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Risks that Come with Increasing Earnings for Low-Income Workers Receiving Safety Net Programs: Perspectives of Working Parents

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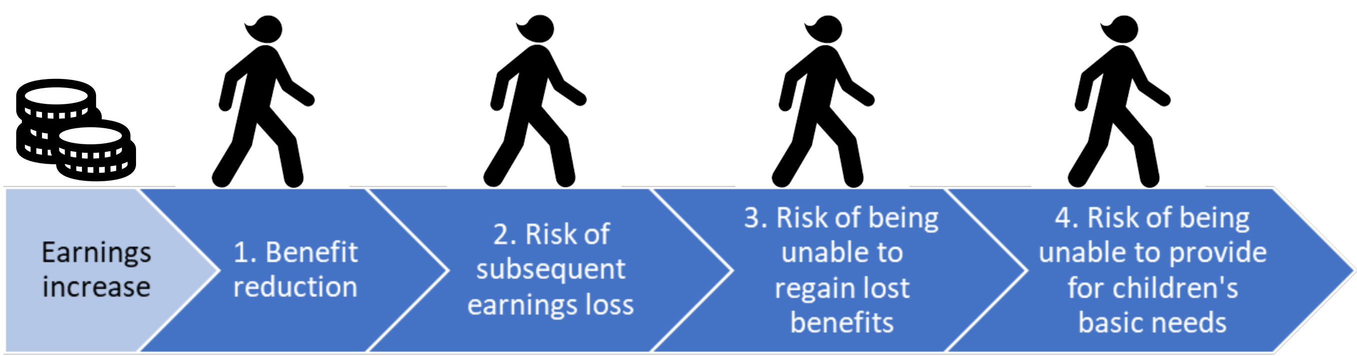
Highlights

In focus group discussions with 44 working parents receiving assistance from one or more federal programs, many parents shared the view that increasing earnings involves a number of risks. Participants described the sequence of possible risk events as follows (Figure 1):

1. An earnings increase often leads to **benefit reductions**.
2. **Risk of subsequent earnings loss**: the earnings increase may be lost later, either due to a reduction in work hours or to a total loss of employment.
3. **Risk of being unable to regain lost benefits**: following an earnings loss, needed benefits may be difficult or impossible to get back.
4. **Risk of being unable to provide for children's basic needs**: Should this sequence of events occur, the parent would no longer be able to provide for the family's basic needs.

In spite of these risks, most participants (about 70 percent) said that they would nonetheless increase their earnings if presented with an opportunity.

Figure 1. As told by focus group participants: Hypothetical scenario for a worker receiving safety net benefits who takes an earnings increase



Introduction

Federal benefit programs were established to provide financial assistance to families. But to avoid supplanting work, many programs phase out benefits as participants' earnings rise. This can lead to high marginal tax rates – meaning large benefit reductions relative to earnings increases. In our earlier work, we found that among households with children just above poverty, the median marginal tax rate is 51 percent,[i] such that for every additional dollars of earnings, families only retain 49 cents. We also estimated that nationwide, about 600,000 children in low-income households (below 200 percent of poverty) face a "program cliff." A program cliff occurs when the marginal tax rate is equal

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to or greater than 100 percent, and increasing earnings would actually have the effect of reducing total net resources to the family.

This brief is based on data collected from a qualitative study that sought to learn about working parents' perceptions of marginal tax rates, and how these perceptions appeared to influence parents' labor force decisions (see Box 1). We learned that high marginal tax rates and benefit reductions were only part of the story; the parents in our focus groups also discussed the multiple layers of risk beyond benefit reductions that come with taking an earnings increase. This brief describes these risks that parents shared with us, using direct quotes from parent participants (with pseudonyms to maintain confidentiality).

It is worth noting that in spite of the risks described in this brief, most participants (about 70 percent) said that they would nonetheless increase their earnings if presented with an opportunity. This brief focuses narrowly on the risks participants perceived related to earnings increases, even if they ultimately favored increasing earnings. Other briefs from this study focus on other key findings, such as parents' experiences with federal safety net benefits and administrative systems. The findings from this brief focus on the perspectives of benefit recipients, and as such may not reflect actual rules and policies of benefit programs. Additionally, the data were collected prior to the COVID-19 pandemic, and do not reflect changes in benefit programs since then.

Box 1. Methods and Sample

ASPE partnered with Insight Policy Research to conduct nine focus groups in 2019 with a convenience sample of working parents with at least one child under age 13. We sought to better understand their perceptions of marginal tax rates and benefit reductions, and how these perceptions appear to influence labor force decisions. Marginal tax rates refer to how much of new earnings are effectively reduced by income tax, payroll tax, and – the focus of this study – a reduction in government benefits. Focus group participants (n = 44) received one or more of the following benefits: Supplemental Nutrition Assistance Program (SNAP, 73 percent of participants), Medicaid/Children's Health Insurance (CHIP, 48 percent), Earned Income Tax Credits (EITC, 27 percent), rental assistance (43 percent), child care subsidies (20 percent), and Temporary Assistance for Needy Families (TANF, 36 percent). Focus groups were conducted in English in Ohio, Virginia, and California. The majority (73 percent) of participants were female, 71 percent had an annual income below $30,000, 34 percent had a high school degree/GED or less, and 50 percent worked fewer than 25 hours per week. Focus group participants were non-Hispanic Black (49 percent), non-Hispanic white (16 percent), non-Hispanic other (14 percent), and Hispanic (21 percent). To facilitate discussion, all focus groups discussed three different earnings-increase scenarios: advising a friend about an increase in work hours, an increase in work hours for themselves, and an hourly wage increase for themselves. For each scenario, participants were asked to vote whether they would or would not increase their earnings. Discussions were recorded and transcribed, and analyzed using Nvivo 12.

