Poverty and the Social Safety Net

Part II: The Role of the Social Safety Net in Virginia

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INTRODUCTION

The current presidential election cycle provides a platform for debate about the “social safety net.” In the broadest terms, social safety net programs provide assistance for low-income households, and help insure individuals against the risk of falling into poverty.

Social safety net proponents point to the salutary effects of alleviating the impact of poverty, and the income security provided to those individuals who, through no fault of their own, are at economic risk. Program critics argue that income assistance creates a cycle of dependence and dampens workforce participation.

Effective and significant reform of these programs requires understanding that the social safety net includes both social insurance programs (those programs that provide benefits to all people across the economic spectrum) and means-tested programs (those targeted to individuals or families with low income). While some of these programs originated in response to widespread economic stress in the Great Depression, presidents and members of Congress from both political parties have initiated new programs, and changes to existing programs, in response to contemporary concerns. Today’s social safety net programs reflect the accumulation of efforts over time to express national values about the role of government, the private sector, and individual action in securing economic security for individuals, families, and communities.

Forty-six percent of Virginia households receive benefits from at least one social safety net program. This paper examines these programs and their impact in Virginia by addressing the following questions:

- What is the social safety net? What are the goals of the programs? How did they begin, and how have they changed over time?
- What social safety net programs are provided to Virginians? Who receives benefits, and what benefits do they receive?
- Do program benefits protect individuals or families in Virginia from falling into poverty, lessen the impact of poverty, or neither?

THE SOCIAL SAFETY NET: ORIGINS, PROGRAMS, AND BENEFITS

Programs to support economically disadvantaged citizens have been present throughout United States history. State and national initiatives played a smaller, but not insignificant, role prior to the twentieth century when much of the assistance provided to individuals unable to support themselves came from their extended families and private charities. Significant demographic changes during the late nineteenth and early twentieth centuries posed challenges to this decentralized and ad hoc approach.
• Industrialization drew people away from agrarian communities and into larger cities. Extended families transformed into smaller, nuclear families, reducing the possibility of relying on familial support in times of economic stress.\(^1\)

• The shift towards mechanized industrial activities and the growth of factories was accompanied by an increase in worker injuries.\(^2\)

• Improved sanitation and health care reduced early-age mortality and extended the average lifespan.\(^3\)

In response to these changes, government assistance programs were developed, predicated on the belief that the greater public interest would be served by ensuring basic economic security for individuals in need.

**The Progressive Era And Workers’ Compensation**

Workers’ compensation (WC) programs were the first components of the contemporary social safety net. Created at the turn of the twentieth century, largely as a response to increases in workplace injury and demands from progressive reformers, workers’ compensation programs provided cash benefits for medical care, or payment for work time lost.\(^4,5\) Following a federal law in 1908, states adopted individual WC programs in the 1910s, and these programs still remain primarily state-run. Virginia’s WC program was enacted in 1918.\(^6\) Today, 3.3 million Virginians, nearly all of Virginia’s workforce, are covered by WC insurance purchased by employers.\(^7\)

Workers’ compensation programs were the first widespread form of social insurance. Social insurance programs provide benefits to individuals across the entire socioeconomic spectrum, rather than only to specific income groups. Social insurance programs provide support for persons who, individually, have paid into the system (or had payments made on their behalf by employers) to insure against the risk of unemployment, old-age inability to work, or, as in the case of WC programs, work-related disabilities. While social insurance programs are not designed specifically to reduce poverty, these programs provide assistance for individuals and families who have suffered job-related injuries, disability, or who are elderly. Some social insurance programs also provide low-income individuals larger benefits per dollar of lifetime contributions.\(^8\)

**The New Deal And the Social Security Act**

Social insurance programs in the United States moved beyond workers’ compensation under President Franklin Roosevelt’s New Deal policies during the Great Depression. Widespread unemployment and poverty prompted the passage of the Social Security Act of 1935. The act established two important social insurance programs:

1. Old Age Social Security (OASS)
2. Unemployment Insurance (UI)

Today, Old Age Social Security provides retirement benefits to individuals age 62 and over, their dependents, and survivors. Social Security was expanded in 1954, under President Eisenhower, with the addition of Social Security Disability Insurance (SSDI) to cover disabled
individuals who are unable to work. Benefits for OASS, Survivors’ Insurance, and SSDI are financed through federal payroll taxes on current workers.

Unemployment insurance provides temporary benefits for recently laid-off workers and is primarily run at the state level. Virginia currently provides benefits for durations ranging from 12 to 26 weeks. Benefits are financed through state taxes on employers. The federal government can finance and provide extended benefits during economic crises, such as the recent recession.

