

Figure 2. Poverty Rate for Never-Married Mothers Age 18–64

Source: Author's calculations of Current Population Survey Annual Statistical and Economic Supplement, 1987–2013.

Figure 3. Labor Force Participation Rate for Never-Married Mothers Age 18–64

Source: Author's calculations of Current Population Survey Annual Statistical and Economic Supplement, 1989–2014.

though the effects were smaller than from the EITC and the economy.²⁰ Subsequent research focusing on the longer-term aspects of TANF suggests that poverty for those at the very bottom of the income distribution may have gotten worse since the passage of welfare reform, but measurement error makes the true extent to which extreme poverty has changed unclear.

At the same time as these positive changes, the percentage of poor families that received cash assistance declined dramatically. According to the Center for Budget and Policy Priorities (CBPP), 23 percent of poor families were served by TANF in the average month in 2014, down from 76 percent in 1995.²¹ Critics point to this as a failure of TANF, that it no longer serves poor families. But many families in poverty that previously received AFDC/TANF replaced it with the EITC. Estimates suggest that 80 percent of eligible (but not just poor) families receive the EITC, making it clear that the EITC replaced traditional cash welfare for numerous poor families.²²

TANF Shortcomings. The evidence above suggests that TANF (and other reforms at the time) left many families better off. But not all families benefited. Some argue that TANF fails people who are not capable of work and that it cannot be responsive to recessions. Critics also argue that certain provisions in the law may be too restrictive for states (for example, how to count a work activity), while others provide too much flexibility (for example, spending on nonpoor families).

Some data support the belief that, while TANF helped many work-able families, it may not have helped the most vulnerable who are especially difficult to employ. The anchored supplemental poverty measure, which factors in all government benefits, shows that rates of deep poverty (incomes of less than 50 percent of the official poverty level) have held relatively stable (at around 5 percent) since the late 1990s. This suggests that TANF did little to improve deep-poverty rates, highlighting a concern that some poor families are falling through the cracks.²³

Critics argue that some states have reduced their TANF programs so much that assistance is not available to those who struggle in the labor market. In *\$2 a Day: Living on Almost Nothing in America*, Kathryn

Edin and Luke Shaefer described several families that had virtually no access to cash, including being denied or deterred from TANF, which led them to conclude that TANF was essentially dead.²⁴ No doubt some of the families highlighted in *\$2 a Day* suffered from extreme poverty, which raises several concerns, but whether TANF is to blame is unclear. As a federal law, TANF allows exceptions to the five-year lifetime limit on benefits and exemptions to work requirements for those incapable of work. Some states may not be taking advantage of these exceptions, which may have resulted in extreme poverty for some families included in the book.

Another concern has been that, as a block grant, TANF cannot be responsive to economic downturns. Block grants involve a set amount of federal funding that goes to states to implement programs at their discretion, in accordance with the law. Because block grants tend to be fixed amounts of money, it can be a problem when the economy is struggling and more people need assistance. Without money put aside to weather an emergency, the block grant may not provide states with enough money to respond to increased need.

But analysis suggests that this concern may be misplaced. When properly analyzed, TANF was more responsive to the 2007–09 recession than many believe, even though caseloads did not increase to the same extent as SNAP and Medicaid.²⁵ This is likely because TANF had money set aside for an emergency (“contingency fund”), and when these funds were used, Congress allocated additional funding as part of the American Recovery Act. The result was almost \$7 billion in extra TANF funding that was made available from 2007 to 2010. Rather than illustrating a problem with the block grant structure, this shows how a block grant can work even during economic recessions.

Finally, TANF has additional shortcomings in terms of how it has been implemented by the states. Although TANF requires data from states to hold them accountable, requirements mainly focus on process measures, such as how many people are participating in work activities (for example, job search, job preparation, and unpaid work experience programs) and how much the caseload has declined. States are not required to report outcomes, such as how many people were placed in employment or how many retained employment. In

addition, the work participation rate has become meaningless in some states, even after the 2005 caseload recalibration, because of the caseload reduction/excess MOE credit or because states find creative ways to count more recipients as working (for example, paying a small grant to people already working to count them in the rate).