Findings

Figure 1 lays out the sequence of risks that working parents receiving benefits may encounter when accepting earnings increases, described in detail below as we heard it from our participants.

After an earnings increase, benefits are reduced

Almost all focus group participants recognized the relationship between earnings increases and benefit reductions. Many participants cited personal experience. This is consistent with previous work on marginal tax rates[ii] finding that many low-income participants of public benefit programs had an understanding about benefit reductions through personal experience. In addition, some of our participants reported learning about benefit reductions (following an earnings increase) from a relative or friend. Only a couple of people mentioned learning about benefit reductions from an official source, such as a program website.

"…if I make more money at work, my rent will go up higher." *Fiona (Ohio)*

"I accepted to go full time because I really do love my job, and I do need more money in my pocket, but it made my rent go up…" *Swazy (Ohio)*

However, our study participants revealed that although marginal tax rates and benefit reductions were important to consider in the context of earnings increases, they also weighed the economic risks to themselves and their families that come with increasing earnings, discussed next.

Risk of subsequent earnings loss, due to the instability that characterizes low-wage jobs

Research shows that low-income workers face a highly volatile labor market. Low-income workers experiencing high labor market attachment in one year, on average, experience a decline in wages the following year.[iii] Low-wage jobs tend to be associated with unreliable hours and earnings volatility.[iv]

Consistent with the research, many of our focus group participants expected employment to be unstable and unreliable. This theme emerged repeatedly even though discussion questions did not address job security. Participants felt that their work hours could suddenly be reduced, or worse, they could lose a job altogether. As such, they did not perceive earnings as permanent or stable. Two people specifically cited job unreliability as a reason not to take an earnings increase. Giving up benefits for an earnings increase was viewed as risky.

While researchers and policy-makers tend to focus on benefit reductions weighed against earnings increases at a snapshot in time, the complete picture, described by our participants, includes weighing the risk of a potential earnings loss at a later point in time. Kim (California) succinctly described the worst-case scenario of an earnings increase followed by benefit loss followed by earnings loss: "Cuz what if I just had the job for three months, right? Could be off Section 8. Now my job laid me off."

The sense that employment was inherently unstable likely reflects past experience. As Pam (Ohio) observed, "This job is not going to be lifetime. They could shut down any time." In a different group in California, Okada asked, "Are they [the employer] gonna be there next month?" and Truman added in agreement "Are they gonna be there next year?"

Even if the job itself were reliable, some participants said that the hours might not be reliable. Ava (California) described the unreliability of work hours: "Especially retail… they hire so many people, and there's not enough hours to give everybody. It's like, if they hire more people, how do you know you're gonna get those hours?" When the facilitator asked what it would take for her to accept the earnings increase, she replied: "If I know I'm definitely gonna get those hours." For Ava, job stability was a critical requirement in a decision to increase earnings.

"That's a lot of the reason why it's hard for the people on government assistance to get off government assistance; because job security and you getting a better job may not be there tomorrow." *Nicole (Virginia)*

Implicit in the concern about job instability is the sense that benefits are more stable and more reliable than earnings. Tamara compares the "guarantee" of her benefits against the reliability of a job: "Cuz the guarantee is I'm gonna get [disability benefits] every month and part of my rent paid and my food stamps… Even if I have a great job, can it be reliable? Is it worth sacrificing all of this guarantee for something that could blow up in a year or a month?" For Tamara and many others, giving up stable benefits for an unstable earnings increase was viewed as risky and not sensible.

Risk of being unable to regain benefits, once they are lost

Some programs, such as child care subsidies, TANF, and housing assistance, only serve a small portion of eligible families for a variety of reasons. For example, in 2018, only 15 percent of eligible families received child care subsidies.[v] Many eligible families apply for but do not receive benefits, either being placed on long waitlists or turned away.[vi]

"You pick these hours up, for now, and then you get out of your benefits and you can't get your benefits [back]. You know how hard it is to go back through the whole situation to get it all back?" *Tony (Virginia)*

"Baby steps to get there… if you make a wrong move [by taking an earnings increase] and then… you givin' up all your [benefits] for your dream job, and you get fired next week. Now, you're screwed because all this government assistance ain't comin' back the same way you dropped it." *Tamara (Ohio)*

Consistent with these findings, many participants noted that after losing benefits, getting benefits back could be difficult or impossible. Benefits were perceived as easy to lose and hard to get back, and therefore actions that could trigger a benefit loss (such as an unreliable earnings increase) were deemed risky. Tony would only take an earnings increase if it were permanent: "Now, if they're telling you that, 'This is now my new salary,' …then I'm yes [to taking an earnings increase]. If this is like picking up some hours casually… I wouldn't lose my benefits, then have to try to get them all back." For him, a permanent earnings increase was safe, presumably because he would have no further need for lost benefits. On the other hand, a temporary earnings increase was risky because it would cut off benefits that would be difficult to get back when his income dipped back down again.