The Social Security Act of 1935 also created a new means-tested program:

3. Aid to Families with Dependent Children (AFDC)

Means-tested programs provide benefits to those individuals and families with income and assets below a determined level. These programs may also provide direct financial support to specific groups (such as workers, the elderly, the disabled, or single mothers and their children) or for specific expenditures (such as nutrition, housing, or health care).

The Great Depression strained family ties and generated concern about the ability of fragment- ed families to support their basic needs. The AFDC program provided cash payments for low-income families with needy children (children without adequate parental support due to death, incapacity, absence from the home, or unemployment). States defined eligibility requirements and benefit levels for AFDC, within federal guidelines. In 1996, President Clinton replaced AFDC with the TANF program.

The Great Society

In response to growing economic disparities, racial tensions, and the belief that poverty and low-income were detrimental to the nation’s well-being, President Lyndon Johnson’s “Great Society” and “War on Poverty” initiatives in the mid-1960s aimed to raise the basic welfare of the poor. Johnson enacted two of today’s largest means-tested programs:

1. Food Stamps (now called Supplemental Nutrition Assistance Program, SNAP)
2. Medicaid

Unlike the AFDC program, SNAP and Medicaid do not provide cash assistance to low-income families but instead provide in-kind benefits of food and health care.

SNAP provides assistance with food expenditures to individuals and families – regardless of family structure – who meet SNAP income requirements. SNAP benefits are financed entirely by the federal government.

Medicaid provides health insurance for low-income individuals. States set the eligibility requirements for specific “covered groups” including the elderly, the disabled, children, parents, and pregnant women. Low-income adults, younger than 65, with no disability and without children are currently ineligible for Medicaid in most states. Both federal and state funds are used to pay for Medicaid coverage.

Along with Medicaid, President Johnson signed into law Medicare, the largest social insurance program in the United States. Medicare provides health insurance for individuals age 65
and over, and for some qualifying SSDI beneficiaries. Like OASS and SSDI, Medicare is financed through federal payroll taxes.

**Recent Reforms**

Since the 1960s, reforms to social safety net programs have focused on encouraging employment and developing job skills. The Earned Income Tax Credit (EITC) was added to the social safety net under President Ford and expanded significantly under President Reagan. The EITC provides cash benefits to low-income families but only to families with working members.

The emphasis on work also led to criticisms of the AFDC program and to concerns about “welfare dependency.” In response, President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This law replaced the AFDC program with Temporary Assistance for Needy Families (TANF), adding work requirements and placing lifetime limits on benefits. Since then, expenditures on benefits for TANF have steadily decreased nationally, and have made TANF, unlike its predecessor AFDC, a relatively small component of the social safety net.

The largest reforms to the social safety net since AFDC reform have been in health care:

- Medicare Part D was enacted in 2003 under President George W. Bush to subsidize the rising cost of prescription drugs for the elderly. At the time of enactment, 43 million seniors had access to the new prescription drug benefit.\(^{15}\)

- Signed into law by President Obama in 2010, the Patient Protection and Affordable Care Act made significant reforms to increase health care availability. Among other features of the Act, beginning in 2014, the law will expand Medicaid eligibility to include all persons with incomes below 133 percent of the poverty line, and will provide government subsidies to purchase private health insurance to persons with incomes up to 400 percent of the poverty line.\(^{16}\)

**Today’s Social Safety Net**

Today’s social safety net is a combination of programs created in response to national concerns throughout the twentieth century. The programs include social insurance initiatives (such as Old Age Social Security), designed to assist individuals who have paid into the system. Social safety net programs also include means-tested programs (such as the national school lunch program) targeted to individuals or families based on economic need as defined by established income levels. Both social insurance and means-
tested programs can be paid for by federal, state, and local resources and may be administered at any of these levels. Finally, all of these programs have evolved over time and continue to change as a result of public sentiment and political will.

All of the social insurance programs (e.g. Social Security, Medicare, Unemployment Insurance), and the largest means-tested programs (e.g., Medicaid, SNAP) are *entitlements*. All people who meet the eligibility requirements are “entitled” to benefits through these programs if they choose to participate. Non-entitlement, or “discretionary,” programs can only serve as many people as budgets allow. TANF is the largest discretionary program by expenditures.

