Economic Security for the 21st Century

Ensuring economic security draws on four pillars of policy: Labor, Benefits, Protection, and Equity

2022

NATIONAL ACADEMY OF • SOCIAL INSURANCE

About the National Academy of Social Insurance

The National Academy of Social Insurance is a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance. Its mission is to advance solutions to challenges facing the nation by increasing public understanding of how social insurance contributes to economic security.

Social insurance encompasses broad-based systems that help workers and their families pool risks to avoid loss of income due to retirement, death, disability, or unemployment, and to ensure access to health care.

The Academy convenes steering committees and study panels that are charged with conducting research, issuing findings, and identifying policy option recommendations based on their analyses. Members of these groups are selected for their recognized expertise and with due consideration for the balance of disciplines and perspectives appropriate to each project.

Project Staff

William Arnone, Project Director

Chief Executive Officer, National Academy of Social Insurance

Kathryn Anne Edwards, Principal Investigator

Economist

Griffin Murphy, Research Assistant

Policy Analyst for Income Security, National Academy of Social Insurance

Suggested Citation

Edwards, Kathryn Anne, and Griffin Murphy. *Economic Security for the 21st Century*. Washington DC: The National Academy of Social Insurance, 2022.

Acknowledgements

The Study Panel's work over a two-year period and this report represent the Academy's continued focus on income security programs as a key means to provide economic dignity and stability to millions of Americans. Throughout its history, the Academy has often reviewed income security through the lens of social insurance programs—namely, Social Security, Unemployment Insurance, and workers' compensation. The interaction of social insurance programs with other programs and laws, however, necessitates continued thought around the entire policy ecosystem and what each program and law is best suited to accomplish. As far back as its fourth annual policy conference in 1992, Security for America's Children, the Academy sought research and ideas beyond the scope of the traditional social insurance programs. This broader view culminated in the Academy's 2021 virtual conference, Pathways to Economic Security: Bringing All Voices to the Table. While social insurance programs remain the core focus of the Academy's work, this report reviews the broad landscape of federal income security policy. This work is also a continuation of the Academy's 2019 concept paper *Assured Income*.

The Academy gratefully acknowledges the work of the individuals who served on the Study Panel—especially its co-chairs Jason Fichtner and Renée Landers, and its working group leaders Harry Conaway (Late Life), Christina FitzPatrick (Finance), Elaine Maag (Middle Life), and Kathleen Romig (Early Life). Although the working group divisions were not ultimately utilized in the framing of the report, they were instrumental in outlining the policy options early in the process. The Academy also thanks Bernstein interns Humphrey Shen, who assisted with research on health and finance policy, and Elijah Michel, who assisted with research on income security policy and helped refine the key messages of the report. Last, the Academy is thankful for the stakeholder representatives (listed below) who offered their time to help us better understand the needs of their community members. Their titles represent their positions at the time of our conversation.

Joshua Arce President/CEO, Partnership with Native Americans

Florence Becot Associate Research Scientist, National Farm Medicine Center

Nancy Kay Blackwell Executive Director, Congressional Coalition on Adoption Institute

Cindy Borden Director of Training and Technical Assistance, National Coalition for Homeless Veterans

Anastasia Christman Director of Worker Power Program, National Employment Law Project

Ty Cobb Senior Director, Strategic Initiatives & Research, Human Rights Campaign

Charleigh Flohr Research Manager, Public Education and Research Program, Human Rights Campaign

Jessica Fulton Vice President, Joint Center for Political and Economic Studies

Bruce Goldstein President, Farmworker Justice

Fatima Goss-Graves President and CEO, National Women's Law Center

Lillian Harris Founder and President, Advocates for Adolescent Mothers

Shoshanah Inwood Assistant Professor, School of Environment and Natural Resources, Ohio State University

Elizabeth Lower-Basch Co-Leader, Protecting Immigrant Families Campaign, Center for Law and Social Policy

Amy Matsui Director of Income Security, National Women's Law Center

John McCarthy Project Manager, Michigan Food and Farm Systems

Kathryn Monet Chief Executive Officer, National Coalition for Homeless Veterans

Derek Montroy External Affairs Project Coordinator, Oneida Indian Nation

Shelly Nortz Deputy Executive Director for Policy, Coalition for the Homeless

Diane Pagen Social Worker and Social Policy Analyst, Co-Founder of Basic Income March

Tammy Seltzer Director of Jail & Prison Advocacy Project, Disability Rights DC

Shayna Strom Chief Deputy National Political Director, American Civil Liberties Union

The Academy's reports aim to assess policy options without advocating for any particular option. The options and perspectives discussed in this report do not necessarily reflect the views of individual members of the Study Panel or of the organizations with which they are affiliated.

William Arnone
Chief Executive Officer

Study Panel Members

Jason J. Fichtner, Co-Chair, Vice President and Chief Economist, Bipartisan Policy Center

Renée M. Landers, Co-Chair, Professor of Law and Director of the Health Law Concentration, Suffolk University

Harry Conaway, Late Life Working Group Leader, Executive Director, Policy Futures Network

Christina FitzPatrick, Finance Working Group Leader, Director for Economic Issues, AARP Office of Policy Development and Integration

Elaine Maag, Middle Life Working Group Leader, Senior Fellow, Urban-Brookings Tax Policy Center

Kathleen Romig, Early Life Working Group Leader, Senior Policy Analyst, Center on Budget and Policy Priorities

Nancy J. Altman, President, Social Security Works; Chair, Strengthen Social Security coalition

Peter Barnes, Entrepreneur and Author, *With Liberty and Dividends for All* and *Ours: The Case for Universal Property*

Lily Batchelder, Robert C. Kopple Family Professor of Law, New York University

Heather Boushey, President, CEO, and co-founder of the Washington Center for Equitable Growth

Peter B. Edelman, Carmack Waterhouse Professor of Law and Public Policy; Faculty Director, Center on Poverty and Inequality

Howard Fluhr, Chairman Emeritus, The Segal Group

Marty Ford, Senior Advisor, Public Policy, The Arc of the United States

Alix Gould-Werth, Director, Family Economic Security Policy, Washington Center for Equitable Growth

Robert Greenstein, Founder and President Emeritus, Center on Budget and Policy Priorities; Visiting Fellow in Economic Studies, Brookings Institution

Samuel Hammond, Director of Poverty and Welfare Policy, Niskanen Center

Bradley L. Hardy, Associate Professor, McCourt School of Public Policy, Georgetown University

G. William Hoagland, Senior Vice President, Bipartisan Policy Center

Kilolo Kijakazi, Institute Fellow and Director of the Integrated Financial Coaching Project, Urban Institute

Joseph J. Minarik, Senior Vice President and Director of Research, Committee for Economic Development

David Nexon, President and Founder, Nexon Policy Insights

David R. Riemer, Author, "Putting Government in its Place"

William Rodgers III, Professor of Public Policy and Chief Economist at the Heldrich Center for Workforce Development, Rutgers University

James Roosevelt, Jr., Health Care Attorney, Verrill Dana; Clinical Instructor, Tufts University School of Medicine

Suzanne Simonetta, Director of the Division of Performance Management, Office of Unemployment Insurance

Timothy M. Smeeding, Lee Rainwater Distinguished Professor of Public Affairs and Economics, University of Wisconsin-Madison

William E. Spriggs, Professor of Economics, Howard University; Chief Economist, AFL-CIO

Andrew L. Stern, Senior Fellow, Economic Security Project

Rebecca Vallas, Senior Fellow, The Century Foundation

Stephen A. Wandner, Research Fellow, Upjohn Institute; Senior Fellow, National Academy of Social Insurance; and Visiting Fellow, Urban Institute

Methodology

The contents of this report are the product of a series of meetings by the Economic Security Study Panel, which had one question at its core: How can we go about assuring income via federal policy and in doing so improve economic security in the U.S.?

Panel members come from a broad range of disciplines and experiences. The members include economists, policy analysts, lawyers, and business professionals, in addition to a number of individuals with experience in the federal government, labor unions, actuarial science, social work, the community of people with disabilities, and other sectors. Over the course of 2019 and 2020, the Panel met three times. Additional discussions occurred through smaller working groups.

The Study Panel also sought extensive guidance from people who work for practitioner groups that assist communities most affected by income policy and from individuals who advocate on behalf of and communicate with those communities. A list of these individuals and their affiliations at the time of their comments can be found in the Acknowledgements section. The primary goals of these conversations were to better understand the economic security needs of these groups and to identify any gaps in our analysis of income security policy. These discussions took place both in group settings and one-on-one meetings with the Study Panel research team.

Table of Contents

Introduction

In June 1934, President Franklin Delano Roosevelt created the Committee on Economic Security with the mandate to craft policy proposals that would provide individuals in the U.S. with "security against several of the great disturbing factors in life."[1] Whether they knew it at the time, the fifty members and staff of the Committee stood at the outset of a new era of political economy.[2]

Prior to Roosevelt's presidency, a shift in the labor market—from agriculture toward manufacturing—had been taking place for decades.[3] The Great Depression revealed that the government's role in the economy had not similarly transitioned to handle the new avenues of economic risk that the majority of households faced. Economic insecurity—the risk that an individual would not be able to maintain an adequate income in the face of a shock—has always been present, but the nature of that risk often changes as the main sources of income evolve. The Roosevelt administration addressed the newfound systemic risks by asking Congress to enact bold legislation, including the 1935 Social Security Act, the Fair Labor Standards Act, and the National Labor Relations Act.[4]

These programs and others created during the New Deal era reflected the Committee's work, which was aimed at a singular goal:

> *A program of economic security, as we vision it, must have as its primary aim the assurance of an adequate income to each human being in childhood, youth, middle age, or old age—in sickness or in health.* —Report to the President of the Committee on Economic Security

The 1934 Committee's goal was to craft a policy of economic security to provide a level of protection commensurate with the economic hazards of the times. That goal served as the inspiration for the National Academy of Social Insurance's 2019–2021 Economic Security Study Panel.

[1] One of the best resources about the history of the Social Security Act and related legislation is the Social Security Administration itself, which has a historian's office.
[2] The executive group included Frances Perkins, Henry Morgenthau Jr., Homer Cummings, Henry Wallace, and Harry Hopkins, and it was "the ultimate decision-making authority on the CES." The executive director of the staff was Edwin Witte. An advisory council of twenty-three "civic leaders from outside the Roosevelt Administration," and a technical board of twenty-one officials from federal agencies below the cabinet level augmented and supported the executive team. The Social Security Administration details all members of the Committee and its staff.
[3] There are many sources of U.S. economic history. One of the most sweeping is Robert Gordon's *Rise and Fall of American Economic Growth*.
[4] The Social Security Act of 1935 established old-age benefits and unemployment compensation, and it made a number of state grants to promote income security. The Fair Labor Standards Act of 1938 established the U.S.' first minimum wage, standardized a forty-four-hour work week, required extra pay for overtime work, and prohibited certain child labor. The purpose of the National Labor Relations Act of 1935 was to "protect the rights of employees and employers, to encourage collective bargaining, and to curtail certain private sector labor and management practices."

As the economy has transitioned in recent decades from an exporting production economy with a broad manufacturing base to a service economy reliant on global integration, government action has not adapted to sufficiently reduce the economic risks that these changes present for the nation's people. As we discuss in this report, many have inadequate or unreliable income and are vulnerable to economic shocks, even if they are working full time. The current mix of government taxes and transfers that bolster economic security are largely successful in helping meet the needs they were designed to address, but they do not adequately meet needs that have arisen or grown in severity since.

The Study Panel was formed in the fall of 2019 to assess economic insecurity and present policy options to better provide stable and adequate income. Economic insecurity incorporates two components: current income and the risk to current income.[5] Thus, economic insecurity may come from not having enough income or from not having reliable sources of income. Precarity and uncertainty, not just a dollar amount, are major concerns. The answer to precarity, and therefore the answer to insecurity, is assurance. We call our policy portfolio, and the philosophy of this approach, "assured income"—that is, income without the uncertainty. The policy options we present seek to guarantee that everyone in the U.S. always has income. We discuss the options in terms of how income is guaranteed, how much is guaranteed, and at what frequency. These aspects vary across the options.

Not long into the Study Panel's period of research, the COVID-19 pandemic shook the economy into a deep recession, making more striking the economic parallels of the current study context with the context in which the work of the 1934 Committee took place. Like then, the Panel set out to address decades of evolving risk faced by U.S. households and insufficient incomes for large segments of the population, but it did so at an acute moment of economic pain and distress and political turmoil.

In April 2020, the economy shed over 20 million jobs. In the leisure and hospitality industry, the hardest hit, 53 percent of the jobs that existed in March were gone in April.[6] The fallout reverberated throughout the economy and provided an acute and stark manifestation of the level of economic insecurity faced by many households. As of late April 2020, 47 percent of the adult population in the U.S. reported a loss of employment income since March 13. This share was 58 percent for Hispanic/Latino adults and 52 percent for Black adults. Significantly, 55 percent of households earning less than $25,000 experienced a loss in employment income. These income losses have had devastating consequences. The number of adults who reported sometimes or often not having enough to eat in the past week rose by 20 percent, or by over four million people. By December 2020, that number had increased by 48 percent, encompassing well over 10 percent of the entire U.S. adult population.[7]

The lasting policy ecosystem of New Deal programs and those created since provide a strong baseline of support during economic downturns. Still, that baseline would have been inadequate

---

[5] Wealth is implicitly included in "the risk to current income" in that one may draw on wealth as source of income in the event of a shock to current income. In other words, wealth reduces risks to current income.

[6] Bureau of Labor Statistics. 2021. *Employment Levels by Industry, Seasonally Adjusted, 2000–2020.*

[7] U.S. Census Bureau. 2021. *Week 1 Household Pulse Survey: April 23–May 5* and *Week 21 Household Pulse Survey: December 9–December 21*. Employment Tables, Table 1. Food Sufficiency and Food Security Tables, Tables 2a and 2b.

without emergency federal legislation pumping trillions of dollars of relief to individuals, businesses, and the economy as a whole. The CARES Act augmented current programs, created new programs, and sent cash to 85 percent of households.[8] The American Rescue Plan, enacted in January 2021, also provided significant relief to households and businesses.[9]

The economic experience during the pandemic-induced recession provides an orientation to the Panel's work. The U.S. has an effective policy support system that establishes a baseline of economic security for many people, but there are still unmet needs and sources of risk that require additional government action. While the extent of economic insecurity is vast, it is not universal.

The goal of the Study Panel is to help design an assured income policy portfolio that solidifies a floor of basic support and reduces economic insecurity. This report examines how economic insecurity has evolved over time, how it might be addressed, what assured income might mean in practice, and how to achieve it. This policy goal is not solely backward looking or corrective. An inclusive economy with basic security for all creates both the backstop from depression *and* widespread prosperity during periods of economic growth.

In two ways, the Panel's efforts today differ significantly from the 1934 Committee's work. First, the Committee developed its policies largely on a blank slate. It was the New Deal legislation that created the federal policy-making apparatus that, in the eight decades since, has generated a web of overlapping federal and joint state–federal programs. Cash benefits have been augmented with in-kind transfers, subsidies to service providers, direct service provisions, vouchers, and more.[10] This Study Panel today, in contrast, designed its policy menus within a well-established structure.

Second, the Committee had no mandate (and little immediate success) in providing economic security to all people in the U.S. For example, the Social Security Act did not protect the majority of Black workers who worked in jobs not included in Title II of the original legislation.[11] But whereas, in 1935, calls from Black leaders to amend the legislation to ensure a benefit program of equal access and coverage were met with little support, 2020 was markedly

---

[8] U.S. Census Bureau. 2020. *Week 12 Household Pulse Survey: July 16–July 21*. Stimulus Table, Table 1.
[9] U.S. Department of Treasury. 2021. *American Rescue Plan: Treasury's Progress and Impact After Six Months*.
[10] An example of an in-kind transfer is the Supplemental Nutrition Assistance Program (SNAP), through which beneficiaries receive benefits that may be spent on only certain food items.
An example of a subsidy to service providers is the Legal Services Corporation Basic Field Grant. This grant funds the Legal Services Corporation, which then distributes funds to providers of civil legal aid to low-income people.
An example of direct service provision is Head Start. Head Start offers early educational opportunities to children in low-income families, in addition to other supports to promote a healthy home environment.
An example of a voucher program is the Housing Choice Voucher Program. The program provides vouchers to (some, not all) very low-income families, elderly individuals and couples, and people with disabilities. The vouchers allow beneficiaries to choose suitable housing in the private market. In most cases, the benefiting family pays 30 percent of monthly adjusted gross income toward rent and utilities, and the local public housing agency covers the remaining rent and utility expenses.
[11] The old age insurance portion of the legislation did not initially include farmworkers and domestic workers, which amounted to excluding at least 60 percent of Black workers from coverage at the time. By 1950, most workers in these professions were covered, and the remainder were covered in 1954 (see Dewitt 2010). Regardless of the reasoning, the effect on Black workers' financial security was significant. The federal government created a large and generous program that did not benefit many of the lowest-income workers for over a decade of its existence.

different.[12] At the start of the summer, the killing of George Floyd spurred widespread protests and a national conversation about, and reckoning with, the legacies of enslavement, brutality, racial injustice, and the deep, persistent economic inequality separating White and Black peoples in the U.S. There is substantial evidence of the extent of the exclusion of Black communities in economic security programs, and the lasting effects of those exclusions, from federally backed mortgages[13] to the GI Bill.[14]

Workers in the U.S. encompass an array of groups who have at one point been left out from economic security legislation, including Black workers, women workers, farmworkers, Asian workers, LGBTQ workers, formerly incarcerated workers, Native American workers, documented immigrant workers, undocumented immigrant workers, and others. Often this is a product of the occupation, industry, earnings, or type of work arrangement disproportionately experienced by certain groups.[15]

The Panel also operated with an advantage that the 1934 Committee did not have: eighty-five years of experience with, and evaluation of, income security policies. Questions of how to design, finance, administer, and evaluate public programs have answers built on decades of research and practice. The Panel includes individuals who have built that evidence base and engaged their expertise in income policy.

---

[12] Charles H. Houston—the president of the National Association for the Advancement of Colored People at the time—testified before the Senate regarding the first draft of the bill, which would ultimately produce the Social Security Act. He stated that the legislation "looked like a sieve with the holes just big enough for the majority of Negroes to fall through." It should be noted, Dewitt writes, that "Houston pointed out the adverse impact of the provision on African Americans, as part of an overall critique designed to persuade Congress to drop the whole Social Security program entirely. He wanted a single, universal, federal welfare benefit in lieu of a contributory social insurance system" and conceded that the administration of "'a pay roll tax on casual, domestic and agricultural workers would practically consume the tax itself.' So Houston was not advocating coverage for domestic and farm workers, but rather rendering the whole issue moot by rejecting the Social Security system entirely."
George E. Haynes—executive secretary at the Department of Race Relations for the Federal Council of Churches—also testified regarding discrimination and exclusion in the legislation. Mr. Haynes advocated for a clause prohibiting "discrimination on account of race or color in the administration of the services and benefits to any person otherwise eligible." No such clause was included in the original legislation.
[13] *The Color of Law* (Rothstein 2017) documents closely how Black individuals in the U.S. have been excluded, both explicitly and (especially) implicitly, from many of the benefits offered by public policy over the past century.
[14] *Returning from War, Returning to Racism* (Clark, 2020) looks specifically at how the promised benefits of the G.I. Bill were in a large part denied to Black veterans. Some argue that the discriminatory implementation of the G.I. Bill initiated an era of affirmative action for White families.
[15] Today, for example, many part-time workers (especially low-wage part-time workers) do not earn enough or do not have steady enough employment to qualify for Unemployment Insurance benefits. Independent contractors are ineligible for benefits altogether (Kovalski and Sheiner 2020).

The Need for Action

By virtually every economic measure, most people in the U.S. today are better off than most were in 1935. That year marked a pinnacle of legislative activity in response to the Great Depression. These enactments represented a new era of economic and domestic social policy in the U.S. The most fundamental change was the role of the federal government in stabilizing the economy and promoting individual economic security.[16]

The latter change—the promotion of individual economic security—was a recognition of new forms of risk that many faced. Economic insecurity is the risk that an individual cannot maintain adequate income in the face of a shock. The time period leading up to the Great Depression saw more individuals' primary source of income come from the labor market. Selling labor presents numerous risks—the risk of not being able to find work at all, work at sufficient wages, or work in safe environments. By working for an employer, like a manufacturer, workers were exposed to economic risks that were different from the risks facing a rancher or small farmer. Critically, labor market risks stem not solely from individual behavior but also from larger changes in the economy outside of an individual's control, such as the strength of certain industrial sectors.

The New Deal programs cemented a dual responsibility. The government's responsibility was to reduce overall risk through stabilizing the macroeconomy, reduce labor market risk through regulation, and provide support to individuals who were not able to work. These benefits took two forms: 1) insurance benefits to workers who were out of work, either because they could not find a job (Unemployment Insurance) or could no longer work (Old Age Insurance); and 2) cash benefits to individuals who were not expected to work. At the time, this group was mothers with young children, and the program was titled Aid to Families with Dependent Children. The individual's responsibility was personal—to seek work if they were able and to be productive at work. In those two responsibilities lies a difficult balance in adequately insuring and reducing risk to the individual while not disincentivizing the individual from seeking labor income.

The tension between risk and incentive is accompanied by the challenge of an ever-changing economy. Economic risks in general, and economic risk to labor income in particular, persist and evolve over time. The U.S. has transitioned from an exporting production economy with a broad manufacturing base to a globally integrated service economy. Alongside that transition, the average unemployment duration has increased significantly. From 1948 to 1982, the average

[16] Often these structural and individual interventions went hand in hand. The Banking Act of 1933, for example, created the Federal Deposit Insurance Corporation (FDIC), which both stabilized the banking industry through stricter regulation but also insured individual deposits up to an amount, which greatly reduced the risk depositors were exposed to. Similarly, the National Housing Act of 1934 created the Federal Housing Administration (FHA), which both stabilized the housing market through insuring mortgages but also created a broader mortgage market for consumers with better, regulated terms. You can find an overview of all New Deal legislation here.
While these new laws reduced precarity and improved well-being for many working households, Black people were directly excluded from these gains. Rothstein writes, "The Federal Home Loan Bank Board, for example, chartered, insured, and regulated savings and loan associations from the early years of the New Deal but did not oppose the denial of mortgages to African Americans until 1961. It did not enforce the new race-blind policy, however—perhaps because it was in conflict with the board's insistence that mortgage eligibility account for 'economic' factors. Like the FHA, it claimed that judging African Americans to be poor credit risks because they were Black was not a racial judgment but an economic one. As a result, its staff failed to remedy the industry's consistent support for segregation" (*The Color of Law*, 2017, p. 108).

unemployment spell in a given year ranged from 7.9 to 15.8 weeks. Average unemployment stints have exceeded 15.8 weeks in twenty-six of the thirty-eight years since then, peaking at 39.4 weeks in 2011 and 2012.[17] Another more recent trend has taken place in U.S. labor force participation (LFP) rates, which have consistently declined since peaking in 1997 and 1998. Even prior to the pandemic, the share of the population aged 25–54 years old in the labor force was 83.1 percent, 1.4 percentage points less than a peak in LFP in the late 1990s.[18]

The Study Panel was convened to explore a portfolio of policy options aimed at producing assured income. First, we explain in some detail the fundamental problem the policies seek to address—economic insecurity.

Security versus Status

Economic *insecurity* is the threat, or risk, of inadequate income. Conversely, economic *security* is the assurance of adequate income through mitigation of that risk or its consequences. However, it may be easier to understand economic security and insecurity when contrasted with economic status.

Economic status is visible and measurable, reflecting how much a person earns, owns, saves, and consumes.[19] That status is amenable to evaluation in many ways. For example, one might ask whether a person earns enough to manage the basics of daily living, or colloquially, to "make ends meet." Researchers and policy makers disagree on what is "enough" or what "ends" entail in terms of basic needs like food, housing, education, and health care, or what comprises a good, or sufficient, status.[20] Regardless of the definition of *status*, it is measured at a point in time—for instance, whether a person can pay rent in a given month.

Economic security, on the other hand, is much less tangible or measurable, reflecting the more expansive concept of whether a person will be able to maintain an adequate standard of living in

---

[17] Bureau of Labor Statistics. *Labor Force Statistics from the Current Population Survey*. Series: (Seas) Average Weeks Unemployed – LNS13008275.

[18] On aggregate, LFP rates for the sixteen and older population were down 4 percentage points between 1999 and 2019. This may not be too problematic, however, as the aged 16–24 population has seen LFP rates decline by almost 10 percentage points. These declines are nearly 17 percentage points for the aged 16–19 population. In other words, if young people are receiving more education and therefore not participating in the labor force, that is not a problem. If fewer young people are participating in the labor force during the period of their education, that is also not a problem.

On the other end of the spectrum, the fifty-five and older population increased its LFP by 8.4 percentage points over the same time period. This includes a 9.5 percentage point increase for the 65–74 population, and a 4 percentage point increase for the seventy-five and older population. To the extent that these increases are related to more accessible and less physically burdensome work, they are not a problem. To the extent that they are related to retirement insecurity, they are more problematic (Bureau of Labor Statistics, 2020).

Source (25–54 LFP data): U.S. Bureau of Labor Statistics, Labor Force Participation Rate: 25–54 Yrs. [LNU01300060], retrieved from FRED, Federal Reserve Bank of St. Louis.

[19] Economic status is not to be confused with socioeconomic status, which is defined by the American Psychological Association as follows: "Socioeconomic status is the social standing or class of an individual or group. It is often measured as a combination of education, income and occupation." In short, "economic status" refers to what resources one owns and can afford to buy, while "socioeconomic status" refers to one's well-being compared to others'

[20] For example, one definition of *economic status* is whether a person is "in poverty." A poverty threshold is a dollar amount below which someone is considered poor and above which someone is not poor. What that poverty threshold *should* be, and what it should measure, is the subject of a long and sometimes fierce debate.

the wake of an event such as job loss, illness, or natural disaster. The idea of economic security depends on two factors: the likelihood of the at-risk event, or "shock" (e.g., job loss, illness, or natural disaster), happening and the level of protection in place should the event happen, or should the shock occur. Economic security is therefore composed of both risk exposure and risk protection. Given that it relies on unforeseen future events, economic security is often considered over a longer and undefined time horizon, such as whether a person can pay rent if they become unemployed.

Consider two employees of a company: the chief executive officer and the janitor. By most measures, the CEO is in the much riskier job; about half of CEOs who depart their position for any reason are fired or forced out of their jobs.[21] Yet CEOs are not economically insecure. Not only do they make significantly more money than the janitor but they also probably have an employment contract that compensates them even if they are fired (often called a "golden parachute").[22] In addition, a high-earning CEO has very likely accumulated credit and assets; their wealth is a de facto form of insurance to borrow against or sell. The janitor, on the other hand, may be less likely to be fired but also much less likely to have adequate income, a severance, savings, or immediate alternative employment options. And with a low income, the janitor is much less likely to have significant assets or access to credit.[23] The janitor has a substantially higher level of economic insecurity, even if the CEO has more risk in terms of job stability.

Thus, economic security is not just income but precarity. The two are correlated, but not necessarily uniformly or evenly across persons and positions.

Measuring economic insecurity remains difficult. Researchers attempt to measure protection against risk through assets such as savings and insurance. Although they seek to predict the likelihood of a particular negative shock, the true extent of risk, and the true extent of protection, is often not known until a shock occurs.[24] On top of this uncertainty, not all shocks are similar. A hurricane causing a business to close for two months is a shock to its workers, but of a different degree than the shock to workers if the business closes permanently. Similarly, a business closing permanently is a shock to its workers of a different degree if it is easily substitutable (like a restaurant in a mall food court) versus if it is the largest employer in a small city (like a manufacturing plant).[25]

---

[21] Sahada, 2019. Up to Half of Exiting CEOs Don't Quit. They Get Fired. *CNN Business*.
[22] CEOs are a well-studied profession. They are not only leaders in industry but also the poster children for inequality. A recent report from the Economic Policy Institute found the ratio of "CEO-to-typical-worker compensation was 320-to-1" in 2019, up from 293-to-1 in 2018, 61-to-1 in 1989, and 21-to-1 in 1965 (Mishel and Kandra, 2020). As for "golden parachutes," the most recent data show "change in control benefits for the top 200 CEOs" to be about $27.9 million in 2019 (*Executive Change in Control Report* 2020).
[23] To expand on the example, janitors and cleaners made, on average, $30,010 per year as of May 2019. For families earning less than the median family income—$86,000 in 2019 (see Table H-5)—there is a 50 percent chance of owning a home (see Table 8). As such, it is very unlikely that the janitor owns a house.
[24] Potter 2011, for example, details the failure of the economics community to forecast the level of risk present in the housing market leading up to the Great Recession in 2007.
[25] *Janesville,* by Amy Goldstein, documents the story of workers at a General Motors plant in Janesville, Wisconsin, when it closed in 2008. The factory employed 4,800 individuals and provided high-wage jobs that the laid-off workers struggled to replace.

Since the 1930s, the U.S. has achieved substantial gains in economic status. Per capita gross domestic product (GDP), or the total size of the U.S. economy divided by the number of people in it, rose in real terms from $10,081 in 1940 to $58,164 in 2020.[26] On average at least, people in the U.S. are better off now and have grown steadily better off over time.

As a part of being better off, people in the U.S. consume more every year. For example, during the Great Depression, between 1930 and 1933, consumption spending decreased each year by at least 2.2 percent. Since then, in no two consecutive years has consumption spending in the U.S. economy decreased. Only in four years (out of over eighty) has consumption decreased relative to the prior year.[27]

Perhaps the most salient measure of progress is that households own more goods than they ever have. Table 1[28] and Table 2[29] below show data on ownership rates of common household items for recent years.

Table 1. Household Ownership Rates (in Percent) of Certain Goods, 1980–2015

	1980	1987	1997	2005	2009	2015
Oven	95.6	97.5	98.8	98.6	90.1[a]	91.4[a]
Refrigerator	99.7	99.8	99.8	99.9	99.8	99.3
2+ refrigerators	14.0	13.6	15.2	22.1	22.9	44.9
<10 years old	N/A	N/A	64.1	65.4	70.4	70.4
Dishwasher	37.2	43.1	50.2	58.2	59.3	66.9
Clothes washer	71.6	73.3	77.4	82.6	82.0	82.4
Clothes dryer	61.3	65.9	71.2	78.8	79.4	80.3
Color television	82.0	92.7	98.7	98.7	98.7	97.2
2+ televisions	N/A	N/A	66.9	77.8	77.5	71.8
3+ televisions	N/A	N/A	29.5	42.9	44.5	38.7
4+ televisions	N/A	N/A	10.4	21.9	21.0	16.3
Microwave	14.3[b]	60.8	83.0	87.9	96.0	96.1
Air conditioning	57.2	63.3	72.5	84.0	87.1	87.0
Central air	27.2	32.5	46.8	59.3	63.4	64.4

[26] To account for the change in prices over time, dollar amounts from prior eras are adjusted for comparison to today's dollars, or to "real" terms, by accounting for the average change in prices over time. Throughout the report, we note by use of "real" that dollar amounts are adjusted in this manner. GDP data come from the Bureau of Economic Analysis Table 1.1.6. Real Gross Domestic Product, Chained Dollars, line 1. Dollars are in terms of chained 2012 dollars. Population data come from the Bureau of Economic Analysis Table 2.1. Personal Income and Its Disposition, line 40.
[27] The largest year-over-year decrease in consumption spending since 1942 took place in 2009 and was small in comparison to decreases observed during the Great Depression (1.3 percent). The data are available only through 2019; 2020 will likely be the fifth year of decline.
Bureau of Economic Analysis Table 2.3.1, "Percent Change from Preceding Period in Real Personal Consumption Expenditures by Major Type of Product 1930–2019."
[28] Residential Energy Consumption Survey 1980, 1987, 1997, 2005, 2009, and 2015.
[29] Pew Research Center. 2019. *Mobile Fact Sheet*.

Desktop Computer	N/A	N/A	35.1	68.0	75.9	41.7
Laptop Computer	N/A	N/A	N/A	24.5	33.4	63.7
Internet Access	N/A	N/A	20.4[c]	60.2	71.4	85.2[d]

[a] Households with a stove with an oven and cooktop. 11.9 percent (2009) and 11.8 percent (2015) had a "separate wall oven," though the overlap is not clear. Prior years' question asked about oven use in general.
[b] Estimated 14.3 percent of households stated that the microwave oven is their first or second most used "oven."
[c] Stated as "Modem Connecting PC to Telephone Line."
[d] See footnote 32 for more recent data on internet access.

Table 2. Adult Ownership Rates of Cell Phones and Smartphones

	2002	2006	2010	2014	2019
Cell phone	62%	73%	80.5%	90.5%	96%
Smartphone	N/A	N/A	N/A	57%	81%

[a] The earliest figure available in the Pew data is 35 percent in May 2011.
Note: In years in which Pew reported multiple numbers, the data for the earliest date and the latest date in the year are averaged.

In terms of larger assets, between 1960 and 2018, the portion of households that owned at least one car increased from 78.5 percent to 91.5 percent, while the portion owning at least two cars nearly tripled to 59 percent, and the portion owning at least three cars increased almost nine-fold to 21.9 percent.[30] In a similar vein, the proportion of U.S. owner-occupied households increased by over 50 percent between 1940 and 2020, from 43.6 percent to 67.4 percent.[31]

The increase in access to basic consumer goods—goods that many would consider necessities—is clear evidence of an improvement of economic status, but how much it says about economic security, or how much economic security these goods confer, is unclear. For instance, most individuals, when asked if they could weather an unemployment spell or the illness of a partner that forces them to quit their job, are unlikely to bring up that they have a refrigerator or cell phone. Security comes from larger assets, such as cars or homes. As to the former, automobile ownership is at an estimated 91.5 percent, but cars as assets provide weak security because they are (except in rare cases) constantly depreciating in value. Homeownership, as previously noted, was at 67.4 percent in 2020.

Many of the averages in ownership of goods mask differences across key demographic groups. In 2018, for example, 94.4 percent of the U.S. population had access to internet at the speed of 25 Mbps—an adequate speed for most users—while only 77.7 percent of those in rural areas and 72.3 percent of those on tribal lands had such access.[32] Of U.S. households, 91 percent owned a car in 2019, but households of color were three times as likely to be without a car than White

[30] Oak Ridge National Laboratory. *Table 9.04: Household Vehicle Ownership, 1960–2018*.
[31] U.S. Census Bureau. 1976. *Historical Statistics of the United States, Colonial Times to 1970*.
U.S. Census Bureau. 2020. *Homeownership Rate for the United States [RHORUSQ156N]*, retrieved from FRED, Federal Reserve Bank of St. Louis.
[32] Federal Communications Commission. 2020. *2020 Broadband Deployment Report*. Figure 4, p. 23.
Busby et al. 2020 indicate that the FCC's report significantly overestimates the portion of individuals with access to broadband internet at every level.

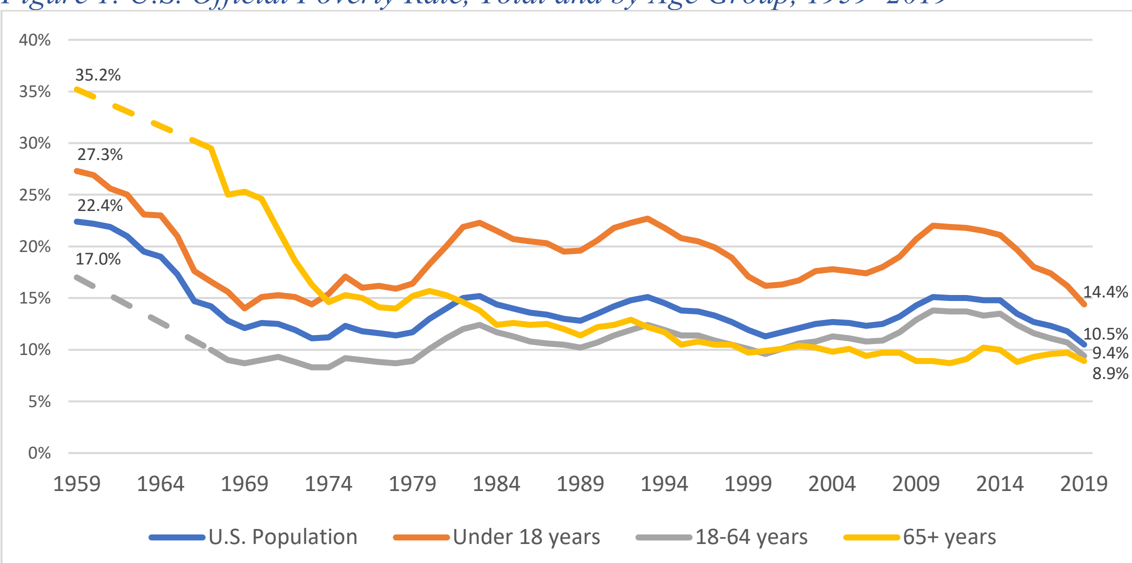
households.[33] Overall homeownership increased to 67.4 percent in 2020, but Black homeownership was only 46.4 percent, Hispanic homeownership was 50.9 percent, and Asian (which includes Native Alaskan and Native Hawaiian) was 61.0 percent, compared to 75.8 percent for non-Hispanic White individuals.[34] Hence, even as the average household earned, owned, and consumed more, many in the U.S. may still be economically insecure.

To assess economic insecurity (and the risk of inadequate income), we present three discussions of income in the U.S.: poverty, income trends, and income volatility.

Poverty

The official poverty measure (OPM) in the U.S. fell from 22.4 percent of the population in 1959 to 10.5 percent in 2019,[35] which suggests that economic insecurity—at least as measured by the portion of people who are in poverty—has fallen. These gains, however, were not steady or evenly shared. Figure 1 shows the percent of people in the U.S. who have been in poverty since 1959 (there are no data for certain subgroups between 1959 and 1967, which is linearly interpolated with a dotted line).[36] The figure also shows poverty rate by age groups—under 18, 18–64, and 65 and over. For most of the period here, age sixty-five was the full retirement age for Social Security Old Age Insurance benefits.[37]

Figure 1. U.S. Official Poverty Rate, Total and by Age Group, 1959–2019



[33] National Equity Atlas. *Car Access, United States: Percent of Households without a Vehicle by Race/Ethnicity: United States; Year 2019.*
[34] U.S. Census Bureau. 2020. *Quarterly Residential Vacancies and Homeownership, Third Quarter 2020*. CB20-153.
[35] Semega et al. 2020. *Income and Poverty in the United States: 2019*. Table B-5. U.S. Census Bureau.
[36] U.S. Census Bureau. 2020. *Historical Poverty Tables: People and Families—1959 to 2019*. Table 2, Poverty Status of People by Family Relationship, Race, and Hispanic Origin; Table 3, Poverty Status of People by Age, Race, and Hispanic Origin.
[37] As a result of the Social Security Amendments of 1983, the age at which one receives full Social Security retirement benefits began increasing from sixty-five to sixty-seven in the year 2000. The full retirement age reached sixty-seven in 2022.