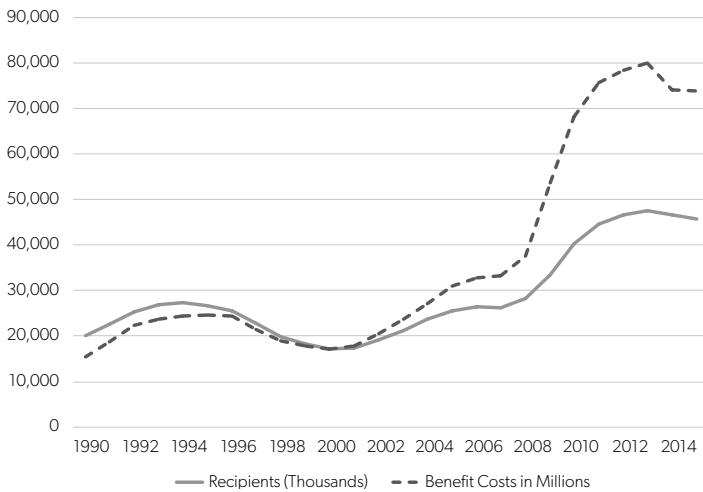
Either way, it has become clear that the current work participation rate is inadequate for assessing whether states are really moving TANF recipients toward employment. Another problem is that states are also allowed to spend TANF and TANF-related funds on nonpoor families, and some states use TANF's flexibility to supplant other state funding (for example, state educational aid) in ways that seem outside the original intent of the law.

Key TANF Reforms. Lawmakers should work together to address these shortcomings while maintaining the program's core principles. This means holding states accountable for meeting TANF's goals (including ensuring that TANF money is spent on low-income families), refocusing TANF on outcomes and away from process measures, reforming the work participation rate to make it more meaningful, and allowing states to experiment with ways to ensure that the most vulnerable benefit from the program. Together, these reforms will improve a program that has largely benefited low-income families but has more to do.

Supplemental Nutrition Assistance Program

At almost \$74 billion per year, SNAP, known before 2008 as the Food Stamp Program, is the second-largest need-tested program for low-income families in the United States, behind Medicaid. In the average month in 2015, it served 45.8 million people.²⁶ It covers approximately 14 percent of the entire population, and 83 percent of eligible households participate.²⁷

SNAP has grown tremendously over the past several years. Major policy changes in 2008 and the economic downturn that started in 2007 led to an unprecedented expansion to the program. From 2007 to 2015,

Figure 4. SNAP Recipients and Benefit Costs, 1990–2015

Source: US Department of Agriculture, Food and Nutrition Service, “SNAP Participation and Costs.”

the number of households receiving assistance increased 74 percent, and inflation-adjusted costs increased 95 percent (Figure 4).²⁸

The program’s goal has always been to improve nutrition among low-income families. Eligibility is based on household income, household size, and the disability and old-age status of people in the household. Eligible families receive a monthly benefit that can be used only for food. Benefit levels are the same nationwide and are based on several factors, including family size. Few restrictions are placed on the types of food items recipients can purchase, except for prepared food (you cannot use SNAP benefits at a restaurant) and alcoholic beverages.

After welfare reform was passed in 1996, Food Stamp caseloads declined dramatically. The PRWORA made some changes to the Food Stamp Program, including restricting eligibility for noncitizens, reducing the benefit amount, and requiring work for able-bodied adults without dependents (ABAWDs). But the caseload declines were largely caused by changes to the cash welfare program. Under the AFDC program, which operated from the 1950s to 1996, Food Stamp benefits

were very much linked to AFDC benefits. When TANF replaced AFDC and caseloads began to decline, so too did Food Stamp participation. Changes were made in 2002 that restored Food Stamp Program eligibility to noncitizens who had been in the country for five years or more, and efforts were made to separate the program from TANF. The result was that by 2003 the Food Stamp caseload began to increase back to levels seen before the PRWORA.²⁹

Another noteworthy change that contributed to caseload increases was a shift to using electronic benefits rather than actual food stamps in 2004. Electronic benefits are transferred to an Electronic Benefit Transfer card that functions like a debit card. This reduced the stigma of using Food Stamp benefits because it was no longer obvious that someone was using a government benefit to purchase food.

