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Ryan Budget Would Undermine Safety Net's Work Supports

By Sharon Parrott

House Budget Committee Chairman Paul Ryan justifies the massive cuts he proposes in programs for low- and moderate-income Americans in part by claiming that the current safety net “can create a powerful disincentive to get ahead.”¹ He uses this argument to defend converting both Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) into block grants at substantially shrunken funding levels relative to current law.

These claims, however, are not borne out by research, and they ignore fundamental changes made in safety net programs over the past three decades, as a result of which the programs now do substantially more to promote and support work. This is why various experts across the political spectrum say that ours has become much more of a “work-based safety net.” Ironically, many of the proposals in the Ryan budget would undermine these improvements, harm low-income working families struggling to make ends meet, and in some cases, reduce incentives to work (or to work more).

Key Low-Income Programs Promote Work and Help Working Families Afford the Basics

Thirty years ago, the main assistance programs for families with children were the Aid to Families with Dependent Children (AFDC) program, Medicaid, food stamps, and a very small Earned Income Tax Credit (EITC). AFDC provided assistance largely to single mothers during periods of joblessness; if a mother earned too much to qualify, she lost not only income assistance but also Medicaid. Medicaid generally covered only parents and their children as well as elderly and disabled people who received cash welfare benefits; the working poor did not qualify. Far fewer households with children that received food stamps were working. The EITC did little more than offset some of the payroll taxes that working poor families owed.

The situation is very different today. Policymakers, often on a bipartisan basis, have changed the safety net substantially so it now does much more to promote work and support low-income

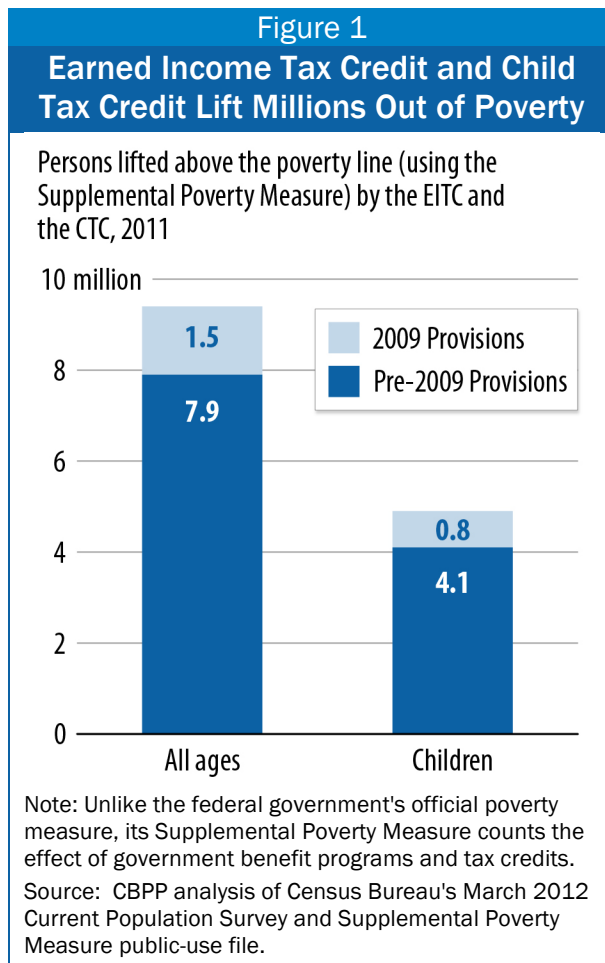
¹ House Budget Committee, “The Path to Prosperity – A Responsible, Balanced Budget,” March 2013, p. 30, <http://budget.house.gov/uploadedfiles/fy14budget.pdf>.

working families (and much less to support poor families and individuals who lack employment than it used to do).²

- **Refundable tax credits now lift millions of people in working households out of poverty.** In 2011, the combination of the EITC and the Child Tax Credit (CTC) was robust enough to lift 9 million people out of poverty, including nearly 5 million children, when both the taxes these families pay and the refundable credits they receive are considered. (See Figure 1.) And, a robust set of research studies have shown that by “making work pay,” the EITC has increased employment rates, particularly among single mothers, and reduced welfare receipt.³

- **Medicaid, the Children’s Health Insurance Program (CHIP), and the subsidies for private coverage provided under health reform ensure that adults, parents, and children in low-income working families have access to health care.** Medicaid and CHIP provided health insurance to 63 million Americans during 2009 — roughly 31 million children, 16.5 million parents, 9 million people with disabilities, and 6 million seniors — at significantly lower cost than private insurance. Medicaid and CHIP have greatly reduced the numbers of uninsured children, providing coverage to almost all low-income children. Most of the children when Medicaid and CHIP cover are in *working families*; very few receive cash welfare benefits.

