The Social Safety Net : An Introduction

Social Safety Net

- What is the Social Safety Net?

Social Safety Net

- ▶ What is the Social Safety Net?
  - ▶ Social Insurance Programs
  - ▶ Means-tested Transfer Programs

Social Safety Net

- Social Insurance Programs
  - "Insurance" : Protects against an event

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    - Unemployment
    - Bad Health

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- 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 $\geq$ 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 $\geq$ 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
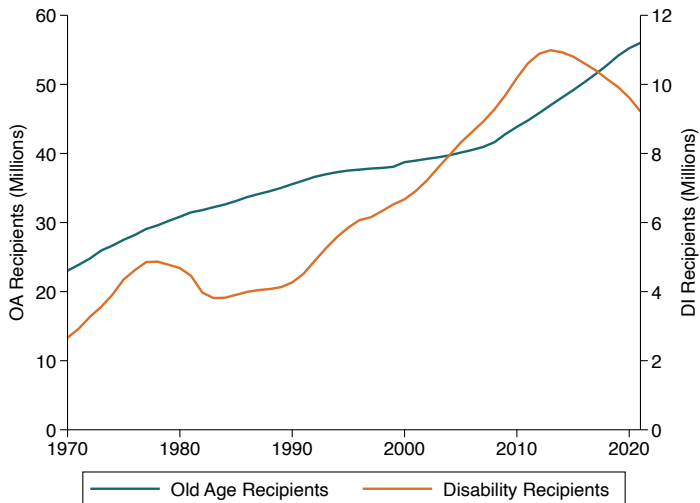
Social Insurance Programs

- ▶ 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 Caseloads

Social Security Recipients

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

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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)
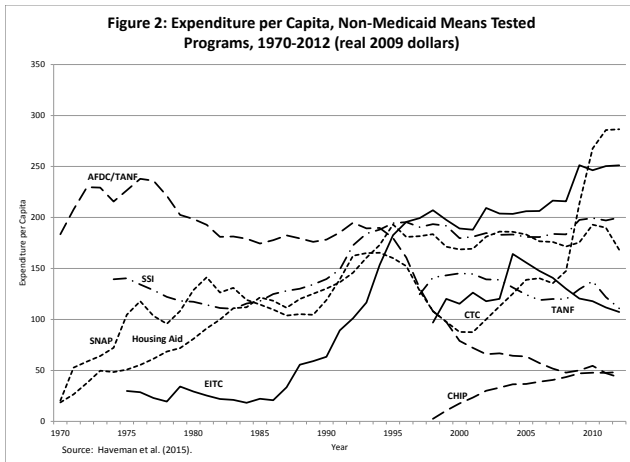
Means-Tested Transfer Programs

- ▶ 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: $\sim$ $4 Trillion/year (or $3 Trillion if only adults)

- Some Questions:

- Revenue source?

- Substitute or complement other programs?