For children and adults under sixty-five, the reduction in poverty occurred in the initial period of measurement, from 1959 to 1973. In the nearly five decades since, the poverty rate has fluctuated between 11 percent and 15 percent. For adults over sixty-five, in contrast, the proportion in poverty has been on a slow and steady decrease, falling to 8.9 percent in 2019.[38]

Breaking down poverty by race reveals deep disparities. In 2019—a record year of poverty lows under the OPM—18.8 percent of the Black population, 15.7 percent of the Hispanic population, 7.3 percent of the non-Hispanic White, and 7.1 percent of the Asian population were in poverty. Over the thirty years from 1989 to 2018, OPM poverty rates averaged 26.4 percent for the Black population, 24.4 percent for the Hispanic population, 11.9 percent for the Asian population, and 8.8 percent for the non-Hispanic White population.[39]

Reaching an overall poverty rate of 10.5 percent in 2019 was a milestone, but experts expect data to show an increase in poverty in 2020 due to the COVID-19 pandemic.

The official poverty rate cannot be interpreted as an exhaustive estimate of economic insecurity. There are two key problems.

First, the official measure is generally recognized as flawed. Specifically, it counts the number of people who have cash income below a certain threshold, but that threshold only increases with inflation. Wages rise faster than prices (this is how standards of living increase), so although the threshold increases every year, the actual number becomes less meaningful as a measure of poverty relative to trends in the economy. In 1959, for example, the family of four threshold was $2,973, which represented 55 percent of median family income. In 2019, the threshold was $26,172, or 38 percent of median family income.[40]

The other problem with the official poverty rate is that it only measures pre-tax cash income, and therefore does not capture post-tax transfers or noncash support programs. So Social Security, a cash benefit not subject to the income tax,[41] is counted, but the Earned Income Tax Credit (EITC) and Supplemental Nutrition Assistance Program (SNAP, initially food stamps) are not. This means that the official poverty measure accurately reflects cash income but not all income resources. The U.S. Census Bureau developed the Supplemental Poverty Measure (SPM) to take those post-tax transfers and in-kind benefits into account (among numerous other changes). Prior

---

[38] The reduction in poverty among the sixty-five and older population is largely attributed to Social Security providing a significant and steady stream of income in retirement. While that population is the most impacted by Social Security, the program provides substantial poverty relief for the population under age sixty-five. The program is estimated to have lifted almost seven million children and adults out of poverty in 2018. Read more in *Social Security Lifts More Americans above Poverty Than Any Other Program.*

[39] U.S. Census Bureau. 2020. *Historical Poverty Tables: People and Families—1959 to 2019*. Table 2, Poverty Status of People by Family Relationship, Race, and Hispanic Origin.

[40] Source (poverty threshold data): U.S. Census Bureau. 2020. *Historical Poverty Tables: People and Families—1959 to 2019*. Table 1, Weighted Average Poverty Thresholds for Families of Specified Size: 1959 to 2019.
Source (1959 median income): U.S. Census Bureau. 1961. *Income of Families and Persons in the United States: 1959*.
Source (2019 median income): U.S. Census Bureau. 2020. *Historical Income Tables: Households.* Table H-6, Regions, by Median and Mean Income.

[41] Higher-income Social Security beneficiaries may see a portion of their benefits subject to the income tax. Read more on the Social Security Administration (SSA) website.

research found that under the SPM accounting, these income support programs have powerful anti-poverty effects that have resulted in significant reductions in poverty rates in recent decades.[42] Still, that accounting found that 11.7 percent of the population was poor in 2019.[43]

An alternative definition of poverty is used by the Organisation of Economic Co-operation and Development (OECD)[44]; it defines poverty as 50 percent of median income in a given country.[45] According to this definition, the poverty rate in the U.S. after taxes and transfers was 17.8 percent in 2017.[46]

If we were to assume that poverty was an exhaustive measure of economic insecurity in the U.S., we would then be left with the conclusion that the U.S. labor market has made little progress in reducing economic insecurity over the past forty years and has been greatly bolstered by public support programs.

But it is incorrect to equate poverty with insecurity. Poverty measures income, not precarity, though it is arguably the best measure of precarity at our disposal. It should be considered necessary but not sufficient; that is, even if we assume that nearly all individuals in poverty are economically insecure, there are individuals who are not in poverty who are also economically insecure.

During the pandemic, it was not solely the 10.5 percent of the population that was in poverty at the start of 2020 that was affected by the recession. In December 2020, 37.5 percent of adults reported that it had been at least somewhat difficult paying for "usual household expenses,"[47] 13.7 percent of adults were in households where there was not enough food to eat sometimes or often over the previous week,[48] and 18.1 percent of renter-occupied households were behind on rent.[49] Of those behind on rent, more than 52 percent reported it as at least somewhat likely that

---

[42] *Poverty in the United States: 50-Year Trends and Safety Net Impacts* (Chaudry et al. 2016) shows tax and transfer programs as reducing poverty by 12.7 percentage points in 2012. Figures 7 through 16 document the anti-poverty impacts of an array of income security programs in the U.S.
[43] Short, Kathleen. 2011. *The Research Supplemental Poverty Measure: 2010*. U.S. Census Bureau, P60-241; Fox, Liana. 2020. *The Supplemental Poverty Measure: 2019*. U.S. Census Bureau, P60-272.
[44] Initially formed in 1961 by twenty-one national governments in Europe and North America, the OECD now includes thirty-seven member countries. Whenever making international comparisons along economic metrics, the U.S. should be compared to the OECD countries only or the subset of the most advanced economies within the OECD (known as the G7): Canada, France, Germany, Italy, Japan, and the United Kingdom.
[45] The OECD's definition is justified by "the notion that avoiding poverty means an ability to access the goods and services that are regarded as customary or the norm in any given country."
OECD. 2019. *Society at a Glance 2019: OECD Social Indicators*. OECD Publishing, Paris. Chapter 6. https://doi.org/10.1787/soc_glance-2019-en.
[46] OECD. 2021. Poverty Rate (Indicator). doi: 10.1787/0fe1315d-en
[47] U.S. Census Bureau. 2021. *Week 21 Household Pulse Survey: December 9–December 21.* Spending Tables, Table 1.
[48] U.S. Census Bureau. 2021. *Week 21 Household Pulse Survey: December 9–December 21.* Food Sufficiency and Food Security Tables, Table 2.
[49] U.S. Census Bureau. 2021. *Week 21 Household Pulse Survey: December 9–December 21*. Housing Tables, Table 1b.

they would be evicted in the next two months.[50] Precarity extended far above the threshold for poverty.

Income Trends

Income is the annual total amount of money an individual earns in a year before taxes, including money from wages and salaries, self-employment, interest, dividends, rent, and government cash transfers. It does not include nonwage compensation such as the value of health insurance. For all but the top 1 percent of households, the majority of income comes from wages.[51]

In the U.S., many jobs are low paid, and many workers earn at or below poverty incomes. Table 3 shows the fifteen largest occupations in the U.S., the number of workers in each occupation, their median hourly wage, and their median annual income.[52]

Table 3. Employment and Median Hourly Wages in the Largest U.S. Occupations, May 2019

Occupation	Employment	Median Hourly Wage	Median Annual Income
Retail salespersons	4,317,950	12.14	25,250
Fast food and counter workers	3,996,820	10.93	22,740
Cashiers	3,596,630	11.37	23,650
Home health and personal care aides	3,161,500	12.15	25,280
Registered nurses	2,982,280	35.24	73,300
Office clerks, general	2,956,060	16.37	34,040
Laborers and freight, stock, and material movers, hand	2,953,170	14.19	29,510
Customer service representatives	2,919,230	16.69	34,710
Waiters and waitresses	2,579,020	11.00	22,890
General and operations managers	2,400,280	48.45	100,780
Janitors and cleaners, except maids and housekeeping cleaners	2,145,450	13.19	27,430
Stockers and order fillers	2,135,850	13.16	27,380
Secretaries and administrative assistants, except legal, medical, exec.	2,038,340	18.12	37,690
Heavy and tractor-trailer truck drivers	1,856,130	21.76	45,260
Bookkeeping, accounting, and auditing clerks	1,512,660	19.82	41,230

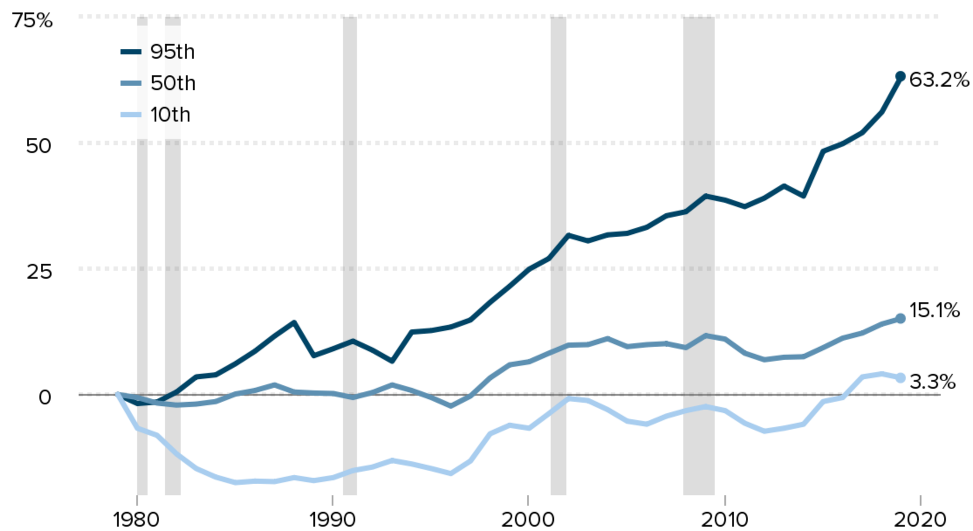
Many of these very large occupations (shaded) pay less than $15 per hour at the median, which for a full-time (forty hours per week), full-year (fifty-two weeks per year) worker is $31,200. Given that many full-time workers do not have paid vacation or sick leave, $31,200 is a maximum; it is only feasible if the worker does not miss a single hour of work in the year. For that reason, that maximum is often *well above* what most of these workers take home, as shown

[50] U.S. Census Bureau. 2021. [Week 21 Household Pulse Survey: December 9–December 21](). Housing Tables, Table 3b.
[51] Whereas, before taxes and transfers in 2017, labor income made up 61 percent of total income for the lowest income quintile, 68 percent of income for the middle three quintiles, and 70 percent for those in the 81st to 99th percentiles, labor income accounted for only one-third of income for the top 1 percent of earners. See *The Distribution of Household Income, 2017* (Congressional Budget Office) for more information.
[52] Occupational Employment Statistics. 2020. *May 2019 National Occupational Employment and Wage Estimates United States*. U.S. Bureau of Labor Statistics.

in the final column.[53] For reference, the official federal poverty threshold for a family of four in 2019 was $25,750.[54] In total, at least 46.5 million workers are in occupations that pay below $15 per hour at the median.[55] This number represents almost a third of all employees in the U.S.[56]

The large number of workers in jobs with low expected wages is the result of years of weak, or negative, wage growth. Figure 2[57] shows the change in real (adjusted for inflation) wages at different points of the wage distribution.[58]

Figure 2. Cumulative Change in Real Hourly Wages of Workers, by Wage Percentile, 1979–2019



Source: Elise Gould's analysis of EPI Current Population Survey Extracts, Version 1.0 (2020), https://microdata.epi.org

At the bottom, workers at the 10th percentile did not see a real wage increase for the thirty-seven-year period from 1979 to 2016. Finally, in 2017—after eight years of GDP growth

---

[53] As of March 2020, 88 percent of full time, nonfederal employees have access to paid sick leave. Of this population, 87 percent have access to paid vacations, but only 25 percent have access to paid family leave. Access rates are significantly lower for part-time workers (U.S. Bureau of Labor Statistics, 2020).
[54] Assistant Secretary for Planning and Evaluation. *2019 Poverty Guidelines*. U.S. Department of Health and Human Services.
[55] The median annual earnings for an additional 1.4 million workers are less than $31,200—the earnings of a full-time, full-year worker at $15 per hour. The Occupational Employment and Wage Statistics does not offer median wage data for these occupations ("teaching assistants, except postsecondary"; "legislators"; and "umpires, referees, and other sports officials").
[56] This total excludes self-employed workers, who are not employees.
[57] Gould, Elise. 2020. *State of Working America Wages 2019*. Figure C. Economic Policy Institute.
[58] There are one hundred points, or percentiles, in a distribution. The wage distribution is the wages of each worker in the U.S., ranked from least to most; this can be conceptualized as a line of workers arranged from lowest earning to highest earning. If there were one hundred people in a line, wages at the 10th percentile are the earnings of the tenth person in line, and not the wages of that person and the nine people below him. Therefore, the 10th percentile earner is the highest earner among the ten lowest.

following the Great Recession—the 10th percentile experienced an increase in real wages relative to 1979 of about 3 percent. Over a forty-year period, this group observed a raise of 32 cents—from $9.75 to $10.07.[59] Workers at the median wage experienced higher, but still relatively anemic, growth in wages after 1996, reaching $19.33 in 2019. Researchers point out that weak growth in wages has occurred despite overall increases in labor productivity, but there is debate as to why that is the case.[60]

This stall in wage growth is similarly reflected in income growth. Figure 3 shows real (adjusted for inflation) pre-tax income growth from 1968 to 2019[61] from households at key points of the distribution.[62] "Income" in Figures 3 through 6 refers to all pre-tax cash income, including sources of unearned income; it excludes the value of noncash transfers such as benefits from SNAP and post-tax cash transfers such as benefits from the EITC.

---

[59] Economic Policy Institute. 2019. *State of Working America Data Library*. Wages by percentile and wage ratios. Original data from the Current Population Survey Outgoing Rotation Group microdata.

[60] Whether there is a causal link between worker productivity and worker pay, and what is causing weak wage growth, are both topics of intense scrutiny among researchers. Summers and Stansbury 2017 find a strong and positive causal relationship between productivity and compensation, arguing that "other orthogonal factors are likely to be responsible for creating the wedge between productivity and pay in the US economy, suppressing typical workers' incomes even as productivity growth acts to increase them." Summers and Stansbury 2018 summarize in detail the existing literature around the productivity-compensation gap:

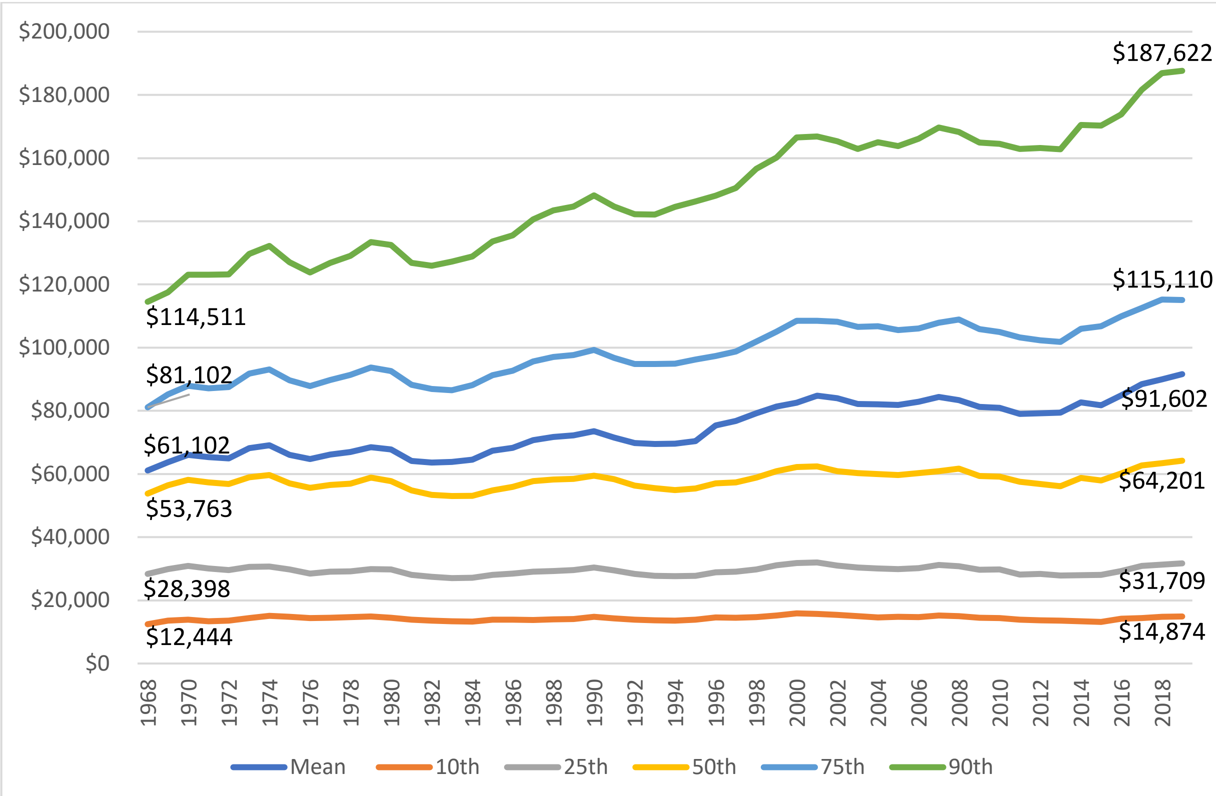
> *Computerisation and automation have been put forward as causes of rising mean-median income inequality (e.g. Autor et al. 1998, Acemoglu and Restrepo 2017); and automation, falling prices of investment goods, and rapid labour-augmenting technological change have been put forward as causes of the fall in the labour share (e.g. Karabarbounis and Neiman 2014, Acemoglu and Restrepo 2016, Brynjolffson and McAfee 2014, Lawrence 2015).*
>
> *At the same time, non-purely technological hypotheses for rising mean-median inequality include the race between education and technology (Goldin and Katz 2007), declining unionisation (Freeman et al. 2016), globalisation (Autor et al. 2013), immigration (Borjas 2003), and the 'superstar effect' (Rosen 1981, Gabaix et al. 2016). Non-technological hypotheses for the falling labour share include labour market institutions (Levy and Temin 2007, Mishel and Bivens 2015), market structure and monopoly power (Autor et al. 2017, Barkai 2017), capital accumulation (Piketty 2014, Piketty and Zucman 2014), and the productivity slowdown itself (Grossman et al. 2017).*

Benmelech et al. 2018 also discuss the extent to which labor market concentration may contribute to wage stagnation.

[61] We show the full series, starting with the first available year. Income at key percentiles of the distribution is estimated and published annually by the Census Bureau. Wages are not. They must be estimated from the raw Census data from the Current Population Survey. Survey methodological changes mean that most wage series start, at the earliest, in 1975.

[62] DQYDJ. 2020. *Household Income by Year: Average, Median, One Percent (and a Percentile Calculator)*.

Figure 3. Pre-Tax Household Income by Percentiles and Average Income in 2020 Dollars, 1968–2019



At the bottom, the 10th percentile household real income in 1968 was $12,444, and it grew to $14,874 in 2019, an increase of about $2,500 over fifty years (a 19.5 percent increase). The 25th percentile had a similarly small gain of $3,300 (an 11.7 percent increase), and incomes at the median had a gain of about $10,400 (a 19.4 percent increase). Both Figures 2 and 3 depict income growth at the bottom and median as slow or even negligible in recent history.

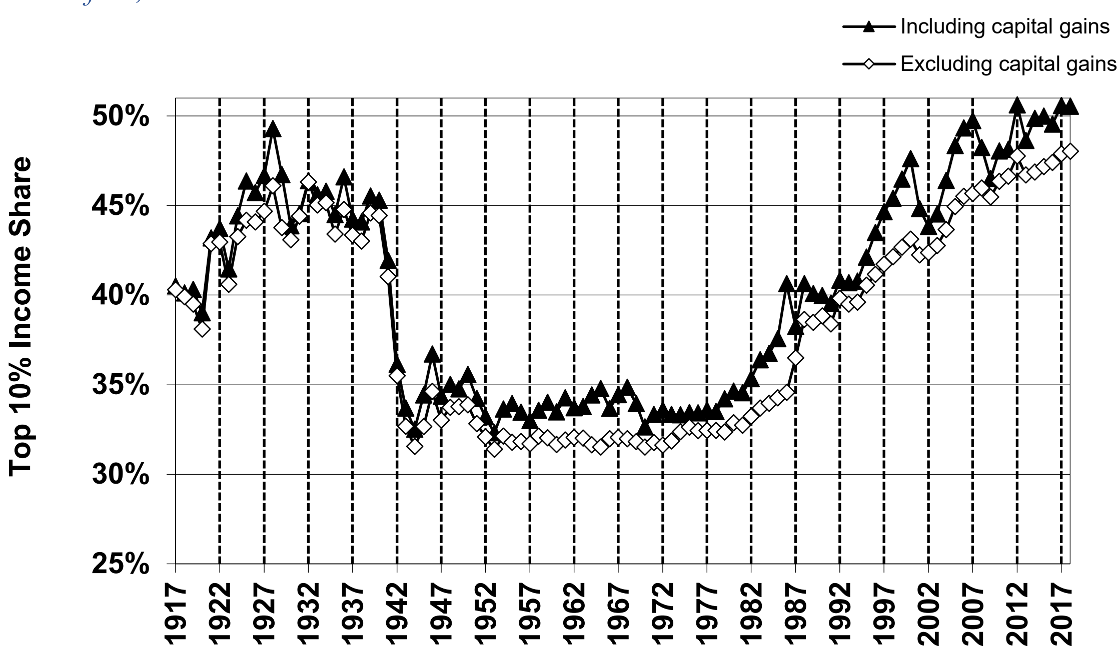
These figures are not comparing a single person over time, but rather, people of the same relative wage or same relative income at different points in time. Slow growth at the bottom of the wage or income distribution would be less problematic if most workers did not stay at that wage or income for long. For instance, most people earn their lowest wage in their first job because they are young and do not have any experience and earn more as they accrue more experience. A person may start at the 35th percentile but retire at the 85th. Studies of lifetime earnings, however, are pessimistic. Even when looking at the total a person earns over their career, the growth in income and wages of workers in the bottom half of the distribution is small, especially in comparison to the top end of the distribution.[63]

[63] Leonesio and Del Bene 2011 find that, using data from 1981 to 2004, the earnings trajectory of male workers at the 50th income percentile or below is declining over time. For female workers during this period, earnings trajectories increased at each income percentile, though by substantially larger magnitudes as one moves up the income scale. Kopczuk and Saez 2010 “find that long-term mobility measures among all workers . . . display

Slow growth at the bottom of the wage or income distribution would also be less problematic if income at the top of the distribution only grew apace.[64] Instead, growth at the top was much faster than growth at the bottom. At the 90th percentile (or the bottom end of the highest earning 10 percent), wages grew by 44.3 percent between 1979 and 2019 compared to 3.3 percent for the 10th percentile. Over the same period, income at the 90th percentile increased by $54,000, or 40.7 percent, compared to a 0.4 percent decline at the 10th percentile (see Figure 3).

Income inequality is not a constant in the U.S. economy, and evidence suggests that it has worsened over the past forty years. Figure 4 shows the income shares of the top 10 percent of households since 1917, or how much of all income in the U.S. was taken home by the top 10 percent of households in the income distribution.[65]

Figure 4. Share of Total Income Taken Home by Top 10 Percent of Households Prior to Taxes and Transfers, 1917–2018[66]



significant increases since 1951 either when measured unconditionally or when measured within cohorts. However, those increases mask substantial heterogeneity across gender groups. Long-term mobility among males has been stable over most of the period with a slight decrease in recent decades. The decrease in the gender earnings gap and the resulting substantial increase in upward mobility over a lifetime for women is the driving force behind the increase in long-term mobility among all workers." Table 1 in Auten, Gee, and Turner 2013 shows that, of taxpayers in the bottom income quintile in 1987, 52 percent remained in the bottom quintile in 2007 and an additional 23 percent had incomes in the second quintile.

[64] In other words, lack of growth at the bottom of the distribution would not be as noteworthy if there was not growth (especially high levels of growth) at upper portions of the distribution.

[65] Saez, Emmanuel. 2020. *Striking It Richer: The Evolution of Top Incomes in the United States (Updated with 2018 Estimates).* Figure 1.

[66] Capital gains are income from the profit on a sale of an asset. Typically these include stocks, bonds, real estate, or a business. As noted earlier in this section, the wealthiest households in the U.S. tend to have disproportionate income shares as capital gains relative to the rest of the population (see footnote 51).

The ten years preceding the Great Depression saw growing income concentration. During the Depression, the top 10 percent income share held steady at 45 percent and then fell beginning in 1940. For the next four decades, the top 10 percent of the distribution took home a third of all income. Starting in the late 1970s, the share going to the bottom 90 percent steadily eroded until, in 2012, more than half of all income went to the top 10 percent of households. Put another way, the total income of the bottom 90 percent was less than the total income of the top 10 percent. Not only does this show the increase in income accruing to the highest earners but also that this trend is recent and not a permanent or necessary feature of the U.S. economy.[67]

It is not clear what the relationship is between economic inequality and economic insecurity. Slow income growth for the bottom half of households does not necessarily mean that they are all economically insecure. And importantly, inequality is a result, not a cause. It is a summary of the income distribution. At the very least, income inequality greatly curtails the gains in average economic status among the population and demonstrates that not all households share in those gains.

To explore that disparity, we examine two traditional channels of attaining economic security: buying a home and going to college, the former being an asset that provides security and the latter a means of attaining higher income. Figure 5 shows the growth in the median sale price of a new home and median income in nominal dollars—that is, the actual dollar amount, not adjusted for the average change in prices over time.[68] The dollars are not adjusted because Figures 5 and 6 examine two goods (home and, separately, tuition) that have increased in cost much faster than average prices and, as the figures show, much faster than income.[69]

In 1975, nominal median (the 50th percentile) household income in the U.S. was $11,800 and the nominal median sale price of a new home was $39,300. By 2019, median household income in the U.S. was $68,700 and the median sale price of a new home was $321,500. The price of a home jumped from about three times annual income to nearly five times annual income.[70]

---

[67] Income shares, shown in Figure 4, are not the only measure of income equality. There are also income ratios, the Gini coefficient, and others. They each show an increase in income inequality since the mid-1970s. Researchers have compiled an incredible library of resources to graphically depict the extent of inequality. The Economic Policy Institute and Inequality.org offer interactive charts that help show changes in the distribution of wealth and income over the past decades in the U.S. The World Inequality Database offers similar charts from nearly every country in the world. Some of the more prominent economists who have written on inequality recently include Joseph Stiglitz, Heather Boushey, Thomas Piketty, Alan Krueger, and James Heckman. This Center on Budget and Policy Priorities report discusses how inequality is measured and the various sources of data.

[68] Source (median price of a new home): U.S. Census Bureau. 2020. *New Residential Sales*. Median and Average Sale Price of Houses Sold.
Source (median income in nominal dollars): U.S. Census Bureau. 2020. *Historical Income Tables: Households*. Table H-6.

[69] In general, in well-functioning economies, incomes should rise faster than prices: This increase in income levels is the source in the improvement of economic status over time among households. Otherwise, people may have more money but be able to afford less of a good, as is the case with homes and college tuitions.

[70] 2019 was the first year since 1991 outside of the Great Recession in which median new-home sale prices fell, while median household income saw its largest annual increase since 1979. In short, the ratio of median new home sale prices to median household income fell from 5.2 in 2018 to 4.7 in 2019.

Figure 5. Median Sale Price of a New Home vs. Pre-Tax Median Household Income in Nominal Dollars, 1963–2019

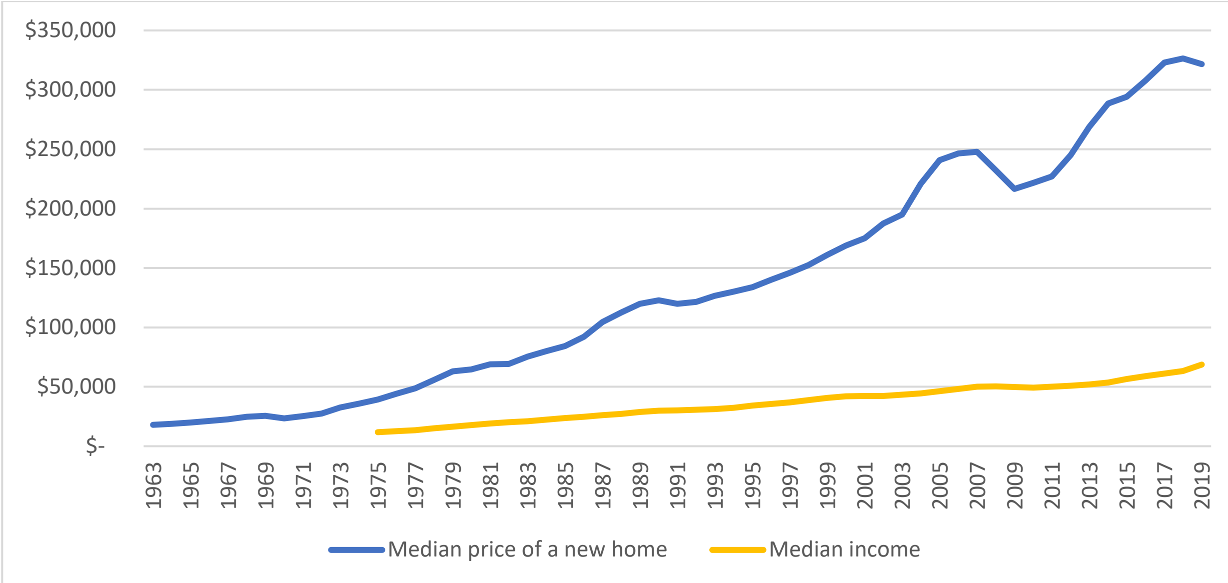
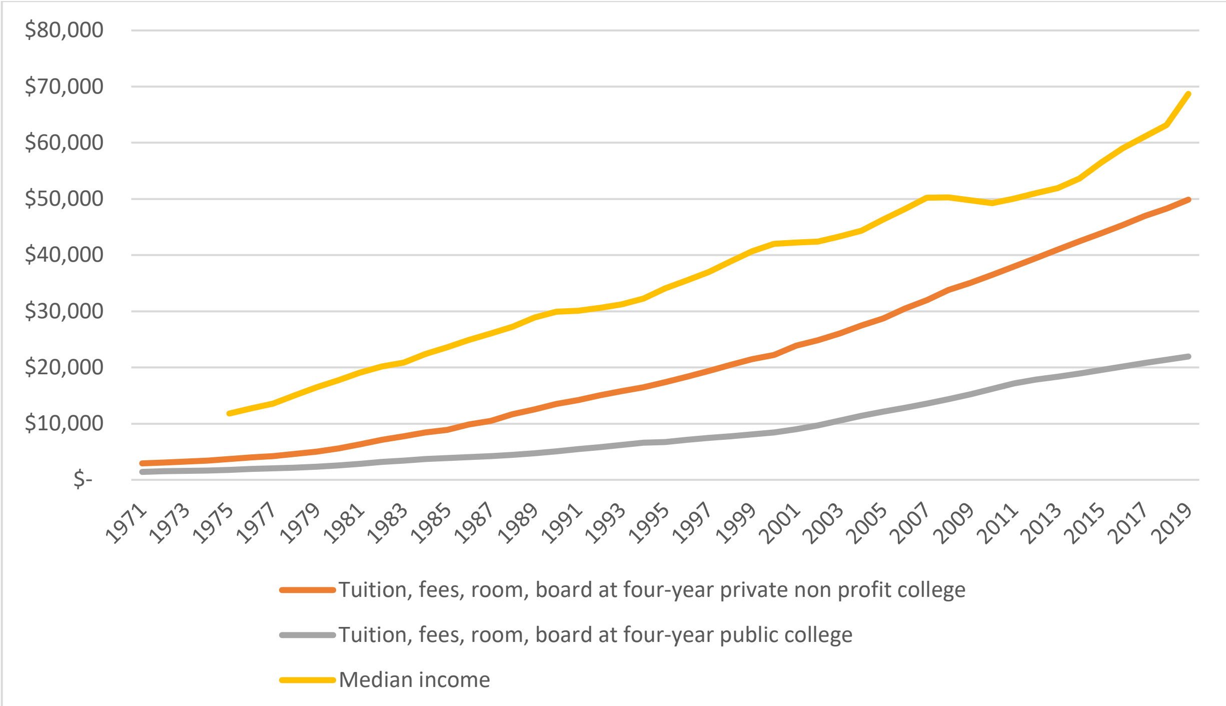


Figure 6 provides the same illustration but compares nominal median income with the nominal cost of tuition, fees, room, and board at a four-year private nonprofit college and a four-year public college.[71] In 1975, median income was $11,800 compared to $3,680 for the cost of a year of private college and $1,780 for a year of public college. In 2019, median income was $68,700 while a year of private college cost $49,870 and a year of public college cost $21,950. Thus, the cost of a year at a public college went from one-sixth of the median family's income to almost one-third.

[71] Source (college pricing): Ma, Jennifer, Matea Pender, and CJ Libassi. 2020. *Trends in College Pricing and Student Aid 2020*. Table CP-2, Excel Data. New York, College Board.
Source (median income): U.S. Census Bureau. 2020. *Historical Income Tables: Households*. Table H-6.

Figure 6. Cost of Tuition, Fees, Room, and Board of Four-Year Colleges vs. Pre-Tax Median Household Income in Nominal Dollars, 1971/72–2019/20



The growth in the price of homes and tuition, both hallmarks of economic security, is greatly outpacing ability to pay. In 1975, if prospective homebuyers at median income saved 10 percent a year, they could afford a 20 percent down payment for a home in six and a half years. In 2019, it would take ten and a half years. Similarly, in 1975, if they used that 10 percent instead for college, they could fully finance a four-year private education in twelve years and a public one in six. In 2019, savings at a rate of 10 percent of median income annually would take thirty-three years to finance a four-year private education fully and fourteen to finance a public one.[72]

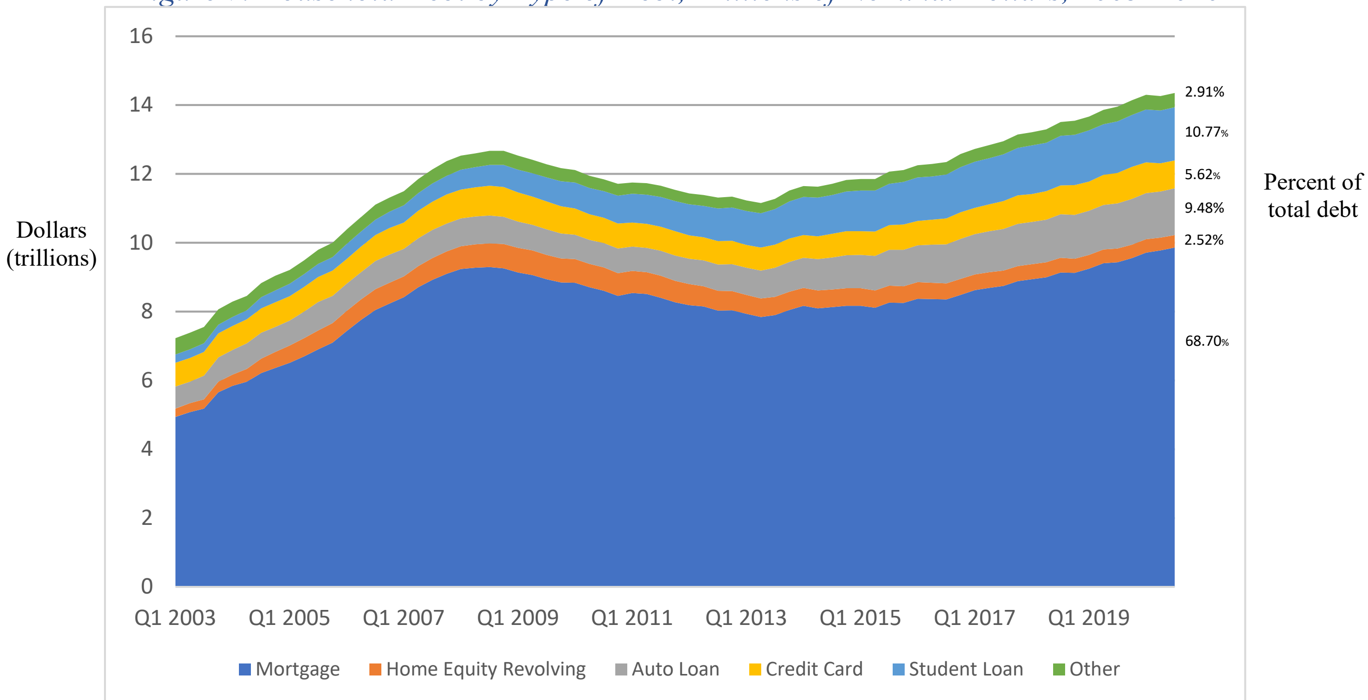
Comparing rates of growth in housing prices and tuition rates (see Figures 5 and 6), most households have little hope to afford such items without undertaking enormous debt.

Indeed, there is evidence that household debt is increasing.[73] Figure 7 shows that total household debt has more than doubled since 2003.[74] Over the same period, median income increased by less than 14 percent.[75] Like home prices and college tuition, household debt is rising much faster than income.

---

[72] These calculations assume that the savings are not invested in growing assets.
[73] Board of Governors of the Federal Reserve System (U.S.), Household Financial Obligations as a Percent of Disposable Personal Income [FODSP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FODSP, November 19, 2020.
[74] Federal Reserve Bank of New York. 2020. *Quarterly Report on Household Debt and Credit, 2020: Q3.* Total Debt Balance and Its Composition. p. 3.
"Home equity revolving" accounts are also known as "home equity lines of credit." They can be thought of as "home equity loans with a revolving line of credit where the borrower can choose when and how often to borrow up to an updated credit limit" (p. 42).
[75] Median income increased by about 13.8 percent nominally between 2003 and 2019.

Figure 7. Household Debt by Type of Debt, Trillions of Nominal Dollars, 2003–2020



Debt itself is not a bad thing; financing an investment that will lead to higher income or economic security in the future is considered a sound practice.[76] Accumulating debt payments, however, may increase economic insecurity.[77]

The inverse of debt is savings, and as debt has increased, savings has decreased.

[76] See Fichtner 2019 for an analysis of increasing levels of debt among retirees and the extent to which debt is reducing economic security in retirement.

[77] Monica Prasad 2019 provides evidence that higher levels of spending on social insurance across OECD nations is associated with lower levels of household indebtedness. Allen et al. 2017 provides causal evidence that the 2011–2012 Medicaid expansion in California resulted in lower demand for high-interest loans. To this extent, debt—especially high-interest debt—might be viewed as both a symptom and reinforcer of economic insecurity.