In contrast to social insurance programs, means-tested programs tend to provide in-kind transfers rather than cash. These in-kind benefits give assistance for specific types of expenditures such as food (SNAP, NSLP, WIC), health care (Medicaid), or home heating and cooling (Energy Assistance). Further, some programs are time-limited, or temporary, cutting off benefits to participants after reaching individual benefit limits or time in the program.

**The Social Safety Net in Virginia**

Virginia’s social safety net is a combination of programs financed and supported by federal, state, and local governments. While Virginia has considerable discretion in the administration of these programs, the rationale for social safety net programs and the structure of the programs most often originate at the national level.

A summary of Virginia’s social safety net, including descriptions, financing, total caseloads, and expenditures, is shown in Tables 1 and 2. Medicare and OASS, both social insurance programs, represent the largest programs by caseloads and expenditures in Virginia. The primary beneficiaries of these programs are the elderly, and the vast majority of people over the age of 65 participate in either Medicare or OASS. These programs serve individuals at all levels of income.

Among means-tested programs, Medicaid is the largest in terms of cost, but other programs have comparable size and breadth of participation. For example, nearly 470,000 students in Virginia were eligible for the National School Lunch Program (NSLP) which provides free and reduced price lunches to low-income children during the school year. The SNAP program also provided nutrition assistance to an average of 760,000 people per month in 2010.
### Virginia’s Social Safety Net at a Glance

<table>
<thead>
<tr>
<th>Social Insurance Programs</th>
<th>Abbreviation</th>
<th>Description and Groups Covered</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers Compensation</td>
<td>WC</td>
<td>Benefits for work-related injuries</td>
<td>1918</td>
</tr>
<tr>
<td>Old-Age Social Security</td>
<td>OASS</td>
<td>Retirement benefits for the elderly age 62 and over with qualifying work histories</td>
<td>1935</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>UI</td>
<td>Temporary benefits for persons who are recently laid off through no fault of their own</td>
<td>1935</td>
</tr>
<tr>
<td>Social Security Survivors Insurance</td>
<td>Survivors</td>
<td>Assistance for widow(er)s and children of deceased workers</td>
<td>1939</td>
</tr>
<tr>
<td>Social Security Disability Insurance</td>
<td>SSI</td>
<td>Benefits for disabled workers with qualifying work histories</td>
<td>1954</td>
</tr>
<tr>
<td>Medicare</td>
<td>Medicare</td>
<td>Health Insurance for the elderly age 65 and over (and some SSDI beneficiaries under age 65)</td>
<td>1965</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Means-Tested Programs</th>
<th>Description and Groups Covered</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Temporary Assistance for Needy Families (TANF (AFDC))</td>
<td>Cash benefits for families with needy children</td>
<td>1935^a</td>
</tr>
<tr>
<td>General Relief</td>
<td>Cash assistance for general purposes for persons who are ineligible for other programs</td>
<td>1935^b</td>
</tr>
<tr>
<td>National School Lunch Program</td>
<td>Free or reduced price lunches for school children</td>
<td>1946</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>SNAP Assistance for all individuals for purchasing food</td>
<td>1964</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Medicaid Health Insurance for families with dependent children, the elderly, and the disabled</td>
<td>1965</td>
</tr>
<tr>
<td>Supplemental Security Income</td>
<td>SSI Cash benefits for the blind, elderly, and disabled</td>
<td>1972</td>
</tr>
<tr>
<td>Women, Infants, and Children</td>
<td>WIC Nutrition assistance for pregnant women and young children</td>
<td>1972</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>EITC Refundable tax credit for tax filers with earned income (filers who have worked)</td>
<td>1975</td>
</tr>
<tr>
<td>Energy Assistance</td>
<td>EA Assistance for home heating, cooling, and fuel costs</td>
<td>1981</td>
</tr>
</tbody>
</table>

**Social Insurance:** Programs that provide benefits to all people across the socioeconomic spectrum, as opposed to only low-income families and individuals. Social insurance programs insure individuals who pay into a program against the risk of unemployment (UI), old-age inability to work (OASS, Medicare), disabilities (SSDI, WC), or the loss of a breadwinner (Survivors).

**Means-Tested:** Programs that target benefits to people with low income and assets below a determined level. Means-tested programs tend to benefit only specific groups of needy individuals such as single mothers and their children (TANF), the elderly (SSI, Medicaid), workers (EITC), or the disabled (SSI, Medicaid). Some means-tested programs also provide assistance for specific expenditures like food (WIC, NSLP, SNAP), energy (EA), or health care (Medicaid).

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*a Although TANF was created in 1996, its related predecessor, AFDC, was created with the Social Security Act of 1935.

