How Today’s Safety Net Promotes Work – And How To Do More

By Elizabeth Lower-Basch

Across political parties, Americans value work and believe that those who are capable of doing so should support themselves and their families as much as possible through work. There is also widespread support for a safety net that helps even those in low-wage jobs obtain the necessities of life and that provides assistance when people are unable to work. However, too often, politicians suggest that these core values are at competition. In fact, a strong safety net can complement work, and make it possible for workers to succeed as both employees and parents. In fact, over the past 25 years, our safety net has been redesigned to provide increased support for work, reflecting the fact that the nature of the low-wage labor market leaves many working families still struggling to make ends meet. This brief summarizes recent facts and trends and highlights the need to preserve and build on the last two decades of improvements in the core safety net programs that enable them to support work.

The level of work by parents in low-income families is high, but because so many jobs are low-wage, and unstable, many of these families still need assistance from benefit programs.

Even with the economy struggling to recover from the recession, in 2012 over two-thirds of poor children lived in families with at least one worker and 30 percent were in families with at least one worker employed full-time, full-year. When near-poor children are added in, more than half of poor...
and near-poor children lived with a full-time, year-round worker. The basic problem is that low-wage work, even when workers are able to obtain full-time year-round jobs -- does not pay enough to lift a family out of poverty. In 2013, a full-time year-round worker earning the federal minimum wage would take home $13,926 after payroll taxes, only 71 percent of the poverty level for a family of three. However, receipt of the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) would boost the families’ earnings to $21,110, a bit more than the official poverty threshold of $19,530.

Similarly, only about a quarter of workers in the lowest quintile of earnings had employer-provided health insurance in 2010. In many cases, even those who receive employer-provided insurance for themselves do not receive coverage for their families. With individual coverage far out of reach, these families would have little hope of receiving health insurance without public programs such as Medicaid, Children’s Health Insurance Program (CHIP) and the subsidies under the Affordable Care Act (ACA).

The core federal programs that have evolved from the War on Poverty are now designed to support work rather than discourage it.

Two decades ago, it was true that low-income parents moving from welfare to work lost eligibility for many programs almost as soon as they started working. This is no longer the case. A number of key reforms in the 1990s and 2000s ensured that the full package of federal safety net programs supports work. These reforms included:

- Major expansion of child care subsidies, including a tripling of combined federal and state spending on child care between 1996 and 2000, leading to approximately 1 million additional children receiving child care assistance.
- Increased income disregards under Temporary Assistance for Needy Families (TANF) cash assistance, meaning that benefits were phased out more slowly than in the past when parents entered employment.
- SNAP (Supplemental Nutrition Assistance Program, formerly food stamps) policy and practice changes to make benefits more available to working families, including online and phone applications, and more fully reflecting the burden that child care costs can place on family budgets.
- Major expansions of the EITC and CTC, so that the combined value of these programs for a single-parent with two children working full-time at the minimum wage has increased more than seven-fold from 1990 to today.
- Expansion of eligibility for health care coverage through Medicaid and CHIP to nearly all children in low-income working families, and some parents.

In fact, this increase in support for low-income working families who are unable to make ends meet is one of the biggest trends in recent decades.

The typical adult receiving safety net benefits today is already working.

Two of the largest income transfer programs today are the EITC and CTC, both of which are only available to families with workers – in fact, both of them increase as earnings increase up to specified limits. These programs dwarf traditional income support programs – the Congressional Budget Office estimates that the refundable EITC reached 25.2 million tax households in 2011, more than one in six of all taxpayers in the U.S. By contrast, less than a million adults received TANF cash assistance – “welfare” – in the average month of 2013. Similarly, eligibility for child care is directly linked to employment. Most parents receiving child care subsidies are working; 93 percent are either employed or in education or training programs.

Even in other programs that are not limited to workers, the reality is that participants have
significant work attachment. For example, among all SNAP households with at least one working-age adult not receiving disability benefits, more than half have a member who works while they are receiving SNAP — and more than 80 percent work either in the year prior to or the year after receiving SNAP. The rates are even higher for SNAP households with children. viii

On balance, research evidence suggests that getting the full package of work support benefits leads families to work more hours and more steadily — that is, getting help from the safety net promotes work rather than undercutting it.

For these families, working hard for low wages, the crucial issue is not motivating them to work but ensuring they have the crucial supports like health care, nutrition, and child care to enable them to stabilize their work lives, raise thriving children, and eventually move up on the job. It is not too much support for work but too little — in particular the absence of help with child care or the instability associated with not being able to afford a stable residence — that typically holds families back from working.

