

Multiple benefits: Fitting the pieces together

The American income maintenance system consists of approximately forty programs, each designed with its separate goals and directed toward distinct populations. Its scope is vast; benefits are currently received by one of every two households in the country. And its cost is large: over 10 percent of the gross national product.

The programs fall into two general types: social insurance and welfare. Social insurance cushions the earnings loss for workers and their families from retirement, disability, unemployment, and untimely death of the worker. It is financed by payroll taxes and employer contributions. Welfare programs, which are financed out of the general revenue, have in common that they are income-tested; that is, eligibility is restricted to persons whose income and assets fall below some specified level. For the most part these programs are also restricted to specific groups of the needy, such as the disabled or those with young children. The Food Stamp program is unique in that one need only have a low income and low assets in order to qualify for it.

Though there are basically two kinds of programs, the ways in which the individual programs differ are legion. Some social insurance and welfare programs, such as Medicare and Food Stamps, provide benefits in kind. Others provide cash benefits. Some are federally funded and administered. Others are strictly state programs. Still others are funded and administered partly by the states and partly by the federal government. Each program has its own set of criteria for determining eligibility. Among the criteria are "the age and sex of the household head, the type of family, the presence of children and whether or not they are in school, the amount and source of the household members' income, the amount and type of their assets, their employment history and current employment status, their veteran status, their health, their location, their housing arrangements."¹ The definitions of such items as "family unit," "income," and "part-time employment" differ from program to program. Each program has its own benefit structure. And many of the programs have their own benefit reduction rate (the rate at which benefits are reduced as income rises).

The relationships between programs are complex and tangled. Some programs are by definition mutually exclusive. Obviously a maternity and infant-care program will not serve the aged. Others, such as AFDC and Medicaid, tend to operate in tandem. Some have developed a historical relationship. For example, over the last fifteen inflationary years, Food Stamps have risen in importance relative to AFDC in many poor states, because AFDC payments have

fallen far behind the cost of living, whereas Food Stamps, tied to the Consumer Price Index, have maintained their value. The rules of each program stipulate how income from other programs is counted in determining the size of the benefits and benefit reduction rates. This relationship between programs is known as income sequencing.

Such a system clearly entails high administrative costs and high compliance costs, and one of the favorite pastimes of reformers has been the construction of schemes to simplify and consolidate American social programs, both on a grand scale (through a negative income tax or a credit income tax) and on a smaller scale. (Some consolidation has taken place: The federal SSI program supplanted 52 separate state-administered programs to help the needy who were aged, or blind, or disabled.) Yet until recently little was known about the impact of this complex system on recipients: Who gets multiple benefits? Do the different programs merely duplicate one another or do they fit together in a meaningful pattern? What are the behavioral effects of participation in more than one program? It may be that a combination of benefits and tax rates results in a pattern of program participation, income adequacy, and employment practices that taken together is different from those that could be predicted from the study of one program at a time. Is it true—as is often assumed—that combined benefit reduction rates on earnings for some recipients of multiple benefits result in a strong disincentive to work? This gap in our knowledge of how the system works is beginning to be filled. Among those contributing the first answers to some of these questions is IRP affiliate Maurice MacDonald, who has recently completed a study for the Department of Agriculture on the relationship between participation in the Food Stamp program and participation in other programs (see box, p. 7).

The study

MacDonald's study made use of one three-month panel of the 1979 Income Survey Development Program Research Panel (ISDP), of the Department of Health and Human Services. This survey of a nationally representative sample of households included questions on cash and in-kind income, program eligibility and participation, asset ownership, and a number of demographic characteristics. In addition, the spring 1979 wave used by MacDonald contained a number of questions which made it possible to determine not only who participated in the Food Stamp program, but who was eligible and did not participate.

Who receives multiple benefits?

