The Social Safety Net: An Introduction
Social Safety Net

What is the Social Safety Net?
Social Safety Net

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  - Social Insurance Programs
  - Means-tested Transfer Programs
Social Safety Net

- Social Insurance Programs
  - “Insurance”: Protects against an event
Social Safety Net

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    - Disability
    - Unemployment
    - Bad Health
Social Safety Net

▶ Social Insurance Programs
  ▶ “Insurance” : Protects against an event
    ▶ Disability
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    ▶ Bad Health
Social Safety Net

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Social Safety Net

- Social Insurance Programs
  - “Insurance”: Protects against an event
  - Need three things for a productive insurance market:
    - Uncertainty
    - Verifiable
    - Big
Social Safety Net

- Social Insurance Programs
  - “Social”: (i.e. not private) - Funded and administered by the government (and near-mandatory participation)
  - Examples of private insurance markets?
  - Note most Social Insurance programs provide cash benefits.
Social Safety Net

- Social Insurance Programs
  - US Social Insurance Programs:
    - Social Security
    - (Old Age and Survivors Insurance – OASDI)
    - Disability Insurance (Disability)
    - Medicare (Health)
    - Unemployment Insurance
    - Workers Compensation (Work Injury)
Social Insurance Programs

- Social Security (OASI)
  - Insures against Longevity (pension or forced-savings mechanism)
  - Expenditures: $940 Billion
  - Recipients: 54M Recipients
  - Average Benefit: $17,407/year
  - Eligibility:
    - People ≥ 62 years old
    - Survivors (death of spouse or parent)
    - At least 10 years work experience
  - Features:
    - Benefits depend on prior wages (progressive)
    - Near universal coverage
    - Paid for with 12.4% payroll taxes (along with DI)
    - Long History (since 1935)
Social Insurance Programs

- Disability Insurance (SSDI)
  - Insures against Disability
  - Expenditures: $146 Billion
  - Recipients: 10 million
  - Average Benefit: $14,600/year
  - Eligibility:
    - 10 years work experience (and 5 of past 10)
    - Adults (over 18) [spouses and children]
    - Pass SSA Disability Review
    - Meet SGA requirement - unable to earn more than $1350/month
  - Features
    - Benefits depend on prior wages (same as SocSec)
    - Large growth – triple size of 1990
    - Benefit reduced by $0.50 per $1 earned income
    - Eligible for Medicare
    - Began in 1956, Paid from same pool as Social Security
Social Insurance Programs

▶ Medicare

▶ Insures against Health Shocks

▶ Expenditures: $830 Billion

▶ Recipients: 60 million

▶ Average Benefit: $13,800/year

▶ Eligibility:
  ▶ Age ≥ 65 or SSDI recipient
  ▶ US citizen
  ▶ 10 years work history

▶ Features:
  ▶ Widely Available
  ▶ Paid for with a 2.9% payroll tax
  ▶ Four parts (A,B,C,D). Each has a premium and/or co-pays involved.
Social Insurance Programs

► Unemployment Insurance

► Insures against Unemployment

► Expenditures: $143 billion (2020) [usually more like $30 billion]

► Recipients: 31 million

► Eligibility:
  ▶ Work history and wage requirements
  ▶ Exclude quits, fired with cause
  ▶ Actively searching for work

► Features:
  ▶ State-run program
  ▶ Average max weekly benefit: $476
  ▶ Most states: max 26 weeks benefits (∼$12,376 total) Paid by lump-sum tax on wages
Social Insurance Programs

- Workers Compensation
  - Insurance against workplace injury or sickness (regardless of fault)
  - Expenditures: Around $60 Billion
  - Provides cash and medical benefits

- Eligibility:
  - In all states but Texas, Workers Compensation is compulsory for most employees
  - Typically receive $ \frac{2}{3} $ of prior wage if totally disabled

- Features:
  - State-run program
  - Mitigates workplace injury litigation
Social Insurance Programs

- Sum of annual SI expenditures: \( \sim \$2\) Trillion
- Total Federal Spending (2019): \$4.4\ Trillion
- (US population: 330 million)
Social Insurance Programs