*b General Relief comes out of Home Relief programs during the Great Depression to cover those who were not covered by the AFDC, TANF, SSI or other assistance programs.

*The social safety net includes a myriad of other, smaller, government programs not mentioned in this table.
### Virginia’s Social Safety Net at a Glance

<table>
<thead>
<tr>
<th>Transfer Type</th>
<th>Administrationa</th>
<th>Financingb</th>
<th>Entitlement</th>
<th>Caseloadsc</th>
<th>Expenditures on Benefits (in millions)d</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Insurance Programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OASS</td>
<td>Cash</td>
<td>Federal</td>
<td>Federal payroll taxes on current workers</td>
<td>Yes</td>
<td>889,916</td>
</tr>
<tr>
<td>Medicare</td>
<td>In-kind</td>
<td>Federal</td>
<td>Federal payroll taxes on current workers</td>
<td>Yes</td>
<td>1,140,524</td>
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<tr>
<td>SSDI</td>
<td>Cash</td>
<td>Federal</td>
<td>Federal payroll taxes on current workers</td>
<td>Yes</td>
<td>247,683</td>
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<tr>
<td>Survivors</td>
<td>Cash</td>
<td>Federal</td>
<td>Federal payroll taxes on current workers</td>
<td>Yes</td>
<td>147,224</td>
</tr>
<tr>
<td>UI</td>
<td>Cash</td>
<td>State / Federal</td>
<td>State taxes on employers with federal funds for extensions</td>
<td>Yes</td>
<td>177,577</td>
</tr>
<tr>
<td>WC</td>
<td>Cash</td>
<td>State</td>
<td>Mandatory insurance coverage purchased by employers</td>
<td>Yes</td>
<td>N/A</td>
</tr>
<tr>
<td>Means-Tested Programs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medicaid + FAMIS</td>
<td>In-kind</td>
<td>State / Federal</td>
<td>State funds with federal matching above 50 percent</td>
<td>Yes</td>
<td>863,672</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>In-kind</td>
<td>Federal</td>
<td>Federal general revenues</td>
<td>Yes</td>
<td>759,562</td>
</tr>
<tr>
<td>EITC</td>
<td>Cash</td>
<td>Federal</td>
<td>Refundable federal tax credit</td>
<td>Yes</td>
<td>541,023</td>
</tr>
<tr>
<td>SSI</td>
<td>Cash</td>
<td>Federal</td>
<td>Federal general revenues</td>
<td>Yes</td>
<td>146,475</td>
</tr>
<tr>
<td>NSLP</td>
<td>In-kind</td>
<td>State / Federal</td>
<td>Federal general revenues</td>
<td>Yes</td>
<td>469,210</td>
</tr>
<tr>
<td>TANF</td>
<td>Cash</td>
<td>State / Federal</td>
<td>Federal block grant with state supplemental funds</td>
<td>No</td>
<td>85,274</td>
</tr>
<tr>
<td>EA</td>
<td>In-kind</td>
<td>State / Federal</td>
<td>Federal block grant</td>
<td>No</td>
<td>237,221</td>
</tr>
<tr>
<td>WIC</td>
<td>In-kind</td>
<td>Federal</td>
<td>Federal general revenues</td>
<td>No</td>
<td>158,890</td>
</tr>
<tr>
<td>GR</td>
<td>Cash</td>
<td>State</td>
<td>State and local general revenues</td>
<td>No</td>
<td>2,517</td>
</tr>
</tbody>
</table>

a Administration refers to where the primary responsibility for availability, eligibility, and benefit amount determinations reside.
b Primary sources of funding for benefits.
c Participation in social insurance programs is counted as point-in-time individuals in a calendar month of 2010 (typically December). Participation in means-tested programs is counted as average monthly individuals. EITC, Energy Assistance, and General Relief participation is based on cases, not individuals.
d Expenditures on benefits are for the Calendar, Federal Fiscal, or State Fiscal Year 2010 except for Medicare (CY2009), WC (CY2009), and the EITC (Tax year 2008).

Data are from the Virginia Department of Social Services, Education, and Health and from the Social Security Administration, Centers for Medicare and Medicaid Services, U.S. Department of Agricuture, U.S. Department of Labor and other sources available upon request from the authors. National data can be found from Ben-Shalom et al (2011) Table 1.

*The social safety net includes a myriad of other, smaller, government programs not mentioned in this table.*
How do Virginians Benefit from Social Safety Net Programs?

