

Issue BRIEF

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Income Supports and Work Requirement Policies: An Equity-Focused Policy Research Agenda

Although the EITC reaches more families, receiving it is contingent upon work. Alternatively, TANF reaches fewer families, but provides support to families in greater economic need who are not eligible for the EITC. Over time, the social safety net for low-income families has shifted from cash transfer programs like TANF to tax credits, most notably the federal EITC.

Income support programs provide important financial benefits for low-income families in the form of tax credits and cash transfer programs. Eligibility requirements and program structure influence low-income families' access and participation levels and create geographic and racial/ethnic disparities.

Federal and state tax credits provide low-income families with increased financial resources delivered through tax refunds.¹ The federal Earned Income Tax Credit (EITC) is the largest of these credit programs (Table 1). Cash transfer programs, primarily Temporary Assistance for Needy Families (TANF), also provide income supports to eligible low-income families.

Overview of EITC and TANF

	EITC	TANF
Target population	Working families with children and annual incomes below \$40,320 to \$54,884, based on family size	Under-employed, unemployed, or about to be unemployed adults who are pregnant or have a dependent child
Number of recipients	27 million tax filers	Roughly 2.5 million participants on average
Total cost of the policy	\$65 billion	\$16.5 billion
Average benefit amount	\$2,445 per year	\$432 monthly (subject to time limits and work requirements)

Table 1

This brief highlights evidence on income support policies, and associated work requirements, for families with young children and proposes a policy-focused research agenda designed to address knowledge gaps in two areas: (1) understanding disparities in participation in income supports and (2) assessing innovative strategies to reduce disparities in income supports.

UNDERSTANDING DISPARITIES IN INCOME SUPPORT ACCESS AND PARTICIPATION

Estimated take-up rates for the federal EITC between 1994 and 2009 ranged from 73 to 85 percent among eligible families. In contrast, TANF take-up rates are between 40 and 55 percent, depending on the program and state (Goodell 2017).

Although take-up rates for the EITC are high, some low-income families are unaware of the EITC or cannot access its benefits because they are not employed.

EITC benefits are concentrated among families between 75 and 150 percent of the federal poverty line (Hoynes and Patel 2015). According to one 2013 estimate, about 5 million families, likely eligible low-income families who do not file tax returns, did not claim the EITC (Goldin 2018). Because it is predicated upon work, the EITC does not protect families during economic downturns and periods of high unemployment (Hoynes and Schanzenbach 2018). During the Great Recession, the EITC disproportionately benefited married couples with children over single mothers (Bitler et al. 2014). Moreover, because African-Americans often face higher unemployment rates in economic downturns, they are more likely to face a weakened safety net.

State EITCs supplement federal benefits but also create disparities in access to benefits based on geography.

To supplement the federal EITC, 29 states and the District of Columbia have implemented their own EITCs (CBPP 2017); (see Figure 1). State EITCs are often structured to encourage participation in the federal EITC. State EITCs vary in the size of benefits, ranging from 3 to 85 percent of the federal credit (Davison et al. 2018).

Recent estimates highlight the decreasing role of TANF in providing income supports for low-income families.

As of 2016, 23 percent of families in poverty received TANF cash assistance, compared to 68 percent of families in poverty when the program began in 1996 (Floyd et al. 2017). Also, the Deficit Reduction Act of 2005 (DRA) substantially reduced TANF funding, which led to lower benefit levels and reduced access (Brown and Derr 2015). State governments relied on different methods to respond to funding shortfalls, including decreasing cash benefits, decreasing supportive services (for example, child care services, transportation benefits), and imposing stronger sanction and work requirement policies to reduce caseloads (Brown and Derr 2015). This state variation has resulted in disparities in access to and benefit levels based on where families live.

Under TANF, states impose rules that affect access and participation for different groups, which leads to disparities in access based on geography and race/ethnicity.