Health reform makes further improvements to ensure that Americans in low-income working families have access to affordable coverage. Under the Affordable Care Act (ACA), parents, children, and childless adults will remain eligible for help affording health insurance either through Medicaid or through the health insurance exchanges until the family’s income reaches 400 percent of the federal poverty line, when the subsidies fully phase out.



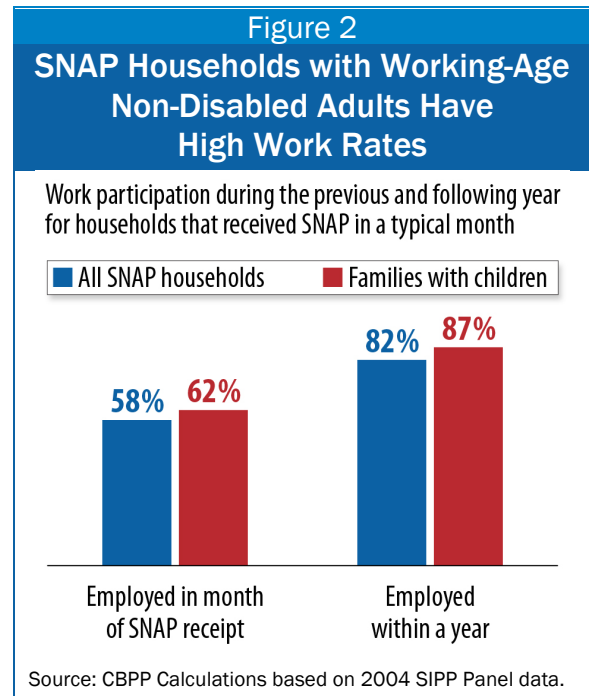
² Arloc Sherman, Sharon Parrott, Indivar Dutta-Gupta, and Jimmy Charite, “Deficit Reduction Should Not Increase Poverty and Hardship,” Center on Budget and Policy Priorities, March 11, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3918>.

³ Jeffrey Grogger, “The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Families,” *Review of Economics and Statistics*, May 2003.

- **SNAP (the Supplemental Nutrition Assistance Program, formerly food stamps) has become an important support for low-income working families.** Among households with children that include an adult who isn't elderly or disabled, 87 percent of the households receiving SNAP in a given month include an individual who worked in the prior year or will work in the following year.⁴ (See Figure 2.)

Under the Clinton and George W. Bush administrations, the Agriculture Department took steps to improve access to SNAP for eligible low-income working families and families moving from welfare to work.

Chairman Ryan's contention that the safety net discourages work is part of an argument that federal assistance programs harm those they are designed to help. However, the safety net's impact on work effort and poverty is well-studied. Leading researchers have conducted a comprehensive review of the available research and data on how safety net programs affect poverty and work, and the National Bureau of Economic Research (NBER) has published their results. The research showed that the safety net's overall effects on work are modest and do very little to diminish the safety net's effectiveness in reducing poverty, contrary to arguments made by supporters of the Ryan budget to justify its severe cuts in low-income programs. They found that, even after accounting for the modest overall work effects, the safety net lowers the poverty rate by about 14 percentage points. In other words, the researchers found that *one of every seven Americans* would be poor without the safety net, but are above the poverty line because of it; that translates into more than 40 million people.⁵



Under Ryan Budget, Safety Net Would Do Less to Promote Work and Help Working Families Make Ends Meet

The Ryan budget gets nearly two-thirds of its \$5 trillion in non-defense program cuts from programs for low- and moderate-income people, including children, seniors, and people with disabilities.⁶ While Chairman Ryan justifies his cuts in part by arguing that the safety net discourages rather than encourages work, the proposals in the Ryan budget would hit low-income *working* families hard and increase their poverty and hardship.

⁴ Dottie Rosenbaum, "The Relationship Between SNAP and Work Among Low-Income Households," Center on Budget and Policy Priorities, January 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3894>.