The evidence confirms that families that get help are more likely to work and to keep their jobs. For example, research on child care subsidies has consistently found that they play a key role in improving parents’ employment outcomes, including stability of employment and earnings. Studies of parents leaving TANF cash assistance for work have concluded that families obtaining various work supports, including health insurance, SNAP, and child care, were more likely to be stably employed and less likely to return to welfare. ix

A simple look at historical trends confirms that single mothers, the group most likely to benefit from income support programs, experienced significant gains in employment rates just as the safety net expanded during the 1990s. While these rates have since declined, they remain significantly higher than they were prior to the expansion. Given the many practical and financial challenges involved in working in a low-wage job while caring for a child as a single parent, the employment level for this population is frankly remarkable.
By contrast, employment has declined the most among childless adults, especially men. In 1995, 62.5 percent of childless men and 50.7 percent of childless women were employed. In 2012, 56.7 percent of childless men and 48.5 percent of childless women were employed. These individuals do not receive the child tax credit and are only eligible for a very modest EITC and limited SNAP benefits. Until the ACA expansion, they were almost never eligible for public health insurance. It is not plausible to attribute their declining labor force participation to the existence of the safety net.

Even though the actual evidence about low-income families suggests that getting help to stabilize their lives leads to more work, not less, critics sometimes assert that their theory about how programs work must be right instead. Because safety net programs such as TANF, SNAP, and housing subsidies gradually reduce benefits as earnings increase, some have argued that families must be discouraged from working, describing these benefit reductions as “effective tax rates” because they mean that each additional dollar of earnings translates into less than a dollar of additional net family income. However, for poor parents moving from unemployment or very part-time employment into more employment, these effects are offset by the increased value of the EITC and the CTC. In fact, the very poorest families may find that their net income increases by more than a dollar for each dollar of additional earnings.

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**High effective “tax rates” caused by the phase-out of benefits affect a tiny share of families and are unlikely to have any effect on employment levels.**

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It is true that for higher levels of earnings, families will experience some reduction in benefits as they earn more. For example, the value of the EITC eventually levels off, and is ultimately phased out. In addition, as earnings rise, workers become subject to both federal and state income taxes. In some states, income taxes begin to apply to families well under the poverty line.\textsuperscript{x\textit{i}} (As noted below, in states that have not taken the Medicaid expansion under the ACA, a parent who is working will face a sharp reduction in benefits at an extremely low level of income, potentially less than half of the poverty threshold.) As a result, some workers do experience effective marginal tax rates that create long income “plateaus,” while workers and their families may be only modestly better off as earnings rise.

But analyses that show extremely high marginal tax rates for near-poor families typically assume that families receive a far more inclusive package of benefits than anyone actually gets in the real world. For example, a frequently cited graph provided to the House Ways and Means Committee in testimony showing high marginal rates for workers between 100 and 150 percent of poverty is calculated based on the assumption that a family is receiving a full package of benefits, including SNAP, health insurance, subsidized housing, and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).\textsuperscript{x\textit{ii}} This applies to so few families as to be essentially irrelevant. A Census report found that over the four year 2001-2004 period, out of the tens of millions of low-income families, an average of just 571,000 households per year received both WIC and housing subsidies.\textsuperscript{x\textit{iii}} Similarly, the most recent administrative data for WIC found that only a quarter of families receiving WIC also received both SNAP and Medicaid.\textsuperscript{x\textit{iv}} A recent study by Robert Moffitt confirms that only a tiny fraction of SNAP recipients are both receiving multiple means-tested benefits and have incomes in the ranges where they experience high implicit marginal tax rates.\textsuperscript{x\textit{v}}

Studies that ask low-income parents how they make decisions about work, in particular the decision about whether to accept an offered promotion that would result in a modest increase in wages, find that the phase-out of public benefits is rarely a consideration. By contrast, low-income workers do talk about the effect the position would have on their work schedules and commutes, and sometimes turn down promotions that would shatter fragile child care arrangements.\textsuperscript{x\textit{vi}}

It is worth noting that low-income childless adults face a very different schedule of benefits and phase-outs. As noted before, they are only eligible for a very modest EITC. In some cases, they may face very high effective marginal tax rates beginning with the first dollars earned. This is particularly likely for non-custodial parents, because a portion of their earnings is often withheld to meet their child support obligations. CLASP therefore strongly supports proposals to expand the EITC for childless adults in order to help “make work pay” for all workers.

“Cliffs” caused by the sharp loss of benefits, particularly child care, can have destabilizing effects on families. Remediying these cliffs requires strengthening the safety net through investments in child care and promoting state Medicaid expansions under the ACA.