TANF benefit levels vary across states (Figure 2). In addition, states have latitude to implement different rules related to exemptions from work requirements, time limits, and behavioral requirements. As of 2016, three states did not exempt pregnant women or new mothers from work requirements. In contrast, the most generous states exempt heads of household with children under age 24 months and women who

States with Earned Income Tax Credits

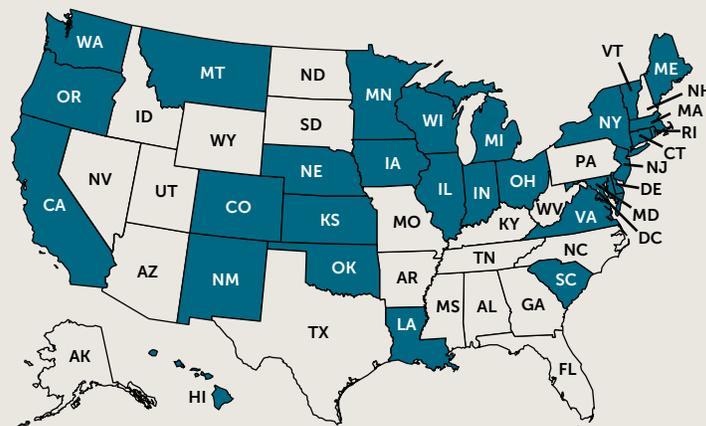


Figure 1

Source: Center on Budget and Policy Priorities, 2017

Note: States with EITCs are indicated in teal

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¹ Refundable tax credits, such as the Earned Income Tax Credit (EITC), provide tax benefits to filers, regardless of their tax liability. Nonrefundable tax credits, on the other hand, provide tax benefits only to filers who have a tax liability. As a result, most low-income filers are excluded from these tax benefits.

Maximum TANF benefits as percentage of the poverty line for a family of three, by state

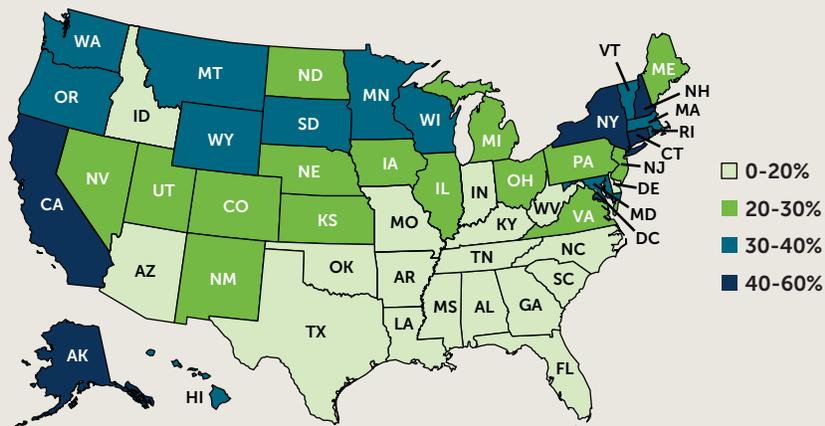


Figure 2

Source: CBPP analysis of maximum TANF benefits as a percentage of the federal poverty line for a family of three. The federal poverty level for a family of three in 2017 is \$1,702 per month in the 48 contiguous states and the District of Columbia. Analysis uses 2017 Health and Human Services poverty guidelines. TANF benefit levels for a single-parent family of three were compiled by the CBPP. Map included in Floyd 2017.

are four or more months pregnant (Lower-Basch 2015). On average, states limit lifetime TANF receipt to 60 months, but the least generous states impose a 12 month lifetime limit. Thirty-seven states place school attendance requirements on the children of TANF participants. Recent evidence shows that states where a large share of the population is African American tend to have more restrictive policies and less generous benefits (Hahn et al. 2017).

There are racial/ethnic disparities in TANF sanctioning and in access to supplemental TANF services. Recent research shows that African Americans are more likely to face sanctions, driven in part by caseworker discretion in imposing sanctions (Hahn et al. 2017). One study examining caseworker discretion in Michigan showed that despite clear state sanctioning policies, caseworkers had considerable discretion, which led to disparities based on caseworker assignment (Ricucci 2005). Other recent studies point to differences in the provision of TANF services and outcomes based on participants' race and ethnicity.