By 2007, the Food Stamp caseload had reached 26 million people, up from a low of 17 million in 2000. But major changes in 2008, coupled with a severe economic downturn, dramatically expanded the program. In the 2008 Farm Bill, the program was renamed the Supplemental Nutrition Assistance Program to reduce stigma and focus the program on nutrition. Other changes included simplifying application requirements and requirements to continue benefits. Transitional benefits, which provide assistance for a few months after a recipient is no longer eligible, were also extended.

But possibly the largest impact on caseloads resulted from eliminating the asset test for SNAP in many states. Asset tests exist to limit assistance to those most in need. Households with assets over \$2,250 (or \$3,250 for a household with an elderly person), with a vehicle and primary residence exception, are not eligible for SNAP. But a mechanism called broad-based categorical eligibility allows states to consider families that receive a TANF-related service automatically eligible for SNAP. Since TANF can fund a variety of different services, states found creative ways to make a SNAP applicant categorically eligible through TANF so that the asset test did not apply.

Together, these changes led to the substantial expansion in SNAP starting in 2008, and it was not simply due to more people becoming eligible because of the economic downturn. Participation among eligible households also grew. In 2007, 66 percent of eligible households

participated in SNAP. By 2012 (the most recent year with data), it is estimated that 80 percent participated.³⁰

SNAP Successes. SNAP is often considered one of the more effective safety net programs. A large body of research shows that SNAP reduces poverty, improves food security among low-income households, and has positive effects on infant health and long-term benefits for children who received SNAP.³¹

SNAP is also considered a fairly efficient program. In FY 2014, the error rate (that is, the percentage of dollars that go to ineligible households or get over- or underpaid) was extremely low (by government standards) at 3.66 percent, and 99 percent of households that received benefits were eligible.³² In addition, 92 percent of spending is for benefits that go directly into households, with only 8 percent to support administrative and other efforts.³³

SNAP Challenges. Although SNAP is generally considered an effective and efficient program, it faces several challenges. The dramatic increase in recipients and costs in recent years has raised questions about whether the program is sustainable. The CBO projected in January 2016 that SNAP spending would decline slightly over the next few years but would remain at more than \$70 billion, still a substantial increase over expenditures in 2007.³⁴ This has led some to call for controlling costs by reducing benefits or block granting the program to the states.

Another challenge SNAP faces is whether it creates a disincentive to work because the benefits received by otherwise employable people allow them to afford necessities without working. In addition, SNAP's structure reduces benefit amounts as income increases, placing a "marginal tax" on increased work.³⁵ For example, each additional dollar someone earns might reduce their SNAP benefit by 20 cents.

While some evidence suggests that SNAP might discourage work,³⁶ work requirements have so far been implemented only with ABAWDs. Evidence suggests that these work requirements induce employment for a sizeable portion of ABAWDs, but some are especially difficult to employ.³⁷ A report by the Congressional Research Service (CRS)

analyzed the issue and found that imposing work requirements beyond ABAWDs would be costly because of the need to provide employment services and may not lead to employment gains.³⁸ But others argue that work requirements could extend some of TANF's successes to more low-income households.

Finally, another impending challenge for SNAP is how aggressively to push for improved nutrition among recipient households. Research has shown that SNAP recipients have worse nutrition and are more obese than nonparticipants.³⁹ But studies that control for a variety of factors generally find that SNAP does not necessarily cause this.⁴⁰

Nevertheless, the US Department of Agriculture (USDA) has implemented several initiatives designed to improve recipients' nutrition through increased consumption of fruits and vegetables. The USDA provides states with funding to offer nutrition education programs (SNAP-Ed), but a program evaluation found that they had limited effects on participants' actual consumption of fruits and vegetables.⁴¹ The USDA also implemented a pilot program in 2010 called Healthy Incentive Program (HIP), which incentivized SNAP recipients to purchase fruits and vegetables by providing an extra \$0.03 for every \$1.00 spent on fruits and vegetables. The program evaluation of HIP found that the incentives led to an overall increase in fruit and vegetable consumption among participants when compared to a control group, but the pilot program ended in 2012. In other efforts to encourage healthy eating, the USDA has expanded its efforts to encourage farmers markets to accept SNAP benefits.