That said, we should pay attention to sharp “benefit cliffs,” where families would abruptly lose a crucial support if they took a promotion or added hours. These cliffs are quite visible to recipients, and are counter-productive to the goal of stabilizing work.
In states that have adopted the Medicaid expansion under the ACA, one of the most damaging of these cliffs is gone. Parents no longer have to take the enormous risk of going without health insurance if they add hours to a low-wage job and exceed a pre-ACA Medicaid eligibility ceiling that in many states was far below the poverty level. (In the example shown above, Ohio provided Medicaid coverage to parents up to 90 percent of the federal poverty level, meaning that in 2009 this parent would have exceeded the threshold of $16,480 by taking a full-time job at $8 an hour.) In states that have adopted the expansion, a working parent can now have peace of mind about health care, with Medicaid coverage at the lowest income levels and then coverage through the health insurance exchange with a sliding scale of subsidy. The insurance subsidies provided through the ACA also help eliminate the cliff that families used to experience when they exceeded the income limits for children’s health insurance coverage under CHIP.

Working parents in many states experience cliffs at the point where they lose eligibility for child care assistance. Seventeen states have designed their child care programs to avoid cliffs by establishing higher exit income eligibility limits that allows families to stay on child care assistance even if their incomes grow to exceed the initial eligibility limit (often known as “two-tier income eligibility”).

Providing 12 months of continuous coverage for families receiving child care assistance also reduces sharp cliff effects and provides children with stable care even as earnings fluctuate, as is common among low-wage workers. Making the child and dependent care tax credit refundable, so that families who do not earn enough to owe federal income taxes can benefit, would also help reduce the cliffs that families experience when they reach the child care subsidy limits. Congress should expand funding for child care assistance so that more families can get the help they need to go to work.

Another drop in benefits can occur at the gross income limit for SNAP benefits, which is a firm income cutoff, not counting any disregards for work or other expenses that limit available income. Households with high child care, child support, housing or medical expenses may reach the gross income limit while their net income (after applying the appropriate disregards) is still low enough to allow them to qualify for benefits. However, states have the flexibility to use “broad based categorical eligibility” to raise this limit and reduce the cliff effect, and more than half of states have done so. xviii

Many low-income people who want to work full-time are forced into part-time work schedules by the new dynamics of the low-wage labor market.

Some have suggested that workers are deliberately avoiding a move to full-time employment due to the incentives caused by benefit phase out and cliffs. The overwhelming evidence is that the opposite is true – many people would like to work more, but can’t. According to the Bureau of Labor Statistics, more than 7.5 million people are involuntary part-time workers, meaning that they would like to work full-time, but either can only find a part-time job or have had their hours cut. While this figure is down about 2 million from the peak of the recession, it is still millions above pre-recession levels. xix An additional 1.9 million people are working two part-time jobs. xx

Much of this is the nature of the jobs, not workers’ choice, especially in typical low-wage industries such as retail, food service and health care. For example, one recent study found that almost 60 percent of the retail workforce is hired in part-time, temporary or holiday positions, and only 17 percent of workers surveyed have a set schedule. xxi These unpredictable hours make it very difficult to “stack” part-time jobs because workers often need to hold open availability for their employers even when not scheduled to work, or they can be penalized by loss of hours. Even among those who are counted as “voluntary part-time,” some would really like to work more hours but can’t get them, or are constrained by lack of affordable child care and can only work when children are in school, or when other family members are available to provide free care.

Ultimately, good jobs, with living wages, predictable schedules, and benefits are the best path out of poverty. Low-income and low-skilled Americans also deserve a path to better employment.

American workers need jobs that pay enough to enable them to support their families – and also that allow them to meet their responsibilities as both workers and family members. Public policies including the minimum wage, paid family and medical leave, standards for earned sick days, and fair schedules can all reduce the need for income and work supports.

Increasingly in our economy, high paying jobs require postsecondary education and training. The bipartisan Workforce Innovation and Opportunity Act (WIOA), which was passed by near-unanimous votes in both houses of Congress and signed on June 22, 2014 by President Obama, reflects agreement on some core ideas including a heightened focus on providing training and helping participants prepare for postsecondary education to improve their success in the labor market, and greater focus on and new vehicles for addressing the needs of youth and adults who have significant barriers to employment. At a time of sustained unemployment in many communities, the programs in WIOA are designed to help young people and adult workers prepare for work or further education, find jobs, and build the skills employers need. A key element of any anti-poverty strategy should be providing adequate resources to ensure that these improved services reach those who need them.
Endnotes


iv January 2014 Poverty Trends, CLASP.