In 1979, of the 28 million households that received benefits from one of the six major programs in the study,² fewer than one-quarter received benefits from two or more major programs. Thus, receipt of a single benefit was the pattern of the system as a whole, because the vast majority of recipients were receiving OASDHI, which includes Medicare³ (over 21 million households) and most of these households were not poor and therefore were not eligible for other benefits. Table 1 reveals the patterns of receipt of multiple

benefits. Of the households receiving benefits, 63.6 percent received only OASDHI and 5.3 percent received only Unemployment Insurance (UI). Altogether, 74.5 percent received only one benefit. Table 2, however, demonstrates that whereas the single benefit is the norm for participants in social insurance programs, the opposite is the case for participants in welfare programs. Of those on Public Assistance (that is, households on AFDC, General Assistance, Emergency Assistance, and other cash welfare programs), 85.8 percent receive benefits from at least one other program, and for SSI and Medicaid recipients, that percentage is in the nineties.

Table 1
Multiple Benefits from Six Major Programs, 1979

	Households (thousands)	Percentage Receiving Benefits		Households (thousands)	Percentage Receiving Benefits
Households receiving one or more of the six types of assistance	27,901	100.0%	FS/PA/MED	1,347	4.8
Just one type	20,796	74.5	SSI/MED/OASDHI	838	3.0
OASDHI only	17,740	63.6	FS/SSI/MED	396	1.4
UI only	1,481	5.3	FS/MED/OASDHI	138	0.5
FS only	763	2.7	PA/SSI/MED	76	0.3
PA only	460	1.6	FS/SSI/OASDHI	55	0.2
SSI only	208	0.7	FS/OASDHI/UI	55	0.2
MED only	144	0.5	SSI/MED/UI	43	0.2
Two or more types	7,105	25.5	FS/PA/SSI	28	0.1
Only two	2,877	10.3	FS/MED/UI	24	0.1
FS/OASDHI	428	1.5	PA/MED/OASDHI	23	0.1
OASDHI/MED	495	1.8	MED/OASDHI/UI	11	0.0
SSI/MED	454	1.6	PA/MED/UI	12	0.0
SSI/OASDHI	310	1.0	FS/PA/OASDHI	1	0.0
OASDHI/UI	264	0.9	PA/SSI/OASDHI	2	0.0
PA/MED	247	0.9	Four or more types	1,179	4.2
FS/PA	169	0.6	Only four	1,061	3.8
FS/SSI	131	0.5	FS/SSI/MED/OASDHI	586	2.1
FS/MED	127	0.5	FS/PA/MED/UI	138	0.5
FS/UI	117	0.4	FS/PA/MED/OASDHI	109	0.4
PA/OASDHI	102	0.4	FS/PA/SSI/MED	96	0.3
PA/UI	18	0.1	PA/SSI/MED/OASDHI	82	0.3
UI/MED	15	0.1	FS/PA/SSI/UI	49	0.2
Three or more types	3,474	12.4	FS/PA/SSI/OASDHI	1	0.0
Only three	3,049	10.9	Five or more types	118	0.4
			Only five	118	0.4
			FS/PA/SSI/MED/OASDHI	106	0.4
			FS/PA/MED/OASDHI/UI	8	0.0
			FS/PA/SSI/MED/UI	4	0.0

Note: OASDHI=Old Age, Survivors and Disability Insurance and Medicare. UI=Unemployment Insurance. FS=Food Stamps. PA=Public Assistance (includes AFDC, General Assistance, Emergency Assistance, and other cash programs). SSI=Supplemental Security Income. MED=Medicaid.

Table 2
Description of Six Major Transfer Programs for
Fiscal Year 1979

Transfer Program	Cost FY '79 (billions) (1)	Households (thousands) (2)	Percentage with Multiple Benefits^a (3)
<i>Social Insurance</i>			
OASDHI	\$102.6	21,343	16.9%
UI	11.2	2,239	33.9
<i>Welfare</i>			
Public Assistance (PA) ^b	12.0	3,233	85.8
SSI	6.8	3,622	94.3
Food Stamps (FS)	6.8	4,873	84.4
Medicaid (MED) ^c	6.8	5,508	97.4

^aPercentage of households in this program reporting benefits from one or more of the other five programs.

^bAll cost figures are from the *Budget of the United States*. The PA cost figure includes federal AFDC and General Assistance costs, but not Emergency Assistance.