Many Virginia households directly benefit from social safety net programs. Currently,

- forty-six percent of Virginia households participate in at least one of the social safety net programs listed in Tables 1 and 2; and

- thirty-three percent of all households — and 72 percent of participating households — are enrolled in more than one program.19

The characteristics of those who participate in the social safety net generally reflect the eligibility requirements of the programs. For instance,

- the median age of households participating in social insurance programs is 64, reflecting participation in Medicare and OASS among most seniors. Only 10 percent of households that participate in social insurance programs have children under age 18;

- the median age of households participating in means-tested programs is 22. Seventy-three percent of households that participate in means-tested programs have children;

- about 9 percent of Virginia households receive both social insurance and means-tested benefits. Fifty-four percent of these households have disabled persons and 38 percent have children. Dual eligibility between Medicare and Medicaid is a major reason for cross participation between social insurance and means-tested programs.20
Thirty-three percent of households participate in more than one social safety net program. Family members in a household may participate in different programs. For example, adults may receive workers’ compensation and their dependent children may qualify for Medicaid. Additionally, individual eligibility for one means-tested program often implies eligibility for another. For example, many SSI beneficiaries are automatically eligible for Medicaid, and the vast majority of the elderly in Medicare are also enrolled in OASS.

Reliance on the social safety net, especially means-tested programs, typically increases during recessions, and the severity of the recent recession has resulted in particularly high caseloads. As a result of rising numbers of unemployed persons and a higher number of households in poverty,

- the average monthly household caseload for SNAP in Virginia increased from 228,000 in 2007 to 351,000 in 2010. Coupled with households relying on SNAP for longer periods, SNAP expenditures during the same time period rose from $547 million to $1.2 billion;\(^2^1\)
- Medicaid caseloads increased by over 15 percent, or 100,000 people, between 2007 and 2010. In the same time period, expenditures rose more than 30 percent, from $5.1 billion to $6.8 billion.\(^2^2\)

The social safety net has recently provided an important means for families to survive through very rough economic times. Not only does the wide participation in the social safety net illustrate this, but the social safety net also has a demonstrable effect on supplementing the incomes of poor families.

**HOW DO THESE PROGRAMS IMPACT INCOME AND ECONOMIC SECURITY FOR VIRGINIANS?**

While social safety net programs provide support to individuals and households across the economic spectrum, a central question is whether these programs improve conditions for individuals and families in or near poverty, and, if so, whether this assistance improves the economic vitality of the commonwealth overall. While demonstrating the effects of the social safety net on poverty is challenging, one commonly used, straightforward way to illustrate the effects of the social safety net is to examine poverty rates with, and without, income from government programs.\(^2^3\)

Three definitions of income are used in the following analysis to illustrate the effect that social safety net programs have on the number of people in poverty:\(^2^4\)

1. *Pre-tax, Pre-transfer Income*: income from private sources only. This includes wages, retirement savings, dividends, and business income before taxes.

2. *Census Income*: pre-tax, pre-transfer income plus all *cash transfers* from public social safety net programs such as OASS, SSDI, UI, WC, SSI, and TANF. This is the income definition used for official poverty statistics.

3. *Census Income Post-tax plus SNAP*: all cash income sources are counted after taxes plus the *in-kind transfer* amount of SNAP benefits.\(^2^5\)

These income definitions are used to determine poverty status based on whether a family or individual income amount falls above or below the official poverty line. In 2010, the federal poverty line for a family of four, with two adults
and two children, was just over $22,000 annually. These three income definitions produce three separate sets of poverty rates displayed in Figure 1 for the years 2003 to 2010.

Pre-tax, Pre-transfer Poverty Rates

Pre-tax, pre-transfer poverty rates reflect what poverty rates would be if only private sources of income for families and individuals are counted (Figure 1, in purple). Unlike the Census Bureau’s definition of income, pre-tax, pre-transfer income excludes all transfers from government programs including OASS, SSDI, TANF, SSI, and UI. In Virginia, the average pre-tax, pre-transfer poverty rate over the past eight years was 16 percent – significantly higher than the official poverty rate.

While the difference between the pre-tax, pre-transfer poverty rate (excluding all transfers) and the official poverty rate (including cash transfers) highlights the economic impact of the social safety net in Virginia, it does not completely represent what the poverty rate would be in the absence of government programs. The potential for the social safety net to depress workforce participation and economic growth is vigorously debated among researchers, and it is difficult to know how people would actually behave, over the long term, in an economy without these government programs. Nonetheless, there is consensus among many researchers that a pre-tax, pre-transfer poverty rate is useful for approximating the economic impact of the social safety net.26

Census Poverty Rates

The Census Bureau calculates the official poverty rate by adding cash transfers from government programs to pre-tax, pre-transfer income (Figure 1, in blue).27 The difference between the Census Bureau’s rate and the pre-tax, pre-transfer poverty rate illustrates the effect of major social insurance (OASS, SSDI, UI, WC) and means-tested (SSI, TANF) programs for low-income individuals.