⁵ Yonatan Ben-Shalom, Robert A. Moffitt, and John Karl Scholz "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States," NBER Working Paper 17042, May 2011.

⁶ Richard Kogan and Kelsey Merrick, "Chairman Ryan Gets 66 Percent of His Budget Cuts from Programs for People With Low or Moderate Incomes," March 15, 2013, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3925>.

- **The Ryan budget would allow important improvements to the EITC and CTC enacted in 2009 to expire and could result in even deeper cuts to these credits.** The American Taxpayer Relief Act, enacted in January, extended important improvements to the EITC and CTC — tax credits available only to low- and moderate-income working families — through 2017, even as it provided large and permanent tax cuts for high income households and wealthy estates. In 2011, these EITC and CTC improvements lifted 1.5 million people in working families, including 800,000 children, out of poverty. (See Figure 1, above.) These improvements increased the returns to work (and reduced marriage penalties), raising the EITC for married couple families and for families with three or more children. The Ryan budget allows these improvements to expire. The Ryan budget also includes massive unspecified cuts amounting to hundreds of billions of dollars in the part of the budget (known in budget parlance as the “income security budget function”) that includes the refundable tax credits. To reach this level of cuts, Congress likely would cut the refundable credits substantially, on top of allowing the improvements to expire.⁷
- **The Ryan budget would dramatically increase the number of low- and moderate income Americans who lack health insurance.** Chairman Ryan proposes to repeal the coverage expansions under the ACA — both the Medicaid expansion and the health insurance exchange subsidies — and then cut Medicaid (and the Children’s Health Insurance Program) an additional \$810 billion. These two steps would cut health care funding by nearly \$2.6 trillion over the next ten years, largely by greatly increasing by tens of millions the number of low- and moderate-income Americans who are uninsured. Most of those affected would be people in *working* households.⁸

Last year, the Urban Institute estimated that a similar Medicaid block grant proposal in Ryan’s 2013 budget would result in 14 million to 21 million individuals losing their Medicaid coverage by 2022. In addition, the Congressional Budget Office has estimated that the ACA’s coverage expansions will mean that 27 million Americans who otherwise would be uninsured will gain coverage by 2023. This suggests that taken together, under the Ryan budget, 40 million to 50 million more poor or moderate-income Americans would be uninsured.⁹

Ironically, these Ryan budget proposals would *increase* work disincentives for some poor workers. Consider the case of a working-poor parent. Currently, working-poor parents lose eligibility for

⁷ The budget includes about \$230 billion in unspecified cuts in the “Income Security” budget function (also known as function 600) in mandatory programs. These are the cuts in addition to the large cuts the Ryan budget identifies in SNAP and civil service pensions and two small cuts the budget documents in other programs as “illustrative examples” of where savings can be found. The EITC and CTC are among the larger remaining mandatory programs from which this \$230 billion would have to be cut.

⁸ Edwin Park, “Ryan Budget Again Includes a Medicaid Block Grant That Would Add Millions to the Ranks of the Uninsured and Underinsured,” Center on Budget and Policy Priorities Off the Charts blog, March 15, 2013, <http://www.offthechartsblog.org/ryan-budget-again-includes-a-medicaid-block-grant-that-would-add-millions-to-the-ranks-of-uninsured-and-underinsured/>.

⁹ See John Holahan, et. al., “National and State-by-State Impact of the 2012 House Republican Budget Plan for Medicaid,” Kaiser Family Foundation and the Urban Institute, October 2012, <http://www.kff.org/medicaid/upload/8185-02.pdf>, and Congressional Budget Office, “Effects of the Affordable Care Act on Health Insurance Coverage,” February 2013, <http://www.cbo.gov/publication/43900>.

Medicaid in the typical state when their earnings reach just 61 *percent* of the poverty line, or \$11,900 for a family of three. Under the ACA, a parent who is able to increase her earnings above this level would be eligible either for continued Medicaid coverage (assuming the state takes up the ACA Medicaid expansion) or subsidies to purchase private coverage through the exchange (on a sliding scale based on income). Under the Ryan budget, if she increases her income even to just \$12,000, the parent would lose access to coverage in many states.