^cMedicaid household counts are for reported Medicaid coverage. These reports are larger than the number of persons who actually received Medicaid benefits, but smaller than the total number of persons insured by Medicaid. The cost figure is the federal cost of actual services provided to Medicaid recipients.

Because MacDonald analyzed data that enabled him to distinguish those households participating in the Food Stamp program from those households eligible for but not participating in the program, he was able to compare the two groups. He found a striking difference. Whereas only 13 percent of Food Stamp eligibles who did not get stamps received more than one benefit, 84 percent of those who did receive Food Stamps were in that category. He concluded that Food Stamp participants are characterized by multiple benefits, whereas nonrecipient eligibles are not. He classified Food Stamp recipients on the basis of the largest benefit they received in order to get a coherent picture of the types of people who receive multiple benefits. He found that they tend to fall in one of the following categories:

1. Aged, disabled, and survivors. These households reported that their largest benefit was either OASDHI or SSI. They make up 41 percent of all Food Stamp recipients. The most important single benefit combination for this group was Food Stamps/OASDHI/SSI/Medicaid.

2. Public Assistance households. Nearly 30 percent of Food Stamp recipients reported that PA was their largest benefit. These are chiefly households on AFDC who also receive Medicaid and Food Stamps.

3. Food Stamp households. This group consists of the 24 percent of Food Stamp households in which the stamps provide the largest benefit.

4. Households of the unemployed receiving Unemployment Insurance and Food Stamps.

These four types run the gamut among those we classify as needy. They include those expected to work and those not expected to work; indeed, they include some who are employed full time as well as those temporarily out of work and those with the most tenuous attachment to the labor force. Some fit into distinct demographic categories, the aged for example. They could perhaps be served by fewer programs. Since they are not expected to work, their Food Stamps could be cashed out and added to their SSI benefits without any adverse behavioral consequences. (This is being done in Wisconsin.) Or they could be incorporated in the Social Security system.⁴ Others defy classification.

Multiple benefits and poverty

In order to examine the effects of multiple benefits on poverty, MacDonald successively added three types of transfers (social insurance, cash welfare, and finally Food Stamps) to the pretransfer incomes of households receiving these benefits. Before and after the addition of each category of benefit he compared household incomes to the poverty line, measured the gap between incomes and the poverty line, and studied changes in the percentage distribution of income relative to the poverty line. This distribution revealed not only who among the very poor benefited from multiple programs, but who among the nonpoor benefited.

Poverty line measure

The official poverty line is determined by the Office of Management and Budget, based on three times an economy food budget. It is adjusted for family size, age and sex of

Related Paper

Maurice MacDonald, "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipant Households (with Highlights and Executive Summary by the United States Department of Agriculture Food and Nutrition Service, Office of Analysis and Evaluation)," United States Department of Agriculture, Washington, D.C., February 1983, mimeo.

family head, number of children, location (farm or non-farm), and the inflation rate.⁵ It serves as a rough measure of the adequacy of a family's income.

MacDonald found that social insurance programs in 1979 raised 8.8 million households, or 40 percent of all pre-transfer poor households, above the poverty line. Cash welfare lifted 6.4 percent of those remaining poor over the poverty line, and Food Stamps removed from poverty an additional 1.9 percent (241,000 households) of those still remaining poor. However, over 50 percent of the pretransfer poor remained poor after all transfers were counted. Though this may appear disappointing, it should be remembered that transfer programs were never intended to serve as a sole source of income. Even the most generous social insurance programs were designed to supplement earnings or savings. The percentage moved out of poverty is therefore not a complete measure of the accomplishments of multiple benefits.