Figure 8. Personal Savings as a Percentage of Disposable Income, 1959–2019

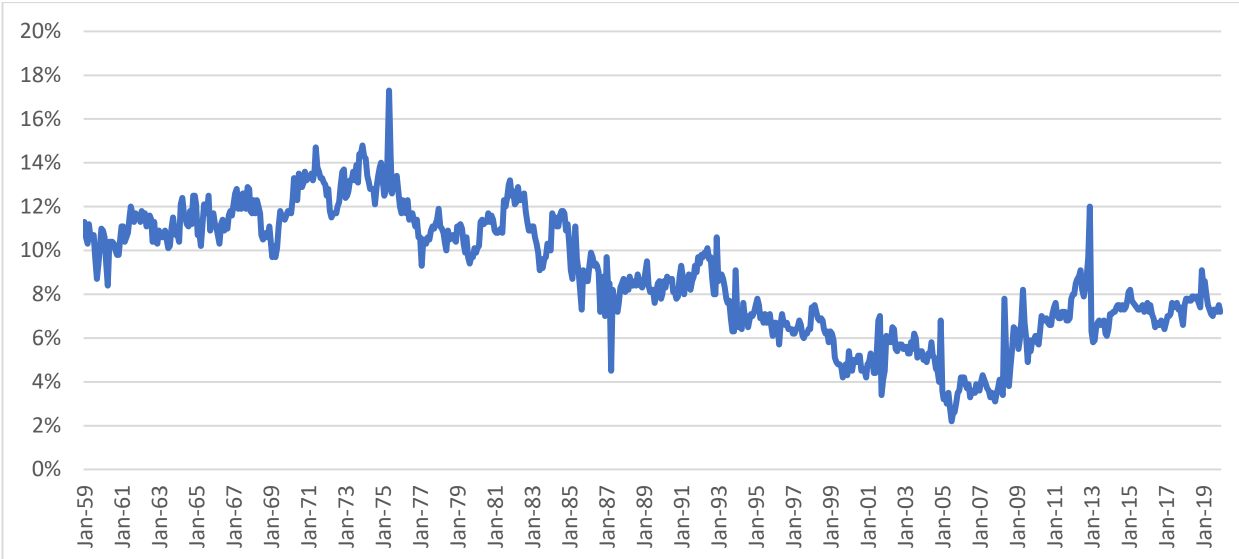


Figure 8 depicts the downward trend in saving rates among individuals in the U.S. over the past sixty years.[78] Between 1959 and 1985—in periods of economic expansion and decline—the average savings rate in a given year rarely fell below 10 percent. Since then, 2020 was the only year in which the average savings rate exceeded 10 percent (individual months may be higher in the figure).[79] This period is underscored by historically low savings rates prior to the Great Recession; they reached an annual average as low as 3.1 percent of disposable income in 2005. Altogether, weak income growth has a parallel trend of declining savings. Consequently, many today have minimal savings to draw on.[80]

An oft-cited study states that about half of U.S. households cannot cover an unexpected $400 expense.[81] The implications of this finding are often exaggerated. The question asks whether the person has cash on hand to cover the expense. A large majority of the half who do not have sufficient cash answered that they would borrow from a friend or family member, sell something, delay other payments, or employ other strategies that would allow payment of the $400 expense. While the finding does not mean that half of the population is $400 away from ruin, it does mean that half have hardly any breathing room in their budgets. Critically, the individuals who answered that they did not have $400 in cash were not all poor. About a third of the respondents

[78] Bureau of Economic Analysis. 2021. *National Income and Product Accounts*. Table 2.6. Personal Income and Its Disposition, Monthly.
[79] The year 2020 is excluded from Figure 8 because—due to the unprecedented nature of the pandemic—the savings rate data are extraordinarily high and make the prior sixty years more difficult to understand.
[80] In August 2020, 34 percent of U.S. adults reported having less than $1,000, and 55 percent reported having $5,000 or less. This survey took place following the four highest monthly savings rates since 1959 from April through July 2021.
[81] This finding comes from the Survey of Household Economics and Dynamics (SHED) and the Survey of Consumer Finances (SCF), both from the Federal Reserve. Both of these surveys inform the Fed's annual Report on the Economic Well-being of U.S. Households. The first year the question was asked (2013), 50 percent of respondents answered in the negative. The portion declined to 37 percent in 2019.

had \$35,000–\$40,000 in income, but also had student loans, installment loans, a mortgage, or a combination of the three.[82]

As we noted, income inequality greatly curtails the gains in average economic status among the population and demonstrates that not all households share in those gains. We showed that inequality by comparing the top half of households to the bottom half. There is also persistent inequality among racial groups. The median wage or income for Black households and Hispanic households was much less than the wage or income for White households, even when looking within categories of educational attainment (Table 4).[83]

Table 4. Wage and Income by Race and Education Level, 2019

	Median Wage			**Median Income[84]**		
	Black	Hispanic	White	Black	Hispanic	White
<High school	\$12.40	\$14.60	\$13.88	\$24,303	\$25,832	\$30,779
High school	\$16.37	\$17.88	\$20.04	\$30,437	\$32,299	\$38,869
Some college	\$17.86	\$19.23	\$22.26	\$36,348	\$36,979	\$44,026
Bachelor's degree	\$27.81	\$30.35	\$35.90	\$49,928	\$48,699	\$61,414
Advanced degree	\$37.33	\$40.80	\$45.29	\$69,713	\$65,878	\$81,235

A difference in income might reflect benign causes. There is not an identical distribution of Black and White individuals across U.S. states or regions, for example.[85] But it certainly reflects more malicious causes as well. There is a large and robust literature documenting discrimination against Black workers in the hiring process.[86] This has implications in terms of longer unemployment spells, higher unemployment rates, and lower income.

But the differences do not stop with income. The ability to save, for example, is greatly hindered by not having a bank account. Six percent of the U.S. population is unbanked, meaning that they do not have a checking, savings, or money market account. Virtually all of those unbanked individuals had incomes of less than \$40,000 a year. On racial lines, 14 percent of Black individuals were unbanked compared with 10 percent of Hispanic individuals and only 3 percent of White individuals. Those unbanked individuals report instead using alternative financial

---

[82] This explanation is according to the author's analysis in *Why Are So Many Households Unable to Cover a \$400 Expense?* (Chen 2019).
[83] Source (wage data): Economic Policy Institute. 2019. *State of Working America Data Library*. Wages by education. Original data from the Current Population Survey Outgoing Rotation Group microdata.
Source (income data): U.S. Census Bureau. 2020. *PINC-03. Educational Attainment: People 25 Years Old and Over, by Total Money Earnings, Work Experience, Age, Race, Hispanic Origin, and Sex.* 25 Years and Over, Total Work Experience "White alone, not Hispanic," "Black alone," and "Hispanic (any race)." Current Population Survey Annual Social and Economic Supplement.
[84] Income data are presented by the Census Bureau in smaller subgroups than in this table. For example, ">High school" is broken down into "less than 9th grade" and "9th to 12th nongrad." To account for this, the data presented here are the weighted sums of the median income data presented by the Census Bureau (when necessary).
[85] Kaiser Family Foundation. 2020. *Population Distribution by Race/Ethnicity*.
[86] *Are Emily and Greg More Employable than Lakisha and Jamal?* is known as the landmark study that quantified some aspects of racial discrimination in the hiring process. Quillian et al. 2017 reviewed more than two dozen similar studies and found that the same result has persisted over the last three decades for Black individuals.

services that are often associated with high fees or interest rates, such as money orders, check cashing services, payday loans, and pawn shops.[87]

Similarly, Black and Hispanic individuals also hold more student loan debt than White individuals and are more likely to be behind on payments.[88] Being behind on student debt is also correlated with being a first-generation college student.[89] A more troubling form of debt held by Black and Hispanic households is unpaid legal expenses, fines, or court costs. This is debt associated with interaction with the criminal justice system. Only 5 percent of White individuals have this type of debt, compared to 12 percent of Black individuals and 9 percent of Hispanic individuals.[90] A report from the U.S. Commission on Civil Rights found that "municipalities target poor citizens and communities of color for fines and fees."[91]

It is important to keep in mind, however, that many surveys of income, wealth, savings, and debt do not ask about identification with certain demographic groups. It is typical for a household survey, like the Current Population Survey (which is used to estimate the unemployment rate) to ask about race, gender, age, and education. It is less common for a survey to ask about sexual orientation or religion.

Research has shown that the LGBTQ community also faces discrimination in the labor market.[92] Federal law did not explicitly prohibit from firing or discriminating against a worker for their sexual orientation until June 2020.[93] And many LGBTQ individuals are, or were at some point in time, cut off from their families, including financially. Additionally, cities that are typically welcoming to LGBTQ individuals tend to be relatively high-priced cities.[94] Labor market discrimination, lack of help from family, and a higher likelihood of living in an expensive city are all thought to be contributors to the higher levels of poverty and financial insecurity among LGBTQ households.

---

[87] Board of Governors of the Federal Reserve System. 2020. *Report on the Economic Well-being of U.S. Households in 2019–May 2020*. Banking and Credit. Figure 18 and Tables 10 and 11.
[88] U.S. Department of Education, National Center for Education Statistics. *2016/17 Baccalaureate and Beyond Longitudinal Study* (B&B:16/17). Table 5.1. Cumulative Amount Borrowed and Percent Owed.
[89] Board of Governors of the Federal Reserve System. 2020. *Report on the Economic Well-being of U.S. Households in 2019–May 2020*. Student Loans and Other Education Debt. Figures 33 and 34.
[90] Board of Governors of the Federal Reserve System. 2020. *Report on the Economic Well-being of U.S. Households in 2019–May 2020*. Overall Well-Being in 2019. Box 2, Table A. Exposure to Crime and the Court System.
[91] U.S. Commission on Civil Rights. 2017. *Targeted Fines and Fees Against Communities of Color: Civil Rights & Constitutional Implications.*
[92] Tilcsik 2011 documents variation in response to job applications in which resumes show experience in a gay campus organization. He finds "in some but not all states, significant discrimination against the fictitious applicants who appeared to be gay." This finding is reinforced by Badgett et al. 2009. While we might expect discrimination to have lessened since these papers were written, there is little question as to whether discrimination against the LGBTQ community still exists in the labor market. The *2015 U.S. Transgender Survey* (see page 5) found that 15 percent of respondents were unemployed (compared to 5 percent of the total population at the time), and 29 percent of respondents were living in poverty (12 percent in total U.S. population).
[93] Human Rights Campaign. 2020. *U.S. Supreme Court Is on the Right Side of History for LGBTQ.*
[94] Chai and Maroto 2019 inspect the various sources of economic insecurity for gay and bisexual men in recent decades.

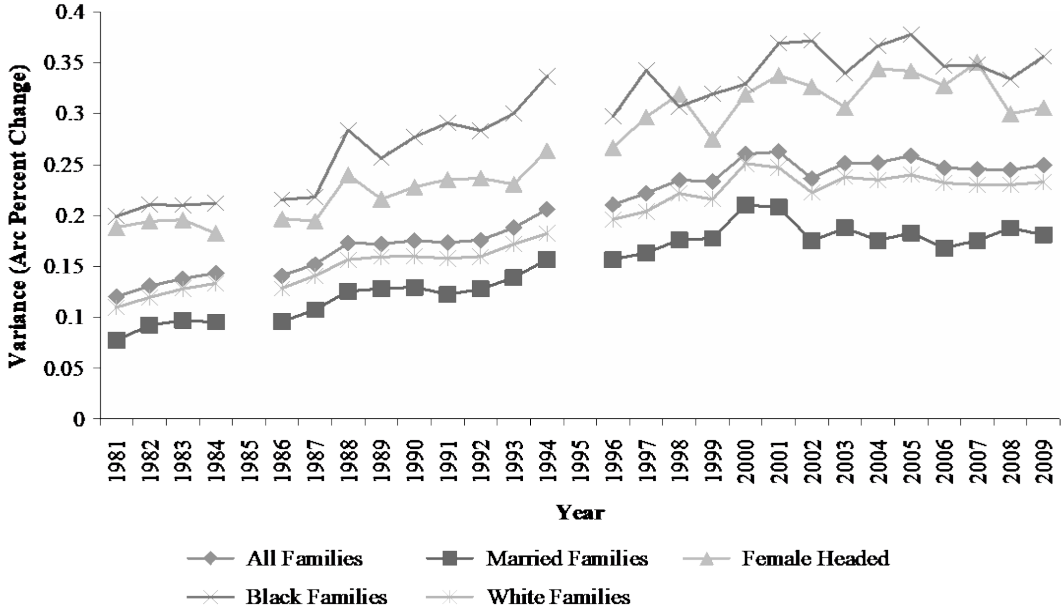
Hence, the level of income growth of the past five decades has not been sufficient for many in the U.S. to establish economic security. The growth was weak for the bottom half of households and, indicative of that weak growth, coincided with decreases in savings and increases in debt.

Income Volatility

The last component of economic insecurity is income volatility: month-to-month or year-to-year fluctuations in income.[95] A number of studies have documented the increase in income volatility in the U.S. over the past four decades.[96] One study estimates that between 1980 and 2009, volatility in family income doubled. The *increase* in volatility was most stark at the top 1 percent of the income distribution, though income volatility for the bottom 10 percent of earners exceeded that of the top in any given year. Figure 9, pulled from that study, shows this increasing trend broken down by married families, female-headed families, Black families, and White families by graphing the variance in income.[97] While income volatility is increasing across the board, Black families and female-headed families have consistently faced the least stable incomes.

[95] The Financial Diaries Project and The Fragile Families and Child Wellbeing Study delve into income instability, and Jonathan Morduch, Kathryn Edin, and Katherine Newman have all contributed extensively to this literature.
[96] In income volatility literature, "permanent" and "transitory" shocks to income are frequently discussed. The former describes a shock with a "long-lasting effect which does not go away, even partially," and the latter, a shock that affects earnings over a short period of time but does not permanently impact one's future earning trajectory. While permanent negative shocks are more harmful, transitory negative shocks can be extremely difficult for households to manage as well. "Gross volatility" encompasses both permanent and transitory shocks. Moffit and Zhang 2018 "find that both gross volatility [of male income] and the component consisting of only the variance of transitory shocks have experienced a large increase during the Great Recession after following similar trends to those previously established showing upward trends from the 1970s to the 1980s followed by a stable period until the Recession." Last, Western et al. 2016 find that large income losses have become more common than large income gains for low-income children between the mid-1990s and 2010. Moffit and Zhang provide an extensive overview of existing literature on income volatility in Tables 1–3 on pages 43–48.
[97] Hardy, Bradley, and James P. Ziliak. 2014. Decomposing Trends in Income Inequality: The "Wild Ride" at the Top and the Bottom. *Economic Inquiry*. Vol. 52, No. 1. p. 459–476.

Figure 9. Trends in Disposable Income by Race and Family Structure, 1981–2009



This volatility in income, which can also be thought of as income unpredictability, is not without consequences. The Federal Reserve estimates that 10 percent of households experience hardship related to unstable income.[98] Further, household income instability reduces engagement at school among adolescents and helps predict "adolescent expulsions and suspensions, particularly among low-income, older, and racial minority adolescents."[99]

The U.S. Financial Diaries[100] project was designed to take a close look at the extent of income volatility among households and how families try to cope with these changes in income. The project tracked the finances of 235 low- and moderate-income households (which they define relative to the federal poverty line, area median incomes, and the Supplemental Poverty Measure) during the period July 2012 through June 2013 to study how U.S. households experience volatility and insecurity. The project found that three out of four households saw income vary by at least 22 percent month to month. A third of those households (25 percent of the total studied) had monthly incomes varying by over 48 percent.[101] These swings are large. At 22 percent variance, a family with $2,000 in income in one month can expect an income somewhere between $1,600 and $2,400 the following month. That $800 swing is difficult to plan around in both the short term (such as meeting exigencies like buying food or paying rent) or in the medium or long term (such as saving for a house or retirement).

[98] Board of Governors of the Federal Reserve System. 2020. *Report on the Economic Well-being of U.S. Households in 2019–May 2020*. Income. Table 6.

[99] Gennetian, Lisa A., Sharon Wolf, Heather D. Hill, and Pamela A. Morris. 2015. *Intrayear Household Income Dynamics and Adolescent School Behavior*. Demography. Apr;52(2):455-83. doi: 10.1007/s13524-015-0370-9. PMID: 25735265.

[100] See U.S. Financial Diaries.

[101] *83 Charts to Describe the Hidden Financial Lives of Working Americans*. Chart 2.4. These data do not include income shocks from tax refunds or credits.

The Financial Diaries Project also confirmed how little cushion most families had. The average "emergency savings" of the families included in the project was $1,788, but the median emergency savings was $55—and 45 percent of households had no emergency savings at all.[102]

The lack of predictability in income—especially for those who do not have savings—is at the heart of economic insecurity. Households cannot be expected to plan for shocks like job loss and the death of a breadwinner when they cannot reliably plan how they will meet short-term costs of living.

The ability to maintain one's income level in the face of unpredictable changes or unstable sources can be aided through access to credit and banking. Taking the example of the $2,000 monthly income that has a 50 percent chance of being $400 higher or lower in a given month: In theory, $1,600 in a month may be insufficient to pay for all necessary expenses, but a credit card can fill in the difference and can be paid off during a $2,400 month. However, given the unpredictability of volatility, it is difficult in practice to know whether an accrued debt can be paid off in the future.

In addition, access to credit is not universal. As a parallel to having less access to banks, Black individuals also have a more difficult time obtaining credit. When looking at credit application denials in groups of individuals with similar incomes, Black individuals had more credit denials than White individuals or Hispanic individuals, by a factor of two or three.[103]

Table 5. Credit Applicants with Adverse Outcomes, 2019

Family income And race	Denied	Denied or approved for less than requested
Less than $40,000		
White	40%	48%
Black	58	68
Hispanic	41	49
Overall	43	51
$40,000–$100,000		
White	17	22
Black	41	57
Hispanic	30	39
Overall	22	29
Greater than $100,000		
White	7	10
Black	19	31
Hispanic	17	22

[102] *83 Charts to Describe the Hidden Financial Lives of Working Americans*. Charts 4.1–4.2.
[103] Board of Governors of the Federal Reserve System. 2020. *Report on the Economic Well-being of U.S. Households in 2019–May 2020*. Banking and Credit. Table 12.

Overall	9	13
All incomes		
White	19	24
Black	44	57
Hispanic	32	40
Overall	24	31

Income volatility is increasing and presents a hardship for many families. Without stable or reliable incomes, it can be difficult to establish a base of economic security.

A Crisis of Unprecedented Scope: COVID-19

The Study Panel's assessment of economic insecurity, through examinations of poverty, income trends, and income volatility, relied on data that were available at the time of writing, most of which was for the year 2019. Poverty in the U.S. dropped, under the official poverty measure, to a historic low of 10.5 percent, but much of the population ended 2019 cash-strapped and indebted. The typical household's income did not grow as fast as the economy nor did it keep up with the price of certain goods, like a home or a college education. For many, income itself was insecure and prone to volatility, or unpredictability. People were materially better off in many respects than any prior generation, but also in precarious economic situations.

Economic insecurity is a function of exposure to economic risk and of the level of protection available if the risk is realized. The assessment of insecurity has so far focused on the latter. A realized risk can be anything from a wrecked car to a flooded or forest fire–torched house to a high medical bill.

While these risks can be devastating, they typically hit individuals sporadically—one at a time, here and there. In contrast, recessions, in which the overall economy declines, are periods of widespread economic shock. In a recession, tens of millions across the country suffer risk through job loss, income cuts, and business closure. In some ways, the most accurate measure of economic insecurity is how well households fare during recessions.

The "pandemic recession" officially began in February 2020, the same month that the World Health Organization and the U.S. Department of Health and Human Services issued public health emergencies. In April, the unemployment rate jumped from 4.4 percent to 14.7 percent and the economy shed 22.5 million jobs.[104] Schools closed, businesses were forced to shut down or greatly limit operations, and food prices increased quickly.[105]

Recognizing that a historic downturn was fast approaching, in March, Congress passed the Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and

[104] U.S. Bureau of Labor Statistics. *Table A-3. Employment Status of the Civilian Noninstitutional Population by Sex and Age, Seasonally Adjusted*. Labor Force Statistics from the Current Population Survey.
[105] Mead, David, Karen Ransom, Stephen B. Reed, and Scott Sager. 2020. *The Impact of the COVID-19 Pandemic on Food Price Indexes and Data Collection*. U.S. Bureau of Labor Statistics. Table 4.

Economic Security (CARES) Act to provide relief and support for households and businesses.[106] The bills included, on a temporary basis:

- Requirements for some employers to provide paid sick leave and paid family leave, reimbursed by the government[107,108]
- Borrower opt-out forbearance of student loans[109]
- Borrower opt-in forbearance of mortgages[110]
- Federally funded increases to Unemployment Insurance benefit amounts and extension of benefit duration[111]
- Creation of a new unemployment program for independent contractors and workers otherwise ineligible for unemployment benefits[112]
- Waived eligibility restrictions for Supplemental Nutrition Assistance Program (SNAP)[113]
- Recovery payments in the amount of $1,200 to most documented adults[114]
- Supplemental $500 payment to households for each child under seventeen years old
- Ability to withdraw from 401(k) retirement accounts without penalty
- One-time emergency payments

The FFRCA, CARES Act, and extension of certain CARES Act provisions passed in December 2020 speak to a basic, if reactive, strategy for increasing economic security. Insecurity is the risk of inadequate income in the face of a shock, and Congress saw that a large shock was coming. They acted to bolster and expand access to existing programs, create new programs, ease debt payments, and send cash to 85 percent of households.[115] Action to permanently address economic insecurity would do all these things but would be proactive as well, reducing the sources of insecurity and exposure to risks. The U.S. has an effective policy support system that establishes a baseline of economic security, but there are still unmet needs and unaddressed sources of risk.

---

[106] In December 2020, Congress passed another relief bill after many of the provisions of the CARES Act were set to expire (*H.R.133 - Consolidated Appropriations Act, 2021*). At the time of our writing, additional relief bills are being proposed. None of the relief mentioned below was available to noncitizens.

[107] Cole, Bethany. 2020. *Paid Leave Provisions in Recent Federal COVID-19 Response Legislation*. National Academy of Social Insurance.

[108] Due to the exemption of private employers with over 500 employees and the limitations on "qualified reasons for leave," the provision was not very effective in increasing paid leave in 2020.

[109] Federal Student Aid. *Coronavirus and Forbearance Info for Students, Borrowers, and Parents*. U.S. Department of Education.

[110] *Learn about Mortgage Relief Options and Protections*. Consumer Financial Protection Bureau.

[111] O'Leary, Christopher J. 2020. *Food Stamps and Unemployment Compensation in the COVID-19 Crisis*. Upjohn Institute for Employment Research.

[112] Ibid.

[113] Ibid.

[114] Arnone, William. 2020. *CARES Act Rebates: Who, How Much, When, and How?* National Academy of Social Insurance.

[115] U.S. Census Bureau. 2020. *Week 12 Household Pulse Survey: July 16–July 21*. Stimulus Table, Table 1.

Assuring Income

Assured income reduces economic insecurity by guaranteeing that every individual has some form of income or resources in every period of life.

The Study Panel takes a mix of inspiration and cues from the 1934 Committee on Economic Security and the ensuing New Deal legislation, as well as the 2020 legislative relief bills that were intended to mitigate the economic impact of the pandemic recession. The former was *proactive*. It came on the heels of the Great Depression but was forward looking in its reach; it reduced labor market risk through regulation and provided benefits to individuals who could not work. The latter was *reactive*. It was in response to a specific risk—the pandemic—and how that risk was affecting individuals. Its composition reflected that many existing programs were effective at meeting some need, but also that the overall range of needs was larger than what those programs were designed to address.

In addressing economic insecurity, the solution is not a single policy but a portfolio of policies. These policies reflect an overarching goal—get income to households—but not a single means of doing so. This diverse approach in turn reflects that the sources of economic insecurity are not simple or even the same for different individuals and families.

The Panel's portfolio consists of four components—four "pillars" of economic security. The first two comprise the primary channels of getting households income and how to increase that income:

1. **Labor policy** – The active regulation of the labor market, including the promotion of work and return to work
2. **Benefit policy** – The taxing and spending by the federal government that results in money or resources transferred to households through explicit transfer programs, social insurance systems, or tax expenditures

The second two components are smaller in scale but more ambitious in scope, in that they address threats to income:

3. **Protection policy** – Policies that protect against fluctuations in income and expenses by promoting savings, reducing debt, accessing credit, and regulating key financial actors including banks, other lenders, landlords, and state and local governments
4. **Equity policy** – Policies that address the severe inequities among demographic groups

A comprehensive approach to economic security must support each pillar to be successful. While the labor market is the most important source of income generation, not everyone is able to work, and some workers will have needs that wage income is unable to fulfill. Benefit policy might assure income, but it should not replace wage income for those who are able to work. The effectiveness of either labor income or benefit income at maintaining economic security might itself be reduced without ensuring key protections for that income. And no policy, whether new or renewing, should ignore that—whether measuring wages, income, assets, savings, or debt—

there are some groups that are worse off than others. Most important, labor, benefit, protection, and equity are not substitutes but complements. They support but do not supplant each other.

Within each component, there are different approaches to a given policy. Some are competing options, but most are complementary.

The report henceforth is broken down into five sections: one covering each of the four pillars of economic security and a fifth and final section on how to best raise tax revenue to support increased federal spending. Each section contains a policy options table before a deeper dive into policy details and concrete options to improve economic security.

> ←→ This symbol appears throughout the policy options tables in cases where a policy fits well under multiple pillars. Most policies have options that cut across pillars, so we constrain the use of this symbol to reference the "policy" portion of the table, in the left-most column. The details of a given policy and its options will only appear in one section. "Reform Unemployment Insurance," for example, appears in the labor and benefit policy option tables, but its corresponding details appear only in the benefit section.

Labor Policy

Labor policy to address economic insecurity has three goals. First, government policy should help people achieve the education and skills they need to be successful in the workplace. Second, anyone who works should be compensated fairly. Third, working conditions should be safe and reasonable.

While these goals might garner broad support, when and how they might be achieved are highly contentious. Broad agreement on what policies would achieve these goals does not always exist. The U.S. has traditionally approached these three goals by supporting education and regulating wages, work-related benefits, and working conditions.

Policy	Options
Raise the minimum wage	1. Raise the minimum wage. 2. Raise the minimum wage and index it to inflation. 3. Raise the minimum wage and index it to the growth in the average or median wage.
Improve or eliminate subminimum wages ←→ *Equity Policy*	1. End subminimum wages for workers with disabilities. 2. Tie the subminimum wage for tipped workers to 70 percent of the minimum wage. 3. End subminimum wages for all employees. 4. Reform wages for incarcerated persons. 5. Require companies that pay independent contractors to provide proof that each contractor earned at least the minimum wage.
Update overtime and work-scheduling rules	1. Index the salary thresholds for overtime-exempt status to the growth in the average or median wage. 2. Raise the salary threshold for overtime-exempt status and index it to growth in the average or median wage. 3. Explore the need for a commission in the U.S. Department of Labor to study existing state and local "Fair Workweek" laws and make federal recommendations for adoption. 4. Explore options to improve predictability for workers.
Update wage and hiring rules ←→ *Equity Policy*	1. Prohibit the requirement that applicants must disclose prior criminal records during the job application process. 2. Prohibit the requirement that applicants must disclose prior salary or pay information during the job application and salary negotiation process.
Improve labor law enforcement ←→ *Equity Policy*	1. Increase staffing and funding of the labor regulatory bodies: Wage and Hour Division, Occupational Safety and Health Administration, Equal Employment Opportunity Commission, and National Labor Relations Board.

	2. Review procedures for reporting workplace complaints at all four agencies and make recommendations for improvement. 3. Make it easier for workers to choose to be represented by a union.
Provide support for unemployed workers	1. Create a job seekers' allowance. 2. Increase access to transitional job programs. 3. Increase funding and opportunities for job training.
Reform Unemployment Insurance (UI) ←→ *Benefit Policy*	1. Implement federal standards for benefit levels, eligibility requirements, state tax rates, and state tax bases. 2. Overhaul the data-reporting architecture and create new performance measures for states regarding benefit levels, eligibility, and receipt rates. 3. Explore the cost and benefits of fully federalizing the UI tax and benefit system. 4. Bring independent contractors and self-employed individuals permanently into the UI system. 5. Short-Time Compensation should be included in every UI system.

Raise the minimum wage

The federal minimum wage is currently $7.25 per hour. It was last raised in 2007 and increased over a three-year period to its current level in 2009.[116] This "phase-in" gave employers time to adjust. Since this phase-in, Congress has enacted no increases or automatic adjustments to keep pace with rising costs of living.[117]

In twenty-nine[118] states and fifty-three[119] cities and counties, the minimum wage is higher than the federal minimum. The labor movement has galvanized around the "Fight for $15" since 2014.[120] In 2020, Florida became the most recent state to act when 61 percent of voters supported a referendum to raise the minimum wage to $15 per hour by October 2026; its minimum wage was slated to rise from $8.65 to $10.00 in October 2021 and by $1.00 per year each October until 2026.[121]

[116] U.S. Department of Labor, Wage and Hour Division. *History of Changes to the Minimum Wage Law.*
[117] At full-time work (forty hours per week, fifty-two weeks per year), a minimum wage worker earning the federal minimum wage earns $15,080 annually. Had the minimum wage increased with inflation using the Consumer Price Index for All Urban Consumers since January 2009, it would have been $8.86 as of January 2021 ($18,429 annually). Had it increased with median weekly earnings since the first quarter of 2009, it would have been $9.74 as of the fourth quarter of 2019 ($20,259 annually). Had it increased with average hourly earnings in the private sector since January 2009, it would have been $9.88 as of January 2021 ($20,550 annually) (January 2021 data preliminary at time of extraction).
[118] U.S. Department of Labor, Wage and Hour Division. 2021. *Consolidated Minimum Wage Table*.
[119] UC Berkeley Labor Center. 2020. *Inventory of US City and County Minimum Wage Ordinances*.
[120] In 2014, SeaTac became the first city in the U.S. to institute a $15 minimum wage as a result of employers at SeaTac playing "hardball" during union negotiations. As leverage, union organizer David Rolf put a $15 minimum wage on the city ballot. Much to his surprise, it passed, and since then many other cities, counties, and states have followed suit (Bergman 2015).
[121] The National Law Review. 2020. *Florida Minimum Wage To Increase*. Vol. X, No. 366.

In 2020, 329,000 U.S. workers earned the federal minimum of $7.25 an hour and 1.2 million earned less than that amount, comprising 1.9 percent of all hourly paid employees.[122] For a household of four with one full-time worker to earn an above-poverty income in 2021, the minimum wage would have to have been $12.75 an hour.[123]

This report does not discuss potential employment effects of changes to the minimum wage and other policies, which are necessary considerations. A minimum-wage increase might be coupled with other policies to ensure its implementation yields a net positive effect in terms of assuring adequate income to people in the U.S. The states may also be the best arbiter of what minimum wage each state can economically support. Oregon, for example, has a tiered minimum wage rate based on urban/rural areas.[124]

Options:
1. **Raise the minimum wage.** Two current options are to raise the wage to $12.75 an hour, the "poverty wage," which is the fifty-two-week, forty-hour per week equivalent of the poverty threshold for a family of four in 2021. The other is to raise the wage to $15 an hour to bring the federal floor up to the level of states and cities that are already at $15. Either option could be implemented using a phase-in process to ease the transitional impact on employers.

2. **Raise the minimum wage and index it to inflation**. Rather than periodically revisit the minimum wage, this policy would increase the wage every year apace with the average change in prices. This method of indexing is used by the Internal Revenue Service (IRS), for example, in updating income tax brackets.

3. **Raise the minimum wage and index it to the growth in the average or median wage.** Wages rise faster than prices; if the minimum wage were linked to inflation, it would not keep pace in terms of purchasing power growth relative to average or median wage growth, much like the poverty threshold, which is indexed to inflation. Indexing with reference to the average or median wage is used, for example, in establishing the threshold for Social Security's insurance contributions ("FICA").[125]

Improve or eliminate subminimum wages

The minimum wage is currently $7.25 per hour and applies to the majority of employees covered by the Fair Labor Standards Act (FLSA).[126] The FLSA enumerates, however, types of employees who may be paid at subminimum wage rates.[127] Some require employers to obtain a certificate granting exception to the FLSA:

---

[122] Bureau of Labor Statistics. 2020. *Characteristics of Minimum Wage Workers, 2019*.
[123] The 2021 federal poverty guidelines indicate that a household of four earning less than $26,500 is in poverty. At $12.75 for forty hours a week, fifty-two weeks a year, an individual would take home $26,520. This calculation does not take into consideration payroll taxes, income taxes, sales taxes, or tax credits.
[124] *Oregon Minimum Wage*. 2021. Oregon Bureau of Labor and Industries.
[125] Average wages are used to update the threshold for wages subject to FICA. The wage threshold changes every year based on average wage growth (Social Security Administration, *Contribution and Benefit Base*).
[126] U.S. Department of Labor, Wage and Hour Division. *Wages and the Fair Labor Standards Act*.
[127] U.S. Department of Labor, Wage and Hour Division. *Subminimum Wage*.

- workers with disabilities[128]
- student workers[129]
- industrial homeworkers (sometimes called "pieceworkers")[130]

Workers under twenty years of age can be paid a wage as low as $4.25 an hour for the first ninety calendar days, after which they are employed under the Youth Minimum Wage unless state or local laws prohibit the practice.[131]

Certain other workers may be paid less based on the type of work or industry:

- tipped workers, for whom the federal minimum wage for direct pay is $2.13[132]
- some agricultural workers[133]

---

[128] According to the Department of Labor, "a worker who has disabilities for the job being performed is one whose earning or productive capacity is impaired by a physical or mental disability, including those relating to age or injury. Disabilities which may affect productive capacity include blindness, mental illness, developmental disabilities, cerebral palsy, alcoholism and drug addiction" (U.S. Department of Labor, *Fact Sheet #39: The Employment of Workers with Disabilities at Subminimum Wages*).
An investigation into the use of subminimum wage practices for workers with disabilities by the U.S. Commission on Civil Rights found that its use violated the civil rights of workers with disabilities, did not lead to higher employment, and recommended repealing the section of the Fair Labor Standards Act (14(c)) that allows for subminimum wages (U.S. Commission on Civil Rights, *Subminimum Wages: Impacts on the Civil Rights of People with Disabilities*).
[129] Defined as "a student who is at least 16 years of age (or at least 18 years of age if employed in an occupation which the Secretary of Labor has declared to be particularly hazardous), who is receiving instruction in any accredited school, college or university and who is employed by an establishment on a part-time basis, pursuant to a bona fide vocational training program" (U.S. Department of Labor, *Instructions for Form WH-205: Application to Employ Student-Learners at Subminimum Wages*).
[130] The industries in which employers may apply for certificates granting exception include "those that manufacture: women's apparel; knitted outerwear; gloves and mittens; buttons and buckles; handkerchiefs; embroideries; and jewelry. There are two different types of certificates." One is for individuals facing circumstances that limit their ability to work outside the home, and the other is for employers to employ homeworkers more broadly; this certificate does not apply to the women's apparel industry (U.S. Department of Labor, *Industrial Homeworker*).
[131] U.S. Department of Labor, Wage and Hour Division. *Fact Sheet #32: Youth Minimum Wage—Fair Labor Standards Act*.
Minimum wage laws in each state are available at minimum-wage.org.
[132] The minimum wage for tipped employees exceeds $2.13 in all but fifteen states (U.S. Department of Labor, *Minimum Wages for Tipped Employees*).
[133] All agricultural workers are covered by the federal minimum wage except in cases of "work performed on a farm which is not incidental to or in conjunction with such farmer's farming operation" and "operations performed off a farm if performed by employees employed by someone other than the farmer whose agricultural products are being worked on." Other exemptions include:

> 1) Agricultural employees who are immediate family members of their employer; 2) Those principally engaged on the range in the production of livestock; 3) Local hand harvest laborers who commute daily from their permanent residence, are paid on a piece rate basis in traditionally piece-rated occupations, and were engaged in agriculture less than thirteen weeks during the preceding calendar year; and 4) Non-local minors, 16 years of age or under, who are hand harvesters, paid on a piece rate basis in traditionally piece-rated occupations, employed on the same farm as their parent, and paid the same piece rate as those over 16 (U.S. Department of Labor, *Fact Sheet #12: Agricultural Employers Under the Fair Labor Standards Act (FLSA)*).

Only seven states cover agricultural workers in their state's minimum wage laws. In two of those, such workers have a specified lower wage than other workers. In twenty-three states, some agricultural workers are covered, but there

In addition, the FLSA applies only to employees. Though not specified in the legislation, subsequent court rulings have found that incarcerated individuals employed by their jail or prison or contracted by their jail or prison to another industry are not employees under the FLSA and therefore do not have to be paid a minimum wage.[134] The most recent estimate puts the average wage of incarcerated individuals at 86 cents per day.[135]

There are several work arrangements that fall outside the employer-employee relationship, such as interns or independent contractors, who are also not subject to the minimum wage. This category includes all "gig" workers, such as ride-sharing drivers.[136]

Policy Options:
1. **End subminimum wages for workers with disabilities.** Seven states have already eliminated or are in the process of phasing out subminimum wages for these workers.[137]

2. **Tie the subminimum wage for tipped workers to 70 percent of the minimum wage.**[138] This policy would keep a two-tiered wage system in effect but would peg it at a reasonable percentage of the minimum wage.

3. **End subminimum wages for all employees.** Adopting this option would include subminimum wages currently allowed by the FLSA and would end the Youth Minimum Wage and the Tipped Minimum Wage.

4. **Reform wages for incarcerated persons**. The goal of such reform would make work performed by incarcerated workers subject to a higher minimum wage.

5. **Require companies that pay independent contractors to provide proof that each contractor earned at least the minimum wage.**

Update overtime and work-scheduling rules

The FLSA establishes a forty-hour work week and requires that any additional hours of work be paid at overtime rates defined as 1.5 times the usual wage.[139]

---

are limitations/exceptions. In the remaining twenty states, agricultural workers are either altogether excluded from the state's minimum wage laws or the state has no minimum wage laws (Farmworker Justice, *Wages Map*).

[134] *Hale v. Arizona* in 1993 ruled that prisoners are not entitled to the minimum wage under the FLSA (*Hale v. Arizona*, 993 F.2d 1387 (9th Cir. 1993)). Lynn Gibson of the Government Accountability Office testified on the matter before the Senate Committee on Labor and Human Resources.

[135] Sources: Prison Policy Initiative. 2017. *How Much Do Incarcerated People Earn in Each State?* and *State and Federal Prison Wage Policies and Sourcing Information*.

[136] The issue of whether ride-share drivers in particular should be treated as employees or independent contractors, and what sorts of benefits the drivers should be entitled to, has come to a head in California.

[137] U.S. Commission on Civil Rights. 2020. *Subminimum Wages: Impacts on the Civil Rights of People with Disabilities*. p. 179.