To aid in developing solutions, policymakers need research to document the types and magnitude of disparities, as well as barriers to access that subgroups of families face. Potential research questions include:

- What are the reasons for lack of EITC take-up among eligible households? Is this due to lack of awareness? Confusion over tax preparation?
- What policies can improve EITC take-up among eligible households? What role do professional tax preparers play in increasing access to and participation in the EITC? Do rates of use vary by key subgroups?
- Does variation in state EITC policy affect geographic differences in household and child poverty status?
- How would expanded state EITCs affect access and participation? What disparities might emerge from state EITC expansion?
- What are the participation rates among noncustodial parents who can access state EITCs? How would expansion of noncustodial parent access to state EITCs affect family income?
- How have differences in state policies related to work requirements, incentives, exemptions, and sanctions affected access and participation overall and for key subgroups? What are the characteristics of participants facing

Hispanic and African-American TANF participants are more likely to face sanctions that limit TANF benefits and are less likely to be offered supplemental services, such as child care assistance, transitional Medicaid, and transportation assistance than white TANF participants (McDaniel et al. 2017; Cheng 2009).

TANF sanctions? What differences exist based on race/ethnicity, number of children, and children's ages?

- What role do caseworkers play in TANF sanctioning decisions? How can caseworkers affect access?

- What are the characteristics of mothers and their children currently disconnected from TANF? What are the causes of their disconnection? What barriers do they face in entering employment and/or accessing other benefits?

State EITC expansion provides an opportunity for state policymakers to expand the social safety net without expanding welfare programs (Davidson et al. 2018) and state EITCs can be implemented with low administrative burden.

Potential research could include simulating changes to EITC eligibility requirements, as well as implementing state EITCs. Qualitative studies could also provide insights on factors that prevent households from accessing tax credit benefits. For TANF, potential research could compare outcomes for families receiving TANF benefits to those no longer able to access TANF benefits due to sanctions and/or time limits. Comparative case studies of states, focusing on states with more and less restrictive TANF rules, especially rules focusing on exemptions for pregnant women and parents of young children, could provide important insights disparities in accessing and participating in TANF.

INNOVATIVE STRATEGIES FOR IMPLEMENTING INCOME SUPPORT PROGRAMS

Some research has explored strategies for improving access to income support policies, expanding benefits to reach additional families, and restructuring benefits to better meet the needs of low-income families.

Research related to tax credits has focused on increasing EITC awareness, expansion of state EITCs, and alternative benefit payment options. Key innovations in this area include:

- **Creating and expanding state EITCs.** The number of states implementing their own EITCs has grown in recent years, and evidence from these expansions shows that state EITCs are typically easy to incorporate into the tax system.
- **Efforts to increase EITC awareness.** California is currently implementing a public-private partnership called CalEITC4Me.

This effort uses administrative data sources to identify and reach individuals eligible for the EITC to ensure that all dollars allocated for the state EITC reach eligible families and that more eligible families file for the federal EITC (CalEITC4Me 2018).

- **Expanding state EITCs to reach noncustodial parents.** EITC benefits at the state and federal levels are concentrated among working families with children, leaving behind noncustodial parents. Experts propose expanding states' EITCs to reach this group, as has been done in the District of Columbia and New York State. Evidence from New York's noncustodial parent EITC indicated that the policy showed some promise for incentivizing work and child support payments, but child support compliance tended to increase most for individuals with low child support orders.
- **Restructuring EITC benefits to provide payments throughout the year.** Under the current federal EITC, filers receive a one-time lump sum benefit, but payments throughout the year might help recipients address unexpected or emerging needs. A prior option allowed families to access the benefit through an advanced payment option, but it was eliminated by Congress in 2010 because of low take-up and administrative challenges (Holt 2015). A pilot program in Chicago tested an alternative approach for delivering EITC benefits among public housing residents. Residents could receive advance payment for half of their EITC benefit. Most participants preferred this option, but the advance payments resulted in smaller total refunds because of issues in calculating EITC amounts (Holt 2015).

Policymakers and other stakeholders have proposed changes to transfer programs like TANF and other innovations to help low-income families achieve long-term success and financial independence such as the following:

- **Some states provide incentives to TANF participants to improve compliance and move families off benefits.** States also have the latitude to include incentives in their TANF programs. Evidence from states with incentives and less stringent rules suggests that TANF recipients in these states are more likely to achieve long-term success (Hamilton 2016).