The poverty gap measure

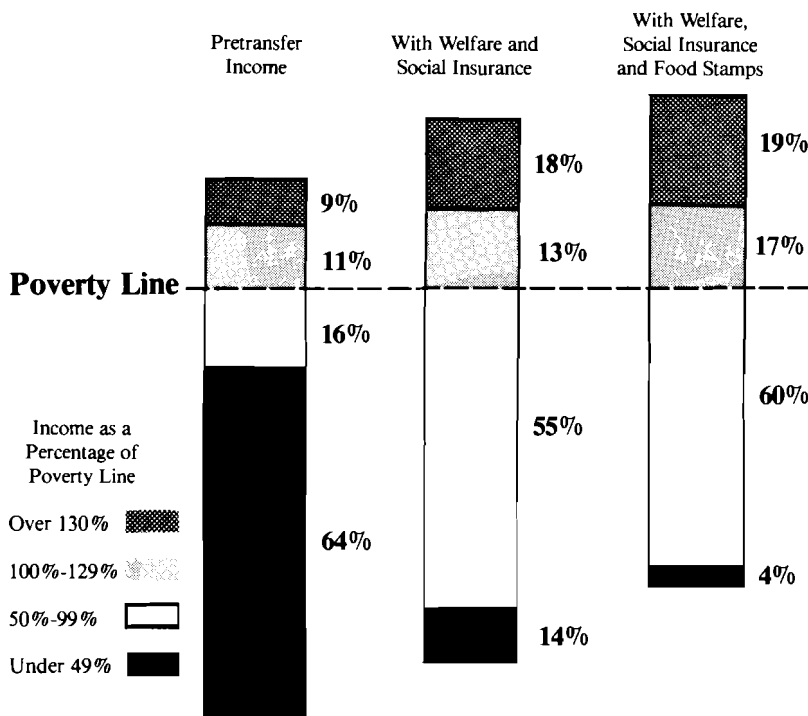
A clearer picture of the impact of multiple benefits on poverty can be gotten from an examination of the amount these benefits reduce the poverty gap. This gap reveals not just whether a household falls below an arbitrary line, but the percentage by which the household's income falls short

of it. Here MacDonald found that social insurance closed over half of the pretransfer poverty gap. Cash welfare reduced the remaining gap by 11 percent, and the addition of Food Stamps reduced it by another 4 percent. Although, after all benefits were added, one-third of the original gap remained, the effect of Food Stamps on recipients was found to be greater in reducing the income poverty gap than in reducing poverty counts.

Reaching the very poor

Reduction of the poverty gap provides us with only a part of the picture of how multiple benefits reduce poverty. The next question to be answered is, Where do the gaps occur? Looking at the change in the income distribution after the receipt of cash benefits and then Food Stamps makes it apparent that these benefits reduce poverty for those whose incomes are below one-half of the poverty line. MacDonald found that for households on Public Assistance and Food Stamps, the stamps reduced the percentage of households with incomes less than half the poverty line from 16.1 percent to 1.1 percent. For those on OASDHI and Food Stamps, this percentage was reduced from 6 to 1.3. For those on SSI and Food Stamps it dropped from 5.6 to 1.3, and for those households who received Food Stamps only, the percentage in this very poor category dropped from 28.4 to 12.5.

Food Stamp Recipients (4,873,000 households)



(1979) Eligible Nonrecipients (7,570,000 households)

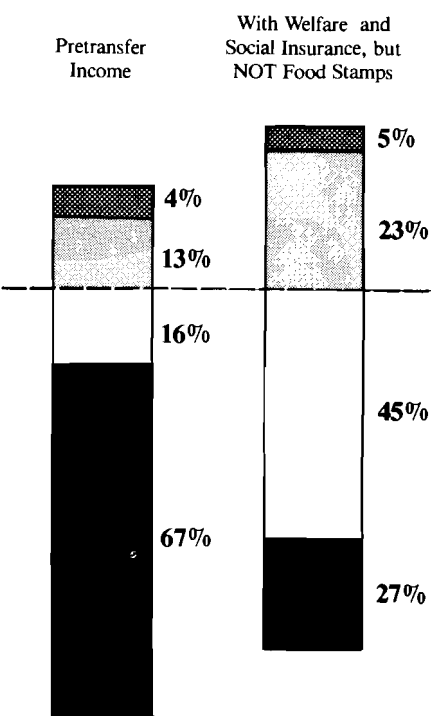


Figure 1. Effects of Multiple Benefits on Income Status as Related to National Poverty Guidelines

Source: United States Department of Agriculture Food and Nutrition Service, Office of Analysis and Evaluation, Executive Summary to "Multiple Benefits and Income Adequacy for Food Stamp Participant and Nonparticipant Households," by Maurice MacDonald. U.S. Department of Agriculture, Washington, D.C., February 1983.