SNAP Reforms. One of the boldest reforms to SNAP would be to pilot test block grants with a few states. Block granting the program would allow states to experiment with work requirements, efforts to improve nutrition, and ways to better tailor benefit levels to local conditions. As a pilot program, evaluations could be conducted to determine whether block grants can be more effective than the current system.

Besides block granting SNAP, other reforms can address some of the existing challenges. Work requirements for ABAWDs were reinstated across most of the country in 2016. In addition, pilot programs in a few states could be implemented and rigorously studied to determine

whether work requirements for all able-bodied recipients could be effective and whether they increase employment among SNAP recipients. If successful, efforts to expand work requirements more broadly should be explored. Other reforms include changing the SNAP benefit calculation to adjust for local cost of living and not allowing SNAP to purchase unhealthy nonfood items linked to obesity, such as sugary beverages.

The Earned Income Tax Credit

The EITC is the third-largest government transfer for low-income families in the United States, behind Medicaid and SNAP. In tax year 2013, \$68.1 billion was distributed to more than 28 million tax filers.⁴² Unlike most income transfer programs that provide monthly or even more frequent benefits, the EITC is a refundable tax credit, which means it is provided to low-income households once per year. Because most EITC-eligible tax filers owe little to no income tax, most beneficiaries receive the credit as a refund.

The credit phases in (growing with each additional dollar earned) at very low earnings levels and phases out (reduced with each additional dollar earned) once a household's earnings are higher. It is more generous for families with children. The credit's size is based on the tax filers' earnings, adjusted gross income, and number of qualifying children.

In 2016, the maximum EITC is \$6,269 for families with three qualifying children and \$3,373 for families with one qualifying child.⁴³ For families with three children, the maximum income for which they remain eligible is \$47,955 if unmarried and \$53,505 if married (approximately 175–200 percent of the federal poverty guideline, depending on marital status and number of children). Beneficiaries must have employment income and meet certain eligibility criteria, including filing their taxes with the IRS.

The original family EITC stemmed from the political debates in the 1960s and 1970s over a negative income tax and universal guaranteed income. Basically, these ideas involved transferring public dollars to

low-income people so that every family had at least a basic income. The EITC was similar in concept and was originally enacted in the 1970s on a temporary basis for working, low-income families. In 1978, it was made permanent, with subsequent increases in 1986 and 1990. In 1993, the EITC was further expanded, and a small EITC was created for workers without dependent children. The childless worker EITC was established to offset the employee's share of payroll taxes for workers with earnings up to full-time work at the minimum wage.

Married tax filers (with and without qualifying children) can also claim the EITC, but the earnings of both are considered, and the maximum combined earnings level is only slightly higher than the levels for unmarried filers, which means most EITC benefits go to unmarried families. Approximately 75 percent of EITC benefits go to unmarried tax filers.⁴⁴

EITC Successes. As an antipoverty tool, the EITC has proved quite effective. It is better targeted to low-income families than the minimum wage (for example, the minimum wage applies to all workers even if they come from a family that is not poor, while the EITC goes only to low-income families), and it lifted more than six million people out of poverty in 2014.⁴⁵

Reviews of the literature have found that the family EITC increased employment rates of single mothers by approximately 3–7 percentage points in the late 1990s, although there is some debate about whether these effects were due to the EITC or the EITC combined with other policy changes.⁴⁶ A study in 2015 found similar increases in employment among single mothers in the 1990s due to the EITC and also found that the EITC reduced the percentage of single-mother families in poverty by 9.3 percent.⁴⁷ The same researchers found that poverty reductions attributed to the EITC are likely underestimated because they do not take into account longer-lasting effects.⁴⁸