- **The Ryan budget would cut SNAP by \$135 billion — or almost 18 percent — over 10 years, harming low-income working families, among others.** The Ryan budget calls for converting SNAP to a block grant starting in 2019 and allowing states to decide how to cope with the substantially reduced funding. States could cut benefits available to all SNAP recipients, make some groups of households entirely ineligible for SNAP benefits, or some combination of the two approaches.

If the cuts came solely from restricting eligibility, 12 million to 13 million people would need to be cut from the program. Making the cuts through across-the-board benefit cuts would result in a reduction in benefits of more than \$50 per person per month in 2019 — \$1,800 for a family of three over the course of a year. If the reductions are achieved through across-the-board cuts, the maximum SNAP benefit would be set at just 73 percent of the Thrifty Food Plan, the Agriculture Department’s estimate of the minimum amount a family needs to afford a bare-bones, nutritionally adequate diet.¹⁰

Given the depth of the cuts that states would have to make, it is a safe bet that millions of people in low-income working households would lose some or all of their SNAP benefits. Indeed, if states chose to protect the poorest households from cuts — targeting their reduced resources to those most vulnerable and at risk of hunger — working households would see larger-than-average cuts.

- **The Ryan budget would heavily cut Pell Grants for low- and moderate-income students.** The budget documents indicate that the maximum Pell award would be frozen for ten years without any adjustment for inflation or rising tuition costs. As a result, the maximum award would be cut by \$85 in 2014, with the cut growing to \$455 in 2017 and later years, relative to the grant levels scheduled under current law. In addition, the budget would change the way that Pell Grants are funded, with the result that deep additional cuts would be likely. Currently, Pell Grants are funded by two funding streams — discretionary funding through the annual appropriations process and mandatory funding that is provided through a permanent funding mechanism. The Ryan budget documents call for *eliminating* the mandatory funding stream for Pell Grants, totaling \$91 billion over 10 years, thereby requiring Pell Grants to be funded entirely out of the discretionary side of the budget. (The Ryan budget also appears to eliminate temporary mandatory funding that Congress has provided in recent years to help fill funding shortfalls, slicing another \$10 billion from the Pell Grant program.)

¹⁰ Stacy Dean, “Ryan Budget’s SNAP Cuts Even Deeper Than We Thought,” Center on Budget and Policy Priorities Off the Charts blog, March 19, 2013, <http://www.offthechartsblog.org/ryan-budgets-snap-cuts-even-deeper-than-we-thought/>.

At the same time, the Ryan Budget calls for deep reductions in the total amount of funding available each year for non-defense discretionary programs, with these cuts totaling \$1.1 trillion over ten years relative to the tight funding caps that the Budget Control Act set. Indeed, the Ryan budget would cut overall non-defense discretionary funding \$700 billion below the sequestration levels.¹¹ If all non-defense discretionary programs were cut proportionally, discretionary Pell Grant funding would face another \$47 billion in cuts in discretionary funding over the decade (relative to Pell funding under the BCA caps), in addition to the cuts just noted of about \$100 billion in mandatory Pell Grant funding, bringing the Ryan budget's total cuts to the Pell Grant program to nearly \$150 billion.

The Ryan budget also proposes various eligibility cuts in the Pell Grant program that would make it harder for low-income students to qualify for the maximum grant. Large additional cuts in program eligibility or award levels would almost certainly be needed to shrink program expenditures to the reduced levels of funding that would be available.

Taken together, these proposals would result in many fewer students having access to Pell Grants and in smaller grants for those who do — limiting access to college, a key gateway into the middle class, for many low- and moderate-income students. Once again, most of the students affected would be students in *working* families.

The Ryan budget documents argue that the safety net doesn't do enough to promote work. Yet the Ryan budget proposes deep cuts in the very programs that help low-income working families make ends meet, raise their families, succeed in today's labor market, and provide better opportunities for their children. These cuts aren't designed to promote work or reduce work disincentives, but rather to help achieve trillions of dollars in deficit reduction without securing any savings from reforming the tax expenditures that litter the tax code and disproportionately benefit households high on the income scale.

¹¹ Joel Friedman, "Ryan Budget Hits Non-Defense Discretionary Funding Far More Than Sequestration Does," Center on Budget and Policy Priorities Off the Charts blog, March 14, 2013, <http://www.offthechartsblog.org/ryan-budget-hits-non-defense-discretionary-funding-far-more-than-sequestration-does/>.