[138] This proposal was included under Section 2(b) of the H.R. 1010 (113th): Fair Minimum Wage Act of 2013.

[139] U.S. Department of Labor, Wage and Hour Division. *Overtime Pay*.

Workers earning above a certain wage are exempt from overtime provisions and may be paid a flat salary regardless of how many hours they work. The current exempt salary is $684 per week, or $35,568 per year.[140] These dollar amounts were arrived at using wage percentiles, with $35,568 being the 20th percentile of earnings of salaried workers in the lowest-earning Census regions.[141]

Additional aspects of worker hours, besides total length, have emerged as issues in recent years. Some employers use "just-in-time" scheduling or "call-in" scheduling, where workers are notified of the hours of their shift on short notice, including the morning of.[142] Certain states and localities have passed regulations that require a minimum advance notice of shifts in "good faith" in certain industries, after which the shift may not be canceled without pay or penalty.[143] Some employers also do not have any regulation regarding time between shifts. Certain states and localities have thus passed a minimum shift time rule that requires a minimum amount of time off between shifts spanning two calendar days.[144] These issues have been broadly dubbed "Fair Workweek" laws.[145]

Options:

1. **Index the salary thresholds for overtime-exempt status to growth in the average or median wage.** This policy would increase the salary thresholds every year rather than intermittently. Indexing the exempt status to wages, rather than prices, is used, for example, in establishing the threshold for Social Security's insurance contributions.[146]

---

[140] U.S. Department of Labor, Wage and Hour Division. *Fact Sheet #17G: Salary Basis Requirement and the Part 541 Exemptions Under the Fair Labor Standards Act (FLSA).*

[141] Specifically, "Using pooled 2018/2019 [Current Population Survey–Merged Outgoing Rotation Group Earnings] data to represent the July 2018 through June 2019 period, a salary level of $684 corresponds to the 20th percentile of earnings for full-time salaried workers in the South Census Region and/or in the retail industry."
The same rules are related to the overtime threshold for highly compensated employees, which is currently $107,432 per year using data for the 80th percentile of weekly, full-time salary workers nationally. This exempts employees who are highly compensated annually but do not receive a consistent salary (U.S. Department of Labor, *Highlights of the Final Rule on Overtime Eligibility for White Collar Employees*).

[142] Lambert et al. 2019 explore the extent to which U.S. workers deal with precarious work schedules and how such work schedules contribute to economic insecurity. In a 2020 essay, Lambert lays out the "dimensions of problematic work schedules," evidence from states that have taken action, and how better scheduling benefits both employers and employees in the long run. Harknett et al. 2021 inspect the impacts of Seattle's Secure Scheduling Ordinance in the second year after its implementation and found "increased work schedule stability and predictability, 2) increased job satisfaction and satisfaction with work schedules, 3) increased overall happiness and sleep quality, and 4) reduced material hardship" for Seattle workers. From the employer perspective, Kamalahmadi et al. 2019 find that day-of scheduling reduces both worker productivity and profit levels in the restaurant industry. The Center for Popular Democracy outlines the goals of "The Fair Workweek Initiative."

[143] Oregon, for example, requires that employers notify employees at least fourteen days in advance of their shift (or their "on-call" shift) (Oregon Bureau of Labor & Industries. *Predictive Scheduling*).

[144] In New York City, for example, fast-food workers must "consent in writing before being scheduled to work or working two shifts over two calendar days when the first shift ends a day and there are less than 11 hours between shifts." For such shifts, employers must pay the employees a $100 premium (NYC Department of Consumer and Worker Protection, *Fair Workweek Law: Frequently Asked Questions*).

[145] Wykstra 2019 offers an overview of the breadth and goals of Fair Workweek laws.

[146] Average wages are used to update the threshold for wages subject to FICA. The wage threshold changes every year based on average wage growth (Social Security Administration, *Contribution and Benefit Base*).

2. **Raise the salary threshold for overtime-exempt status and index it to growth in the average or median wage.** Rather than use the current 20th percentile salary for the lowest-earning region, use the 25th percentile nationwide. Regional, statewide, or citywide metrics would ensure that overtime exemption levels are commensurate with local costs of living.

3. **Explore the need for a commission in the U.S. Department of Labor to study existing state and local Fair Workweek laws and make federal recommendations for adoption.** Given the policy experimentation at the state and local level and its recency, this policy would give the Department of Labor a fixed window to assess those policies.

4. **Explore options to improve predictability for workers.** When workers are asked to work without sufficient notice, this option would entitle them to increased pay. The window of sufficient notice and amount of pay increase vary. Options such as some number of days' required notice and/or extra compensation should be evaluated.[147]

Update wage and hiring rules

The majority of states have put in place rules that limit the information employers may collect from prospective workers during the application process because some information might be used to discriminate in hiring decisions or regarding salary once hired.

Options:

1. **Prohibit the requirement that applicants disclose prior criminal records during the job application process.** This prohibition is commonly referred to as "ban the box"[148] or "fair chance hiring" and is in place in thirty-six states.[149,150] As of 2019, 89 percent of employers used county/statewide criminal background searches in the hiring process and 85 percent used national criminal searches.[151]

2. **Prohibit the requirement that applicants disclose prior salary or pay information during the job application and salary negotiation process**. Commonly referred to as a "salary history

[147] National Women's Law Center. 2019. *State and Local Laws Advancing Fair Work Schedules.*
[148] See *Remove Barriers to Opportunity for People with Criminal Records* under Equity policy for more details.
[149] Avery, Beth, and Han Lu. 2020. *Ban the Box: U.S. Cities, Counties, and States Adopt Fair Hiring Policies*.
[150] Washington, DC, enacted ban the box legislation with the Fair Criminal Record Screening Amendment Act of 2014. The law prohibits employers with eleven or more employees "from asking job applicants about: arrests; criminal accusations made against the applicant that are not pending or did not result in a conviction; or criminal convictions. However, an employer may ask about criminal conviction(s) after extending a conditional offer of employment (the employer can never ask about arrests or criminal accusations that aren't pending). An employer who properly asks about a criminal conviction can only withdraw the offer or take adverse action against the applicant for a legitimate business reason that is reasonable under the six factors listed in the Act" (DC.gov Office of Human Rights, *Returning Citizens and Employment*). Stacy and Cohen 2017 review the impacts of DC's legislation and discuss improvements, including stronger equal employment legislation and enforcement, provision of training for employers, better outreach to those with criminal records, and others.
[151] National Association of Professional Background Screeners. 2019. *How Human Resources Professionals View and Use Background Screening in Employment*.

ban," this prohibition is in place in nineteen states.[152] A recent study finds that salary history bans substantially increase pay for both female and Black workers.[153]

Improve labor law enforcement

The four federal primary bodies for enforcing laws related to the labor market are the Wage and Hour Division (WHD) and the Occupational Health and Safety Administration (OSHA) in the Department of Labor, the Equal Employment Opportunity Commission (EEOC), and the National Labor Relations Board (NLRB).

Options:
1. **Increase staffing and funding at the labor regulatory bodies: WHD, OSHA, EEOC, and NLRB.** Any update to labor law regulations should be accompanied by a commensurate update to labor law enforcement capabilities. A recent piece by the Washington Center for Equitable Growth states that, for example, "As of May 1, 2020, the [WHD] employed 779 investigators to protect more than 143 million workers, which is fewer than the 1,000 investigators it employed back in 1948 when it was only responsible for safeguarding the rights of 22.6 million workers… . [T]he International Labor Organization recommends a benchmark of one investigator per 10,000 workers, which would require roughly 13,500 more investigators to be hired."[154]

2. **Review procedures for reporting workplace complaints at all four agencies and make recommendations for improvement.** One of the agencies (WHD) does not allow for online submission of complaints, only phone calls, which can be difficult to place during the workday. Another (OSHA) has been subject to inspector general investigations about not following up in a timely manner on whistleblower complaints about workplace safety during the pandemic.[155] A commission would evaluate both the worker-facing aspect of the agencies in collecting complaints as well as their performance in following up on them.

3. **Make it easier for workers to choose to be represented by a union.** The National Labor Relations Act establishes the right for workers to unionize. Limitations on forming unions have threatened this right.

Twenty-eight states, for instance, have "right to work" laws, which do not allow for compulsory membership in a union as a condition of employment. On the one hand, this means nonunion members receive any benefit from a unionized workplace without paying dues toward the union. On the other hand, right to work laws ensure that workers who do not want to join a union are not forced to do so.[156] Employees deserve both the right to unionize and to not belong to a union

---

[152] H. R. Dive. 2020. *Salary History Bans*.
[153] Bessen, James E., Chen Meng, and Erich Denk. 2020. Perpetuating Inequality: What Salary History Bans Reveal About Wages. *SSRN*.
The authors discuss their findings here.
[154] Washington Center for Equitable Growth. 2021. *Executive Action to Combat Wage Theft Against U.S. Workers*. This piece also outlines how the WHD might "prioritize strategic enforcement" to increase the perceived cost of labor law violations and "pursue co-enforcement with community-based organizations" to help uncover violations in industries where workers fear retribution for speaking up.
[155] The full report of the Office of the Inspector General can be found here.
[156] Workplace Fairness. *Right to Work Laws*.

should they choose. Policies to increase union representation range from increasing enforcement to prevent employer retaliation[157] to encouraging sectoral bargaining models.[158]

Provide support for unemployed workers

The primary means of providing financial support for workers who are looking for a job is Unemployment Insurance,[159] the state-administered program for workers who have worked previously, lost their job through no fault of their own, and continue to search for work. State workforce agencies and the U.S. Department of Labor (DOL) administer this program. Workers without a sufficient work history, including all new workers, are not eligible for Unemployment Insurance.

The Workforce Innovation and Opportunity Act (WIOA) is the primary vehicle for funding programs and supports to facilitate the development of the U.S. workforce, including through re-employment. Of WIOA's many programs, a transitional job program is one intended for workers without a job. Transitional job programs provide temporary wage-paying jobs, support services, and job placement help to individuals who have difficulty getting and holding jobs in the regular labor market.[160] The DOL-funded transitional jobs programs are currently only available to "hard-to-employ" populations, like formerly incarcerated individuals or those who "experience disasters, mass layoffs, plant closing, or other events that precipitate substantial increases in the number of unemployed individuals."[161]

Options:

---

[157] Laufer and Loustaunau 2020 document how U.S. employers engage in anti-unionization activities, from mandatory anti-union meetings to threats of job loss. They find that U.S. employers "collectively spend $340 million per year on 'union avoidance' consultants who teach them how to exploit the weaknesses of federal labor law to effectively scare workers out of exercising their legal right to collective bargaining."

[158] "Sectoral bargaining—also known as multiemployer, industrywide, or broad-based bargaining—is a form of collective bargaining that provides contract coverage and sets compensation floors for most workers in a particular occupation, industry, or region" (Center for American Progress, *What Is Sectoral Bargaining?*).

[159] Woodbury 2014 provides an overview of U.S. unemployment insurance programs, as do Whittaker and Isaacs 2019.

[160] Bloom 2010 discusses existing evidence around transitional jobs programs, goals for transitional jobs programs, and the testing of new strategies in transitional jobs programs.

Yahner and Zweig 2012 inspect which components of transitional jobs programs have the most impact in terms of positive employment and nonrecidivism for participants. The duration of one's transitional job is the component that has the greatest impact on one's likelihood of receiving unsubsidized employment following the transitional job. Those "who spent 30 workdays or more in a transitional job during the first six months of the follow-up period (at a rate of four workdays per week, which equates to two months of time) were 14 [percentage points] more likely than other TJ program participants to obtain an unsubsidized job in the subsequent six months (45% vs. 31%; see Figure 1, Model A)."

Barden et al. 2018 discuss the findings of the Enhanced Transitional Jobs Demonstration, which "tested seven transitional jobs programs that targeted people recently released from prison or low-income parents who had fallen behind in child support payments," and tracked participants' outcomes over thirty months following their enrollment in the programs. On average, those in the programs earned $700 more than the control group in the final year of the study and saw an employment rate of 64 percent compared to 60 percent in the control group in the final year.

[161] Section 134 (a)(2)(A)(i)(II) of the Workforce Innovation and Opportunity Act, Public Law113–128—July 22, 2014, 128 STAT. 1520, 29 USC 3174.

1. **Create a job seekers' allowance**. Current support for unemployed jobseekers on Unemployment Insurance extends only to workers who were employed sufficiently in the past to qualify for UI benefits and were laid off. A new job seekers' allowance would provide a cash stipend for unemployed workers who either do not have a work history sufficient to receive UI benefits or have exhausted their UI benefits, while they actively seek paying jobs.[162]

2. **Increase access to transitional jobs**. The current program provides transitional jobs only to unemployed workers in certain situations. Funding is also insufficient to offer paid employment to the millions of unemployed and underemployed U.S. adults who, especially during periods of high unemployment, are unable to obtain paying jobs in the regular labor market. The transitional jobs program might be expanded, both in eligibility and resources, to be made available for any individual in need of work or experience.[163]

3. **Increase funding and opportunities for job training.** The primary legislation for directing funding to worker training is the WIOA. WIOA funds a variety of programs, including Job Corps,[164] to train workers, primarily those who meet specific qualifications of need.[165] Larger investments in career and technical education (CTE)[166] and job training may improve the ability of the U.S. workforce to adapt to an evolving labor market and, in doing so, improve wages and worker outcomes.

[162] This sort of program is modeled after the United Kingdom's Jobseeker's Allowance. *Strengthening Unemployment Protections in America* outlines the creation of jobseeker's allowance in the U.S., who such a program would target, and how it might be implemented (West et al. 2016).
[163] Federal legislation to carry this option out was introduced in 2021 as the "Jobs for Economic Recovery Act" by Danny Davis (D-IL) in the House and by Ron Wyden (D-OR) in the Senate.
[164] "Job Corps is the largest nationwide residential career training program in the country and has been operating for more than 50 years. The program helps eligible young people ages 16 through 24 complete their high school education, trains them for meaningful careers, and assists them with obtaining employment. Job Corps has trained and educated over two million individuals since 1964" (*What Is Job Corps*, U.S. Department of Labor).
[165] *The Workforce Innovation and Opportunity Act and the One-Stop Delivery System* outlines the many avenues through which WIOA funds workforce development activities (Bradley 2015, Congressional Research Service).
[166] CTE, also known as vocational education, focuses on equipping students with skills that translate more directly to the labor market. Catherine Gewertz discusses CTE in *Education Week*. Brunner et al. 2019 state that there is "increasing evidence that high-quality CTE programs in high school are actually complements—they can improve high school completion, employment, and earnings, all while not sacrificing general learning outcomes." Their research found a 10 percentage point increase in graduation rates and a 30 percent increase in quarterly earnings for participants in CTE high schools in Connecticut, though all positive impacts accrued to males.

Benefit Policy

Benefit policy spans the spending and tax programs that increase individual income. The two main types of programs on the spending side are social assistance programs and social insurance programs. Social assistance programs are typically financed through general revenue, take the form of cash or in-kind benefit, and are directed at low-income, low- and middle-income, or otherwise economically insecure populations. Social insurance programs are typically contributory programs in which individuals earn eligibility through insurance contributions—made by them or on their behalf—and then later claim benefits when experiencing an insured event.[167]

The three main types of benefits on the tax side are tax credits, tax deductions, and tax exemptions.[168] These tax policies—designed to achieve a social purpose—are broadly grouped together as tax expenditures.[169] This report differentiates tax policy from tax expenditure policy and focuses on the latter. Tax policy encompasses the rates applied to taxable income from which an individual's or entity's tax liability is calculated. Tax expenditure policy relates to exceptions that reduce tax liability to promote certain social outcomes.

Two key tensions lie at the heart of benefit policy: 1) determining who should benefit and when, while considering how to prevent or ameliorate economic insecurity but not discourage work and economic self-sufficiency; and 2) determining the cost of providing benefits to a given population to prevent or ameliorate economic insecurity, and whether a more cost-effective way to do so is available.

---

[167] The Academy's *Report to the New Leadership and the American People on Social Insurance and Inequality* draws on Robert M. Ball's nine guiding principles to define social insurance (see pages xxi–xxii). In broad strokes, the benefits of social insurance programs tend to be more strongly based on and linked to one's work history and one's earnings history than those of social assistance programs. A vast majority of a nation's population is covered by social insurance programs, whereas a much smaller portion tends to be eligible for social assistance programs.
[168] The Tax Foundation defines these terms as follows:
"A tax credit is a provision that reduces a taxpayer's final tax bill, dollar-for-dollar. A tax credit differs from deductions and exemptions, which reduce taxable income, rather than the taxpayer's tax bill directly."
"A tax deduction is a provision that reduces taxable income. A standard deduction is a single deduction at a fixed amount. Itemized deductions are popular among higher-income taxpayers who often have significant deductible expenses, such as state/local taxes paid, mortgage interest, and charitable contributions."
"A tax exemption excludes certain income, revenue, or even taxpayers from tax altogether. For example, nonprofits that fulfill certain requirements are granted tax-exempt status by the IRS, preventing them from having to pay income tax."
Page 3 of Sammartino and Toder 2020 goes into more detail about the various forms of tax expenditures.
The IRS lists the various tax credits and tax deductions available to both individuals and businesses on its website.
[169] See *An Overview of Tax Expenditures* for more information about the significance of tax expenditures in the U.S. (Bipartisan Policy Center, 2018).

Policy	Options
Social Assistance Programs	
Improve eligibility design for means-tested spending programs ←→ *Equity Policy*	1. End the use of asset tests in eligibility for those means-tested programs in which they remain. 2. Raise the asset-test threshold and design a phase-out of benefits when the asset test is met. 3. Prohibit the use of behavior disqualifications in all means-tested programs. 4. Allow more documented immigrants to access means-tested programs.
Update Supplemental Nutrition Assistance (food stamps)	1. Automatically increase SNAP benefits for families with children during summer months while school is not in session. 2. Expand allowable purchases and enable families to afford a more nutritious diet. 3. End the time limit for nondisabled adults without dependents.
Update Supplemental Security Income (SSI)	1. Increase the monthly SSI benefit to at least the federal poverty level. 2. Update the earned and unearned income disregards. 3. Eliminate or reform the one-third benefit reduction for "in-kind support and maintenance." 4. Extend the benefit phase-out for earnings to more effectively support beneficiaries attempting to return to work. 5. Eliminate marriage penalties. 6. Extend SSI eligibility to qualifying residents of U.S. territories.
Create a universal income base (UIB) for all adults[170] ←→ *Equity Policy*	1. Create a UIB for all adults. 2. Subject the UIB to income taxation. 3. Exempt the UIB from the income amount used to determine eligibility for other programs. 4. Index the UIB to growth in the average or median wage.
Social Insurance Programs	
Expand Social Security Old-Age, Survivors, and Disability Insurance (OASDI)	1. Update the special minimum benefit and index it to the average or median wage. 2. Increase all benefits (progressively) by increasing the rate at which first dollars of earnings are replaced. 3. Increase benefits for the oldest beneficiaries. 4. Eliminate the five-month waiting period for disability insurance benefits. 5. Eliminate the 24-month waiting period for Medicare coverage following receipt of disability insurance benefits. 6. Improve work incentives for individuals receiving disability benefits by increasing substantial gainful activity thresholds and phasing out benefits more gradually.

[170] The UIB is classified as a social assistance program because, although its universality is unique in comparison to other social assistance programs, its core goal is to provide income stability to low- and middle-income households. At higher incomes, a large portion of the benefit will be taxed back.

	7. Address program needs of people receiving disabled adult child (DAC) benefits. 8. Change the calculation of spousal and widow(er) benefits. 9. Restore the student benefit for college-age children.
Improve OASDI financing	1. Increase the Social Security insurance contribution (“FICA”) rate. 2. Increase or eliminate the maximum taxable wage base for Social Security. 3. Treat at least some 1099 workers more like W-2 workers for purposes of Social Security contributions. 4. Dedicate a new source of progressive revenue to Social Security.
Reform Unemployment Insurance (UI) ←→ *Labor Policy*	1. Overhaul the data-reporting architecture and create new performance measures for states regarding benefit levels, eligibility, and receipt rates. 2. Implement federal standards for benefit levels, eligibility requirements, state tax rates, and state tax bases. 3. Explore the cost and benefits of fully federalizing the UI tax and benefit systems. 4. Bring independent contractors and the self-employed permanently into the UI system. 5. Include Short-Time Compensation in every UI system.
Improve caregiving supports ←→ *Equity Policy*	1. Establish a state-administered paid family and medical leave system under federal guidelines. 2. Create a federal paid family and medical leave program. 3. Establish a state-administered long-term care system under federal guidelines. 4. Create a federal long-term care program. 5. Significantly increase investments in childcare.
Tax Credits	
Update the Earned Income Tax Credit (EITC)	1. Increase benefit size and eligibility for workers without dependents at home. 2. Increase benefit size for workers with dependents at home. 3. Phase the credit in faster. 4. Allow workers without children at home ages 19–24 and those ages sixty-five and older to claim the credit. 5. Allow independent students to claim the credit.
Update the Child Tax Credit (CTC)	1. Increase the value of the CTC per child. 2. Provide a larger credit to families with very young children. 3. Remove the minimum-earning threshold and make the credit fully refundable. 4. Pay out the CTC monthly. 5. Exclude the refundable credit from income in determining transfer program eligibility for means-tested programs
Implement a negative income tax (NIT)	1. Create a negative income tax (NIT) indexed to the average or median wage. 2. Update the EITC to harmonize with the NIT.

The first type of benefit policy is social assistance programs, sometimes called transfer programs, which provide cash and in-kind benefits to households below specified income levels, paid out from general revenue.[171] *The programs for which this report discusses specific policy options are:*

- *Supplemental Nutrition Assistance (SNAP); and*
- *Supplement Security Income (SSI).*

Low-Income Home Energy Assistance Program (LIHEAP),[172] *Medicaid,*[173] *and Temporary Assistance to Needy Families (TANF)* [174] *have overlap with SNAP and SSI recipient populations, and this report discusses these programs in that limited regard.*

Improve eligibility design for means-tested spending programs

A program is said to be "means tested" if the program conditions eligibility for benefits on having low enough income and, in some cases, assets. Demonstrating eligibility for benefits often requires more than simply proving that one's income is sufficiently low.

First, most programs are intended for specific populations within the broader category of low- to middle-income individuals. For example, SNAP benefits are intended to supplement the food budget of low-income families. In practice, benefits are often targeted toward families with dependents, people with disabilities, adults over 49 years of age, and low-income people ages 18–49 who are working.[175,176] SSI is intended for low-income elderly, blind, and disabled individuals. Directing benefits to specific groups allows policy makers to target populations deemed most in need and maintains strong work incentives for those deemed most capable and apt for labor market participation.

---

[171] Increases in spending warrant increases in tax revenue, which we discuss in the finance section of the report.

[172] See *Low Income Home Energy Assistance Program (LIHEAP)* (Department of Health and Human Services (DHHS)) and *LIHEAP: Program and Funding* (Congressional Research Service (CRS) 2018).

[173] See *Medicaid.gov*, *Policy Basics: Introduction to Medicaid* (Center for Budget and Policy Priorities (CBPP) 2020), and *Medicaid Primer* (CRS 2020).

[174] The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) ended cash entitlement for welfare for very low-income families and replaced it with TANF. Rather than individuals qualifying for a benefit based on income and family situation, states are sent a block grant of funds to spend on cash assistance to low-income families *or* on any program that meets the overall goal of the legislation of encouraging work, encouraging marriage, and reducing out-of-wedlock births.
This report does not include TANF as a benefit policy because the program design is not conducive to assuring income on a federal basis, and it does a poor job of assuring income on a state basis; only 23 percent of families in poverty in 2019 received TANF cash assistance (CBPP 2021). For more, see *What Is TANF?* (DHHS), *Policy Basics: Temporary Assistance for Needy Families* (CBPP 2021), and *The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions* (CRS 2021). Falk 2017 details the low portion of TANF beneficiaries who receive cash assistance.

[175] These individuals are termed "able-bodied adults without dependents," or ABAWDs. That phrasing, however, can be considered pejorative for individuals with disabilities, and it incorrectly implies that disabilities are only physical. See *SNAP Work Requirements* (U.S. Department of Agriculture (USDA)).

[176] In fiscal year 2018, 67.1 percent of SNAP beneficiaries were in households with children, 15.7 percent of beneficiaries were in households with "elderly individuals," 18.6 percent of beneficiaries were in households with non-elderly individuals with disabilities, and 8.1 percent of beneficiaries were adults ages 18–49 without recognized disabilities and in childless households. Overlap between households with children and with elderly individuals is not clear, and overlap in households with non-elderly individuals with disabilities and other households is not clear (Cronquist 2019. Table A.1, p. 41).

Second, historically, federal means-tested programs had asset as well as income tests.[177] These asset tests were designed to ensure that only those with the least resources would qualify for benefits. Unfortunately, asset tests also discourage those receiving the program's benefits from saving, or they create incentives for those trying to use the program to hide or dispose of their assets.[178] Over time, the deleterious consequences of asset limits have been recognized, and many programs have eliminated asset tests or greatly reduced their use, but some asset tests remain. SSI has an asset test determined solely by the federal government. SNAP and TANF have asset tests set by the federal government, but states can remove or amend them, and many have done so.[179]

Third, in the 1996 welfare overhaul legislation, the federal government issued two sweeping ineligibility measures for federal social assistance programs: Any individual with a felony drug conviction[180] and certain categories of immigrants[181] would no longer be eligible for benefits. In the time since, states have moved in two directions. Many fully or partially opted out of the felony restrictions, and the federal government has eased, but not eliminated, the immigrant

---

[177] SSI is the largest program that continues to have and apply asset tests in every state. Many means-tested programs that once had asset tests either no longer have them or do not apply them. Medicaid for families with children, the CTC, CHIP, WIC, and rental assistance, for example, do not have asset tests. Most states have eliminated asset testing in SNAP.
A straightforward example of an asset test would be "you must have less than $2,000 in your checking account/cash in order to qualify for…." Programs differ in what they consider assets and what resources are exempt from counting as assets. Typically, at least one car is exempt and the value of one's home (up to a limit) is exempt.
[178] McDonald et al. 2005 review the literature on the impact of asset tests on savings, and they state that "both theory and the available evidence suggest that this disincentive can reduce and distort saving among moderate- and lower-income families." Chen and Lerman 2005 acknowledge the role that asset tests play in targeting benefits to those with the least resources and lowest incomes, while drawing a similar conclusion from existing literature: "In general, the studies find that asset limits lower the net worth of potentially eligible low-income individuals and families."
[179] Grehr 2018 finds that "states that have eliminated asset limits have found that the resulting administrative cost savings significantly outweigh any increase in the number of families receiving benefits."
A 2017 issue brief by The Pew Charitable Trusts found that, although lifting asset tests does not significantly increase savings among benefit-eligible populations, a number of positive effects were associated with lifting asset tests. Benefit-eligible households in states without asset tests were more likely to have a checking or savings account, and those in states with eliminated or relaxed vehicle limits were more likely to own a vehicle and to have liquid/semi-liquid assets exceeding $500. The Pew brief also reports that lifting asset tests does not yield increased administrative costs or caseload growth. The most recent information on asset tests for program eligibility is produced by the Prosperity Now Scorecard.
[180] Mauer and McCalmont 2013 discuss the 1996 legislation and its impact on individuals with drug felony convictions, as do Mohan et al. 2017. Polkey 2019 provides the most recent data on the degree to which each state continues to ban this group from receiving SNAP benefits. The Network for Public Health Law released a two-part issue brief in 2020, exploring both the public health consequences of the eligibility ban for individuals with felony drug convictions and how states have reacted to the federal ban.
[181] Broder et al. 2015 explain how the 1996 legislation altered the eligibility status of many immigrants who were potential future beneficiaries of SNAP, TANF, and other federal and state programs. Immigrants who were already benefiting at the time the legislation was enacted did not have their eligibility rescinded. The National Immigration Law Center provides a general overview of immigrant eligibility for federal programs and a more specific body of resources on changes to immigrant eligibility. The National Immigration Forum created a frequently asked questions document in 2018 with regard to immigrants and access to public benefits.

restrictions. Some states, however, have added other behavior disqualifications such as drug tests, particularly in TANF.[182]

Options:
1. **End the use of asset tests in eligibility for those means-tested programs in which they remain.** This change would eliminate remaining state assets tests in SNAP[183] and Medicaid[184] and end federal and state use of asset tests in SSI[185] and LIHEAP.[186]

2. **Raise the asset-test threshold and design a phase-out of benefits when the asset test is met.** Rather than prohibit the use of asset tests, this policy would improve their design. In SSI, for example, asset tests limits are $2,000 for a person and $3,000 for a couple; the limit for couples is 1.5 times the limit for individuals if both are recipients. These limits were set in 1984, fully phased in by 1989, and have since greatly eroded in value.[187] An increased asset threshold could be accompanied by a benefit phase-out, assuming the administrative feasibility of such a policy.

If the program sets a benefit "cliff," in which an additional dollar of savings results in a total loss of benefits, recipients are encouraged to keep savings below the cutoff. A phase-out softens this disincentive.[188] Policy makers should think carefully about what sort of phase-out best

---

[182] Thompson 2019 explores the recent uptick in the number of states subjecting potential beneficiaries of TANF and other public programs to various forms of drug screening. A 2016 USDA report lays out various potential "modified bans" for those with drug felonies. These restrictions include "1) limiting the circumstances in which the permanent disqualification applies (such as only when convictions involve the sale of drugs); 2) requiring the person convicted to submit to drug testing; 3) requiring participation in a drug treatment program; and/or 4) imposing a temporary disqualification period."
[183] Thirty-five states and Washington, DC, have already removed the asset limit for eligibility for SNAP. Three states—Idaho, Indiana, and Texas—have raised their asset limit to $5,000, and Michigan and Nebraska have limits of $15,000 and $25,000, respectively. Of the forty states with increased or removed asset limits, sixteen impose asset limits of $3,500 on households with seniors or people with disabilities and gross income exceeding 200 percent of the poverty threshold.
[184] While Medicaid removed asset tests for low-income families including pregnant women in 2014, asset tests still exist for the income-poor sixty-five and older population and people with disabilities. This asset test is especially relevant to the extent that many in these groups qualify for Medicaid via SSI, which continues to have the most prohibitive asset test. Individuals with especially high health care costs might also qualify for Medicaid, though these individuals are also subject to the asset limit. To qualify, they must "spend down" their countable assets.
[185] The Social Security Administration outlines the existing asset test for SSI, including what resources do and do not count as assets and how beneficiaries may save some resources via a "Plan to Achieve Self Support (PASS)" and an "Achieving a Better Life Experience (ABLE)" account.
[186] In fiscal year 2021, eleven states continued to use asset tests to limit eligibility for LIHEAP (see DHHS 2021).
[187] Had the asset tests for individuals and couples in SSI kept pace with CPI-U inflation since 1989, they would have been $4,320 and $6,480 respectively in January 2021. Had they kept pace with inflation since they were implemented at $1,500 for individuals and $2,250 for couples in 1974, they would have been $8,420 and $12,630 in January 2021.
[188] The ASSET Act, sponsored by TJ Cox (D-CA) in the House and by Christopher Coons (D-DE) in the Senate in 2020, would prohibit asset tests in TANF, SNAP, and LIHEAP, while increasing limits in SSI to $10,000 and $20,000 for individuals and couples, respectively, and indexing them to inflation.

incentivizes asset accumulation and the administrative difficulties of closely tracking asset levels.[189]

3. **Prohibit the use of behavior disqualifications in all means-tested programs.** This policy would reverse the federal drug felony ban and prohibit states from enacting similar or related policies.

4. **Allow more documented immigrants to access means-tested programs.** This policy would reverse the immigrant disqualification from certain benefits and prohibit states from enacting similar or related policies.[190] Some states have taken steps in this direction; this policy would remove such disqualifications as a federal rule. One of the consequences of immigrant restrictions is to deter eligible individuals from applying for benefits. Many individuals live in mixed-status families, where the immigration status varies by person, and immigrant disqualification leads to a "chilling" effect, causing eligible immigrants and citizens to be reluctant to apply.[191]

Update Supplemental Nutrition Assistance [192]

SNAP benefit amounts are based on the Thrifty Food Plan[193] produced by the U.S. Department of Agriculture.[194] Total SNAP benefits awarded to a household vary by the number of people in it.[195]

Prior to the enactment of the American Rescue Plan Act of 2021 (ARP) and the COVID-19 relief package enacted in December 2020, maximum SNAP benefits for an individual in 2021 were set to provide $204 per month and decline per individual with each additional family member. This

---

[189] One type of phase-out might decrease benefits by 8.33 percentage points per month when one exceeds the asset threshold, thus completely phasing out when one has exceeded the threshold for twelve months. Another might decrease benefits as one's asset levels further exceed the threshold, completely phasing out when one has doubled the asset limit.

[190] The federal government also excludes most immigrants from eligibility for SSI. Immigrant restrictions were intensified with the passing of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (Title V, Subtitle A, Sec. 501).

[191] The Center for American Progress, using data from 2010 to 2014, found that almost 10.75 million individuals in the U.S. share a household with an undocumented immigrant. Twersky 2019 does not find evidence of a chilling effect in SNAP in the early 2000s but does observe a lower likelihood of SNAP enrollment among immigrant families relative to "native-born" families. The implementation of the "public charge" rule—which allows for immigrant applications for admission and residency in the U.S. to be denied on the basis of having received public benefits in the past and on the basis of whether one is deemed likely to receive public benefits in the future—in February 2020 has immediately renewed the conversation around chilling effects. Early data analyses from The Urban Institute show that, between 2018 and 2019, the portion of adults in benefit-eligible immigrant families with at least one nonpermanent resident that experienced a chilling effect (i.e., did not enroll in public benefit programs out of fear of immigration consequences) increased from 21.8 percent to 31.0 percent. Capps 2020 discusses the findings of the report and interviews its lead author.

[192] See *Supplemental Nutrition Assistance Program (SNAP)* (USDA) and *Policy Basics: The Supplemental Nutrition Assistance Program (SNAP)* (CBPP 2019).

[193] USDA, Center for Nutrition Policy and Promotion. *Thrifty Food Plan, 2006*.

[194] See Carlson 2019 for a discussion of the Thrifty Food Plan and why it fails to meet the needs of low-income households.

[195] Center on Budget and Policy Priorities. 2020. *A Quick Guide to SNAP Eligibility and Benefits*.

benefit calculation came out to $6.71 per day for a household of one receiving maximum benefits. For a household of five, the maximum benefit drops to $5.31 per day per individual.

With the enactment of the ARP, the 15 percent increase in SNAP benefits enacted by the December 2020 COVID-19 relief package extended through September 2021.[196] Furthermore, many states provided "emergency allotment" benefits of at least $95 per household per month through the early summer of 2021.[197]

Researchers have found that families receiving SNAP vary their nutrition and caloric intake throughout the month as they receive, use, and then wait for additional benefits. This monthly fluctuation in food security has been shown to have a wide range of negative effects, from reducing child health to adversely affecting children's academic performance.[198]

Effective October 2021, the Thrifty Food Plan—on which SNAP benefits are based—was reevaluated by the USDA, resulting in a 21 percent increase in maximum SNAP benefit amounts and a 27 percent increase in the average SNAP benefit.[199] This change comes out to a $12–$16 increase per person per month. The change will go a long way in reducing the "SNAP shortfall," which was estimated to be $10–$20 per person per month as of 2015.[200]

Eligibility for SNAP is a three-part test of gross income, net income, and, in some states, assets. Gross income must be at or below 130 percent of the poverty line (except for households with an elderly member), net income must be at or below 100 percent of the poverty line, and in ten states[201] liquid assets (such as cash in a bank account) must be below a certain amount, typically $2,250 for a household without an elderly or disabled member. These income and asset tests often are not required, however, if individuals have "broad-based categorical eligibility" because they are currently enrolled in TANF, SSI, or state-run general assistance programs. In addition, individuals without dependent children who do not have a disability are only eligible for three months of SNAP while unemployed or working less than twenty hours a week in a three-year period, unless they are enrolled at least half-time in an approved work or training program or live in an area of elevated unemployment and their state has secured a waiver from the time limit for the area.[202]

Options:

---

[196] Center on Budget and Policy Priorities. 2021. *States Are Using Much-Needed Temporary Flexibility in SNAP to Respond to COVID-19 Challenges*.

[197] Food and Nutrition Service. 2021. *SNAP COVID-19 Emergency Allotments Guidance*. U.S. Department of Agriculture.

[198] Gassman-Pines and Bellow 2018 find a statistically significant relationship between students' test scores and the recency of a SNAP benefit transfer. Gennetian et al. 2016 find that students in Chicago public schools that receive SNAP benefits are more likely to commit "disciplinary infractions" at the end of the month than nonrecipients.

[199] USDA, Food and Nutrition Service. 2021. *SNAP Benefit Changes: October 1, 2021*.

[200] The Urban Institute finds that the average per meal SNAP benefit fell $0.50 short of the average cost per meal in 2015. Over a month, this shortfall comes to $46.50, or just over $10 per week per person. For those eligible for SNAP in the "ten percent of counties with the highest average meal cost, the monthly shortfall is $82.04 per person," or roughly $20 per week per person.

[201] See footnote 183.

[202] Center on Budget and Policy Priorities. 2020. *A Quick Guide to SNAP Eligibility and Benefits*.

1. **Automatically increase SNAP benefits for families with children during summer months while school is not in session, beyond 2021.** For families whose children are on free and reduced meals at school, their food budget needs increase in the summer. One proposal is to increase SNAP benefits by 50 percent for the summer months.[203]

The ARP provided corresponding benefits to families for any meals missed by children when schools were closed, including during the summer months of 2021.[204]

2. **Expand allowable purchases and enable families to afford a more nutritious diet**. SNAP benefits may be used to purchase most food items, except prepared foods for immediate consumption and hot foods (anything like takeout).[205] Increased flexibility in spending choices would make SNAP benefits more like cash, and in doing so better offset the costs of nutrition for low-income households.

This proposal would expand the allowable foods and provide further incentives for healthy food purchases.[206]

3. **End the time limit for nondisabled adults without dependents.** Currently, adults ages 18–49 who do not have dependents and do not have a disability that qualifies them for Medicaid or SSI are subject to a three-month time limit on receiving SNAP during any three-year period unless they report twenty hours of work per week. Eliminating SNAP's time limit would enable unemployed and underemployed workers to continue to receive food assistance whether or not they are able to find steady work.