Another positive aspect of the EITC is that it avoids the work disincentives of some of the other income transfer programs (for example, SNAP). Unlike SNAP, the EITC is provided only to individuals who work, providing a large incentive to employment. Although some work disincentive can be found if a worker falls in the phase-out range

(because they lose EITC benefits as their income increases), researchers have generally found these effects to be nonexistent or small.⁴⁹

EITC Challenges. The EITC's success in improving employment levels and reducing poverty among working families is often cited as the prime motivation for extending it to childless workers. But the current EITC for childless workers is often thought of as too small to achieve the same type of meaningful employment gains that the family EITC produced. In 2016, the maximum credit for a childless worker was \$506, and income eligibility is up to only \$14,880 (or \$20,430 if married).⁵⁰

The employment problems of young people, especially less-educated minority men and noncustodial fathers, are well-known. According to a 2016 report, 30 percent of black men age 20–24 in New York City and Los Angeles were not in school and not working in 2014.⁵¹ But the EITC does little to help these workers given that it is currently so modest.

Another challenge associated with the EITC is the large improper payment rate. According to the Government Accountability Office (GAO), the federal government spent \$65.2 billion on the EITC in FY 2014, of which 27.2 percent, or \$17.7 billion, was improper. According to the GAO report, improper payments have remained this high since 2003, and given the increase in total EITC expenditures over this time, the amount of improper payments has ballooned from \$10.5 billion in FY 2003 to the current \$17.7 billion.

Improper payments are those that never get recovered and stem from over- and underpayments, but the vast majority are overpayments.⁵² According to a CRS study of 2006–08 EITC claims, three main reasons explain overpayments: errors in claiming qualifying children, income-reporting errors, and filing-status errors.⁵³ Most who received an overpayment were not eligible at all. In the CRS review, the most common error was improperly claiming a qualifying child, which also accounted for the largest amount of improper payments. Errors in qualifying children are also the most difficult to detect on a large scale, given that no alternative data sources exist that can verify qualifying children.

Another challenge associated with the EITC is that it is a lump sum payment at tax time, rather than consistent income support throughout the year. Research shows that recipients use the tax refund to pay overdue expenses and pay down debt, but that they also view it as an opportunity to save.⁵⁴ Other research finds that increased EITC generosity leads to more savings but also more debt, as people use credit cards to smooth consumption in anticipation of a large EITC payment.⁵⁵ The bottom line is that the purpose of the EITC is to fill the gap between low earnings and household expenses, yet the EITC only comes once a year. By design, this is problematic.

Finally, because of its structure, some low-income couples who share a child can receive a much larger EITC if they are unmarried. The EITC is based on the earnings of the tax filing unit, and married couples must file jointly, meaning their income must be combined, whereas unmarried parents can file their taxes separately. Recognizing that this penalizes marriage, Congress changed the EITC in 2002 so it phases out more gradually at higher income levels for married couples. But this only partially offsets the penalty. Research suggests that the vast majority of unmarried couples would still lose EITC benefits if they married, with estimates suggesting \$1,200 to \$2,000 could be lost due to marriage.⁵⁶

EITC Reforms. Based on the challenges the EITC faces, three major reforms are needed, with the potential for a fourth. The first major reform involves efforts to reduce the improper payment rate. According to tax officials, improper payments stem from the IRS's inability to validate information from tax filers concerning qualifying children requirements, improper taxpayer filing statuses, and complex living arrangements that complicate EITC claims, as well as the IRS's inability to verify income before refunds are issued.⁵⁷

To address these issues, oversight officials recommend a few key steps, including regulating tax preparers to reduce errors, better matching employer-provided wage data with tax returns, better using other data sources to verify what is reported on tax returns, and expanding audit efforts and public information campaigns designed to reduce errors.⁵⁸

The second reform is a periodic payment option. A paycheck-based advanced EITC was largely ineffective and discontinued in 2010 because it was seldom used. The advanced EITC required the employer to advance the EITC to the employee through his or her paycheck, and then these payments would offset the employer's quarterly taxes owed.⁵⁹ It was viewed as administratively difficult, and less than 2 percent of claimants used it before it was discontinued.⁶⁰ But the need to provide payments to low-income families more than once per year remains.