When barriers to benefit receipt were perceived to be high, participants were more hesitant to take an earnings increase that could trigger a loss of program benefits. On the other hand, when barriers to benefit receipt were perceived to be low, earnings increases were easier to accept. Kim from California said one reason to increase earnings is because her benefits could be easily regained after an earnings loss.

"With the Section 8, I feel like it's fine [to increase earnings]. If I'm making more, my rent is high because I know that if I lost my job or if I'm getting less hours, my rent could drop." *Kim (California)*

"I was working… a job where… one week I could make $500, and then the next week, I might not make anything. When I had the high paystubs, [the caseworker] cut my food stamps because I had made too much that month, so when I got laid back off, I had to go back and prove that I was laid off. It was frustrating because the job was the type of job where you might work five weeks straight, and then you might get laid off for two weeks…" *Shauna (Ohio)*

Persistent income volatility may also present a challenge. Shauna (Ohio) described working an unstable job, and having to deal with benefits that were automatically reduced but not automatically reinstated. For a worker like Shauna whose earnings fluctuate from week to week, and who loses benefits from each temporary earnings increase, the risk of reapplying for benefits after each temporary earnings increase is a recurring one.

Risk of being unable to provide for children's basic needs

"Since I've taken my niece, it's like I've sacrificed. I take the [earnings] cut because she needs the medical care. My job won't cover her… so I don't want her to lose [health insurance]. I had to cut hours. We made so many sacrifices for her." *Pam (Ohio)*

"The goal is definitely to be off. Not to have to be in the system, at all. Absolutely. …I would love to be able to do twice as much work as I do right now and make twice as much money and not have to worry about stamps or anything else. The problem is— I got four kids, so as resilient as I may be, to go eat ramen every day and hotdogs and whatever the cheapest thing at the grocery store is, I gotta make sure these kids eat, regardless of my pride and to be off the system. These kids gotta eat. You know what I'm saying? …My pride ain't gonna feed nobody." *Tony (Virginia)*

Some participants said the risk of benefit loss was too large to tolerate, given their roles as providers for children; this was cited as a reason to refrain from taking an earnings increase. Pam talked about her unwillingness to accept more earnings as a "sacrifice," indicating she gave up higher earnings to retain medical insurance for her niece, for whom she is the guardian.

Other participants also said they needed to retain benefits for their children. Tamara (from Ohio) said she would not accept a pay increase because of the risk of losing benefits, which she relied upon to care for her children. She explained that a decision to take an earnings increase (or not) "could be the difference between me coverin' my son's next leg break and them [CHIP] coverin' my son's next leg break."

Considerations

Participants in the study shared that the current program and employment context makes increasing earnings a risk-laden path – even if many people still ultimately chose that path. As our participants tell it, an earnings increase could be followed by a cascade of events – benefit reductions followed by difficulty getting benefits back in the event of employment or earnings loss – that could ultimately put parents in a position of being unable to provide for their families. As Tamara from Ohio concisely puts it: "You get caught in between a rock and a hard place. If you make the move [to increase earnings], you could lose everything."

Hurdles to benefit receipt may act as psychological barriers to increasing earnings among people receiving benefits: once recipients have cleared administrative hurdles and are actually receiving benefits, they may be reluctant to engage in risky behaviors (such as increasing earnings) that would jeopardize those hard-won benefits. On the other hand, benefits that are administratively easier to get could actually make it easier for people to increase earnings: participants would know that if something were to go wrong with work, their benefits would be there for them.

This study had several limitations. The modest convenience sample of parents we talked with was not representative of all lower-income participants in federal safety net programs in the three study states or in the country as a whole, nor of all lower-income parents who were eligible for these programs. Because we spoke only with parents receiving safety net benefits, we did not learn perspectives of parents who did not use these programs for reasons such as lack of awareness, inability to navigate potentially complex systems, stigma, or personal preference. Further, these participant perspectives pre-dated the COVID-19 pandemic and did not reflect new waivers and flexibilities in some programs such as virtual delivery of case management and digital signatures.[3]

Our participants shared that uncertainty about regaining benefits, once lost, posed significant risks. Policies that reduce barriers to benefit receipt for individuals who lost benefits due to earnings increases could reduce this risk and allay fears of benefit loss. Workers would know that if they experienced an unexpected earnings loss, they could get their previous benefits back. Making benefits easier to get back could make it easier for people to leave benefits behind by increasing earnings. Policies that make it easier for former program recipients to "fall back" on program benefits in the event of earnings loss may reduce risk and transform earnings increases into a sturdier staircase on the path to economic mobility.

Acknowledgements

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