Update Supplemental Security Income[207]

SSI is a cash benefit awarded to individuals with very low income and assets who are elderly, blind, or disabled. In 2021, the maximum federal SSI benefit for an individual was $794 per month.[208]

As of 1980—six years after its initial implementation—the majority of recipients were ages sixty-five and older; today, most SSI recipients are younger than sixty-five and disabled.[209] For almost 60 percent of recipients, SSI benefits are their only source of income.[210] Current benefits

---

[203] In the summer of 2018, only 13.1 percent of children who received free and reduced-price school lunches participated in a summer food service program (Children's Defense Fund, Table 12). Nord and Romig 2007 found higher levels of food insecurity, especially among households with children, during the summer months.
[204] U.S. Department of Agriculture. 2021. *Help to Put Food on the Table: Facts on Nutrition Assistance in the American Rescue Plan*.
[205] U.S. Department of Agriculture, Food and Nutrition Service. 2020. *What Can SNAP Buy?*
[206] The Bipartisan Policy Center's 2018 report titled *Leading with Nutrition: Leveraging Federal Programs for Better Health* lays out options to change SNAP to emphasize better nutritional outcomes. Two specific recommendations include eliminating the purchase of sugar-sweetened beverages and strengthening incentives to purchase fruits and vegetables.
[207] See *Supplemental Security Income Home Page—2020 Edition* (SSA 2020), *Policy Basics: Supplemental Security Income (SSI)* (CBPP 2021), and *Supplemental Security Income (SSI)* (CRS 2020).
[208] Social Security Administration. 2021. *SSI Federal Payment Amounts For 2021*.
[209] Congressional Budget Office. 2012. *Supplemental Security Income: An Overview*. Figure 2.
[210] Social Security Administration. 2020. *SSI Annual Statistical Report, 2019*. Table 9.

are calculated as a monthly amount. Monthly unearned and earned income reduce that monthly benefit, after initial disregards.[211]

Options:
1. **Increase the monthly SSI benefit to at least the federal poverty level.** The current maximum monthly federal benefit is well below the poverty level.[212] One proposal is to increase SSI benefits to the federal poverty level. A level increase in federal SSI benefits and continued annual inflation adjustments—currently achieved using the CPI-W, the price index for urban wage earners and clerical workers—would improve living standards for some of the most financially insecure populations and keep benefits at a relevant level over time.

2. **Update the earned and unearned income disregards**. In general, SSI benefits phase out as a person's income from other sources increases above certain thresholds. Currently, SSI recipients can receive a combined total of $85 per month in earned and unearned income without experiencing a reduction in benefits. This proposal would increase both the earned income and unearned income disregards. One proposal is to update both disregards annually with inflation. Another proposal would tie the disregards to a multiple of the minimum wage for a full-time worker. For instance, an allowance of 160 (hours) times the minimum wage per month would allow four weeks of full-time work without benefit reductions.[213]

3. **Eliminate or reform the one-third benefit reduction for "in-kind support and maintenance."** Currently, SSI beneficiaries see meager benefits reduced by one-third if they are considered to be receiving help paying for food or shelter.[214] Eliminating this one-third reduction would increase benefits for many of the most financially insecure SSI beneficiaries.

4. **Extend the benefit phase-out for earnings to more effectively support beneficiaries attempting to return to work.** Currently, for every dollar of earned income above a threshold amount, an SSI recipient loses 50 cents in benefits, a 2:1 ratio. An extended benefit phase-out would change the benefit loss to a 4:1 or 5:1 ratio to encourage and permit work.

5. **Eliminate marriage penalties.** Currently couples in which both individuals are SSI beneficiaries see benefits reduced by 25 percent if they marry.[215] SSI beneficiaries who marry non-SSI beneficiaries can lose benefits altogether due in large part to the program's asset limits,

---

[211] SSA 2020 states that "the first $65 of earnings and one-half of earnings over $65 received in a month" are not counted as income for SSI, and that they "subtract your 'countable income' from the SSI Federal benefit rate." SSI also allows a $20 exemption for unearned income, which may be counted against earned income if one does not have $20 in unearned income. In other words, after $85 in earnings (if one has no unearned income), for every dollar a beneficiary earns, 50 cents are subtracted from their benefit. While earned income above the threshold is deducted at 50 cents per dollar earned, unearned income exceeding the threshold is offset dollar for dollar.
[212] In 2021, the annual federal poverty level for a household of one was $12,880, or $1,073 per month. The maximum individual federal SSI benefit in 2021 of $794 per month was only 74 percent of monthly poverty level income.
[213] For purposes of illustration, in 2021, with a federal minimum wage of $7.25, this change would allow for roughly $1,257 of individual earnings per month prior to benefit reductions ($7.25 per hour × 40 hours of work per week × 4.33 weeks per month).
[214] Social Security Administration. 2021. *Understanding Supplemental Security Income Living Arrangements*.
[215] Social Security Administration. 2021. *SSI Federal Payment Amounts for 2021*.

which include spousal assets. Eliminating the benefit reduction for married couples receiving SSI and eliminating or increasing asset limits would extend marriage equality to SSI beneficiaries and better assure that the most financially insecure populations have a meaningful, steady stream of income.

6. **Extend SSI eligibility to qualifying residents of U.S. territories.** Under current law, residents of American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands are ineligible for SSI, even if they are U.S. citizens or documented U.S. immigrants. Guam, Puerto Rico, and the U.S. Virgin Islands have programs that provide benefits to the same populations, but the benefits are small compared to what SSI would offer.[216] American Samoa has no such programs.[217] This option was proposed in the Build Back Better legislation of 2021.[218]

Create a universal income base (UIB) for all adults[219]

An adult cash benefit program would provide a modest but reliable amount of income to every adult each month, regardless of income, assets, disability status, criminal record, and the many other criteria often used to determine program eligibility in the U.S. This concept recognizes that the need for income stability and support extends beyond categories of individuals and that, for many individuals, periods of low or very low income happen sporadically. It also allows people to choose how to use their resources, without having to establish need or eligibility, and frees them from having to account to the government for how funds may be used. A universal cash benefit providing adequately for all individuals' needs is not, however, financially feasible without major new revenue sources or rearranging the current safety net.[220] In addition, very high benefits might raise concerns about work disincentives.

A cash benefit flowing to all adults creates the infrastructure for Congress to respond quickly to economic shocks that require relief—for example, increasing the UIB in regions affected by natural disasters or efficiently and quickly providing a stimulus during recessions. An alternative approach to a UIB, a negative income tax, is outlined later in this section in the context of tax credits.

Options:
1. **Create a UIB for all adults.** A universal cash benefit program would help individuals in current economic need and/or would support savings for future needs. The UIB would be a

---

[216] In 2011, Puerto Rico's Aid to the Aged, Blind, or Disabled program provided benefits to 34,401 individuals per month. The Government Accountability Office finds that "average monthly participation in SSI would have ranged from 305,000 to 354,000" if residents were eligible.
Government Accountability Office. 2014. *Information on How Statehood Would Potentially Affect Selected Federal Programs and Revenue Sources*. GAO-14-31, p. 78.
[217] Congressional Research Service. 2021. *Proposed Extension of Supplemental Security Income (SSI) to American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands*. IN11793.
[218] Balmaceda, Javier. 2021. *Build Back Better Permanently Extends Economic Security to Puerto Rico and Other Territories*. Center on Budget and Policy Priorities.
[219] See *Assured Income* (NASI 2019).
[220] The UIB should not be confused with the universal basic income (UBI). The former aims to provide a small cash *base* of income, but not one that could reasonably be expected to fill all basic needs. The latter is a larger benefit that would require significant increases in government spending or the elimination of large parts of the existing safety net so that the monthly benefit would provide enough income to meet a "basic" standard of living.

modest monthly amount to provide a floor but not meet, or be intended to meet, adequacy standards, such as $200 a month.

2. **Subject the UIB to income taxation.** Taxing UIB payments would "claw back" some of the benefit for higher income households. For example, when filing tax returns each year, individuals might be allowed to opt out of future UIB payments, transfer UIB payments to a savings account, or automatically transfer the UIB payments to a charity. The Alaska Permanent Fund operates similarly.[221]

3. **Exempt the UIB from the income amount used to determine eligibility for other programs.** The benefit would not be counted as income for SNAP or SSI, for example. This exemption ensures that the payment adds to economic security and does not create perverse disincentives, as discussed in the context of other programs.

4. **Index the UIB to growth in the average or median wage.** Indexing the UIB payment would ensure that the benefit automatically increases each year.

The second type of benefit policy consists of social insurance programs, which provide benefits to workers who have earned eligibility for the program for themselves and their dependents through their prior work history. Unlike other types of benefit policy, including from the tax system, social insurance benefits are often financed from contributions (FICA, or Federal Insurance Contributions Act payments) maintained in separate trust funds.

Although the retirement benefit is often referred to as "Social Security," [222] *that benefit simply addresses the most common risk that results in insured benefits. The other risks are death and disability. Another program of social insurance, created by the same 1935 legislation, is Unemployment Insurance.* [223] *Workers' compensation is not discussed here due to its unique existence as a purely state-run social insurance program. Since the National Commission on State Workmen's Compensation Laws of 1972 gathered and issued its landmark report, however, calls to establish federal minimum standards have periodically been raised.*[224]

---

[221] Alaska 529 allows for Alaskans to contribute their permanent fund dividend directly to a tax-advantaged savings account for educational expenses. Pick. Click. Give. allows for Alaskans to donate their dividend to charities and causes within their state. More information about the dividend and the Permanent Fund can be found on Alaska.gov.
[222] See *Old-Age & Survivors Insurance Trust Fund* (SSA), *Social Security Benefits, Finances, and Policy Options: A Primer* (NASI 2020), and *Social Security Primer* (CRS 2020).
[223] See *Unemployment Insurance* (U.S. Department of Labor), *Policy Basics: Unemployment Insurance* (CBPP 2021), and *Unemployment Insurance: Programs and Benefits* (CRS 2019).
[224] Although workers' compensation remains a state-run program, the National Commission on State Workmen's Compensation Laws—which was established by the Occupational Safety and Health Act and whose members were appointed by President Nixon—submitted its report in 1972 indicating that "State workmen's compensation laws in general are inadequate and inequitable." The report made eighty-four recommendations to improve state workers' compensation programs and designated nineteen of these as "essential and particularly suitable for Federal support to guarantee their adoption." The Commission called on Congress to guarantee compliance with the nineteen essential recommendations by July 1, 1975, after an evaluation of state compliance. As of 2021, no federal oversight or federal legislation to regulate state workers' compensation programs exists. The CRS report *Workers' Compensation: Overview and Issues* summarizes the work of the National Commission and ensuing changes to state

Medicare was signed into law in 1965 as the country's foundational social insurance program for health care.[225]

Expand Social Security Old-Age,[226] *Survivors, and Disability Insurance*[227]

Individuals earn eligibility for Old Age, Survivors, and Disability Insurance (OASDI) by working in covered employment and making contributions that are deducted from their earnings, as authorized by the Federal Insurance Contributions Act (FICA). Their contributions are matched by equal contributions made by their employers. Earnings are subject to the contribution for Social Security up to a maximum, $142,800 in 2021. These earnings are used to calculate benefits.[228]

Individuals born after 1959 have a statutorily defined full "retirement age" of sixty-seven years old.[229] Benefits are calculated from their earnings history and are based on the highest thirty-five years of earnings.[230] The formula is progressive, meaning that individuals with a lower lifetime income have a higher replacement rate than individuals with higher lifetime income.[231] The last

---

policy. It notes progress with regard to the Commission's recommendations in the initial years after its work, followed by a rolling back of benefits and eligibility beginning in the 1990s. As of 2015, a ProPublica analysis done in consultation with the National Commission's chairman, John F. Burton Jr., noted that only seven states follow more than fifteen of the Commission's nineteen essential recommendations. A 2018 analysis by Elliot Schreur for the Workers' Injury Law and Advocacy Group found that every state follows at least eight of the nineteen essentials; twenty-nine states follow twelve or fewer, and twenty-one states follow thirteen or more.
The Academy publishes an annual report on the benefits, costs, and coverage of workers' compensation programs in the U.S. For a summary of workers' compensation laws by state, see Appendix D (p. 94) of the 2020 report.

[225] The Academy's 2020 report *Examining Approaches to Expand Medicare Eligibility: Key Design Options and Implications* explores in detail how policy makers might adapt Medicare to cover more individuals in the U.S. to make health care less of a cost burden for more households.

[226] See *Old-Age & Survivors Insurance Trust Fund* (SSA), *Social Security Benefits, Finances, and Policy Options: A Primer* (NASI 2020), and *Social Security Primer* (CRS 2020).

[227] See *Disability Insurance Trust Fund* (SSA) and *Policy Basics: Social Security Disability Insurance (SSDI)* (CBPP 2020).

[228] Social Security Administration. 2021. *Contribution and Benefit Base.*

[229] Congress raised the full retirement age to sixty-seven for all individuals born in 1960 and later. A full retirement age of sixty-five applies to individuals born before 1938, and a full retirement age of sixty-six for individuals born between 1943 and 1954. All other birth years reach full retirement at two-month increments in between the whole-number ages (SSA 1983).

[230] To qualify for Social Security benefits, an individual must have at least forty "quarters of coverage," or "credits." In 2021, one credit is received per $1,470 of covered earnings up to a maximum of four credits per year. So in 2021, for example, one needed to earn 4 × $1,470 = $5,880 in covered earnings in order to receive four credits (SSA 2021). Certain groups of workers are not covered by Social Security.
Berry 2020 offers more information regarding how Social Security benefits are calculated.

[231] An example of a progressive benefit structure is as follows: Person A averaged inflation-adjusted earnings of $40,000/year over their thirty-five highest earning years and receives $20,000/year in retirement benefits. Person B averaged inflation-adjusted earnings of $100,000/year over their thirty-five highest earning years and receives $30,000/year in retirement benefits. Although Person A receives $10,000 less per year in retirement benefits, their replacement rate is 50 percent ($20,000 / $40,000) compared to Person B's replacement rate of 30 percent ($30,000 / $100,000). The Office of the Chief Actuary provides more detailed examples of how Social Security benefits are calculated.
Claiming one's Social Security retirement benefit before one's full retirement age (i.e., before turning sixty-seven for individuals born after 1959) reduces the monthly benefit, while claiming benefits after one's full retirement age increases the monthly benefit. In this regard, the benefit structure may not appear progressive if two people claim at very different times due to the penalty for claiming early and the credit for claiming late. See *Early or Late Retirement* on the SSA's website for information on the extent to which benefits are decreased and increased depending on when one claims.

time Congress comprehensively addressed OASDI was in 1983. The last time Congress increased OASDI benefits was in 1972.

Although the benefit amount is a function of earnings, Social Security has minimum benefits and maximum family benefits. The so-called special minimum benefit provides a floor for people with a lifetime of very low earnings.[232] The value of the special minimum has eroded significantly over time, however, since it is tied to increases in prices rather than wages, and prices tend to grow more slowly than wages. No new beneficiaries receive higher benefits from this minimum than from the regular formula; the last minimum benefit was awarded in 1998.[233] The highest benefit is the benefit based on career earnings at the earnings cap; individuals receive the highest benefit if they earned at or above the cap for thirty-five years.

Social Security benefits are payable, as their own separate benefits, to a worker's family, based on the worker's earnings.[234] Spouses, divorced spouses, dependent children, and, in some cases dependent grandchildren of retired or disabled workers, and the widow(er), divorced widow(er), or dependent children, and, in some cases dependent grandchildren and parents of a deceased worker may be eligible for benefits.[235] The benefit amount for an auxiliary beneficiary is a percentage of what is labeled the worker's "primary insurance amount" (PIA).[236]

In addition to retired workers, survivors, and dependents, Social Security has three main types of beneficiaries with disabilities. Individuals who have worked previously and achieved insured status[237] are eligible for disability benefits if they are no longer able to work due to a medical condition that is expected to last at least one year or result in death.[238] Additionally, individuals with permanent disabilities that began before age twenty-two and have a parent with a sufficient work history are eligible to receive disabled adult child (DAC) benefits once their parent claims benefits. This group is a subset of survivors and dependents.[239] A third group, widow(er)s with disabilities ages 50–60, is eligible to receive benefits if the relevant disability began before or

---

[232] The special minimum benefit is calculated based on one's special minimum primary insurance amount, which is a function of the number of years one has earnings at or above a certain threshold (Li 2020).

[233] Feinstein 2013 shows that, although the last minimum benefit was awarded to a worker who became eligible for benefits in 1998, a small number of workers and family members of workers continue to receive benefits based on the special minimum primary insurance amount.

[234] See *Types of Beneficiaries* on the SSA's website for more information.

[235] About 6.1 million children—8 percent of all children in the U.S.—are estimated to have either received benefits directly in their own right or indirectly as the result of living in households that received income from Social Security in 2018. In that year, Social Security benefits reduced child poverty by 1.6 percentage points, from 17.8 percent to 16.2 percent. Put differently, Social Security lifted almost 1.2 million children out of poverty (Romig, 2020).

[236] The primary insurance amount is the average, inflation-adjusted earnings of the relevant worker's thirty-five highest earning years during which they contributed to Social Security.

[237] See footnote 230 for information on a sufficient work history to qualify for Social Security benefits.

[238] Although both SSDI and SSI provide income to individuals with disabilities, they are very distinct programs. A 2018 CRS report outlines the many differences between the two programs. The report outlines the five-step process used to determine whether one's condition meets the disability standard for SSDI and SSI adult eligibility. This process considers one's current ability to earn income and the extent of the disability.

[239] A DAC beneficiary receives benefits from the trust fund from which their parent is receiving benefits. If, for example, the parent of a DAC beneficiary is receiving retirement benefits, the DAC beneficiary will receive benefits from the Old-Age and Survivors Insurance Trust Fund as well, not the Disability Insurance (DI) Trust Fund. As a result, most DAC beneficiaries do not receive benefits out of the DI Trust Fund.

within seven years of a working spouse's death. This group is also a subset of survivors and dependents.

Workers with disabilities who are awarded Social Security Disability Insurance benefits do not begin to receive those monthly benefits until five months after the date of the disability's onset. They also receive Medicare, but only starting two years after the beginning of benefit eligibility. In December 2020, the average Social Security Disability Insurance worker benefit was $1,277 per month, or just over $15,000 per year.[240]

Workers with disabilities receive Social Security Disability Insurance benefits until the worker recovers or dies, though once the worker reaches retirement age, the benefit is seamlessly converted to an Old Age Insurance benefit of the same amount.[241] Workers who earn enough to support themselves, an amount defined as "substantial gainful activity" (SGA),[242] are not considered disabled for the purposes of receiving Social Security. Workers with disabilities receiving Social Security Disability Insurance benefits are allowed to earn over the SGA in specified circumstances, to encourage return to work efforts.[243]

Options:
1. **Update the special minimum benefit and index it over time to the average or median wage.** As of 2012, 12.7 percent of retired worker Social Security beneficiaries and 23.4 percent disabled worker Social Security beneficiaries were living in poverty; secondary beneficiaries face high poverty rates as well.[244] This policy would increase income security for low lifetime earners and adjust the minimum benefit annually based on the change in wages so that it would not erode in the future. An updated minimum benefit would also ensure more adequate benefits for survivors and dependents of workers with low lifetime covered earnings.

2. **Increase all benefits (progressively) by increasing the rate at which first dollars of earnings are replaced.** A worker's PIA is calculated from a formula that is bracketed and progressive.[245] "Bracketed" means that a replacement rate is applied to "brackets" of wages. "Progressive" means that the lower the wage's bracket, the higher the marginal replacement rate.

---

[240] Social Security Administration. 2021. *Beneficiary Data: Number of Social Security Recipients at the End of Dec 2020.*

[241] "The Social Security full retirement age (FRA) is the age at which workers can first claim full (i.e., unreduced) Social Security retired-worker benefits." As of 2021, the FRA was sixty-six and ten months and is sixty-seven in 2022 (*The Social Security Retirement Age*, Congressional Research Service).

[242] In 2021 the monthly SGA amount was $1,310 ($15,720/year) for nonblind individuals and $2,190 ($26,280/year) for blind individuals. The monthly threshold must be exceeded "net of impairment-related work expenses," and "[t]he amount of monthly earnings considered as SGA depends on the nature of a person's disability" (*Substantial Gainful Activity*, Social Security Administration).

[243] If an individual exceeds the SGA threshold for nine months in a rolling sixty-month period, they will no longer receive disability benefits (*Trial Work Period*, Social Security Administration).

[244] This estimate of poverty uses the Supplemental Poverty Measure. Secondary Social Security beneficiaries faced the following poverty rates in 2012 (ordered from largest quantity to smallest): aged widow(er)s 19.7 percent, aged spouses 13.4 percent, disabled adult children 37.6 percent, disabled widow(er)s 31.0 percent, child-in-care widow(er)s 23.5 percent, and child-in-care spouses 33.8 percent (*Poverty Status of Social Security Beneficiaries, by Type of Benefit*, Bridges and Gesumaria 2016).

[245] Social Security Administration. *Primary Insurance Amount.* The summary of potential changes to the PIA formula can be found at *Provisions Affecting Monthly Benefit Levels.*

This formula might be amended to increase benefits disproportionately for workers with the lowest lifetime earnings by increasing the replacement rate and dollar amounts of the first bracket. This change would also ensure more adequate benefits for survivors and dependents of workers—especially those workers with low lifetime covered earnings.

3. **Increase benefits for the oldest beneficiaries.** This policy would add a flat dollar amount or percentage increase once beneficiaries reach age eighty or eighty-five in acknowledgement of the tendency for health care and caregiving costs to increase as one ages and the potential for savings depletion at later ages.

4. **Eliminate the five-month waiting period for disability insurance benefits.** This change would reduce the need for workers with disabilities to draw down savings and assets—if they have them—in the interim and eliminate a period of potential hardship if they do not.

5. **Eliminate the 24-month waiting period for Medicare following receipt of disability insurance benefits**. Workers with disabilities who receive Social Security disability insurance (SSDI) benefits by definition cannot engage in substantial gainful activity (and are therefore not accessing employer-sponsored insurance), have a preexisting condition, and are likely to have greater health care needs than a person without a disability. Insurance may be difficult to attain or afford, and out-of-pocket expenses may be unaffordable. Immediate Medicare eligibility would protect recipients of disability insurance benefits from these additional health and financial risks.

6. **Improve work incentives for individuals receiving disability benefits by increasing SGA thresholds and phasing out benefits more gradually.** If countable monthly earnings exceed the SGA threshold, Social Security disability benefits continue for nine months to avoid penalizing efforts to return to work.[246] Even so, the current structure creates a benefit cliff that can disincentivize both part- and full-time work. In addition, workers with disabilities frequently experience changes in their conditions that may enable or limit access to work for periods of time. The 2021 SGA level employed by SSDI is $1,310/month ($15,720/year) for nonblind individuals and $2,190/month ($26,280/year) for blind individuals. SSI uses the lower SGA level for both blind and nonblind individuals with disabilities. A policy to improve work incentives might include a redesign of the benefit phase-out and a change to the SGA threshold.[247]

7. **Address program needs of people receiving DAC benefits**. Some people with disabilities attain Social Security benefits through the work history of their parents. These individuals, also known as DAC beneficiaries, face key program design issues. The first is a marriage penalty. Unless a DAC beneficiary marries another DAC beneficiary, disability benefits typically end. This policy puts DAC beneficiaries in a difficult situation, where marriage may cost them key income as well as access to Medicare.

---

[246] Countable earnings are gross earnings minus applicable exclusions. An example of an exclusion is impairment-related work expenses.

[247] A 2015 Bipartisan Policy Center report lays out options for policy makers to improve work incentives, to increase experimentation around returning to work, and to improve interagency coordination to better help people with disabilities remain in the workforce in some capacity.

Fichtner and Seligman 2018 explore changes to SSDI that would allow for benefits to be received for temporary and partial disabilities.

The second design issue is the work incentive. DAC beneficiaries who lose benefits due to earned income exceeding the SGA threshold may return to those benefits in the future if they are no longer earning above that threshold and continue to have the qualifying disability. Individuals who would receive DAC benefits but for their parent having yet to claim Social Security benefits, however, will permanently forfeit their benefits and access to Medicare if they earn income above the SGA threshold for even a short period prior to their parent claiming benefits. As such, people with disabilities receiving SSI who attempt to use the work incentives within SSI risk permanently losing the valuable support of the OASDI benefits and Medicare. This aspect of the law creates a major work disincentive for potential DAC beneficiaries.

8. **Change the calculation of spousal and widow(er) benefits.**[248] The spousal benefit structure was designed in 1939 when most families had only a single earner. The spouse of a worker beneficiary is entitled to a benefit calculated from their own earnings and, if that amount is less than 50 percent of their spouse's benefit, a spousal benefit that brings the total benefit up to that 50 percent level. Surviving spouses of deceased workers receive the higher of their benefit or their deceased spouse's benefit. This formulation of the survivor benefit can result in the survivor in a couple with two equal earners experiencing a sharper decline in Social Security benefits than does the survivor of a single-earner couple. This change would increase benefits to survivors of dual-earning marriages by either 1) increasing the percent of their spouse's benefit to which they are entitled or 2) entitling survivors to 100 percent of their spouse's benefit altogether. These survivor benefits would supplement any individual benefits received by the widow(er). This policy would ensure that dual-earning households are not penalized relative to single-earning households.

Another possible change that would increase the economic security of some spouses—in practice, primarily women—would be to reduce the number of years of marriage required for someone to qualify for a spousal benefit and phase it out such that benefits vary with years of marriage up to a certain length. Currently that requirement is ten years, and it functions as a cliff.

9. **Restore the student benefit for college-aged children.** Prior to the 1981 repeal, child beneficiaries (receiving auxiliary benefits) were eligible for benefits through age twenty-two if they were enrolled in postsecondary education. Now they are eligible only through age nineteen, and only if still in high school. Restoring this more extensive benefit would increase income security for students with a parent who is no longer earning income in the labor market.

Improve OASDI financing

Unlike SNAP or SSI, funding for Social Security (the OASDI programs) comes exclusively from its own dedicated revenue streams: Social Security contributions, investment income, and dedicated revenue from treating some benefits as taxable income for federal income tax purposes. As a social insurance program, the employer-employee contributions, which are the primary source of dedicated revenue, along with the work on which the contributions are based, confer insured status. Only workers who have worked in Social Security–covered employment for a sufficient number of quarters of coverage are eligible for Social Security worker benefits,

[248] The Social Security Administration provides a brief overview of spousal benefits.

on which all auxiliary benefits are based.[249] Social Security is "current funded," meaning that, for example, 2022 benefits are paid (in part) by revenue from 2022 payroll taxes. Annual trustees' reports project future trust fund income and outgo to ensure that resources will be available to meet future benefit obligations.[250] Since about 1994, Social Security's Trustees reports have projected that around 2035–2040,[251] the combined OASDI trust funds[252] will no longer have sufficient revenue and reserves to meet all beneficiary obligations. To restore Social Security to long-range actuarial balance, as well as fund the cost of expansions to OASDI, additional revenue must be secured, the cost of benefits must be reduced, or some combination of the two.

Social Security, for decades, took in more revenue than the cost of current benefits and associated administrative costs. These funds are kept in Social Security's two trust funds as reserves where they are invested until needed. By law, the reserves must be invested in federal bonds backed by the full faith and credit of the U.S. Currently, the reserves of approximately $2.9 trillion are invested in U.S. Treasury bonds. The key date for Social Security's shortfall is when the trust funds' reserves are expected to be depleted, at which point then-current income will cover only around 75–80 percent of then-current expenses. Hence, most policy options for Social Security are expressed in relation to reserve depletion. The current projection for reserve depletion is 2035.[253] Many options exist for restoring Social Security to actuarial balance, some of which involve reducing benefits.[254] Since this report is focused on economic insecurity, the

---

[249] In 2010, about 4 percent of the elderly population was not eligible for current or future Social Security benefits due to insufficient earning histories. The poverty rate of this group was estimated to be about 44 percent (Whitman et al. 2011).

[250] *Social Security Finances: Findings of the 2020 Trustees Report* discusses how Social Security is financed and how the Office of the Chief Actuary at the SSA projects revenue and outlays each year over the next seventy-five years, summarized, as well over the ensuing nineteen, twenty-five, and fifty years. Whereas federal budgetary actions are measured over a ten-year window by the Congressional Budget Office, Social Security is projected much farther into the future.

[251] The exact year in which the OASDI trust funds are projected to become depleted while projected outlays exceed projected revenue tends to vary with the economy. The more people who are working, generally, the more revenue goes to the trust funds. To take into account economic uncertainty, the Trustees Report projects low-cost, intermediate-cost, and high-cost scenarios for the OASDI trust funds over the time horizons previously mentioned. Over time, the projected year in which reserves will be fully drawn and outlays will exceed revenue has moved somewhat closer in time than when first projected, though some time around 2035 remained the consensus as of early 2020. The impact of the pandemic recession does not appear to change the trust fund depletion date by more than six months to a year, according to the SSA as of late 2020.

[252] The Social Security program operates two separate trust funds: the OASI Trust Fund and the DI Trust Fund. They are generally discussed as a group (OASDI), however, because if one of these trust funds were depleted before the other and still had unmet obligations, it is anticipated that the excess reserves in either fund would be used to pay out any unmet OASDI obligations. The use of the excess reserves would, however, require legislation passed by Congress and signed by the president. Read more about the trust funds in this CRS report from 2020.

[253] Arnone, William, and Jay Patel. 2020. *Social Security Finances: Findings of the 2020 Trustees Report.* National Academy of Social Insurance.
Board of Trustees. 2020. *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Social Security Administration.

[254] An Academy report from 2009 titled *Fixing Social Security: Adequate Benefits, Adequate Financing* lays out options that shore up the finances of the trust funds while also ensuring that benefits paid to those who most rely on them in retirement and in life are not reduced and in some cases are increased. The Office of the Chief Actuary projects the impact on the trust funds' finances of many changes to Social Security, including certain benefit cuts.

report does not discuss options that would reduce benefits and instead focuses on options to increase Social Security's dedicated revenue.

Options:
1. **Increase the Social Security insurance contribution (Federal Insurance Contributions Act, or FICA) rate.** The current Social Security FICA rate is 6.2 percent for employees and 6.2 percent for employers for a combined rate of 12.4 percent. This option would increase that rate. The Social Security Administration's Office of the Chief Actuary (OACT) lays out ten options and their respective impacts on Social Security's finances in the short and long terms.[255] For example, if the 6.2 percent rates were increased to 7.9 percent, for a combined employer-employee rate of 15.8 percent, 101 percent of the projected shortfall would be eliminated.

2. **Increase or eliminate the maximum taxable wage base for Social Security.** Social Security contributions are levied on "covered" wages, which are wages that are below an annually indexed amount, called the maximum taxable wage base, and after that point wages are not subject to Social Security for either contributions or benefits purposes. In 1977, Congress increased the wage base and indexed it to the average increase in wages nationwide, with the intention of covering 90 percent of total wages paid nationwide.[256] That 90 percent goal was reached in 1983 but has steadily declined since then because of increasing income inequality. That is, wages for the wealthiest have grown faster than average wages. Consequently, the current maximum covers only 83 percent of total wages nationwide.[257]

This policy would increase or eliminate the cap; proposed options include removing the cap entirely, removing it on employers only, and increasing the cap to cover 90 percent of taxable wages. An additional option would phase out the cap over many years by starting with wages above a certain amount, such as $250,000 or $400,000. The amount of revenue raised by these options depends on specific design features, including how the higher wages are treated for benefit purposes.[258] The OACT analyzes thirty-four options to carry out some combination of raising, eliminating, or slowly phasing out the cap, as well as restoring the maximum taxable wage base to cover 90 percent of total wages.[259] For example, if the maximum taxable wage base were eliminated for contributions only, not benefits, then 73 percent of the projected shortfall would be eliminated.

3. **Treat at least some 1099 workers more like W-2 workers for purposes of Social Security contributions.** Individuals who are self-employed must pay both the employee and employer tax on earnings—the full 12.4 percent, though they deduct the employer portion from income for tax purposes.[260] When income is paid from an employer to an employee, the employer must deduct

[255] See "Category E: Payroll Taxes" proposals E1.1 through E1.10 in *Summary of Provisions That Would Change the Social Security Program*.
[256] Whiteman, Kevin. 2009. *Distributional Effects of Raising the Social Security Taxable Maximum*. Social Security Administration. Policy Brief No. 2009-01.
[257] In 2021, the taxable wage cap was $142,800.
[258] Congressional Budget Office. 2018. *Increase the Maximum Taxable Earnings for the Social Security Payroll Tax*.
[259] See "Category E: Payroll Taxes" proposals E2.1 through E2.15 and E3.1 through E3.19 in *Summary of Provisions That Would Change the Social Security Program*.
[260] Internal Revenue Service. 2020. *Self-Employment Tax (Social Security and Medicare Taxes)*.

the employee's required Social Security contributions and transmit the amount, along with the employer portion, to the federal government. The employee portion transmitted is listed on an annual W-2, filed with the government. No withholdings for Social Security on income paid to nonemployees, including independent contractors, are made. The income is recorded on a 1099 form, which is transmitted to the government; a copy of which is also transmitted to the worker.[261] Firms do not have to compensate independent contractors in the same way they do employees; they are neither subject to labor standards such as the minimum wage or overtime, nor does the employer have to pay taxes on their compensation. Requiring employers of 1099 workers to pay some Social Security, as they do for W-2 workers, is one way to reduce the incentives of employers to misclassify these two different kinds of workers. It might be a flat tax per 1099 issued, might vary based on the total per person paid via 1099, or the number of 1099 forms the firm issues, or might be simply to treat 1099 workers identically to W-2 workers for Social Security purposes. The change might apply only to very large, profitable employers that employ a certain large number—hundreds of thousands, for example—of 1099 workers to reduce the burden placed on small businesses.

4. **Dedicate a new source of progressive revenue to Social Security**. While the vast majority of Social Security OASDI financing comes from payroll taxes (90 percent), payroll taxes are considered regressive, even though Social Security benefits are progressive. Only about 3 percent of Social Security's dedicated revenue comes from a progressive source.[262] Specifically, a portion of the benefits paid to higher income Social Security recipients are considered taxable income; proceeds from this tax are dedicated to Social Security. Other progressive sources of revenue, such as the estate tax or a financial transactions tax, might be dedicated to Social Security to increase program progressivity and to increase trust fund revenues.

Reform Unemployment Insurance[263]

Unemployment Insurance (UI), unlike OASDI, is a joint state–federal undertaking, in which the obligation to make contributions is levied on employers only. The federal government sets broad requirements for who should benefit (workers who are willing and able to work, individuals who have worked but have lost their job through no fault of their own), but individual states set the eligibility requirements, benefit amounts, and benefit durations. Each state maintains its own trust fund for UI benefits. In addition, the federal government maintains the federal unemployment insurance trust fund, which pays all administrative costs, makes loans to states, and generally pays part of the cost of extended benefits during periods of high unemployment.

Two payroll taxes on employers provide funding for UI; one is levied by the state pursuant to the State Unemployment Tax Acts (SUTAs) and one is levied by the federal government pursuant to the Federal Unemployment Tax Act (FUTA). Like FICA, the primary source of revenue for

---

[261] There are several 1099 forms, based on the type of income and who issued it and how it was paid. In most cases, independent contractors will receive a Form 1099-K, a Form 1099-MISC, or a Form 1099-NEC from the person or entity that pays them compensation. You can read an overview here: *What Is an IRS 1099 Form? Who Gets One and How It Works* (Orem, 2021).

[262] Board of Trustees. 2020. *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Table II.B1. Social Security Administration.

[263] See *Unemployment Insurance* (U.S. DOL), *Policy Basics: Unemployment Insurance* (CBPP 2021), and *Unemployment Insurance: Programs and Benefits* (CRS 2019).

Social Security, both the SUTAs[264] and FUTA,[265] have two components: the tax base, which is the earnings subject to the tax, and the tax rate, which is the size of the tax when applied to the base.

UI's financing has been a source of concern for a long time. First, state trust funds are not kept at adequate levels. In theory, states build up trust funds during economic expansions to forward finance the increase in unemployment during recessions. Instead, states keep trust funds at low levels and borrow from the federal government during downturns.[266] The reason for low levels of trust funds in many states is that state governments are reluctant to raise taxes on their employers and potentially deter hiring or new business creation. States compete over employers, creating a "race to the bottom" to have the lowest tax burden.[267]

Second, the experience rating of employer taxes creates the incentive for employers to prevent former, laid-off employees from collecting benefits. Should a worker collect benefits, the employer's taxes will increase.

The combination of little federal action to modify or strengthen the system's structure, incentives on state governments to keep taxes low, and incentives on employers to keep costs low creates a system that is chronically underfunded. Rather than increase taxes and shore up funding, many states have opted to keep benefits low[268] or cut them.[269]

Specifically, benefit duration ranges from up to 12 weeks in North Carolina and Florida to up to 30 weeks in Massachusetts, though most states offer up to 26 weeks. Benefit duration also varies with state or local economic conditions in many states. Minimum weekly benefits range between

---

[264] The SUTA tax base and tax rate are determined by state legislatures. The base must be a minimum of $7,000 but may be higher. There is no constant minimum rate. State tax bases vary from the minimum of $7,000 to $52,700, and rates vary from 0 percent to 14.37 percent. Within each state, however, there is a minimum and maximum tax rate depending on an employer's "experience rating," or the likelihood that former employees successfully claim unemployment benefits. The higher the likelihood, the higher the tax rate. In Massachusetts, for example, the maximum rate is 14.37 percent, but the minimum rate is 0.94 percent. In addition, if a state's trust fund is low (or if states are paying back a loan because their trust fund was depleted), some states automatically increase the SUTA tax rate until the funds are restored or the loan is paid back. SUTA taxes collect in a state's trust fund and are used to finance benefits.
For more information about state unemployment tax bases and rates, see Table 2 of *Unemployment Insurance: Programs and Benefits* (Congressional Research Service 2019).
[265] The FUTA tax base is $7,000 and has not been increased since 1983. The FUTA tax rate is notionally 6.0 percent, but states with programs in good standing have their FUTA tax rebated to 0.6 percent. No program has ever not been in good standing; hence the FUTA tax is 0.6 percent on the first $7,000 of earnings, or $42 per employee per year. FUTA taxes are collected into a federal trust fund and are used to reimburse states for the program's administrative costs (Whittaker, Julie M. 2016. *Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax (FUTA)*. Congressional Research Service).
[266] During the Great Recession, thirty-six states had federal trust fund loans (*Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs,* Government Accountability Office, p. 13).
[267] See *Time to End the Race-to-the-Bottom on Unemployment Insurance* for further comments on this phenomenon (Atkinson 2020, American Compass).
[268] Whittaker, Julie M., and Katelin P. Isaacs. 2019. *Unemployment Insurance: Programs and Benefits*. Table 1. Congressional Research Service.
[269] *Will States Take the Wrong Lesson About Unemployment Insurance's Failings?* comments on this phenomenon (Edwards 2021, The RAND Blog).

$5 in Hawaii and $188 in Washington, and maximum weekly benefits range between $235 in Mississippi and $795 in Massachusetts.

Broadly speaking, states have not kept UI finances sound or benefits meaningful.[270] During the 2020 recession, the federal government intervened to a great degree to enhance the program. Federal actions included increasing benefits through a flat federal weekly benefit supplement, creating a program for ineligible workers, and extending benefits through Pandemic Emergency Unemployment Compensation.[271] All of these benefits were federally funded.