When MacDonald contrasted those receiving Food Stamps with those not receiving Food Stamps he found a startling difference. Whereas among those receiving Food Stamps and Public Assistance the proportion with incomes less than one-half the poverty line was 1.1 percent, fully 20 percent of those on Public Assistance and not receiving Food Stamps had incomes that low. Clearly multiple benefits reach those at the very bottom of the income scale.

Raising the incomes of the nonneedy

Looking at the other end of the scale, are there groups of individuals who prosper by participating in multiple programs? The answer to that question appears to be a qualified no. According to MacDonald's study, 19 percent of Food Stamp recipients had incomes over 130 percent of the poverty line in 1979, and 10 percent had incomes above 150 percent of the poverty line. However, analysis showed that these high incomes resulted not from Food Stamps but from very generous Public Assistance and SSI programs in a number of states. Food Stamps contributed less than 1 percent to the size of the population whose incomes were over 130 percent of the poverty line, and the program is unlikely under current law to have even that impact. (Regulations adopted in late 1981 prohibit households with a gross income over 130 percent of the poverty line from receiving stamps unless the household contains an aged or disabled member.)

Limitations of the survey

Like most surveys, the ISDP had limitations resulting from the underreporting of income and assets. Because MacDonald used data for only three months, some measures of poverty were overstated, since households can be poor during one quarter, but not for the year as a whole. Respondents were not surveyed about all relevant nutrition programs, such as the school lunch. Finally, while the interviews were going on, the Food Stamp program was in the process of being changed. The purchase requirement—the cash that purchasers had to pay for their allotment of stamps—had been eliminated and eligibility regulations concerning the allowable deductions from gross income had been altered to prevent those with relatively high incomes from making use of the program. According to MacDonald, however, these limitations did not seriously affect his results.

Conclusions

What then can be said about those who are recipients of benefits under a number of programs?

First of all, the great majority are poor. The addition of benefits, though duplicative from an administrative point of view, serves effectively to pinpoint the very needy and provide them, if not with sufficient means, with a reduced insufficiency.

Second, they cover a wide range of demographic types: the aged and disabled, single-parent households, intact families of full-time employed workers, the unemployed. No simple means are available to provide for them while reducing the number of programs.

It is, however, abundantly clear that those eligibles who participate in multiple programs are much better off than those who do not. The programs do, for the most part, accomplish their principal aims of reducing uncertainty and hardship in the lives of America's neediest citizens. As Figure 1 shows, the addition of cash welfare and Food Stamps to social insurance reduces to a very small number (4 percent) those whose incomes are below half of the poverty line. ■

¹Irene Lurie, ed., *Integrating Income Maintenance Programs* (New York: Academic Press, 1975), p. 10. See also Irwin Garfinkel and Robert Haveman, "Income Transfer Policy in the United States: A Review and Assessment," IRP Discussion Paper No. 701-82, pp. 2-6.

²The programs are OASDHI (including Medicare), Unemployment Insurance, Public Assistance (including AFDC, General Assistance, Emergency Assistance, and other cash welfare programs), SSI, Food Stamps, and Medicaid.

³Old Age Insurance and Medicare are classified as a single program for the purposes of this discussion, since all recipients of Old Age Insurance are automatically participants in the Medicare program.

⁴See Alicia H. Munnell and Laura E. Stiglin, "Women and a Two-Tier Social Security System," in Richard V. Burkhauser and Karen C. Holden, eds., *A Challenge to Social Security* (New York: Academic Press, 1982), for a discussion of a proposed system in which social security benefits would be the sum of benefits from two so-called tiers. The first tier would consist of a means-tested benefit. The second tier would be a benefit strictly proportional to covered earnings. Such a system would do away with SSI and other benefits for the aged.

⁵In 1981 distinctions based on the sex of the householder were eliminated and separate thresholds for farm families were dropped.

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