Universal basic income policies could serve as an alternative way to provide cash benefits to low-income families through the provision of non-conditional cash assistance.

- **States and other municipalities are experimenting with different approaches for serving TANF participants with young children.**

For example, at least two programs use TANF services to build life skills among recipients through two-generation strategies. In 2014, Washington State implemented a pilot home visiting program for TANF participants with young children and other to employment. During their first three months in the program, participating families experienced lower rates of out-of-home placement for their children (Patton et al. 2017). The TANF Initiative for Parents in Camden, New Jersey, created a center-based TANF program for parents of infants, which allowed the parents to meet TANF work requirements and provided center-based care for their infants (Lower-Basch 2015).

- **Stockton, California, and Oakland, California, are implementing universal basic income projects.**

Unlike TANF, these projects provide unconditional cash assistance to low-income families, meaning recipients are not subject to work requirements or other rules. Both projects are being funded through support from foundations. The Oakland project will be rigorously evaluated through a randomized controlled trial and will explore a range of outcomes, including the policy's effects on children's stress levels, educational outcomes, and health outcomes (Y Combinator Research 2017).

Federal and state governments have proposed changes to existing income support policies to increase the use of work requirements.

Recently issued guidance from the Center for Medicare & Medicaid Services allows states to submit waiver proposals to impose work requirements on Medicaid recipients (CMS 2018). Waivers have been approved for the use of work requirements in Kentucky, Indiana, Arkansas, and New Hampshire (CBPP 2018). The Michigan State Senate recently approved legislation that would impose work requirements on Medicaid recipients. It would exempt recipients in high unemployment areas, typically rural areas, while imposing them in urban areas with larger minority populations, potentially creating racial disparities in access to Medicaid benefits. Moreover, the exemption does not address other kinds of barriers to work, such as lack of transportation. (Badger and Sanger-Katz 2018). Medicaid work requirements

would also require substantial staff resources and administrative infrastructure to implement and track compliance, as demonstrated by states' experiences implementing TANF.

The Trump Administration's proposed budget for 2019 also includes stricter work requirements for individuals receiving SNAP benefits (Dean et al. 2018). The Urban Institute estimates that these changes would subject an additional 7.9 million SNAP participants to work requirements, and that 66 percent would not be able to meet them (Acs et al. 2018).

Research is needed to glean lessons from states and localities' experimenting with their TANF programs and other income support policies, as well as to gain insights from their experiences implementing TANF work requirements.

This research could focus on the following:

- What lessons have been learned from state efforts to restructure EITC payments? What payment structures would best meet beneficiaries' needs? What conditions would be necessary to implement an alternative EITC payment structure?
- What would it cost for states to introduce state EITCs? What lessons can be learned from states with existing EITCs?
- What lessons can be learned from state and local efforts to integrate two-generation approaches in TANF programs? What conditions would be necessary to scale and finance these programs? Do they meet the needs of participants and their children?
- What features would a universal basic income policy need to improve family and child outcomes? How could these policies be financed, absent foundation funding?
- What lessons can be learned from states' experiences developing and implementing TANF work requirements? What resources are necessary to administer work requirements?
- What burdens on staff time do TANF work requirements create? How are work requirements affected by the nature of low-wage work?

Programs considering the addition of work requirements can learn from TANF programs to understand the administrative burden necessary to implement and enforce work requirement policies.

- What supports are available to help TANF participants comply with work requirements? How do supports vary across programs? Which supports best meet the needs of TANF participants?

Potential research could include case studies to better understand states and localities' experiences implementing innovative income support policies, learn about barriers to implementation, and provide insights for other jurisdictions considering similar strategies for designing and implementing income support policies. In relation to the EITC, case studies could include interviews with state policymakers to understand key factors affecting the implementation of state EITCs, as well as focus groups with EITC recipients to understand what payment structures would best meet their needs. Case studies of TANF programs could provide insights on how programs approach implementing and enforcing work requirement policies and could include focus groups with caseworkers to understand how much discretion they have in administering these policies, as well as the amount of their time spent enforcing them.

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