Options:

1. **Overhaul the data-reporting architecture and create new performance measures for states regarding benefit levels, eligibility, and receipt rates.** States must comply with an array of reporting requirements regarding their programs, but the data on unemployment claims have accuracy issues.[272] Further, performance is rightly centered on timely benefit delivery, but could be expanded to include take-up among the unemployed, to improve benefit adequacy, or to address other measures to improve efficacy.

2. **Implement federal standards for benefit levels, eligibility requirements, state tax rates, and state tax bases.** All of these aspects of the program are determined by state legislatures, but the federal government can increase minimum standards. The federal government can also set these standards to reflect state economic conditions. For example, maximum and minimum benefit levels might be set as a multiple of the average weekly wage in the state.

3. **Explore the cost and benefits of fully federalizing the UI tax and benefit systems.** Rather than setting a new floor for states, the federal government might take over application, funding, and administration of the program. Such a change would end any state differences in benefit amounts, eligibility, and tax rates.

4. **Bring independent contractors and the self-employed permanently into the UI system.** During the pandemic, Congress created the Pandemic Unemployment Assistance (PUA) program for workers who were not eligible for UI because they had insufficient earnings, were self-employed, or were independent contractors.[273] The proposed policy would incorporate these

---

[270] As far back as 1993, the Government Accountability Office issued a report titled *Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized,* which found that "the deteriorating financial solvency of state trust funds has led to changes in state laws affecting eligibility and compensation levels and adversely affected the percentage of unemployed persons receiving unemployment benefits," among other key findings, suggesting critical problems in unemployment insurance programs. A *New York Times* piece published in January 2021 depicts the problematic trends in the unemployment insurance system in a number of telling graphics.

[271] Isaacs, Katelin P., and Julie M. Whittaker. 2020. *Unemployment Insurance Provisions in the CARES Act*. Congressional Research Service.

[272] In a report issued on November 30, 2020, the Government Accountability Office recommended that the "DOL (1) revise its weekly news releases to clarify that in the current unemployment environment, the numbers it reports for weeks of unemployment claimed do not accurately estimate the number of unique individuals claiming benefits, and (2) pursue options to report the actual number of distinct individuals claiming benefits, such as by collecting these already available data from states."

[273] The National Employment Law Project explains PUA and other boosts to unemployment insurance benefits that were enacted early on in the pandemic. Since that piece was written, benefits were extended beyond December 2020.

workers permanently into UI, though a separate tax collection method, benefit calculation, and eligibility rules may be required.

5. **Include Short-Time Compensation (STC) in every UI system**. Also known as work-sharing unemployment insurance, this program enables employers to decrease a worker's hours and compensate for loss in wages with partial unemployment benefits.[274] As such, STC programs preserve jobs that would otherwise be cut and increase labor force attachment for a larger number of individuals (compared to layoffs).[275] As of November 2020, twenty-five states had STC incorporated into their UI system.[276]

Improve caregiving supports

The majority of workers in the U.S. do not have access to any paid family and medical leave program.[277, 278] At the federal level, the Family and Medical Leave Act entitles some employees in some firms to take unpaid, job-protected leave for specified family and medical reasons.[279] These reasons include the birth or adoption of a child; caring for the employee's spouse, child, or parent who has a serious health condition; and/or a serious health condition that makes the employee unable to perform the essential functions of their job.

Related to inadequate paid family and medical leave is the lack of an adequate system of long-term services and supports (LTSS) in the U.S. Recent studies find that 50–70 percent of U.S. adults who survive to sixty-five years old will have LTSS needs. Between 2015 and 2050, the number of seniors with LTSS needs is expected to rise from 6.3 million to 15 million.[280] Simultaneously, only 7 percent of the population over age fifty is covered by a long-term care policy.[281] It does not seem likely that the private market will fulfill this need, at least in the short term.[282] In the meantime, families are sacrificing their financial security to ensure that the caregiving needs of their loved ones are met.[283]

---

[274] See *Putting Short-Time Compensation to Work: How Employers Can Avert Layoffs and Reduce Training Costs* for more information on short-time compensation in practice in the U.S. and the impact it has on companies and states where it is practiced.

[275] Houghton, Charlotte, and Mariette Aborn. 2021. *As the Economy Continues to Struggle, Can Short-Time Compensation Offer Relief?*. Bipartisan Policy Center.

[276] Pirtle, Jennifer. 2020. *STC State Websites*. WorkforceGPS.

[277] See *Designing Universal Family Care* (NASI 2020) and *Paid Family and Medical Leave in the United States* (CRS 2020).

[278] As of March 2020, 21 percent of private, state, and local workers had access to paid family leave (U.S. Bureau of Labor Statistics. *National Compensation Survey: Employee Benefits in the United States, March 2020*. Table 31).

[279] U.S. Department of Labor, Wage and Hour Division. *Family and Medical Leave Act*.

[280] National Academy of Social Insurance. 2020. *Designing Universal Family Care*. pp.145–146.

[281] Life Insurance and Market Research Association (LIMRA). 2017. *Combination Products Giving Life Back to Long-term Care Market.*

[282] Sammon, Alexander. 2020. *The Collapse of Long-Term Care Insurance*. The American Prospect.

[283] *Designing Universal Family Care* notes that

> The majority of LTSS today is provided by family and friends, often to the detriment of their health and financial security. In the coming decades, most professional care will be paid for by families out of pocket. Most of the remainder of paid care will be covered by Medicaid, the primary public payer of LTSS. To qualify for Medicaid, however, a person must have low income and may not have assets above a certain level. Many middle-income people "spend down"—they use their assets to pay for care until they have very

Another set of programs that might reduce the burden on a paid family and medical leave program are those relating to the care of children and other dependents. Under current law, the Child and Dependent Care Tax Credit (CDCTC) aims to offset the costs of child and dependent care via a nonrefundable tax credit that varies with income as a percentage of care expenses. Due to its design, the credit does little to help the least financially secure households.[284]

A means by which the federal government aims to offset childcare expenses specifically is the Child Care and Development Fund (CCDF), a joint federal–state partnership, in which the federal government provides block grants to states. Recipients of support via the CCDF are low income and are provided either a voucher with which they may select a childcare provider or a reserved slot at a childcare facility with which one's state has contracted (in 2017, 94 percent of children benefited by this program were served by the former).[285] Although the CCDF helps many families afford childcare, only about one out of six eligible children receives benefits. Without this or other assistance, low-income families cannot afford the $9,000–$9,600 average annual cost for early care and education for children 0–4 years old.[286]

Options:

1. **Establish a state-administered paid family and medical leave system under federal guidelines.** Such a system would build on the experience developed through existing programs in some states that have implemented social insurance programs for paid leave, but it would extend access to every state.

2. **Create a federal paid family and medical leave program**. Under this model, the federal government would administer a paid leave program, ensuring uniform eligibility standards, benefit amounts, financing, and administration across the country.

3. **Establish a state-administered long-term care system under federal guidelines.** A state-administered program would allow states to experiment with the parameters of a long-term care insurance system while ensuring adherence to certain basic standards. Options for coverage range from "front-end," under which everyone with an LTSS need receives *some* benefit, to "back-end" or "catastrophic," under which those individuals with the greatest LTSS needs

---

little left and qualify for Medicaid. Those individuals who qualify for Medicaid (whether low- or middle-income) must contribute most of their income to their care costs, losing financial independence, and may be forced to enter a nursing home because they cannot access sufficient home- and community-based services or afford to remain at home. (p. 143)

[284] In practice, because it is nonrefundable and because of how it interacts with other tax policies, the CDCTC offers minimal benefits to workers earning less than $25,000; in 2018, those with adjusted gross incomes of less than $25,000 received 3.2 percent of benefits in spite of accounting for 5.6 percent of returns claiming the credit. Households earning at least $75,000 in adjusted gross income in 2018 accounted for 58.0 percent of aggregate CDCTC dollars spent. The income brackets that determine one's tax credit rate are not adjusted for inflation annually and have not been updated by legislation since 2001 (Congressional Research Service, *Child and Dependent Care Tax Benefits: How They Work and Who Receives Them*, Table 1).

[285] Income eligibility thresholds and work/training requirements vary by state, as the CCDF typically functions in coordination with each state's TANF program. For more information, see *Child Care Entitlement to States*, Congressional Research Service.

[286] National Academy of Social Insurance. 2020. *Designing Universal Family Care*. pp. 15–16.

receive targeted benefits, to "comprehensive," under which all needs are covered to some degree.[287]

4. **Create a federal long-term care program.** Under this model, the federal government would administer a long-term care social insurance program, ensuring uniform eligibility standards, benefit amounts, financing, and administration across the country. The Obama administration made efforts to implement such a program under the Community Living Assistance Services and Supports (CLASS) Act of 2010; however, then–U.S. Department of Health & Human Services Secretary Kathleen Sebelius determined that CLASS was not financially viable.[288] Whether or not a program is enacted successfully, long-term care needs continue to grow. The 2013 Congressional Commission on Long-Term Care provides many recommendations under the realms of service delivery, workforce maintenance—for family caregivers—and finance.[289]

5. **Significantly increase investments in childcare**. Many means could be considered for improving access to, and the quality of, childcare in the U.S. This report does not outline all the options but notes that investments in childcare serve as a complement to any paid family and medical leave type of social insurance policies.[290]

Tax expenditures that reduce an individual's or a family's total tax bill are a third type of transfer policy. The options outlined here are all tax credits as opposed to deductions or exemptions. If a tax credit is refundable, a person is still able to receive the full amount of the credit even if that person has no income tax liability. Refundable credits—unlike nonrefundable credits, which are useful only to individuals who have income tax liability—thus benefit low-income households.

Update the Earned Income Tax Credit[291]

The Earned Income Tax Credit (EITC) is a refundable tax credit targeted to households with low to moderate earnings from work. The EITC was designed to encourage work and offset the cost

[287] Chapter 3: Long-Term Services and Supports of *Designing Universal Family Care* makes the case for state action on long-term care insurance via a social insurance design. The chapter lays out finance, coverage, and benefit options. The coverage options mentioned here are outlined in Table 1 on page 176.
[288] Spoerry, Scott. 2011. Obama Drops Long-Term Health Care Program. *CNN*.
[289] Chernof, Bruce, et al. 2013. *Commission on Long-Term Care Report to the Congress*. U.S. Senate.
[290] Chapter 1: Early Child Care and Education of *Designing Universal Family Care* outlines the childcare landscape in the U.S. and proposes three potential social insurance models for states to improve early childcare and education including "1. a comprehensive universal early child care and education program, 2. an employment-based early child care and education contributory program, and 3. a universal early child care and education subsidy program." In *Ending Child Poverty Now*, the Children's Defense Fund proposes both: 1) Expanding federal childcare subsidies to all families with incomes less than 150 percent of the poverty line and exempting these families from copays; and 2) Making the CDCTC fully refundable with cost reimbursements up to 50 percent (from 35 percent) for lower-income families (see Chapter 2, policies 5 and 6). Other proposals for improving the CCDF and CDCTC come from the National Academies of Sciences, Engineering, and Medicine (see Appendix D, 5-3, p. 415, of *A Roadmap to Reducing Child Poverty*), the Center for American Progress in *A New Vision for Child Care in the United States*, and Title III of H.R. 3300: Economic Mobility Act of 2019.
[291] See *Earned Income Tax Credit (EITC)* (IRS 2021), *Policy Basics: The Earned Income Tax Credit* (CBPP 2019), *What Is the Earned Income Tax Credit?* (Tax Policy Center 2020), and *The Earned Income Tax Credit (EITC): How It Works and Who Receives It* (CRS 2021).

of Social Security contributions and other work expenses of low-income workers by providing a tax credit based on a percentage of earnings. The maximum credit varies in size and eligibility depending on number of children and marital status and phases out with additional income. The highest eligible income for tax year 2021 was $57,414 for joint filers with three or more children. That income level corresponds to the earnings of a full-time, full-year worker making about $27.60 an hour, or two full-time workers making about $13.80 an hour.[292]

For workers without children at home, the EITC is very low. For these workers, the maximum refundable credit in 2021 was $543, which was fully phased out for joint filers with earned income of $21,920.[293] The current single-worker phase-out corresponds to a full-time, full-year worker making about $7.68 an hour.[294] Researchers have noted that at $15,980 a year, a worker's employment and sales taxes would reduce their income to federal poverty levels.[295]

Twenty-nine states and the District of Columbia supplement the federal EITC with their own EITC program.[296]

Options:
1. **Increase benefit size and eligibility for workers without dependents at home, beyond 2021.[297]** With the passing of the American Rescue Plan Act of 2021 (ARP), the maximum credit/refund for this group increased to $1,502 and phased out completely at $27,367 of income.[298] Prior to the ARP, workers not caring for children in their homes were the only group the federal government taxed into, or further into, poverty. This policy would maintain or expand the ARP increase, which was set to return to lower levels after 2021 absent further legislative action.

2**. Increase benefit size for workers with dependents at home.** The maximum credit a household could claim for one, two, and three or more dependents was $3,618, $5,980, and $6,728, respectively, for tax year 2021. This policy would increase the size of these credits to ensure that low- and middle-income workers with dependents are better compensated for their labor and to account for the cost of caring for dependents.

[292] Credit levels are updated each year by the IRS in the *Earned Income and Earned Income Tax Credit Tables*.
[293] With the passing of the American Rescue Plan Act of 2021, the maximum credit for workers without children at home increased to $1,502 for 2021, and fully phased out for joint filers at earned income of $27,367 (Tax Policy Center 2021, *EITC Parameters*).
[294] This analysis/calculation is based on an individual working forty hours per week, fifty-two weeks per year.
[295] Marr, Chuck, Chye-Ching Huang, Cecile Murray, and Arloc Sherman. 2016. *Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty*. Center on Budget and Policy Priorities.
[296] Internal Revenue Service. 2021. *State and Local Governments with Earned Income Tax Credit*.
[297] The American Rescue Plan Act of 2021 implemented a temporary (for tax year 2021) increase in both benefit size and eligibility for workers without dependents at home. This option would make this expansion a permanent part of the EITC (Congressional Research Service 2021, *The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2): Title IX, Subtitle G—Tax Provisions Related to Promoting Economic Security*).
[298] Prior to passage of the ARP, the maximum credit for workers without dependents was $543 and phased out completely at $21,920 for married filers.

3**. Phase the credit in faster.** EITC benefits phase in, reach a maximum level, and then phase out. Each phase-in and phase-out level depends on family structure. A faster phase-in would increase the credit's value for the lowest earners.

4. **Allow workers without children ages 19–24 at home and those ages sixty-five and older to claim the credit beyond 2021.** Currently, the credit cannot be claimed by individuals under age twenty-five without dependents at home or by individuals over age sixty-four.[299] The ARP made these workers eligible for tax year 2021. No age restrictions apply for workers with dependents at home.

5. Allow independent students to claim the credit. Under current law, students under the age of twenty-four who are working and attending school at least half-time are ineligible for the EITC.[300] Over 60 percent of college students, however, work at least part time, over half of students are financially independent from their parents/guardians, and 39 percent of students report being food insecure.[301] This option would ensure that low-income, financially independent students are allowed to claim the EITC.[302]

Update the Child Tax Credit[303]

Under the ARP, the Child Tax Credit (CTC) provides $3,000 per year per child to families with children ages 6–17 years old and $3,600 per year per child to families with children ages five years or younger. The credit is fully refundable, meaning families with adjusted gross incomes of zero receive the full benefit. For this reason, this credit is referred to as a "child allowance." The credit begins to phase out at household earnings of $112,500 for single filers and $150,000 for joint filers. Households with incomes that were eligible for the credit in 2020 had the option to receive a portion of the credit in advanced payments throughout 2021 beginning on July 15. This benefit structure ended in 2022 and reverted to its prior form, as described in the following paragraph.

Prior to the ARP, the CTC functioned as a partly refundable tax credit of up to $2,000 per child under seventeen. The credit offset taxes owed. If a person qualified for the credit beyond what they owed in taxes, they would receive part of the credit as a refund. Workers needed to earn at least $2,500 before they were eligible for a refundable CTC. The refundable portion was equal to either 15 percent of earnings in excess of $2,500 or $1,400 per child, whichever was less. It did not vary with the age of one's children, only a household's number of children. Households with

[299] A 2019 Urban Institute blog post further discusses the degree to which an age-eligibility expansion of the EITC would help older workers both in the short term and in retirement.
[300] Maag, Elaine. 2021. *Increasing the Childless EITC Is a Good Start; It Should Include Students Too*. Tax Policy Center.
[301] Thompson, Darrel, Whitney Bunts, and Ashley Burnside. 2020. *EITC for Childless Workers: What's at Stake for Young Workers*. Center for Law and Social Policy.
[302] Maag et al. 2020 explore the impacts of extending EITC eligibility to "low-income students who are in school at least half time and independent for tax purposes [such that they] would receive the maximum credit even if their earnings are too low to qualify for the maximum. Essentially, being in school would be treated as meeting the earnings requirements in place for most credit recipients."
[303] See *About Publication 972, Child Tax Credit and Credit for Other Dependents* (IRS 2021), *Policy Basics: The Child Tax Credit* (CBPP 2019), *What Is the Child Tax Credit?* (Tax Policy Center 2020), and *The Child Tax Credit: How It Works and Who Receives It* (CRS 2020).

children ages seventeen and eighteen, older dependents, and full-time college students ages 19–24 were eligible to receive a $500 nonrefundable credit.[304]

Options:

1. **Increase the value of the CTC per child beyond 2021.** This policy would raise the maximum benefits offered by the CTC beyond 2021. Under this policy, the credit will continue to phase out at high incomes; current law for 2022 and onward decreases the credit by 5 percent of adjusted gross income exceeding $200,000 for single filers and $400,000 for joint filers.

This option was enacted under the ARP via an increase from $2,000 to $3,600 for children ages 0–5, from $2,000 to $3,000 for children ages 6–16, and from $500 to $3,000 for seventeen-year-old children.

2. **Provide a larger credit to families with very young children, beyond 2021.** Research findings indicate that the earliest years of life are critical for development[305] but also see the highest rates of child poverty.[306] An age-varying policy would provide a larger credit for young children to protect very young children from poverty and enable families to invest in children during the critical early years of life. The Canada Child Benefit, for example, began delivering monthly benefits up to $6,765 per year for children under six years old and up to $5,708 per year for children ages six through seventeen in July 2020.[307]

The ARP established a larger credit of $3,600 for children under six years old compared to $3,000 for children aged 6–17.

3**. Remove the minimum earning threshold and make the credit fully refundable beyond 2021.** As of 2018, 27 million low-income children were not eligible for the full CTC because of the earned income requirements.[308] These reforms would ensure that the CTC is fully available to the children and families who need it the most, while simplifying its structure and making it easier for families to understand.

The ARP enacted this measure, making households with no income eligible to receive the full benefit.

4. **Pay out the CTC monthly beyond 2021**. The report of the National Academies of Sciences, Engineering, and Medicine regarding how best to reduce child poverty included this

[304] The ARP granted households with seventeen-year-old children eligibility for the $3,000 credit in 2021.
[305] In 2019, the National Academies of Sciences, Engineering, and Medicine issued a report titled *A Roadmap to Reducing Child Poverty,* which outlined options to cut child poverty in half in ten years. The report draws on existing literature to conclude that "poverty in early childhood . . . [is] associated with worse child and adult outcomes," and that "income poverty itself causes negative child outcomes, especially when it begins in early childhood" (pp. 73, 89).
[306] Haider, Areeba. 2021. *The Basic Facts about Children in Poverty*. Figure 4. Center for American Progress.
[307] Prime Minister of Canada. 2020. *Prime Minister announces annual increase to the Canada Child Benefit*.
[308] Greenstein, Robert, Elaine Maag, Chye-Ching Huang, and Chloe Cho. 2018. *Improving the Child Tax Credit for Very Low-Income Families*. U.S. Partnership on Mobility from Poverty.

recommendation.[309] Typically, tax credits are delivered once a year and, since income and tax liability can vary from year to year, individuals may be wary of taking an advance on their return. A fully refundable credit would not vary if income at low and middle incomes dropped and would thus limit the unpredictability of a tax benefit.[310] This policy would help families better meet the costs of raising children year-round, since child-related expenses such as diapers, cribs, clothing, and activities do not wait for tax time. Households may still be eligible for different benefits if a child leaves or moves into a different household and may be given an option to receive part or all of the credit monthly.

Consistent with this concept, the ARP provided for a portion of the credit to be paid out by the IRS on the fifteenth of each month beginning with July 15, 2021.

5. **Exclude the refundable credit from income in determining transfer program eligibility for means-tested programs.** This approach would avoid unintended consequences in which increasing the CTC or changing the payment structure might reduce eligibility for other benefits. Under current law, tax credits do not count as income in means-tested programs. This option ensures that disregarding the tax credit payments as income would continue to be the case even if the credit is paid out monthly to certain households.

Create a negative income tax[311]

A negative income tax (NIT) is a system in which the government makes payments to people if their income is below a defined threshold, while taxing people on income above that threshold. If the threshold were, for example, $39,000, about three times the federal poverty level for an individual in 2021, and the NIT rate were 50 percent, an individual with no earnings would receive $19,500 from the government, not including any benefits from other programs or tax credits. In this example, an individual earning $30,000 would receive $4,500 from the government.[312]

---

[309] The NAS report outlines two options for this proposal on page 148:

> [1)] Pay a monthly benefit of $166 per month ($2,000 per year) per child to the families of all children under age 17 who were born in the United States or are naturalized citizens. In implementing this new child allowance, we would eliminate the Child Tax Credit and Additional Child Tax Credit as well as the dependent exemption for children. The child allowance benefit would be phased out under the same schedule as the Child Tax Credit. . . . [2)] Pay a monthly benefit of $250 per month ($3,000 per year) per child to the families of all children under age 18 who were born in the United States or are naturalized citizens. (As with Child Allowance Policy #1, we would eliminate the Child Tax Credit and Additional Child Tax Credit as well as the dependent exemption for children.) The child allowance benefit would be phased out between 300 and 400 percent of the poverty line.

The report projects the former proposal to reduce child poverty rates by 3.4 percentage points (13.0 to 9.6) and the latter proposal by 5.3 percentage points (13.0 to 7.7) (see Figure 5-1).
National Academies of Sciences, Engineering, and Medicine. (2019). *A Roadmap to Reducing Child Poverty*. Washington, DC: The National Academies Press. doi: https://doi.org/10.17226/25246.

[310] High-income households may see their credits vary if the credit phases out at high incomes (as it does under current law). A higher credit for younger children might introduce some unpredictability, too; impending declines in monthly benefits should be communicated to households well ahead of time.

[311] See *The Negative Income Tax and the Evolution of U.S. Welfare Policy* (Moffitt 2003).

[312] This $4,500 benefit is calculated by taking the NIT threshold ($39,000) minus income ($30,000) and multiplying the difference by the NIT rate (50 percent).

In this sense, the NIT is like a refundable tax credit that requires no other sources of income for the benefit to be available. Rather than phasing in to a maximum benefit like the EITC, the benefit would be largest at zero earnings and phase out until the base threshold is earned. An NIT might work in conjunction with existing refundable tax credits, like the EITC, to reduce work disincentives. As a refundable tax credit, it would create an assured income floor in the U.S. for all households, regardless of circumstances. It might also be flexibly designed so that certain sources of income, such as Social Security benefits, would be disregarded from earnings that count against the tax refund.

The NIT differs from a universal income base in that all individuals receive the UIB whereas only individuals with incomes below the defined threshold would receive NIT payments. A NIT in the U.S. nearly became a reality in the early 1970s under Nixon's Family Assistance Plan proposal. Had it been enacted, the proposal would have set an annual income floor of $1,600 for a family of four, plus $800 in food stamps.[313] Adjusting for inflation from August 1969—when the proposal was announced—to May 2021, the policy would have provided $11,641 in income and $5,820 in food stamps; just under $17,500 in resources annually. Under Nixon's plan, benefits would be reduced at 50 percent of earnings, or 50 cents for every dollar of household income.

Options:
1. **Create a negative income tax (NIT) indexed to the average or median wage.** An NIT would provide a minimum floor of income, similar to the UIB, and increase every year.

2**. Update the EITC to harmonize with the NIT.** Policies and programs with different phase-out schedules might create work disincentives. This policy would design the NIT so that it harmonizes with the level, design, and phase-out of the EITC to avoid benefit cliffs or high phase-out rates.

[313] Passell, Peter, and Leonard Ross. 1973. Daniel Moynihan and President-Elect Nixon: How Charity Didn't Begin at Home. *The New York Times*.

Protection Policy

Protection policies promote stable income—whether from earnings or programs—to help households cope with realized financial risks and changes that come with life; they protect against losses in income. Two approaches to protection policy exist. The first is to bolster an individual's self-protection, or savings. More savings—and more avenues to accessing savings, without penalties for withdrawals and high administrative fees—means more economic security. The second approach is to mitigate practices that tend to reduce income without offering benefits to the household or community, which this report calls *capture*.

Credit may fall into either category of protection policy. Access to credit helps bolster economic security, for example, through aiding in the purchase of a house or financing higher education. For individuals without sufficient savings, credit is a means of making it through a negative income shock. But not everyone has access to credit, and not all forms of credit or types of lenders are associated with good outcomes. Moreover, debt may be a form of economic insecurity to the extent that monthly income net of debt payments may not be sufficient to meet household expenses. The U.S.'s primary approach to balancing credit's tradeoffs is through regulation of lenders.

Policy	Options
Promoting Savings	
Promote savings for retirement	1. Exempt retirement account balances, up to a certain threshold, from asset tests. 2. Require auto-enrollment in a retirement plan and require periodic retirement contributions on behalf of all workers into an employer plan or a certain defined contribution fund. 3a. Expand access to the Saver's Credit and make it refundable. 3b. Expand access to the Saver's Credit, make it refundable, and place any tax refund into the worker's retirement account. 4. Eliminate pre-retirement distributions in separation from service and allow for limited pre-retirement distributions for certain hardships.
Promote savings for pre-retirement needs	1. Create a mandated employer-sponsored automatic savings program. 2. Create a Universal Asset Endowment (aka Baby Bonds, Child Development Accounts). 3. Create "postal banking" to allow USPS to provide nonbank financial services.
Preventing Capture	
Regulate certain private debt practices ←→ *Equity Policy*	1. Increase regulatory and enforcement capacity of the Consumer Financial Protection Bureau (CFPB) and require consistency in practice. 2. Create a federal Fairness in Lending law. 3. Create an advisory committee to consider student loan forgiveness.
Regulate certain public debt/fees practices	1. Reform court-imposed, jail-imposed, and prison-imposed fees. 2. Institute a sliding scale for criminal fines based on ability to pay. 3. Reduce fee and fine nonpayment penalties.

←→ *Equity Policy*	4. Reform the use of money bail. 5. Reform child support.
Increase access to services	1. Increase funding for the Legal Services Corporation. 2. Remove some of the restrictions on uses of Legal Services Corporation funding. 3. Expand the right to counsel.

Promote savings for retirement

Retirement savings are currently supported through income tax preferences for retirement savings accounts, such as IRAs, 401(k)s, and 403(b)s.[314] Depending on the type of account, either the contributions to the account before retirement or the money taken out during retirement are not subject to the income tax, and the interest on the savings accumulates tax free.[315] Although IRAs may be set up by anyone with access to a bank, 401(k)s and similar accounts must be established through an employer (including self-employers). Sponsoring a plan is voluntary; there is no requirement that employers contribute to these accounts. Currently 67 percent of employees in the private sector have access to a retirement plan at work; 51 percent of private sector employees participate in a plan.[316] Among nonretirees, 55 percent have a defined contribution plan and 25 percent have no retirement savings at all.[317]

Current tax expenditures for retirement savings contributions benefit higher-income earners the most.[318] The Saver's Credit encourages retirement saving among low- and middle-income earners by giving a partial tax credit for up to $2,000 in contributions, whether to a Roth IRA, traditional IRA, or employer account. This credit is available only for individuals with income less than $33,000 a year ($66,000 filing jointly) who are employees. Depending on income, the credit is 50 percent, 20 percent, or 10 percent of one's total contribution up to $2,000.[319] Because the Saver's Credit is nonrefundable, it can be used only to offset tax liability and offers little or nothing to many of the people with low and moderate incomes that it was designed to help.

---

[314] Retirement accounts vary by who establishes them and when the tax preference occurs (among other things). The full list of those types with tax preferences can be found on the IRS page *Types of Retirement Accounts*, which is part of the large section on *Tax Information for Retirement Plans*. The Balance—a personal finance website—provides explanatory articles for the three most common types: *individual retirement accounts*, *401(k)s*, and *403(b)s*.
[315] The tax code contains numerous exceptions to this general principle. Individuals may withdraw early with a penalty or withdraw early without a penalty if they meet certain circumstances. Individuals may also borrow from their 401(k) accounts in certain circumstances. Contributions were capped at $19,500 in 2021 but, if permitted by one's 401(k) plan, may be as high as $26,000 for the fifty and older population (see "catch-up contributions"). The IRS has a *Retirement Plans FAQ* that details many of these scenarios. The Balance has guides to *Early Distribution of Funds* and *401k Loans*.
[316] National Compensation Survey, Bureau of Labor Statistics, Employee Benefits, Table 1.
[317] Report on the Economic Well-being of U.S. Households, 2020, Figure 36.
[318] See *Tax Incentives for Retirement Savings*, Tax Policy Center. In related findings, lower retirement savings are reported for individuals who are younger, Black, or Hispanic (Report on the Economic Well-being of U.S. Households 2020, Table 30.)
[319] The income and contribution eligibility for the Saver's Credit can be found on the IRS page *Retirement Savings Contributions Credit (Saver's Credit).* The Balance also has an explanatory article, *Retirement Saver's Credit for 2021*.

Options:

1. **Exempt retirement account balances, up to a certain threshold, from asset tests.** Some means-tested programs have asset tests.[320] These tests were designed to ensure that only those with the least resources would qualify for benefits. Unfortunately, asset tests also discourage those receiving the program's benefits from saving or encourage those trying to use the program to dispose of or even hide most of their assets.[321] Over time, the deleterious consequences of asset limits have been recognized, and many programs have eliminated asset tests or greatly reduced their use, but some asset tests remain. Supplemental Security Income has an asset test determined solely by the federal government. Supplemental Nutrition Assistance and Temporary Assistance to Needy Families have asset tests set by the federal government, but states can remove or amend them.[322]

This policy would, as a rule, not count retirement savings as assets up to a certain threshold, such as $100,000.

2. **Require auto-enrollment in a retirement plan and require periodic retirement contributions on behalf of all workers into an employer plan or a certain defined contribution fund.** This option would significantly increase the percentage of workers, including self-employed individuals and gig workers, who have some savings for retirement. It would encourage savings by making the default option for workers to contribute some percentage (depending on the policy) of one's earned income to a retirement account, though an opt-out may be offered in case the worker cannot afford the contributions. Employers of W-2 employees would be required to make contributions of some percentage of each employee's income with each pay period. Depending on the employer and how the policy is implemented, contributions might go to an employer-sponsored qualified plan, a federally maintained defined contribution fund, or a defined contribution fund maintained by an organization qualified under federal rules.

These mandated plans or funds would have to satisfy a range of tax qualification– and Employee Retirement Security Act of 1974 (ERISA)-like rules to assure that the contributions and earnings

---

[320] A straightforward example of an asset test would be "you must have less than $2,000 in your checking account/cash in order to qualify for…." Programs differ in what they consider assets and what resources are exempt from counting as assets. Typically, at least one car is exempt, and the value of one's home (up to a limit) is exempt.

[321] McDonald et al. 2005 review the literature on the impact of asset tests on savings and state that "both theory and the available evidence suggest that this disincentive can reduce and distort saving among moderate- and lower-income families." Chen and Lerman 2005 acknowledge the role that asset tests play in targeting benefits to those with the least resources and lowest incomes, while drawing a similar conclusion from existing literature: "In general, the studies find that asset limits lower the net worth of potentially eligible low-income individuals and families."

[322] Grehr 2018 finds that "states that have eliminated asset limits have found that the resulting administrative cost savings significantly outweigh any increase in the number of families receiving benefits." A 2017 issue brief by The Pew Charitable Trusts finds that, although lifting asset tests does not significantly increase savings among benefit-eligible populations, a number of positive effects were associated with lifting the tests. Benefit-eligible households in states without asset tests were more likely to have a checking or savings account, and households in states with eliminated or relaxed vehicle limits were more likely to own a vehicle and to have liquid/semi-liquid assets exceeding $500. The Pew brief also reports that lifting asset tests does not yield increased administrative costs or caseload growth. The most recent information on asset tests for program eligibility is produced by the Prosperity Now Scorecard.

are managed in ways that benefit the workers, including investment rules and rules to assure that some portion of a worker's retirement savings is annuitized to assure consistent, and higher, levels of income in late life. The rules might also include limits on fees and other expenses associated with managing the accounts to protect worker savings.

3a. **Expand access to the Saver's Credit and make it refundable.** An increase to the adjusted gross income eligibility threshold ($33,000) and reduced administrative burden for taxpayers to claim the credit[323] would increase the number of individuals who benefit from the Saver's Credit. An increase in the percentage of contribution returned or an increase in the maximum credit ($2,000) would increase the impact of the credit as well. A refundable credit would ensure that eligible individuals with little to no tax liability would benefit. Further, a refundable credit would reduce the disincentive to save that comes from current consumption needs for low-income households; if individuals are refunded for a (large) portion of what they save, they will not experience overbearing short-term financial constraints imposed by saving.

3b. **Expand access to the Saver's Credit, make it refundable, and place any tax refund into the worker's retirement account**.
This option would implement option 3a and allow the Saver's Credit to function as a savings match program, thereby increasing retirement savings by larger amounts for the lowest-income tax filers. If the obstacle to saving is having insufficient income, however, this design may not draw more individuals into saving than the alternative described in option 3a.

4. **Eliminate pre-retirement distributions in separation from service and allow for limited pre-retirement distributions for certain hardships**. A threat to the success of retirement savings, and the efficacy of tax expenditures that promote that saving, is leakage from retirement accounts, otherwise known as pre-retirement withdrawals.[324] Under current law, employer-maintained plans and employees have the option to distribute retirement savings upon an employee's separation from service with an employer.[325] Current policy allows for pre-retirement use of tax-favored retirement savings for nonretirement purposes. This policy is the largest source of leakage in the U.S. retirement system, thus reducing retirement security and using a government investment in retirement (via tax benefits) outside of its intended purpose.[326]

---

[323] The federal government might, for example, incentivize retirement account managers to notify participants and potential participants of Saver's Credit eligibility dependent on one's income and clarify for participants what information is needed in order to claim the credit.

[324] *The Impact of Leakages on 401(k)/IRA Assets*, Center for Retirement Research. *The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage,* The Employee Benefits Research Institute.

[325] See *Topic No. 558 Additional Tax on Early Distributions from Retirement Plans Other Than IRAs* for more information about rules around separations from service. The IRS states the following as exempt from the 10 percent penalty, which we refer to as separation from service: "Distributions made as part of a series of substantially equal periodic payments over your life expectancy or the life expectancies of you and your designated beneficiary. If these distributions are from a qualified plan other than an IRA, you must separate from service with this employer before the payments begin for this exception to apply."

[326] *Cashing Out: The Systemic Impact of Withdrawing Savings before Retirement* provides a literature review of the impact of withdrawals following separation from service. This study finds that, each year, between 6.5 percent and 9.5 percent of 401(k) participants "cash out" following a job change, resulting in $60 billion to $105 billion in lost savings annually.

Simultaneously, current policy either does not allow for or otherwise subjects most pre-retirement distributions (before age 59½) to a 10 percent tax penalty.[327] The penalty creates a barrier to saving for low- and middle-income households who desire an access to savings in the case of an emergency or a "financial opportunity."[328] Research shows, however, that when given low- or no-penalty access to retirement savings in some form, aggregate contributions tend to rise.[329]

This option would both reduce pre-retirement leakages and increase retirement account contributions using changes to the laws governing pre-retirement distributions. Disallowing penalty-free retirement distributions following separations from service would reduce leakages, and increased access to retirement savings for select emergencies would promote increased contributions. Regarding the latter option, policy makers might, for example, limit distributions to a percentage of contributions made in the last three years and apply a small penalty tax, e.g., 5 percent, to recapture tax benefits to limit any opportunities for "gaming" the system.

Promote savings for pre-retirement needs

Leakages from retirement accounts, otherwise known as pre-retirement withdrawals, are a threat to the success of retirement savings and the efficacy of tax expenditures that promote that savings.[330] To the extent that policies might encourage pre-retirement savings, the likelihood of individuals drawing on retirement accounts prior to retirement will be reduced.

Currently, around 40 percent of U.S. households do not have sufficient cash savings to meet an unexpected $400 expense.[331] Sixteen percent of adults cannot pay their bills in full in a given month.[332] In addition, 6 percent of adults are "unbanked;" they do not have a checking, savings,

---

[327] Internal Revenue Service. 2020. *Retirement Topics: Hardship Distributions*.

[328] Access to savings during an emergency such as a medical event or extended unemployment is generally less controversial. An Aon Hewitt testimony before the Senate in 2013 stated that "more than a third (34 percent) of African-Americans and 29 percent of Hispanics say the ability to take loans from their plans if they need the money is a 'strong' influence on their decision to invest in a DC plan, compared to 17 percent of Asian-Americans and 13 percent of Whites." Proposals may also consider access to retirement savings for certain wealth-building opportunities, such as financing an education, starting a business, or purchasing a home. A related proposal is detailed in *A Birthright to Capital: Equitably Designing Baby Bonds to Promote Economic and Racial Justice*. Specifically, "4. Allowable Uses of Funds" on page 19 discusses how access to savings—in this case, to those accrued by a system of baby bonds—might be implemented to create the best wealth-building outcomes.

[329] Mitchell et al. 2005 find that offering the option of a loan on one's 401(k) does not raise overall participation rates, but contribution rates rise "by about 10 percent among non-highly-paid participants." Moore et al. 2021 state that "the 401(k) system is de facto income and expenses insurance of the last resort. . . . Because other countries have better unemployment insurance and health insurance, they do not need as much pre-retirement liquidity in their pension system." To this extent, improvements to income security outside of the retirement system are likely to increase retirement contributions. See the Labor and Benefit sections for more information on such improvements.

[330] *The Impact of Leakages on 401(k)/IRA Assets*, Center for Retirement Research. *The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage*, The Employee Benefits Research Institute.

[331] This figure is from the Economic Well-being of U.S. Households annual report (Figure 14) produced by the Federal Reserve. When the question was first asked in 2013, 50 percent of households said they could meet the unexpected $400 expense. By 2019 this portion had risen to 63 percent. See page 21 for further discussion of the implications of the survey's findings.

[332] This figure is from the Economic Well-being of U.S. Households annual report (Table 9 in 2020). Bills include rent, mortgage, water, gas, electric, credit card, phone, cable, student loan, car payment, and other unspecified expenses.

or money market account. An additional 16 percent were "underbanked;" they had an account but used alternative financial products.[333] Black and Hispanic individuals are overrepresented among those who cannot meet bills and who are un(der)banked. All of these statistics make clear why leakages from retirement accounts might take place.