- Big Picture Questions for Social Insurance Programs:
  - How much insurance to provide? Full?
  - Social or Private? Why?
  - How to fund?
  - Moral Hazard? Other Negative Responses (labor supply? savings?)?
Social Safety Net

- Major US Means-tested Transfer Programs:
  - Temporary Assistance for Needy Families (TANF)
  - Supplemental Nutrition Assistance Program (SNAP)
  - Supplemental Security Income (SSI – Disability and Old Age)
  - Medicaid/CHIP
  - Housing Assistance (Public Housing, Housing Choice Vouchers)
- **Other:** EITC/CTC, Subsidized Childcare
Social Safety Net

- Means-tested Transfer Programs:
  - “Means-tested” → income and/or asset limits
    - Cutoffs vary by program (and can vary by state)
    - Leads to being counter-cyclical
  - “Transfers”
    - Income redistribution inherent to these programs
    - (but exist in social insurance programs as well)
    - Can be cash or “in-kind” transfers
Social Safety Net

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Means-Tested Transfer Programs

- **TANF**
  - Standard “welfare” program. Only cash program for non-working parents.
  - Expenditures $32 billion (fixed since 1996)
    - Only a quarter on cash benefits
  - 2 million cash recipients

- **Eligibility**
  - Very-low income
  - Benefits are time-limited
  - Most have “work activity”
  - Primarily for single-parent families

- **Features**
  - Dramatic decline since 1996 Welfare Reform
  - State discretion
Means-Tested Transfer Programs

- SNAP
  - “food stamps” program: provides food vouchers (in-kind)
  - $79 Billion
  - 44 Million Recipients
  - Eligibility:
    - Broadly eligible up to 130% of FPL
    - Exceptions for ABAWDs, time-limited
    - Assets below $2,000
    - Max monthly benefit for family of 3: $658
  - Features:
    - High political support
    - Mostly-federal program
    - Sizable increase since early 2000s
Means-Tested Transfer Programs

- Medicaid/CHIP
- Health Insurance
- Expenditures: $600 billion
- Recipients: 74 million
- Eligibility:
  - Generally 138% FPL (varies by state)
  - CHIP covers child health insurance
- Features:
  - State-run programs
  - Can cover some “gaps” in Medicare coverage (long-term care)
  - Can be difficult to find providers which take Medicaid.
Means-Tested Transfer Programs

▶ SSI

▶ Cash transfers for disabled, blind, or elderly

▶ Expenditures: $59 Billion

▶ Recipients: 8 million

▶ Eligibility:

▶ Disabled (child or adult) or over 65

▶ Income below SGA and assets <$2,000

▶ Features:

▶ Federal

▶ Large growth in child SSI

▶ Application process lengthy
Means-Tested Transfer Programs

- Housing Assistance (Public Housing, Housing Choice Vouchers, LIHTC) ( $50Bn, 5M Recipients)
- Direct provision (public housing) or voucher (HCVs) – in-kind
- Voucher: can choose any available unit up to FMR
- Eligibility:
  - “Rationed” slots (only ~20% of eligible receive)
  - Income below 50% of area median income
- Features:
  - Highly valuable for recipients
  - Pay 30% of income towards rent
  - Local control
Means-Tested Transfer Programs

▶ Other: EITC ($64Bn, 26M Recipients), Subsidized Childcare, Pell Grants
Means-Tested Transfer Programs

Figure 2: Expenditure per Capita, Non-Medicaid Means Tested Programs, 1970-2012 (real 2009 dollars)

Source: Haveman et al. (2015).
Big Picture Questions for Means-Tested Transfers:

- Cash vs. In-kind? Benefits/costs?
- Tagging/Targeting? Who to target?
- Ideal consumption floor – Labor market disincentives
- Federal or Local? Private crowd-out?
- Program complexity/burdens. Consolidation?
New Idea

- Universal Basic Income

- Proposal: Provide each person with a $1,000 per month income ($12,000 per year)

- Rationale:
  - Simple, easy to administer
  - No labor market disincentives
  - “Fair” (no targeting)
  - Provide basic consumption floor
  - Expected cost: ~ $4 Trillion/year (or $3 Trillion if only adults)

- Some Questions:
  - Revenue source?
  - Substitute or complement other programs?