Census Poverty Rates Post-tax Plus SNAP

While the Census Bureau’s definition of income includes benefits from most social safety net programs, it does not include in-kind transfers. Government benefits from SNAP, housing subsidies, Medicaid, and Medicare are important resources for low-income households, yet are not included in the calculation of income for the census and are thus not part of official poverty statistics. As a result, the Census definition of income has been criticized for being too narrow in its assessment of the true financial circumstances of the poor.28

One reason in-kind transfers are ignored in official poverty statistics is that it is difficult to assign a market value to the transfers. For example, Medicare and Medicaid insurance coverage provide valuable health care services, but not everyone needs health care during the course of a year. On the contrary, SNAP benefits are more easily valued as cash income because everyone in the program needs to use the benefit, and the value of SNAP seldom exceeds the total money needed to feed a family. SNAP benefits, like cash, free resources that would otherwise be spent on food.29
Taxes and credits also impact the financial resources of households and are important for capturing the true financial circumstances of families. Many low-income households have little or no state and federal income tax liability but are eligible for the EITC and other credits if they file a tax return. These credits provide a significant influx of cash resources that enable households to pay down outstanding bills and buy necessary durable goods. As a result, post-tax income provides a better picture of the financial resources available to individuals and their families.

Figure 1 shows, in orange, poverty rates associated with census income after taxes, plus the value of SNAP. The gap between pre-tax, pre-transfer poverty rates and the post-tax plus SNAP poverty rates represents the combined effect of the social safety net on income for those individuals at risk of falling below the poverty line. By expanding the definition of income to include cash benefits, taxes, and the value of SNAP, the poverty rate in Virginia drops from an average of 16 percent to an average of 8 percent. In 2010, it is estimated that post-tax, post-transfer poverty was at 9.5 percent compared to the census poverty rate of 10.8 percent.
SOCIAL SAFETY NET EFFECTS BY DEMOGRAPHIC AND INCOME GROUP

Due to the eligibility requirements of many social safety net programs, some segments of the population receive more benefits than others. Government benefit programs in the U.S. tend to target individuals thought to be economically disadvantaged through no fault of their own, such as the elderly, the disabled, and young children in poor families. As a result, the income effects of the social safety net are greater for these groups than, for example, working-age adults with no disability and no children, even if they are poor.

Figure 2 displays the gap between pre-tax, pre-transfer poverty rates and post-tax, post-transfer poverty rates (including SNAP benefits) for individuals in different segments of the population. Results show that the social safety net provides the greatest benefits to the elderly, the disabled, families with children, and veterans.

- Elderly poverty rates drop from 39 percent (pre-tax, pre-transfer) to 10 percent after accounting for all taxes and income from government sources. Over 60 percent of this reduction is due to cash transfers from Old Age Social Security.

- A similar pattern is seen for the disabled, who are specifically targeted by Social Security Disability Insurance and Supplemental Security Income. Even with these targeted public assistance programs, poverty rates for the disabled remain high compared to other groups. Post-tax, post-transfer poverty rates for the disabled exceed 20 percent.

- Cash transfers from public programs do not lower poverty rates among single mothers and children as much as they do for other groups, but the EITC and other tax credits have a particularly strong income effect for families with children. The gaps between pre-tax, pre-transfer and post-tax, post-transfer poverty rates shown for single mothers and children in Figure 2 are mostly due to these tax credits.

- Veterans and their families often receive disability or survivor benefits as compensation for combat-related injuries or the death of a former service member. The combination of veteran-targeted programs with the rest of the social safety net yields significant poverty reductions for veterans and their families. Veterans themselves have the lowest post-tax, post-transfer poverty rate of all groups depicted in Figure 2.

Many low-income, working-age adults may not be eligible for government benefits if they are not in any of the special groups targeted by these programs.