Options:

1. **Mandate an employer-sponsored automatic savings program.** Rather than opting in to sponsor savings accounts, this policy would mandate that all employers[334] (including contractors of workers currently outside the scope of "employees") create a savings account for each worker and provide a minimum contribution from each worker's earned income. These accounts are referred to as Emergency Savings Accounts (ESAs), sidecar savings, or rainy-day accounts, and they are intended to bolster savings and prevent retirement account leakage.[335] Considerations for policy design include whether an opt-out is permitted, the tax treatment of contributions and any earnings on savings, whether to establish a contribution limit in these accounts, whether to regulate allowed uses of funds for nonemergencies (i.e., justifiable pre-retirement needs that are not emergencies), and whether unused funds can be used for retirement needs.

This option might be thought of as an alternative to allowing "for limited pre-retirement distributions for certain hardships" under option 4 in *Promote Retirement Savings* since allowing pre-retirement distributions from retirement accounts for emergencies would limit the need of nonretirement savings accounts.

2. **Create a universal asset endowment.** A universal asset endowment is a savings account created at birth that is funded at the very least by an initial government contribution and to which annual contributions may be made. These accounts were originally proposed in 1991 as Child Development Accounts (CDAs)[336] and have recently been proposed as American Opportunity Accounts,[337] but are often referred to as baby bonds.

Under the category of universal asset endowment, this report highlights six key parameters: 1) the relation of the initial contribution to family income and/or wealth; 2) whether annual contributions are made by the government[338]; 3) if annual contributions are made by the government, the relation of annual contributions to family income and/or wealth; 4) whether individuals and families are permitted to make contributions in addition to government

[333] This statistic is from the Economic Well-being of U.S. Households annual report (Figure 18 in 2020).
[334] Whether or not self-employers are to be mandated to create an account and provide a minimum contribution from their own income is an important question. At the very least, self-employers may have the option to contribute to a saving account under this arrangement.
[335] The tradeoffs of varying structures to implement an ESA are discussed in this exploratory paper. Mitchell and Lynne 2017 "explore the possibility of linking a short-term savings, or 'sidecar,' account to a traditional retirement account to better meet consumers' short- and long-term financial needs." Nest Insight is undertaking a multi-year trial with a "sidecar savings model" in which contributions are automatically deducted from payroll and allocated first to one's liquid emergency savings account and, once the savings account cap is hit, then to one's retirement account.
[336] *Child Development Accounts*, The Federal Reserve Bank of St. Louis.
[337] S. 2231 *American Opportunity Accounts Act*.
[338] The policies described here refer to federal government policies and actions, though states might be permitted to contribute to these accounts assuming administrative feasibility.

contributions; 5) the liquidity of the savings upon the account holder turning eighteen (that is, the extent to which the individual will be limited in the uses of the savings, such as for a college education, a trade school, a training program, a home purchase, a new business, or retirement, or is otherwise free to use the savings as they see fit); and 6) the tax treatment of contributions, earnings on the contributions, and distributions.[339]

Depending on the progressivity of the contribution structure, a universal asset endowment might significantly help close the racial wealth gap. A program of universal asset endowments might also be accompanied by improved financial education at early ages to ensure that the asset turns into a lifelong basis of wealth for every recipient.[340]

3. **Create "postal banking" to allow USPS to provide nonbank financial services.** From 1911 to 1966, the U.S. Postal Savings Service offered savings accounts at post offices.[341] A reinstated postal banking service would offer nonbank financial services that would target unbanked populations. The USPS Office of Inspector General has proposed reinstating the service.[342]

Regulate certain private debt practices

Lending is a complex and variable practice. The amount lent, whether the loan is secured against an asset such as a house, the value of that security, the borrower's creditworthiness, how creditworthiness is determined, the interest rate, the payment schedule—these factors can vary with every loan.

For households that have difficulty obtaining credit or accessing bank accounts, borrowing may be costly. On the one hand, individuals may have limited means of obtaining credit to meet immediate needs and, on the other hand, the credit offered might lead to a high-interest debt cycle. A loan with a difficult repayment schedule is distinct from a predatory loan, in which borrowers are manipulated with regard to the exploitative terms of the loan.[343] Regulators and loan originators often disagree about what is a "loan of last resort" to a less creditworthy individual versus predatory lending. In any case, researchers have found suggestive evidence that payday lenders target communities of color.[344]

---

[339] This short piece from the Urban Institute discusses the potential effects of baby bonds on wealth and wealth disparity.

[340] The Eastern Band of Cherokee Indians, for example, administers a universal asset endowment within their tribe known as the Minors Trust Fund (Littledave, Sheyashe 2019, *The Big Money*). Upon turning eighteen, tribe members receive no-strings-attached disbursements which have grown to over $100,000 in recent years. To assist recipients in managing their wealth disbursement, the tribe has made an intentional effort to improve money management skills among the youth population. (See The Cherokee Preservation Foundation, *Financial Literacy.*)

[341] Two short histories of the Postal Savings System: from USPS and from Mehsra Baradaran, a postal banking proponent.

[342] *Providing Non-Bank Financial Services for the Underserved,* Office of the Inspector General, USPS. *It's Time for Postal Banking,* *Harvard Law Review*.

[343] *What Is a Predatory Loan?* from The Balance and *What Is Predatory Lending* from Nerdwallet provide introductions to the concept of predatory lending. The National Consumer Law Center has a resource guide for the two loan types often accused of being predatory, *Payday and Installment Loans*. Both the *New York Times* and the *Washington Post* have recently examined the effect of these types of loans on borrowers.

[344] The Center for Responsible Lending investigated the geographic concentration of payday lenders in California in its report *Predatory Profiling*. Six years later, the state of California released a report that came to a similar

Options:
1. **Increase regulatory and enforcement capacity of the Consumer Financial Protection Bureau (CFPB) and require consistency in practice.** The CFPB has been highly politicized since its creation after the 2008 financial crisis. Its creation consolidated the consumer protection authorities that had previously existed across seven different federal agencies within one agency.[345] Since 2017, many prior regulatory policies and practices of the CFPB were reversed or abandoned.[346] This policy would restore the regulatory capacity of the CFPB and require more consistency in policy and practice so that consumers have a well-defined and reliable set of protections.

2. **Create a federal Fairness in Lending law**. This option balances the need for credit among low-income households with fairness in lending grounded in limiting loans and associated fees and interest by an individual's ability to make payments.[347] A form of this law passed in Ohio in 2018 after a series of legal battles that failed to reform the payday lending industry. In Ohio, borrowers now have "at least three months to repay unless monthly payments are limited to 6 percent of the borrower's gross monthly income," annual interest is capped at 28 percent, monthly fees cannot exceed the lesser of 10 percent or $30, and total interest and fees are capped at 60 percent of loan principal.[348]

3. **Create an advisory committee to consider student loan forgiveness.** Student loans currently total $1.7 trillion.[349] Loans vary in size across numerous factors, such as the type of school (two-year, four-year, or graduate institution), and many reasons exist for the increasing amount borrowed and number of borrowers. In terms of loan amounts, size is not always correlated with inability to pay; individuals are more likely to be behind on a loan less than $14,000 than a loan greater than $14,000. A recent survey by the Social Policy Institute indicates that student loan forgiveness would heavily change the future behavior of current loan holders.[350]

---

conclusion, *The Demographics of California Payday Lending*. The Morning Consult also found that Black households reported having more payday lenders and pawn shops in their neighborhoods in *"It's What We Call Reverse Redlining."*

[345] *Building the CFPB*, CFPB.

[346] One prominent example is the reversal of payday lending regulations. See CNBC for coverage.

[347] The Pew Research Center Consumer Finance Project has been leading in research and policy design in the area of small dollar loans. Their head explains the advantages of the Ohio law in Ohio's Payday Lending Law Could Be National Model.

[348] Bourke, Nick. 2018. Ohio's Payday-Lending Law Could Be National Model. *The Columbus Dispatch*.

[349] Many summaries and descriptions of student loan debt are available. Educationdata, a website that compiles education data from publicly available sources, summarizes student loan statistics. In researching the well-being of U.S. households, the Federal Reserve includes annual estimates of student loans and other educational debt. When student debt forgiveness became a possible policy, the Brookings Institute released this Q&A guide, *Who Owes All That Student Debt?*

[350] Roll, Jabari, and Michal Grinstein-Weiss 2018 discuss the findings of the survey, stating that

> student debt is strongly influencing decisions that can have large implications for household economic stability, e.g., emergency savings, and mobility, e.g., saving for a down payment on a home, starting a business, etc. In addition, student debt may be altering the structure of families themselves. Roughly 7 percent of respondents reported that they would be more likely to get married or have children if their student debt were forgiven, indicating that this debt burden is affecting even fundamental decisions about debt holders' life trajectories.

This policy would create an advisory committee to consider whether some portion of or all student loans should be forgiven and how that determination should be made. Policy may also address loans from schools that are associated with high default among their alumni or fraud and loans serviced by financial institutions that have been found to defraud customers.[351]

Regulate certain public debt/fees practices

The private sector is not the only issuer of debt. In recent years, states and localities have increasingly shifted to a system of "offender-funded justice"—funding their law enforcement and court systems, and in some cases significant portions of overall local budgets, through fines and fees levied on individuals who come into contact with the criminal justice system.[352] One analysis found that people who went through the New Orleans' justice system in 2015 paid nearly $12 million in fines, fees, and court costs.[353] Examples include various types of "user fees" that get tacked onto a conviction, public defender fees for defendants who exercise their right to counsel, and "pay-to-stay" fees to offset the costs of time spent in jail. These types of user fees are separate from fines, which are the result of a criminal conviction.

On top of the underlying criminal legal debts imposed by statute, many states and localities assess late-payment fees, steep collection fees, and even fees for entering an installment payment plan. And all of these fees are separate from money bail. Criminal debt can be significant and can impose a hardship on families.[354] Further, in many states, individuals are not eligible to expunge or seal their criminal records until they have paid off all criminal debts. Outstanding criminal debt can also stand in the way of public assistance, housing, employment, access to credit, and even the right to vote.[355]

Options:

1. **Reform court-imposed, jail-imposed, and prison-imposed fees.** This policy would limit the practice of "offender-funded justice" and require states to fund courts and court services mostly through their tax base.

---

[351] School fraud and servicer fraud are not the same thing. *School fraud* involves educational institutions that were found to have made fraudulent representations to their students, many of whom took out loans to attend. The large number of recent cases of educational institute fraud were Corinthian Colleges and ITT Technical Institute. The Department of Education has a time line of the decline for Corinthian and ITT, as well as student loan questions for former Corinthian and ITT students. The *New York Times* has coverage of the case against ITT and the case against Corinthian made by government prosecutors. *Servicer fraud* is when a financial institution that manages student loan repayments is accused of defrauding customers. In 2017 the CFPB sued Navient for deception, accusing it of having "illegally cheated borrowers of repayment rights." The lawsuit was the result of years of research into issues related to student loan services, summarized in this report. Navient is the largest student loan service entity in the U.S. and was previously Sallie Mae. The CFPB lawsuit for mistreatment of borrowers is separate from the investigation of a whistleblower claim that Navient cheated the federal government; it was ordered to pay back $22 million to the federal government in early 2021.

[352] For example, the city of Ferguson, Missouri, was revealed to have relied on raising municipal court fees and fines to make up fully one-fifth of its $12.75 million budget in 2013. The Department of Justice's *Investigation of the Ferguson Police Department* found that its focus on revenue from police-issued fines led to unconstitutional practices and exacerbated racial disparities.

[353] *Past Due,* The Vera Institute of Justice.

[354] *Who Pays? The True Cost of Incarceration on Families.* Ella Baker Center for Human Rights, Forward Together, and Research Action Design.

[355] Levine, Sam. 2020. Federal Court Rules Florida Felons Must Pay Off Debts to State before Voting. *The Guardian*.

2. **Institute a sliding scale for criminal fines based on ability to pay.** If the purpose of a fine is to deter people from breaking the law, then the size of the fine would scale with the person's ability to pay, not just the offense.

3. **Reduce fee and fine nonpayment penalties.** Federal, state, and local governments should study the appropriate use of fines and fees and then remove or reduce fines and fees based on these analyses. Appropriate fines and fees should reflect fair treatment with regard to the amount that low-income individuals are able to pay.[356] Fines and fees must function only as a deterrent to criminal behavior, not as a source of profit or a large source of state/local/municipal revenue.[357]

4. **Reform the use of money bail.** Bail is an amount of money that some individuals who are charged with a crime must pay to be released while they fight the charges. Bail is determined by the judge and is meant to ensure that the individual appears for their court date. Bail is returned to defendants when their case has concluded or the trial is over.[358] Awaiting trial in jail because of inability to pay is something more likely to be borne by very low-income individuals and, regardless of current income, may have deleterious consequences for the person, who has not been found guilty.[359] This policy would reform the use of bail so that it does not become a de facto punishment for the poor. Monetary bail is not the only means of guaranteeing that an individual meet their court date. Pretrial supervision, for example, would be an alternative to cash bail.

5. **Reform child support.** Child support is the financial support paid by parents to support a child or children of whom they do not have full custody.[360] For many families, child support is handled through the family court system, with support amounts specified in a divorce decree or custody determination and claims of nonpayment settled through attorneys or resolved by a judge. For low-income families, child support becomes a matter of public interest. A custodial mother may be eligible for SNAP given her own income but would be ineligible if she received full child support. Under the 1996 welfare reform, child support enforcement was enhanced with the goal of making low-income families self-sufficient and showed initial success at doing so.[361]

---

[356] The American Bar Association working group on building public trust in the American justice system found that, as of 2020, "about 10 million low-income residents owe more than $50 billion in often unaffordable additional costs" (American Bar Association, *New ABA Study Captures Impact of Fines, Fees on the Poor*).

[357] The Fines and Fees Justice Center documents the economic insecurity and injustice brought by fines and fees across the U.S.

[358] *How Bail Works,* How Stuff Works.

[359] *Bail Reform, . . . , Explained,* Vox, and *What You Need to Know About Ending Cash Bail* from the Center for American Progress discuss bail and potential reform. Illinois recently passed the Pretrial Fairness Act, which ends all money bail.
The Prison Policy Initiative finds that 74 percent of the 470,000 individuals in city and county jail on a given day are being held there pretrial due to an inability to pay bail. This population is extremely low income; average annual income for men and women who cannot afford bail is $16,000 and $11,000, respectively. Inability to pay bail is also a racial issue, as 43 percent of the pretrial population in jail is Black. The PPI provides more data in its report *Mass Incarceration: The Whole Pie 2020.*

[360] The National Conference of State Legislatures has a Child Support Tutorial to introduce the legal and regulatory issues around child support.

[361] *Child Support Reforms in PRWORA: Initial Impacts*, The Urban Institute.

Evidence shows, however, that rates are set too high for many noncustodial parents (often low-income men), preventing them from meeting payment obligations. They instead accrue debt, interest, and penalties such as loss of their driver's licenses for nonpayment.[362] Additionally, if the custodial parent, often the mother, is receiving public benefits (TANF), child support is collected by the state, not the custodial parent, and the money collected is often not given to the mother but is kept by the state. The amount of collected child support that the state remits back to the custodial parent is referred to as the "pass-through," and it varies by state.[363]

Many child support reform proposals put first changing the way support is calculated, collected, and forgiven so that noncustodial parents do not get trapped in a cycle of low income and debt, as well as guaranteeing that all support paid goes to the child.[364] Certain proposals call for a guaranteed monthly minimum of child support to be paid by the government if the noncustodial parent is unable to make payments, while maintaining a legal obligation on the noncustodial parent to make payments.[365]

Increase access to legal services

Policy, no matter how well designed, is not self-implementing, and in many situations, individuals may require legal counsel to, for example, make a complaint of wage theft or discrimination, leave a situation of domestic violence, or fight an eviction notice. The Legal Services Corporation (LSC) was established in 1974 and "promotes equal access to justice by funding high-quality civil legal assistance for low-income Americans." LSC is a grant-making agency; its budget is redistributed to legal aid providers.[366]

The total funding for LSC in 2020 was $440 million.[367] LSC also received additional money in the CARES Act, a recognition of the importance that LSC plays in times of heightened economic insecurity.

Not everyone, or every situation, qualifies for representation from legal aid. Individual or family income must be below 125 percent of the poverty line, but it could be lower at certain providers; undocumented immigrants are ineligible in most cases, as are persons currently incarcerated.[368] Legal aid can provide assistance in areas of family law, housing and foreclosure, consumer

---

[362] See *Interest on Child Support Arrears,* National Conference of State Legislatures, and *Reforming Child Support to Improve Outcomes for Children and Families*, the Abell Foundation.

[363] *Child Support Pass-Through and Disregard Policies for Public Assistance Recipients*, National Conference of State Legislatures.

[364] An overview of the issues and goals of child support reform can be found in the *New York Times* editorial *Child Support vs. Deadbeat States,* this overview *Child Support Reform* from Child Trends, and *Transforming the Child Support System into a Family-Building System* from the U.S. Partnership on Mobility from Poverty.

[365] See Appendix D, 5-10, p. 432, of *A Roadmap to Reducing Child Poverty* for analyses of child support guaranteed minimums of $100 and $150 per month.

[366] *How We Work*, Legal Services Corporation.

[367] *Legal Services Corporation*, American Bar Association.

[368] Code of Federal Regulations, Title 45, Subtitle B, Chapter XVI, Part 1611: *Financial Eligibility* provides the regulations, but more explanation of who is covered by LSC can be found at *What Is Legal Aid?* by the National Legal Aid and Defender Association, and *Can LSC Grantees Represent Undocumented Immigrants?* by Legal Services Corporation.

issues, and employment and income maintenance. It is also available to military families. More than half of those seeking legal aid are turned away due to funding and capacity constraints.[369]

Options:

1. **Increase funding for the Legal Services Corporation (LSC)**. Legal aid, for many individuals, is the only option in legal representation, but inadequate LSC funding has for years forced legal aid programs across the U.S. to turn eligible individuals away for lack of resources. This proposal would increase LSC funding to a sufficient dollar amount to close the "justice gap"[370] and ensure that all income-eligible individuals are able to receive legal help in their time of need.

2. **Remove some of the restrictions on uses of Legal Services Corporation funding.** Legal aid programs that receive federal LSC funds are not allowed to assist in many types of cases, ranging from school desegregation litigation to class action suits. Meanwhile, if a legal aid program accepts even $1 in LSC funds, all of its funding is subject to LSC's funding restrictions. This policy would remove or reform these restrictions, many of which are politically motivated, to enable legal service programs to meet their clients' legal needs more effectively.[371]

3. **Expand the right to counsel.** Unlike in criminal matters, the right to counsel—to have an attorney represent a person in court, even if they cannot afford one—does not apply to civil legal matters.[372] This policy would expand the right to counsel to apply to civil cases where basic human needs are at stake. Ensuring access to legal representation has been shown to reduce evictions in the localities that have adopted a right to counsel in eviction cases.[373]

---

[369] *Civil Legal Aid 101*, Department of Justice.

[370] See the Legal Services Corporation's report *The Justice Gap: Measuring the Legal Needs of Low-Income Americans.*

[371] Restricted activities for LSC funds are listed here *LSC Restrictions and Other Funding Sources.* The Center for American Progress proposed idea for Legal Services Reform is here: *Making Justice Equal*.

[372] For an introduction to the right to counsel, see *Right to Counsel* from the Cornell Legal Information Institute. For an introduction to the Supreme Court case that extended the right to counsel to state felony charges, see *Gideon v Wainright* from the Georgetown Law Library.

[373] The National Coalition for a Civil Right to Counsel keeps track of where states and localities have expanded the right to counsel, *Major Developments.* Evidence that counsel reduces eviction is based on a pilot expansion of right to counsel in New York City, summarized at *Expand the Right to Counsel.* Background on the right to counsel and proposals to increase are discussed in *A Right to Counsel Is a Right to a Fighting Chance* by the Center for American Progress.

Equity Policy

Equity policies are policies that address the disparities among demographic groups. Different groups do not necessarily have the same experience, nor do they necessarily have the same challenges. Different levels of income obviously also play a role in equity and access to financial and educational resources. The introduction to this report noted, for example, that many LGBTQ+ individuals have at one point been cut off from their family, including financially, while Black individuals are more likely to have credit applications denied. And in discussing benefit policy, we noted that many immigrants are not able to apply for means-tested programs, creating a "chilling effect" on eligible individuals in mixed-status households, while individuals with a drug felony are potentially banned for life from ever receiving SNAP or other forms of assistance, although many states have already lifted such restrictions.

This report does not have room to give the needs of these groups (and many others) the space they deserve to be aired fully, nor does it have the aim of carving a cohesive policy to end disparity tailored to the needs and experiences of a group. Rather, including equity as part of the economic security portfolio is a means of acknowledging that ignoring these disparities or treating them as "out of scope" will not alleviate, and may further exacerbate, disparity.

In addition, policies do not need to be designed or targeted to a specific population to decrease disparity. Social Security Old Age Insurance, for example, greatly reduces poverty for Black seniors and counteracts the lower earnings, lower savings, and lower wealth that Black retirees have, on average.[374] By extension, Social Security works to mitigate the effects of discrimination that many Black workers face in the labor market.[375] Hence, creating a new minimum benefit for OASDI is considered equity policy.[376] Similarly, Hispanic workers make up 17 percent of total employment but 27 percent of food service and preparation employment. Ending the subminimum wage for tipped workers could help with the earnings disparity between Hispanics and non-Hispanics,[377] but it might also have unintended consequences, such as reducing employment.[378]

---

[374] For an introduction to differences in wealth between Black and White Americans (often called the Black-White wealth gap or racial wealth gap), you can read *The Racial Wealth Gap in the United States*. Three reports provide an overview of how Black Americans benefit from Social Security: *Social Security Helps African Americans Save for Retirement* (AARP), *African American Economic Security and the Role of Social Security* (Urban Institute), or *Social Security: A Vital Protection for African American People of All Ages* (CBPP). In addition, the NAACP released this statement on Social Security: *Viewing Social Security through the Civil Rights Lens*.

[375] This review in the *Proceedings of the National Academy of Sciences* summarizes twenty years of field experiments to show that discrimination in hiring toward Black job applicants is large and consistent: *Meta-analysis of Field Experiments Shows No Change in Racial Discrimination in Hiring over Time.*

[376] Changes to OASDI fall primarily under the category of benefit policy for the purpose of this report and are thus not included in this section. With that said, establishing a new minimum benefit under OASDI has obvious equity implications.

[377] Table 11 of the Annual Labor Force Statistics tables from the Current Population Survey shows occupational distribution of workers by gender, race, and ethnicity.

[378] Even, William E., and David A. Macpherson. 2014. The Effect of the Tipped Minimum Wage on Employees in the U.S. Restaurant Industry. *Southern Economic Journal, 80*(3), 633–655.

Policy	Options
Remove barriers to opportunity for people with criminal records	1. Make criminal record-clearing automatic. 2. Create a federal record-clearing mechanism. 3. Reform occupational licensing restrictions targeting workers with records.
Address the racial wealth gap	1. Enforce housing anti-discrimination laws more effectively. 2. Create credit for first-time home buyers. 3. Invest in universal, high-quality preschool education. 4. Make K–12 funding more equitable. 5. Establish an affordable college compact. 6. Evaluate the case for proposals for paying reparations aimed at addressing the legacy effects of slavery and government policies that created discrimination and segregation of minority groups.
Explore creating a path to citizenship for undocumented immigrants	1. Explore creating a path to citizenship based on length of stay, year of entry, work history, and criminal record.
Improve or eliminate subminimum wages ←→ *Labor Policy*	1. End subminimum wages for workers with disabilities. 2. Tie the subminimum wage for tipped workers to 70 percent of the minimum wage. 3. End subminimum wages for all employees. 4. Reform wages for incarcerated persons. 5. Require companies that pay independent contractors to provide proof that each contractor earned at least the minimum wage.
Update wage and hiring rules ←→ *Labor Policy*	1. Prohibit the requirement that applicants disclose prior criminal records during the job application process. 2. Prohibit the requirement that applicants disclose prior salary or pay information during the job application and salary negotiation process.
Improve labor law enforcement ←→ *Labor Policy*	1. Increase staffing and funding of the labor regulatory bodies: Wage and Hour Division, Occupational Safety and Health Administration, Equal Employment Opportunity Commission, and National Labor Relations Board. 2. Review procedures for reporting workplace complaints at all four agencies and make recommendations for improvement. 3. Make it easier for workers to choose to be represented by a union.
Improve eligibility design for means-tested spending programs ←→ *Benefit Policy*	1. End the use of asset tests in eligibility for those means-tested programs in which they remain. 2. Raise the asset-test threshold and design a phase-out of benefits when the asset test is met. 3. Prohibit the use of behavior disqualifications in all means-tested programs. 4. Allow more documented immigrants to access means-tested programs.

Create a new universal income base (UIB) for all adults ←→ *Benefit Policy*	1. Create a UIB for all adults. 2. Subject the UIB to income taxation. 3. Exempt the UIB from the income amount used to determine eligibility for other programs. 4. Index the UIB to growth in the average or median wage.
Improve caregiving supports ←→ *Benefit Policy*	1. Establish a state-administered paid family and medical leave system under federal guidelines. 2. Create a federal paid family and medical leave program. 3. Establish a state-administered long-term care system under federal guidelines. 4. Create a federal long-term care program. 5. Significantly increase investments in childcare.
Regulate certain private debt practices ←→ *Protection Policy*	1. Increase regulatory and enforcement capacity of the Consumer Financial Protection Bureau (CFPB) and require consistency in practice. 2. Create a federal Fairness in Lending law. 3. Create an advisory committee to consider student loan forgiveness.
Regulate certain public debt/fees practices ←→ *Protection Policy*	1. Reform court-imposed, jail-imposed, and prison-imposed fees. 2. Institute a sliding scale for criminal fines based on ability to pay. 3. Reduce fee and fine nonpayment penalties. 4. Reform the use of money bail. 5. Reform child support.

Remove barriers to opportunity for people with criminal records

By some estimates, one-third of the working-age population has a criminal record. These records contain prior convictions and may contain charges and arrests that did not result in conviction.[379] Nearly half of U.S. children have at least one parent with a record.[380] These records appear in a background check for a job or for rental, credit, education, or loan applications. In addition, many states have provisions that bar certain individuals with convictions from obtaining certain occupational licenses.[381]

Most states allow individuals to apply to have at least some types of records sealed or expunged. A sealed record is no longer in public view, but can be opened by court order. Expungement removes the arrests or conviction entirely from the record.[382] While sealing and expungement are powerful tools for removing barriers to employment, housing, and other opportunities, research indicates that very few eligible people are successful in clearing their records due to the cost and

---

[379] For a discussion of criminal records and the number of Americans who have them, see *Just Facts: As Many Americans Have Criminal Records as College Diplomas* from the Brennan Center for Justice.
[380] For more on the impact of criminal records on children, see Removing Barriers to Opportunity for Parents with Criminal Records and Their Children: A Two-Generation Approach from the Center for American Progress.
[381] *Barrier to Work: People with Criminal Records*, National Conference of State Legislatures.
[382] More on the difference between sealed and expunged records can be found on FindLaw.

complexity of petition-based court processes.[383] Such procedures generally require filing a detailed application, paying filing fees, making court appearances, and submitting fingerprints.[384]

Options:

1. **Make criminal record-clearing automatic.** Over half the states have expanded eligibility for record-clearing over the past decade, with seven—Pennsylvania, Utah, Michigan, Virginia, Connecticut, Delaware, and California—enacting laws that make record-clearing automatic after a period of crime-free time. [385] Automatic record-clearing puts second chances within reach whether or not someone is able to afford a lawyer to help them navigate a complex and costly court process.[386]

2. **Create a federal record-clearing mechanism.** Federal law should allow for the clearing of federal arrest records for certain types of arrests.[387] Currently, federal law offers virtually no way to clear a federal criminal record—even for people who were arrested but later acquitted or whose charges were dropped.[388]

3. **Reform overly broad occupational licensing restrictions targeting people with criminal records.** Nearly one in four U.S. workers needs a state license to work in their chosen field.[389] In recent years, to remove unnecessary barriers to employment and produce fairer licensing laws, states have increasingly taken steps to remove "blanket bans" in licensing laws—which automatically disqualify people with criminal records—and to adopt other "fair chance licensing" reforms.[390]

Address the racial wealth gap

Racial wealth disparities are well documented. As of 2019, the median White family owned about $184,000 in wealth, compared to $23,000 for the median Black family and $38,000 for the median Hispanic family. In other words, the median Black and Hispanic families have $0.12 and $0.21, respectively, for every dollar of median White family wealth.[391] These disparities are also observed in homeownership, where the White homeownership rate is 74.5 percent, compared to 49.1 percent for Hispanic individuals and 44.1 percent for Black individuals.[392]

---

[383] A University of Michigan study found that just 6.5 percent of eligible individuals were able to obtain a "set-aside" in Michigan within five years of becoming eligible.
[384] A guide to the process for restoration of rights in every U.S. jurisdiction is maintained by the Collateral Consequences Resource Center, *Restoration of Rights Project*.
[385] Follow these links to learn more about Clean Slate laws in Pennsylvania, Utah, Michigan, Virginia, Connecticut, Delaware, and California.
[386] Find out more about automatic record clearance at the Clean Slate Initiative.
[387] The bipartisan Clean Slate Act, introduced in the House in 2019 and 2020 and in the Senate in 2020, would create the first-ever federal record-clearing remedy and make the process automatic for certain drug records.
[388] More on the absence of federal record-clearing can be found in this overview by the Collateral Consequences Resource Center.
[389] Furman, Jason, and Laura Giuliano. 2016. *New Data Show That Roughly One-Quarter of U.S. Workers Hold an Occupational License*.
[390] The Institute for Justice provides more information on the "37 states and Washington, D.C. [that] have reformed their occupational licensing laws to make it easier for ex-offenders to find work in state-licensed fields" since 2015.
[391] Kent, Ana Hernández, and Lowell Ricketts. 2021. *Wealth Gaps between White, Black and Hispanic Families in 2019*. Federal Reserve Bank of St. Louis.
[392] U.S. Census Bureau. *Housing Vacancies and Homeownership (CPS/HVS)—Historic Tables*. Table 16, Q4 2020.

In addition to serving as a backstop during crises, wealth grants access to better opportunities. With wealth, families can afford to buy a home in a neighborhood where housing value is likely to appreciate or to send a child to preschool rather than have a parent stop working to serve as the caregiver. The home may bring access to a school system with sufficient resources, and preschool may bring socialization with peers at a young age. A basis of wealth provides opportunities and benefits that breed further opportunities and benefits.

Although policy cannot establish wealth for families overnight, it can help ensure that individuals are not excluded from key opportunities to succeed based merely on the level of their family's wealth.

Options:
1. Enforce housing anti-discrimination laws more effectively. Discrimination in housing persists despite the Fair Housing Act's enactment over fifty years ago.[393] Stronger enforcement of housing anti-discrimination laws will ensure that people of color have equal access to all housing markets and the secondary benefits associated with those markets.

2. **Create credit for first-time home buyers.** Housing is a key asset, especially for households of color.[394] As such, a credit for first-time home buyers might go a long way in helping households of color build wealth. To further emphasize the goal of wealth-gap reduction, proposals often require the relevant individual to be a first-generation home buyer.[395] A credit that lessens the burden of down payment will allow many renters to transition to homeownership and free up money for other home improvements following the purchase.[396]

3. **Invest in universal, high-quality preschool education.** Substantial evidence now exists that attending preschool improves long-term outcomes such as the likelihoods of attending college and not engaging in criminal activity.[397] Universal preschool also frees up parents who would

---

[393] Zonta documents evidence of the variety of "new forms of racial bias in housing" that have emerged in recent decades, including real estate agents steering "African Americans away from desirable neighborhoods and toward areas featuring larger concentrations of people of color, higher poverty levels, and lower housing quality compared with neighborhoods to where whites relocate."
Zonta, Michela. 2019. *Racial Disparities in Home Appreciation*. Center for American Progress.
[394] Neal, Michael, and Alanna McCargo. 2020. *How Economic Crises and Sudden Disasters Increase Racial Disparities in Homeownership*. Table 1. Urban Institute.
[395] Green, Dan. 2022. *$25,000 Downpayment Toward Equity Act of 2021: Simplified*. Homebuyer.com.
[396] Choi, Jung Hyun, and Janneke Ratcliffe. 2021. *Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership*. Urban Institute.
[397] Gray-Lobe et al. 2021 find that "attendance at a public preschool in Boston boosts on-time college enrollment by 8 percentage points, an 18% increase relative to the baseline college-going rate of 46%. Children who randomly win a seat at a Boston preschool are 5.5 percentage points more likely to attend a four-year college by the fall after projected high school graduation and 8.5 percentage points more likely to attend a Massachusetts college."
Regarding the Head Start program, Schanzenback and Bauer 2016 find that it "improves educational outcomes—increasing the probability that participants graduate from high school, attend college, and receive a post-secondary degree, license, or certification" and that it "causes social, emotional, and behavioral development that becomes evident in adulthood measures of self-control, self-esteem, and positive parenting practices."
Gray-Lobe, Guthrie, Parag A. Pathak, and Christopher R. Walters. 2021. *The Long-Term Effects of Universal Preschool in Boston*. NBER Working Paper No. 28756.

otherwise be caregivers and allows them to participate in the labor market.[398] Universal, high-quality preschool improves the likelihood of wealth building in both the short and long run.

4. **Make K–12 funding more equitable.** Inequity in public school funding in the U.S. is extreme both within and across states.[399] The link between education spending on short-term outcomes such as test scores and college attendance is also now well established.[400] Greater equity in K–12 funding will help set all U.S. children on a trajectory toward success and stability in adult life.

5. **Establish an affordable college compact.** A large majority of colleges are not affordable for students receiving Pell Grants.[401] That a college degree significantly increases lifetime earnings is well established.[402] An affordable college compact would ensure that college is accessible to any and all students. Some options include the expansion of the Pell Grant program to target aid to low- and middle-income families more effectively; implementation of a federal–state

---

Schanzenbach, Diane Whitmore, and Laruen Bauer. 2016. *The Long-Term Impact of the Head Start Program*. Brookings Institution.

[398] "In the years since Washington, D.C., began offering two years of universal preschool, the city's maternal labor force participation rate has increased by about 12 percentage points, with 10 percentage points attributable to preschool expansion."
Malik, Rasheed. 2018. *The Effects of Universal Preschool in Washington, D.C.* Center for American Progress.

[399] Martin et al. 2018 discuss two neighboring school districts in Texas. As of 2013/2014, the Edgewood school district received "about $5,000 less per pupil in education funding than Alamo Heights, a wealthier, neighboring school district." As such, "core services that have a significant influence on instructional quality and student performance are systematically unavailable to students in low-income schools relative to students in higher-income schools. These critical services include early childhood education, quality teachers, and exposure to rigorous curriculum."
Indeed, Baker et al. 2018 find that seventeen states are regressive in their public school funding, meaning that higher-poverty school districts receive less funding per pupil than their lower-poverty counterparts. They also show the range of per pupil funding across states in 2015 at a high of $18,719 in New York to a low of $6,277 in Idaho.
Martin, Carmel, Meg Benner, Ulrich Boser, and Perpetual Baffour. 2018. *A Quality Approach to School Funding*. Center for American Progress.
Baker, Bruce, Danielle Farrie, and David G. Sciarra. 2018. *Is School Funding Fair? A National Report Card*. Education Law Center.

[400] Jackson et al. 2021, for example, find that during the Great Recession, when school budgets were being cut, "cohorts exposed to these spending cuts had lower test scores and lower college-going rates. The test score impacts were larger for children in poor neighborhoods. Evidence suggests that both test scores and college-going were more adversely affected for Black and White students than Latinx students."
Jackson, C. Kirabo, Cora Wigger, and Heyu Xiong. 2021. "Do School Spending Cuts Matter? Evidence from the Great Recession." *American Economic Journal: Economic Policy*, 13(2): 304–335.

[401] According to the National College Attainment Network, only 23 percent of four-year public colleges were affordable for a student who received the average-sized Pell Grant in 2018–19, with an average affordability gap of $2,524. Ten states had no affordable four-year public institutions, and 38 states had five or fewer.
National College Attainment Network. 2021. *College Affordability*.

[402] Carnevale et al. 2021 show that, at the median, compared to a high school diploma, lifetime earnings for a Black worker increase by 21 percent with an associate's degree and 64 percent with a bachelor's degree. For a Hispanic worker, those figures are 36 percent and 64 percent, respectively.
Carnevale, Anthony P., Ban Cheah, and Emma Wenzinger. 2021. *The College Payoff: More Education Doesn't Always Mean More Earnings*. Washington, DC: Georgetown University Center on Education and the Workforce.

partnership that rewards states that invest more in higher education; and subsidization of under-resourced schools that are working with low-income students.[403]

6. **Evaluate the case for proposals for paying reparations aimed at addressing the legacy effects of slavery and government policies that created discrimination and segregation of minority groups.** The original policy of reparations dates to the time of the Civil War, when Special Field Order No. 15 required the redistribution of confiscated confederate land among newly freed slaves.[404] The redistribution was not realized, but the issue of reparations and the question of what, if anything, is owed to Black citizens of the U.S. has persisted. Furthermore, the failure of the government to fulfill this mandate is one source of the enduring racial wealth gap. House bill H.R. 40, introduced in every Congress since 1989, proposes the creation of a commission to study slavery and develop a proposal for its remedies.[405] Harms that have hindered the economic progress and well-being of other groups in the U.S., such as Native Americans, may also warrant investigation to ensure an equitable system of economic security.