New proposals to offer periodic EITC payments offer a path forward. One proposal is to build on the periodic payment option in the Affordable Care Act. Enrollees in a health plan through an insurance exchange must estimate their income for the coming year. This is then used to estimate the tax credit, and the IRS pays the enrollee a portion of the credit each month to cover the costs of the health plan.⁶¹ A similar process could be used for the EITC (and other tax credits for low-income taxpayers), which avoids involving the employer altogether.

The third reform involves further reducing marriage penalties in the EITC. Even though qualitative research questions how much the marriage penalty in the EITC actually factors into decisions around marriage, many EITC beneficiaries identified ways that they manipulate their tax filings to maximize their refunds, suggesting that they are aware of how marriage affects their taxes.⁶² Completely eliminating the marriage penalty by treating married couples' income separately is costly, but ways to reduce the marriage penalty should be explored. This can include treating married couples' income separately when calculating the EITC or creating a worker credit (based on individual income) and a child allowance to replace the EITC.⁶³

The fourth potential reform is an expansion to the childless worker EITC. This has gained bipartisan support, with President Barack Obama while he was in office and Speaker Paul Ryan both indicating that they support a larger childless worker EITC. However, it remains unclear whether an expanded childless worker EITC will have the intended impact of increasing employment. And at a cost of at least \$8 billion per year, it could prove expensive and not well targeted to young men. For example, analysis suggests that an expanded childless

worker EITC would result in millions of new beneficiaries who are older workers and women.⁶⁴ There is also some indication that an expanded EITC for childless workers could hurt single mothers by increasing competition for jobs (if employment gains were realized) and lowering wages.⁶⁵ A demonstration project is being conducted in New York City and Atlanta, Georgia, to test an expanded childless worker EITC, with preliminary results expected in 2017.⁶⁶ Efforts to expand the credit should wait until those results are understood.

Role for Private Charity and Philanthropy

Although government support for poor Americans has a long history, private support goes back even further. Individual charities, families, and community members certainly provided support to families in need long before the federal government established government-supported programs, and they continue to do so today.

Among many other things, private charities operate social service and emergency food programs and provide housing resources to poor families across the country. According to the National Philanthropic Trust, Americans contributed \$384 billion to charity in 2014.⁶⁷

Private charities and philanthropy are a crucial component to the nation's social safety net, but they cannot be expected to provide all the necessary resources to poor families. One of the main reasons is that during hard economic times, charitable giving expectedly tends to decline at the same time that more people are in need. In fact, one of the achievements of the government's social safety net was that it was fairly responsive to the Great Recession of 2007–09.⁶⁸

Instead, private charity provides a necessary complement to government programs. Government programs are fairly effective at determining eligibility and distributing assistance, but it can be challenging to respond timely to emergency needs and to cater services to each family's individual needs. It can also be challenging for government to be innovative and try new things. Private charities and organizations supported by them are in a much better position to be responsive and innovative.

Conclusion

The federal government spends approximately \$160 billion per year on the three main income transfer programs described in this monograph: TANF, SNAP, and the EITC. These three programs are unique because they constitute the largest income support programs for work-able families.

They have each been shown to be effective in their own ways. TANF effectively reduces poverty by increasing employment among single mothers, SNAP lifts millions of households out of poverty each year and increases access to nutritious foods for low-income families, and the EITC rewards work by supplementing low wages. But these successes have come with challenges.

Reforms are needed in TANF to ensure that the most vulnerable do not fall through the cracks and that states are held accountable for achieving program goals. More focus is needed in SNAP on healthy eating and encouraging rather than discouraging work. And the EITC needs reform to decrease improper payments, offer periodic payments to beneficiaries, and ensure that childless workers receive the same employment-related benefits from the EITC as families. If policymakers and program administrators focus on these issues in coming years, the safety net for low-income families will come closer to fulfilling the twin goals of alleviating material hardship and promoting self-sufficiency through work.

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