Although means-tested programs primarily target the poor and near poor, social insurance programs impact family incomes well above the poverty line. Figure 3 displays how much (by percent of the poverty line) the social safety net contributes, on average, to family incomes.
Virginia Poverty Rates by Selected Populations

Percent of Income from the Social Safety Net by Income Level

Data are from a CY2007-2008 two-year average. The data for Figure 3 includes families and individuals living alone. Unlabeled regions in Figure 3 in order of size: Means-tested: EITC, TANF; Social Insurance: Survivors, UI, WC, Veterans Benefits
Those with incomes less than 50% of the poverty line (deep poverty) are represented on the far left of the graphic. For those who are in deep poverty, the social safety net accounts for over 60 percent of income. Much of this comes from means-tested programs (in purple), especially SNAP and SSI. In 2008, nearly 100,000 people reported SNAP or SSI as their only source of income.

As household incomes rise, families fall out of eligibility for means-tested programs. Reflecting these changes, near poor families (100-150% of the poverty line) receive around 40 percent of their income, on average, from social safety net programs, with the majority of this income from social insurance programs rather than means-tested programs.

Though the impact of both means-tested and social insurance programs declines as family incomes rise, the social safety net impacts households across the economic spectrum, predominantly through Old Age Social Security and Social Security Disability Income. The median Virginia family is at nearly three times the poverty line ($66,000 for a family of four), and 10 percent of their aggregate income comes from social insurance programs. Even high-earning families making five or more times the poverty line ($110,000 for a family of four) receive nearly 5 percent of their aggregate income from the social safety net. These figures represent averages and include the elderly who participate in OASS and disabled persons receiving SSDI benefits. The majority of families and individuals at these income levels do not receive social safety net benefits, but those who do often receive a large percentage of their income from OASS or SSDI.

**Discussion**

Social safety net programs reduce economic burdens on individuals and their families by providing cash transfers (such as OASS and SSDI) that increase disposable income, and by providing in-kind benefits (such as Medicaid and SNAP) that reduce necessary expenditures.

These cash and in-kind benefits, when calculated through post-transfer, post-tax income (plus SNAP benefits), reduce the poverty rate from private income alone by almost half. However, not all individuals eligible for social safety net programs actually participate and receive benefits due to a variety of reasons, such as lack of knowledge or difficulty completing paperwork. For example, over one-fourth of EITC eligible families fail to file a tax return and claim benefits. Similarly, about 15 percent of children in Virginia eligible for Medicaid and FAMIS do not enroll. Improving outreach efforts in order to increase program participation among the eligible population may reduce poverty rates even further in Virginia.

One limitation of this, and similar studies, is the difficulty in fully accounting for the income effects of in-kind transfers (for example, Medicare and Medicaid) and factors external to the programs themselves such as rising out-of-pocket health care costs. The Census Bureau’s recently released Supplemental Poverty Measure is the most far-reaching attempt to account for these effects, but is currently unavailable for state-specific or local estimates. The post-tax, post-transfer poverty measure for Virginia presented in this report approaches the comprehensiveness of the new Supplemental Poverty Measure but does not include the effects of out-of-pocket medical expenses and other in-kind benefits due to data
limitations. Wider availability of the Supplemental Poverty Measure for states and localities could provide additional information on the status of low-income individuals.

**CONCLUSION**

The social safety net is the collection of government programs created throughout the twentieth century to address the needs of individuals and households under economic stress. Social safety net programs have been championed and criticized by Republicans and Democrats alike, and have changed with shifting public sentiment. Today’s benefit programs reflect this history and embody current American attitudes on the appropriate role of individuals, the government, and the private sector in securing economic prosperity.

Forty-six percent of Virginia households receive some form of social safety net assistance. Virginians who are elderly receive Social Security and Medicare; those who have recently lost their jobs receive unemployment benefits; disabled Virginians who are unable to work receive support from Social Security Disability Insurance; and the poorest Virginians, including many children, receive support through SNAP, Medicaid, the national school lunch program, or TANF.

Without income from these programs, a larger number of Virginians would live with incomes below the poverty line. As this study shows, when income from social safety net programs is added to private earnings, the poverty rate in Virginia was 9.5 percent in 2010. Without income from those programs, 16.3 percent were poor.

Beyond providing relief for poor Virginians, these programs help many low- and middle-income Virginians avoid joining the ranks of the poor and are a source of earnings even among higher income households. The social safety net provides a level of economic security to Virginians at all income levels.

The future of the social safety net will undoubtedly be shaped by public sentiment, political will, and economic conditions. Several significant trends will contribute to the debate on these programs, such as the growing demand on Medicare and Old Age Social Security caused by the large, aging “baby boom” generation; the number of unemployed and underemployed Virginians as a result of labor market contractions; and the rising costs of health care straining the capacity of Medicare and Medicaid. Effective reform requires understanding the purpose of the programs, the impact made on the lives of those who are at risk, and the relative potential of program reduction on federal and state budgets.

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NOTES


4 Workers’ compensation is one of multiple programs that provide support to disabled workers. Other programs include employer-sponsored benefits, such as sick leave and long-term disability insurance, and federal programs such as SSDI and Medicare.


6 Ibid, p. 49.


10 At the time of enactment: “Aid to Dependent Children.”


12 The Patient Protection and Affordable Care Act of 2010 will make these individuals a covered group in 2014.

13 Medicare is largest by the number of participants, but OASS is the largest by expenditures on benefits.


16 For a discussion and analysis of this Medicaid expansion in Virginia see Cable, Dustin A. 2010. “Virginia Medicaid: Now and Under Health Reform.” Charlottesville, VA: Weldon Cooper Center for Public Service, University of Virginia.

17 Virginia Department of Education, 2010-2011 data.

18 Virginia Department of Social Services, 2011 Annual Statistical Report.
Data are from a CY2007-2008 two-year average and statistics are based on entire households.

Data are from a CY2007-2008 two-year average and statistics are based on entire households.


23 Part of the problem lies in determining what family income would be in the absence of all government intervention. Such a measure would be necessary to estimate the true effect of the social safety net. Obtaining a measure of income in the absence of government is generally not possible. It is equally difficult to know how people would behave, in the long-term, in an economy without social safety net programs. Therefore, researchers often rely on extrapolations of what this income might be, often doing the same type of analyses performed in this study. See Ben-Shalom, Yonatan, Robert A. Moffitt, and John K. Scholz. 2011. “An Assessment of the Effectiveness of Anti-Poverty Programs in the United States.” National Bureau of Economic Research, Working Paper No. 17042, pp. 21-22.


25 The official Census Bureau poverty rates are determined through a nationwide survey called the Current Population Survey (CPS). The CPS has a well-documented tendency to undercount the number of individuals participating in means-tested government programs, particularly TANF, SSI, and SNAP. Statistics gathered from the CPS on the total amount of benefits received typically falls short of state administrative records on the total amount of benefits given. Adjusting the CPS results to match state administrative records yields a lower poverty rate. These corrected poverty rates better reflect the true number of poor individuals in Virginia. This study corrects for undercounting in its post-tax, post-transfer (plus SNAP) income measure. CPS data on TANF and Food Stamp participation was matched to totals as reported in the Virginia Department of Social Services’ 2011 Annual Statistical Report. SSI participation was adjusted to totals as reported by the Social Security Administration’s SSI Recipients by State and County reports. Although Medicaid insurance is not counted as part of income in this study, Medicaid participation was adjusted for undercounting for all data concerning household participation in social safety net programs. State administrative data on Medicaid participation came from the 2011 Annual Statistical Report from VDSS.


27 The poverty rates used here are very close approximations of the official poverty rates found in the Income, Poverty and Health Insurance in the United States reports produced by the U.S. Census Bureau. The rates shown in Figure 1 were derived from microdata used by social science researchers that have a smaller sample within the Current Population Survey than the official statistics. Despite this, the differences between the two rates are minimal.


29 Ibid. p. 30. Some researchers have attempted to place a value on the effects of Medicare and Medicaid on poverty rates. For instance, Ben-Shalom et al (2011) found that Medicare and Medicaid have dramatic effects in
reducing pre-tax, pre-transfer poverty rates, although they note the difficulty in evaluating the worth of these programs for individuals and families.

30 Goodman-Bacon, Andrew, and Leslie McGranahan. 2008. “How do EITC recipients spend their refunds?” Economic Perspectives, 32(2): 17-32. As a large cash transfer, the EITC often serves as a way for low-income households to avoid debt by paying down bills. By facilitating the purchase of durable goods such as cars, the EITC also helps low-income households acquire an asset that is critical to day-to-day economic well-being (e.g., access to reliable transportation is a key component of job success). Some EITC benefits go unclaimed because individuals eligible for the EITC have such low incomes that they are not required to file state or federal taxes.

31 Tax liabilities and credits are calculated using the Census Bureau’s tax simulation model. The model uses data from the Internal Revenue Service to impute income tax liability, payroll tax deductions, and the value of credits within the Current Population Survey.

32 American Community Survey data show nearly 750,000 veterans lived in Virginia in 2010, comprising more than ten percent of the civilian population age 18 and over. Virginia’s veteran population is relatively large by both size and proportion when compared to other states.


35 The Supplemental Poverty Measure also uses an alternative poverty threshold based on data from the Consumer Expenditure Survey and regional cost adjustments.