The U.S. has previously awarded reparations to a racial group economically disadvantaged by unfair and illegal government policy. In 1942, President Franklin D. Roosevelt issued an order requiring the internment of 77,000 Japanese American citizens and 43,000 legal and illegal resident aliens in detention camps. The last camp was closed in January 1946. In 1988, President Ronald Reagan signed into law the Civil Liberties Act of 1988, which officially apologized on behalf of the U.S. government for the internment and authorized a tax-free payment of $20,000—the equivalent to $44,000 in 2020—to each former internee who was still alive when the act was passed.[406] At that time, an estimated 60,000 of the 120,000 people interned during World War II were still alive. A total of 82,219 citizens and legal residents received redress. The statute authorizing the payments was enacted based on recommendations of the Commission on Wartime Relocation and Internment of Civilians (CWRIC).[407]

---

[403] Feldman, David H., and Christopher R. Marsicano. 2021. *Moving Beyond Free: A College Affordability Compact for the Next Generation*. Third Way.
Huelsman, Mark. 2014. *The Affordable College Compact*. Demos.
Startz, Dick. 2020. *Biden's Plan for Higher Ed Is Good—But It Could Be Better*. Brookings Institution.
[404] See Sherman's Field Order No. 15 from the Georgia Encyclopedia, *The Truth Behind 40 Acres and a Mule* from PBS, and *Black Reparations and the Racial Wealth Gap* from authors William "Sandy" Darity and Kirsten Mullen.
[405] Text of HR 40, introduced by Shelia Jackson Lee. *Veteran Congressman Still Pushing for Reparations in a Divided America* provides an overview of the many years' effort of John Conyers to introduce the bill in the House. More recent press coverage provides context for the discussion today, in the *Washington Post*, the *Atlantic*, and Vox.
[406] The language in Public Law 100-383 "Civil Liberties Act of 1987" begins by stating: "The purposes of this Act are to—(1) acknowledge the fundamental injustice of the evacuation, relocation, and internment of United States citizens and permanent resident aliens of Japanese ancestry during World War II; (2) apologize on behalf of the people of the United States for the evacuation, relocation, and internment of such citizens and permanent resident aliens."
[407] See the *New York Times*' coverage of the vote and the Densho Encyclopedia's summary for more information about the act. In 2018 in *Trump v. Hawaii*, in which the U.S. Supreme Court upheld the travel ban aimed at certain nations, the Court took the occasion to overrule its decision in *Korematsu v. United States,* which had upheld the Roosevelt internment order.

Explore creating a path to citizenship for undocumented immigrants

Nearly 45 million immigrants lived in the U.S. in 2019; 11 million were estimated to be undocumented.[408] Much misunderstanding and misinformation exist about undocumented immigrants. The legal status of about half of undocumented immigrants is a result of overstayed visas, rather than illegal border crossings,[409] and many Americans support a path to citizenship for undocumented immigrants.[410] President Biden has a proposed a path to citizenship, a policy that some argue would have dividends for the economy.[411] More important, citizenship would ensure that a vast majority of currently undocumented immigrants in the U.S. are granted access to the support systems in place that, ideally, ensure equal treatment under the law and a base standard of living. One impact, for example, would be receipt of Social Security benefits and, therefore, improved economic security in the event of old age, disability, or death.[412]

1. **Explore creating a path to citizenship based on length of stay, year of entry, work history, and criminal record.** The last policy that resulted in "legalization" of undocumented immigrants, which is sometimes referred to as "amnesty," was in the Immigration Reform and Control Act of 1986 (IRCA).[413] It granted a path to citizenship with proof that the individuals had entered before 1982 (and therefore did not come to the country as a result of the policy). This approach may serve as a model for future path-to-citizenship legislation.

---

[408] The Migration Policy Institute maintains a Frequently Asked Questions page with links to further reports and discussions of data, immigration in the U.S., and the number of immigrants in the U.S. The Department of Homeland Security has its own data page. The Pew Research Center produces an annual statistical portrait of immigrants in the U.S.

[409] This statement was fact checked by Politifact; see *Overstayed Visas (fact checking Rep. Kevin McCarthy).* All fact checks by Politifact on statements about immigration can be found on its webpage.

[410] Both Gallup and The Pew Research Center perennially poll Americans about their views on immigration and components of immigration policy. In a Gallup poll placed January 21–27, 2019, 34 percent of Americans said they strongly favor and 47 percent favor "allowing immigrants living in the U.S. illegally the chance to become U.S. citizens if they meet certain requirements over a period of time." In a Pew poll placed June 4–20, 74 percent of Americans said they favor "Congress passing a law granting permanent legal status to immigrants who came to the U.S. illegally when they were children." The Bipartisan Policy Center published similar findings in *The New Middle on Immigration*.

[411] *4 Myths about How Immigrants Affect the U.S. Economy* from PBS gives an overview of the economic contribution of immigrants. The positive impact immigrants provide to the economy, even if they at one point need some form of social assistance, is explained in *Immigrants Contribute Greatly to U.S. Economy, Despite Administration's "Public Charge" Rule Rationale* (CBPP). More information about why immigration is good for the U.S. can be found at the George W. Bush Presidential Institute and outlined in this essay, *Benefits of Immigration Outweigh the Cost.* In addition, the Bipartisan Policy Center has a large research portfolio on immigration policy in the U.S., including *Immigrants and Public Benefits*.

[412] Goss et al. 2013 estimate the net impact of "unauthorized immigrants" on the Social Security Trust Funds in 2010 to be an increase in reserves of $12 billion, with $13 billion paid in taxes and $1 billion paid out in benefits.

[413] The Migration Policy Institute has a history of IRCA and two summaries of potential lessons from IRCA, *IRCA in Retrospect* and *Will Immigration Reform Ever Succeed Again?* A separate report from the Urban Institute reviews the lessons from IRCA but considers how the population of undocumented immigrants has changed since 1986.

Finance Policy

The means available and potential combinations of policies for assuring income are numerous. These policies each involve different opportunity costs and vary both in terms of benefits and the extent of costs, as well as who ultimately bears the burden of that cost. Sometimes who bears the incidence, or cost, of a proposal is not directly clear.[414]

One common viewpoint is that an economic security portfolio that raises federal spending must be accompanied by an equivalent increase in revenue or reduction in spending somewhere else, that otherwise the portfolio is not fiscally sustainable. Many individuals, including some members of the Study Panel, disagree with that idea. Some point out that all federal spending is not equal, and that some forms of spending—such as investment in children or large infrastructure projects—create positive externalities that will increase future tax dollars through their beneficial effect on the economy. The outlay cost is partially or fully recouped via the investment return, and the "bill" for these types of policies should consider a full accounting of the costs and benefits.[415] Others argue, instead, that the conventional framework for viewing the cost of legislation in terms of budget deficits and the national debt does not apply to a nation like the U.S. that controls its own currency and whose currency is a global reserve currency.[416] Under certain conditions, governments may spend much more freely to improve the economy without having to balance the fiscal budget.[417]

The cost of economic security policies discussed in this report might be assessed differently under a more expansive framework. This report follows the conventional policy, however, that an increase in spending should be "paid for" by either an accompanied commensurate increase in revenue or reduction in spending.

Since this report is not about how to reform or reduce spending in other social programs, it instead focuses on increasing tax revenues to pay for any economic security policy. Further, because these policies are aimed at improving economic security, the report eschews policies that would increase taxes on or decrease investment in lower-income households. Thus, the options

---

[414] Social Security wage and payroll contributions, which include 6.2 percent paid by the employer, are commonly thought to be "passed on" to workers through lower wages. That is, workers may bear the incidence, even though employers pay the cost. Melguizo and González-Páramo 2012 review decades of literature on the matter and find that "in the long run, workers bear between two thirds of the tax burden in Continental and Anglo-Saxon economies, and nearly 90% in the Nordic economies."
Minimum wage increases on the other hand may fall primarily on employers through an increase in labor costs. In some industries, however, the cost of labor might be passed on to consumers in the form of higher prices or even borne by the workers themselves through automation and lost jobs.
[415] This all-encompassing analysis is referred to as "dynamic scoring." The Congressional Budget Office is the agency in charge of estimating the cost of federal legislation. They only provide dynamic scoring when it is requested by Congress, or when "the gross budgetary effects of a bill would equal or exceed 0.25 percent of gross domestic product (the economy's total output) in any year" (CBO 2018). The Tax Policy Center provides an overview of dynamic scoring and dynamic analysis.
[416] James Chen of Investopedia explains the U.S. dollar as a reserve currency and its implications.
[417] This idea is more commonly known as modern monetary theory (MMT). These explainers by Vox, Business Insider, and The Conversation are a few of many. A Bipartisan Policy Center blog post lays out some of the more common arguments against undertaking an MMT framework in the U.S. moving forward.

presented are not representative of all revenue options, but only those that cohere with improving economic security.[418]

Every other year since 2014, the Congressional Budget Office (CBO) has released a report of scored budget options. It includes a detailed description of the policy and the revenue that CBO estimates it would raise. Over one hundred elements span expenditure-decreasing options (e.g., reduce the Department of Defense's budget) and revenue-increasing options (e.g., increase tax rates). If CBO has scored a policy, the analysis in this report defers to those estimates in the options below.[419] For options not scored in CBO analysis, this report provides other estimates and strives to give an overview of all existing revenue estimates in the footnotes.

Not discussed here are social insurance programs. In large part, these programs have self-contained financing. Benefits and associated administrative costs can be paid only if the dedicated revenue covers those costs. If revenue is insufficient, the benefits are not paid.[420] Any increase in a social insurance dedicated revenue should finance only the specific benefit it funds. This report discusses illustrative revenue options in the presentation of policy options in the benefit section.[421]

Policy	Options
Update existing taxes	1. Raise marginal tax rates on ordinary income. 2. Eliminate certain deductions. 3. Raise marginal tax rates on long-term capital gains and qualified dividends. 4. Repeal the stepped-up basis at death. 5. Lower exemptions and increase the tax rate under the federal estate tax. 6. Reform taxes on corporations: a. Raise the corporate income tax rate. b. Repeal the pass-through deduction. c. Replace the minimum tax on global intangible low-taxed income (GILTI) with a minimum tax on profits earned by foreign subsidiaries of U.S. firms. d. Eliminate accelerated cost recovery for large businesses.
Create new taxes	1. Create a carbon tax.

[418] The federal budget is a key tool in shaping economic and social policy. For a background on the budget, the Peterson Foundation provides a webpage titled *Understanding the Budget* (PGPF 2020).
[419] Revenue-raising options are only one part of CBO's report, which also includes spending reductions. The most recent CBO report, titled *Options for Reducing the Deficit: 2021 to 2030*, was released in December 2020.
[420] Although Medicare Part A receives almost all of its funding from payroll taxes, Parts B and D of Medicare receive a majority of funding from general revenues (Cubanski et al. 2019, Figure 7). Unemployment Insurance is also supported by general revenues (particularly during times of financial crisis); Walczak 2021 states that the federal government had spent almost $430 billion as of January 2021 to provide additional unemployment relief during the coronavirus pandemic. The need for general revenue spending might be mediated by better efforts to build and retain trust fund reserves.
[421] The Center on Budget and Policy Priorities provides a brief overview of payroll taxes (CBPP 2020).

	2. Create a national value-added tax (VAT). 3. Create a financial transaction tax (FTT). 4a. Create a wealth tax. 4b. Create an accrual tax.
Other revenue raisers	1. Invest in IRS administration and increase funding for auditing and enforcement.

Update existing taxes

The policy options outlined in this section involve altering taxes on ordinary income, income flowing from wealth, and business income. Regarding ordinary income, the analysis examines changes in marginal tax rates and adjustments or deductions to gross income. Regarding income flowing from wealth, the discussion examines changes in marginal tax rates on long-term capital gains and changes in the treatment of transfers of wealth from one individual or couple to another. Last, regarding business income, this section of the report examines corporate income taxes, adjusting the treatment of certain business income with regard to personal income, ensuring a minimum tax on U.S.-based global firms, and the treatment of depreciation in the tax code.

Options:

1. **Raise marginal tax rates on ordinary income.** Half of all federal revenue comes from individual income taxes.[422] The income tax is bracketed and progressive. "Bracketed" means that a tax rate is applied to brackets, or ranges, of income levels subject to certain income tax rates. A "progressive" tax means that the higher the income bracket, the higher the marginal tax rate.

For example, assume that two individuals file taxes, one earning $50,000 and the other $500,000. They both pay 10 percent on the first $9,950 of income [the first bracket] and 12 percent on income from $9,951 to $40,525 [the second bracket].[423] The individual with $50,000 has a maximum marginal tax rate of 22 percent, applied from $40,526 to $50,000, but the individual with $500,000 has a maximum marginal rate of 35 percent, applied from $209,426 up to $500,000. The 2021 income tax brackets for ordinary income and their marginal rates are shown below.[424]

Marginal income Tax rates	**For single individuals**	**For married individuals filing joint returns**	**For heads of households**
10%	Up to $9,950	Up to $19,900	Up to $14,200

[422] The Center on Budget and Policy Priorities provides an overview of the various sources of federal tax revenue (CBPP 2020).
[423] This example does not take into consideration adjustments to income or deductions to income. It is only after adjustments and deductions that federal income taxes take effect. Because adjustments vary significantly from person to person, we do not take them into account in this example. Most low- and middle-income filers take the standard deduction to income (as opposed to itemized deductions), which was $12,400 for individuals and $24,800 for joint filers for tax year 2020.
[424] El-Sibaie, Amir. 2019. *2020 Tax Brackets.* The Tax Foundation.

12%	$9,951 to $40,525	$19,901 to $81,050	$14,201 to $54,200
22%	$40,526 to $86,375	$81,051 to $172,751	$54,201 to $86,350
24%	$86,376 to $164,925	$172,751 to $329,850	$86,351 to $164,900
32%	$164,926 to $209,425	$329,851 to $418,850	$164,901 to $209,400
35%	$209,426 to $523,600	$418,851 to $682,300	$209,401 to $523,600
37%	$523,601 or more	$628,301 or more	$523,601 or more

CBO estimates that raising marginal tax rates on ordinary income by 1 percentage point might raise an additional $114 billion to $884 billion over ten years, depending on whether rates are raised for all brackets, the top four brackets, or the top two brackets.[425]

Using CBO estimates as a basis, each percentage point increase in the top two brackets raises an additional $114 billion over ten years. Each percentage point increase on the top four brackets raises an additional $203 billion over ten years. Each percentage point increase on all brackets raises an additional $884 billion over ten years. These dollar increments will decline as rates are increased to higher levels, but they are useful for rough estimates of revenue increases.[426]

2. **Eliminate certain deductions.** Deductions reduce the amount of income subject to the federal income tax. Most households take the standard deduction ($12,400 for single filers and $24,800 for married filers) unless the sum of their itemized deductions is larger.[427] Deductions other than the standard deduction mainly flow to high-income households. Furthermore, because high-income households face higher marginal income tax rates, deductions are worth more as one moves up the income scale (though they tend to account for a smaller portion of one's income). Examples of itemized deductions include the state and local tax deduction and the deduction for charitable contributions.[428] CBO estimates eliminating all itemized deductions would raise $1.7 trillion over a ten-year period.[429]

3. **Raise marginal tax rates on long-term capital gains and qualified dividends.** Certain types of individual income have different rate schedules. Qualified dividends and long-term capital gains (assets held more than a year) have three marginal rates: 0 percent, 15 percent, and 20 percent.[430] Short-term capital gains are taxed as ordinary income. Separately, all short-term and long-term capital gains are subject to a 3.8 percent tax called the Net Investment Income Tax if the taxpayer's modified adjusted gross income is above $200,000 ($250,000 married filing

425 Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 1—Increase Individual Income Tax Rates. p. 59.
426 This idea is illustrated by the Laffer Curve, which shows that after a certain point, an increase in tax rates will decrease tax revenue because the behavior being taxed is disincentivized by the tax. In the case of income taxes, all else equal, work is disincentivized by higher tax rates.
427 Nerdwallet. 2020. *Standard Tax Deduction: How Much It Is in 2020–2021 and When to Take It*.
428 The Tax Foundation provides a concise definition of the state and local tax deduction.
429 Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 4—Eliminate Itemized Deductions. p. 62.
430 The Tax Policy Center provides a four-part overview of taxes on capital gains and dividends and how they might be improved.

jointly).[431] The 2021 income tax brackets for long-term capital gains and their marginal tax rates, excluding the Net Investment Income Tax, are shown below.[432]

Long-term capital gains tax rates	**For single individuals**	**For married individuals filing joint returns**	**For heads of households**
0%	Up to $40,400	Up to $80,800	Up to $54,100
15%	$40,401 to $445,850	$80,801 to $501,600	$54,1010 to $473,750
20%	$445,851 or more	$501,601 or more	$473,651 or more

CBO estimates that a 2 percentage point increase in all tax rates on long-term capital gains and qualified dividends would raise an additional $75 billion over ten years.[433] This change would translate to tax brackets for long-term capital gains and qualified dividends of 2 percent, 17 percent, and 22 percent.

Using CBO estimates, each percentage point increase in all tax brackets for long-term capital gains raises an additional $37.5 billion over ten years. These dollar increments will decline as rates are increased to higher levels, but they are useful for rough estimates of revenue increases.[434]

4. **Repeal the stepped-up basis at death.** A number of proposals call for a shift from the "step-up in basis" at death to the "carryover basis,"[435] which is what is used for transfers not at death. Under this proposal, estates or inheritors would pay a tax based on how much the value of an asset has appreciated since it was acquired by the person who died rather than owing capital gains taxes only on the amount the asset appreciated from the time of the inheritance. CBO estimates that this change raises an additional $110 billion over ten years.[436] If the capital gains tax rate were to increase, the potential revenue change from this option would also increase.[437]

5. **Lower exemptions and increase the tax rate under the federal estate tax**. The federal estate tax is a tax levied on the value of an estate at an individual's death. The tax is paid by the estate before disbursements are made to inheritors.[438] Estimates are that fewer than 0.1 percent of

---

[431] The Balance explains how the IRS calculates and utilizes modified adjusted gross income (MAGI) (Fisher 2020).
[432] Orem, Tina. 2020. *2020–2021 Capital Gains Tax Rates—and How to Calculate Your Bill*. Nerdwallet.
[433] Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 2—Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points. p. 60.
[434] This idea is illustrated by the Laffer Curve, which shows that after a certain point, an increase in tax rates will decrease tax revenue because the behavior being taxed is disincentivized by the tax. In the case of capital gains taxes, all else equal, investments are disincentivized by higher tax rates.
[435] The Tax Policy Center explains the difference between these two terms and the implications of their use for the tax system.
[436] Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 6—Change the Tax Treatment of Capital Gains from Sales of Inherited Assets. p. 64.
[437] Batchelder and Kamin 2019 estimate that this change (denoted "Tax Accrued Gains at Death and Increase CG/Dividends Rate to 28%" in Table 2) accompanied with an increase of the top tax rate for long-term capital gains and qualified dividends to 28 percent would raise $290 billion over ten years.
[438] The Tax Policy Center provides a brief, seven-part overview of the estate tax: what it is, who pays it, and options for reforming the estate tax in addition to options to tax other forms of wealth transfers (Tax Policy Center 2020). The Tax Foundation provides a concise definition.

individuals who die had an estate subject to the tax in 2020.[439] The taxation of assets at death might be changed in a variety of ways. Policy makers might change the threshold above which estates must pay the tax and they might change the tax rate. The estate tax might also be converted into an inheritance tax, which would involve taxing the people who inherit money and assets rather than taxing the estate itself.[440] Depending on how the estate tax is changed, this option might raise anywhere from $60 billion to $646 billion over a ten-year period.[441]

6. **Reform taxes on corporations.**

a. **Raise the corporate income tax.** CBO estimates that raising the corporate income tax rate by 1 percentage point (from 21 percent to 22 percent) would raise an additional $99 billion over ten years.[442]

According to CBO estimates, each percentage point increase in the corporate tax rate generates around $99 billion over ten years. These dollar increments will decline as rates are increased to higher levels, but they are useful for rough estimates of revenue increases.[443] Other groups have projected the impact of larger increases to the corporate tax rate.[444]

b. **Repeal the pass-through deduction.[445]** The pass-through deduction, also known as the qualified business income deduction, "allows non-corporate taxpayers to deduct up to 20 percent of their qualified business income (QBI), plus up to 20 percent of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income"

---

439 Tax Policy Center. 2020. *How Many People Pay the Estate Tax?*

440 See *What Is an Inheritance Tax?* from the Tax Policy Center for more information about the differences between an estate tax and an inheritance tax.

441 CBO does not offer revenue impact estimates of changes to the estate tax in *Options for Reducing the Deficit: 2021–2030.* The Urban-Brookings Microsimulation Model projects revenue impacts for nine variations of an inheritance tax (in lieu of current law) that varies along lifetime exemption levels and tax rates and institutes a change from the step-up in basis to the carryover basis in *T19-0046 - Revenue Impact of an Inheritance Tax Proposal with Different Lifetime Exemptions and Tax Rates with the Current-Law Estate Tax Repealed, 2022–30*. On the low end it estimates a net-revenue increase of $141 billion between 2022 and 2030 for a $2 million lifetime exemption and a tax rate of the larger of one's marginal income tax rate plus 10 percent or 30 percent. On the high end it estimates a net-revenue increase of $646 billion between 2022 and 2030 for a $1 million lifetime exemption with a tax rate of the larger of one's marginal income tax rate plus 20 percent or 40 percent. Other proposals and revenue estimates are presented by Batchelder and Kamin 2019, Sarin and Summers 2020, Philips and Wamhoff 2018, Sammartino et al. 2016, Auxier et al. 2016, and The Penn Wharton Budget Model (Bennet Plan and Sanders Plan).

442 Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 19—Increase the Corporate Income Tax Rate by 1 Percentage Point. p. 77.

443 This idea is illustrated by the Laffer Curve, which shows that after a certain point, an increase in tax rates will decrease tax revenue because the behavior being taxed is disincentivized by the tax. In the case of corporate income taxes, all else equal, creating corporate income is disincentivized by higher tax rates.

444 The Tax Foundation projects a ten-year revenue increase of $522 billion using conventional scoring and $392 billion using dynamic scoring for an increase in the corporate tax rate from 21 percent to 25 percent between 2022 and 2031. They project increases of $886 billion and $644 billion for an increase to 28 percent using conventional and dynamic scoring, respectively. Batchelder and Kamin 2019 project a ten-year revenue increase of $730 billion for a rate increase to 28 percent. Mermin et al. 2020 similarly project a ten-year revenue increase of $727 billion for a rate increase to 28 percent. The Penn Wharton Budget model projects the following revenue increases over ten years for the following tax rate hikes from 21 percent: 1) a rate of 25 percent yields an additional $592 billion; 2) a rate of 28 percent yields an additional $1,029 billion; 3) a rate of 30 percent yields an additional $1,315.3 billion.

445 Greenberg 2018 provides an extensive overview of the pass-through deduction for the Tax Foundation.

from their personal income.[446] Although 76 percent of pass-through businesses are sole proprietorships, they account for only 18 percent of pass-through business net income. S corporations and partnerships make up 13 percent and 11 percent of pass-through businesses, respectively, but are responsible for 26 percent and 55 percent of pass-through business net income.[447] Using this deduction, certain high-income individuals effectively are able to lower their top marginal income tax rate of 40.8 percent (37 percent plus 3.8 percent from Medicare self-employment taxes[448]) to 33.4 percent.[449]

Batchelder and Kamin 2019 estimate that a repeal of the pass-through deduction, enacted under the Tax Cuts and Jobs Act of 2017 (TCJA),[450] would raise $280 billion between 2021 and 2030 relative to current law (under which the deduction is set to expire after 2025) and $620 billion assuming current law is expanded through 2030.[451] These estimates assume an increase of the top marginal tax rate on ordinary income from 37 percent to 39.6 percent. The Penn Wharton Budget Model estimates the repeal would raise $433 billion between 2021 and 2029 relative to current law.[452]

c. **Replace the minimum tax on global intangible low-taxed income (GILTI) with a minimum tax on profits earned by foreign subsidiaries of U.S. firms.** Global minimum taxes aim to disincentivize companies from shifting profits abroad to avoid paying taxes in their "home" countries.[453] Enacted under the TCJA in 2017 as a first effort to capture potential tax revenues that were shifted abroad, GILTI instituted a 10.5 percent rate (half of the corporate tax rate passed under the TCJA).[454] This option ensures that if the profits of foreign subsidiaries of U.S.-based firms are being taxed at rates lower than the legislated minimum, then the difference—the tax expenses that the firm would save but for this law—is paid as U.S. taxes. Two analyses estimate the ten-year revenue impacts of a 21 percent minimum tax on profits of foreign subsidiaries of U.S. firms: Clausing 2018 estimates an increase of $340 billion, and Mermin et al. 2020 an increase of $442 billion.[455]

d. **Eliminate accelerated cost recovery for large businesses.** Under current law, depreciation of assets purchased by businesses may be written off in an accelerated manner.

---

[446] Internal Revenue Service. 2021. *Tax Cuts and Jobs Act, Provision 11011 Section 199A: Qualified Business Income Deduction FAQs*.
[447] York, Erika. 2019. *Pass-Through Businesses Q&A*. Tax Foundation.
[448] The IRS outlines the 2.9 percent self-employment tax for Medicare hospital insurance and the additional Medicare tax rate of 0.9 percent on "wages, compensation, and self-employment income above a threshold amount" (Internal Revenue Service, *Self-Employment Tax (Social Security and Medicare Taxes)*).
[449] Batchelder, Lily, and David Kamin. 2019. *Taxing the Rich: Issues and Options*. p. 5.
[450] The IRS lists relevant tax laws prior to the Tax Cuts and Jobs Act and what changed under the new law (Internal Revenue Service, *Tax Cuts and Jobs Act: A Comparison for Businesses*).
[451] Batchelder, Lily, and David Kamin. 2019. *Taxing the Rich: Issues and Options*. pp. 10, 37.
[452] Penn Wharton Budget Model. 2020. *Senator Michael Bennet's "The Real Deal" Tax Plan: Budgetary Effects*.
[453] Leigh Thomas and David Lawder explain global minimum taxes for Reuters.
[454] The Tax Policy Center explains GILTI and provides an example of how it (and similar taxes) might work in practice.
[455] Clausing, Kimberly A. 2018. *Profit Shifting before and after the Tax Cuts and Jobs Act*. 73(4), *National Tax Journal* 1233–1266 (2020), UCLA School of Law, Law-Econ Research Paper No. 20-10.
Mermin, Gordon B., Janet Holtzblatt, Surachai Khitatrakun, Chenxi Lu, Thorton Matheson, and Jeffrey Rohaly. 2020. *An Updated Analysis of Former Vice President Biden's Tax Proposals*. Tax Policy Center.

Companies may claim higher depreciation expenses than implied by an asset's economic life, deduct those expenses from their income, and therefore lower their taxable income.[456] This policy, also known as "expensing," is undergirded by the notion that reductions to the short-term cost of new investments will increase U.S. investment and later returns on the investments will be taxed at a higher rate but for the expensing model. Batchelder 2017 casts doubt on this assumption, suggesting that accelerated cost recovery is "paid for" by higher corporate tax rates and that investment decisions are more responsive to corporate tax rates than expensing.[457]

This option would institute a policy like the policy that then–Senate Finance Chairman Max Baucus (D-MT) proposed in 2013 to shift to an economic cost recovery model—ensuring equal and more accurate depreciation deductions for assets each year—for large businesses.[458] One portion of that proposal, covering the "amortization of intangible assets," was passed in the TCJA of 2017 and takes effect in 2022. Batchelder and Kamin 2019 estimate that fully enacting the provisions drafted by Senator Baucus would raise an additional $760 billion over ten years. Batchelder 2017 suggests that if policy makers were concerned that this policy might disincentivize investment, then they might use revenue increases to offset corporate income taxes.

Create new sources of tax revenue

1. **Create a carbon tax.** A carbon tax is a tax on emissions of carbon dioxide (CO_2). Most of the various proposals for such a tax involve a tax per metric ton of CO_2 emitted that is increased in amount every year. The proposals would levy the tax on oil producers, natural gas refiners (for sales outside the electricity sector), and electricity generators. CBO estimates that a $25 per metric ton tax that increased 5 percent per year (inflation adjusted) would raise $1.0 trillion dollars over a ten-year window.[459] The estimates take into account that emissions would fall considerably over that period due to higher carbon costs and that revenue would therefore decrease over time. A higher rate would increase the revenue raised.[460] Most proposals range from a $10 to $70 tax per ton.

2. **Create a national value-added tax (VAT).** Many states and localities have a sales tax on goods and some services; it is a tax on the value of the product or service collected at retail. A

[456] Committee for a Responsible Federal Budget provides an overview of accelerated depreciation in its blog post on Senator Max Baucus's 2013 proposal.
[457] Batchelder, Lily L. 2017. *Accounting for Behavioral Considerations in Business Tax Reform: The Case of Expensing*.
[458] U.S. Senate Committee on Finance. 2013. *Baucus Works to Overhaul Outdated Tax Code.*
[459] Congressional Budget Office. 2020. *Options for Reducing the Deficit:2021-2030*. Revenues Option 28— Impose a Tax on Emissions of Greenhouse Gases. p. 85.
[460] Rosenberg et al. 2018 find that rates of $73 per metric ton (+1.5 percent per year), $50 per metric ton (+2 percent per year), and $14 per metric ton (+3 percent per year) would raise $3.0 trillion, $2.1 trillion, and $742 billion respectively over ten years. Other proposals and revenue projections (in highest to lowest net revenue order) come from Horowitz et al. 2017, Pomerleau and Asen 2019, Huntley and Rico 2019, and Sobhani et al. 2019.
Resources for the Future provides a *Carbon Pricing Calculator* which allows one to explore the impacts of a carbon tax on a variety of outcomes using their model.
Fichtner 2019 makes the case for using carbon tax revenue to offset other taxes in order to promote economic growth.

VAT has a similar goal (taxing the value of the product or service), but collection of the tax occurs before the final sale at interim stages of the supply chain.[461] Proposals for a VAT vary in the rate of the tax (e.g., 5 percent or 10 percent) and the coverage of the tax (which products and services are subject to it and which purchasers pay it). Most assume that a VAT would be passed on to consumers through higher prices.[462] CBO estimates that a 5 percent VAT would raise $1.8 trillion to $2.8 trillion over the ten-year period, depending on the base of goods and services subject to the tax and the process for phasing in the tax.[463] VAT proposals range from tax rates between 1 percent and 10 percent.[464]

3. **Create a financial transaction tax (FTT).** An FTT is an excise tax imposed on the trades of financial products, such as stocks, bonds, and derivatives.[465] A very small version of an FTT already exists to fund the costs of the Securities and Exchange Commission.[466] Proposals vary in the rate of the tax, from 0.01 percent to 0.1 percent, and whether the tax rate depends on the type of financial product. CBO estimates a 0.1 percent tax would raise $752 billion in revenue over ten years.[467] The range of revenue projected depending on the transactions taxed and other specifics vary widely.[468]

4a. **Create a wealth tax.** A wealth tax would impose a tax on wealth for individuals whose net wealth—financial assets plus nonfinancial assets minus debts—is above a certain amount.[469] The key parameters for a wealth tax are the level of net wealth that is exempt, types of assets that are

---

[461] The Tax Policy Center explains the VAT and makes the case that it is "administratively superior to a retail sales tax."

[462] In this regard, the VAT is considered regressive insofar as households with lower incomes spend a higher proportion of their income. Gale 2020 proposes a VAT which offsets regressivity by funding a universal basic income.

[463] Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 27—Impose a 5 Percent Value-Added Tax. p. 84.

[464] Gale 2020 proposes a 10 percent VAT with certain exemptions and projects it would net $10.0 trillion over ten years. This projection includes the cost of increasing benefit payments in federal cash transfer programs to account for increased prices. If the revenue were used to fund a UIB at 20 percent of the federal poverty level ($2,576 per year, $215 per month in 2021), $2.9 trillion in new revenue would remain over ten years.
Huntley et al. 2019 project a 1 percent VAT with certain exemptions and a progressive universal rebate would net $700 billion over ten years.

[465] The tax is levied on stocks when they are issued, only when they are exchanged between traders. Klein 2020 explains the financial transactions tax in further detail.

[466] As of February 2021, the financial transactions fee rate was "$22.10 per million of covered sales," or 0.0021 percent.

[467] Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 29—Impose a Tax on Financial Transactions. p. 86.

[468] Pollin et al. 2017 project that an FTT with rates of 0.5 percent of value for stock purchases, 0.1 percent of value for bond purchases, and 0.005 percent for derivative purchases along with a tax credit for moderate- to low-income filers would net $3.0 trillion in revenue over ten years. This figure is the product of 1.2 percent of GDP (from the paper) multiplied by CBO's projected GDP as of July 2020.
Batchelder and Kamin 2019 project $810 billion over ten years for a 0.1 percent FTT on all financial assets. Other projections come from Burman et al. 2016, Sammartino et al. 2016, Weiss and Kawano 2020, and Schulmeister 2008.

[469] This is the definition of net wealth put forth by Emmanuel Saez and Gabriel Zucman in *How Would a Progressive Wealth Tax Work? Evidence from the Economics Literature*. Saez and Zucman are considered two of the foremost experts on the wealth tax and assisted Senator Elizabeth Warren in developing one of her proposals for the 2020 presidential campaign.

exempt (if any), and the tax rate(s) for net wealth exceeding the exemption level. Senator Elizabeth Warren's (D-MA) original plan, for example, proposed a 2 percent tax per year on net wealth exceeding $50 million and a 3 percent tax per year on net wealth exceeding $1 billion, and it would include both domestic and foreign assets.[470] Asset exemptions might include domestically held assets, as is the policy in Italy, or all assets outside of real estate, as in France.[471]

Proposals in the U.S. range in potential revenue raising of up to $6.7 trillion over a ten-year period.[472] Many tax experts believe that realizing this revenue fully would be difficult, as wealthy households would successfully engage in some version of tax avoidance.[473]

4b. **Create an accrual tax.[474]** An accrual tax would tax net accrued capital gains and dividends each year independent of whether one's gains are realized. Currently, capital gains taxes are deferred until an investment is sold. The key parameters for an accrual tax are the rate at which net accrued capital gains and dividends are taxed, the treatment of net accrued capital losses,[475] and the treatment of illiquid/nontradeable assets (which are typically more difficult to assess in terms of "fair market value," especially if they have not been bought/sold recently).

Two main ideas for achieving an accrual tax have been proposed: 1) mark-to-market taxation and 2) a retrospective capital gains tax.[476] The former system levies annual taxes on net capital gains and dividends, while the latter charges the tax when the gain is realized and requires interest payments on any deferred taxes (also known as a deferral charge or a lookback charge). Due to the difficulties in estimating changes in the values of illiquid/nontradeable assets (such as intellectual property, jewelry, and art), certain proposals call for mark-to-market taxation of publicly traded assets and a retrospective capital gains tax for non–publicly traded assets.[477]

---

[470] Breuninger, Kevin, and Tucker Higgins. 2019. Elizabeth Warren Proposes "Wealth Tax" on Americans with More Than $50 Million in Assets. *CNBC*.
[471] Asen, Elke. 2020. *Wealth Taxes in Europe*. The Tax Foundation.
[472] Batchelder and Kamin 2019 project that a 2 percent tax on the top 0.1 percent of net-wealth holders and a 3 percent tax on net wealth exceeding $1 billion over ten years would raise $6.7 trillion with no avoidance, $5.1 with 15 percent avoidance, and $3.5 trillion with 30 percent avoidance. They also project that a 2 percent tax on the top 1 percent of net-wealth holders would raise $3.3 trillion with no avoidance, $2.6 trillion with 15 percent avoidance, and $1.9 trillion with 30 percent avoidance.
Other revenue projections include Li and Smith 2020 (analysis of two proposals), Leiserson 2020 (analysis of two proposals), Penn Wharton Budget Model 2020 (Sanders proposal), Saez and Zucman 2019, Penn Wharton Budget Model 2020 (Warren proposal), Gleckman 2019, and Sarin and Summers 2019 (which states that Warren's proposal will bring in only 12–40 percent of projections).
[473] Gleckman 2019 discusses best practices for effectively taxing the rich, and Bunn 2021 discusses the difficulties other countries have faced in implementing their wealth taxes. The Tax Policy Center hosted a recorded event in 2019 that discussed the many questions around taxing wealth in detail.
[474] An accrual tax effectively repeals the stepped-up basis and is typically thought of as an alternative to a wealth tax due to its ability to tax asset growth every year.
[475] Under current law, net capital losses of up to $1,500 per individual per year can be deducted from taxable income. Net capital losses exceeding the limit can be carried over and deducted from taxable income in future years (Internal Revenue Service, *Helpful Facts to Know about Capital Gains and Losses*).
[476] Leiserson and McGrew 2019 provide an overview of mark-to-market taxation for the Washington Center for Equitable Growth. Eastman et al. 2019 evaluate a mark-to-market approach for the Tax Foundation.
[477] In 2019, Senator Ron Wyden (D-OR) made this proposal with certain exemptions to ensure that the tax affected the wealthiest taxpayers. His proposal also called for capital gains income to be taxed at the same rate as ordinary income.

Batchelder and Kamin 2019 estimate that such a proposal would raise $2.1 trillion over ten years if applied to the top 1 percent of the wealth distribution and $750 billion if applied to the top 0.1 percent.[478] The Penn Wharton Budget Model estimates a revenue increase of $2.2 trillion for a similar proposal.[479]

Other revenue raisers

1. **Invest in IRS administration and increase funding for auditing and enforcement**. As CBO notes, the IRS received 20 percent less in funding in 2018 than it did in 2010.[480] In 2015 six former IRS commissioners of both political parties wrote Congress alerting them to the effect that the budget cuts were having on the agency's ability to fulfill its mission.[481] CBO estimates that increasing funding by $2.5 billion over the next five years for enforcement and then maintaining that level would lead to net revenue raised of $41 billion over ten years.[482] The Biden and Harris administration is calling for significantly larger funding increases, in the ballpark of an additional $80 billion per year to be phased in over ten years.[483] The proposal has been praised by a bipartisan group of five former IRS commissioners.[484]

Sarin and Summers 2020 discuss similarly broad increases in the IRS budget. They estimate that adequate enforcement resources would raise $715 billion over ten years, increased and improved information reporting would raise $350 billion over ten years, and information technology investments would raise $100 billion over ten years.[485] Together, these investments would raise about $1.2 trillion over ten years.

As an additional note, if the previously mentioned taxes were created, the IRS would need additional funding to establish adequate tax administration and enforcement.[486]

---

[478] The Batchelder and Kamin 2019 analysis taxes capital gains as ordinary income and uses 39.6 percent as the top tax rate on ordinary income (plus 3.8 percent for the Medicare tax or the Net Investment Income Tax) and assumes a 15 percent avoidance rate for the revenue estimates listed here. The paper also shows revenue estimates for 0 percent avoidance and 30 percent avoidance.

[479] Penn Wharton Budget Model. 2020. *Senator Michael Bennet's "The Real Deal" Tax Plan: Budgetary Effects*.

[480] Congressional Budget Office. 2018. *Options for Reducing the Deficit: 2019–2028*. p. 306.

[481] Erb, Kelly Phillips. 2015. Former IRS Commissioners Differ on Politics, United against Agency Cuts. *Forbes*.

[482] Congressional Budget Office. 2020. *Options for Reducing the Deficit: 2021–2030*. Revenues Option 31—Increase Appropriations for the Internal Revenue Service's Enforcement Initiatives. p. 88.

[483] Faler, Brian. 2021. Biden Proposes Doubling IRS Workforce as Part of Plan to Snag Tax Cheats. *Politico*.

[484] Gibbs, Lawrence B., Fred T. Goldberg, Margaret M. Richardson, Charles O. Rossotti, and John Koskinen. 2021. Opinion: Five Former IRS Commissioners: Biden's Proposal Would Create a Fairer Tax System. *The Washington Post*.

[485] Sarin, Natasha, Lawrence H. Summers, and Joe Kupferberg. 2020. *Tax Reform for Progressivity: A Pragmatic Approach*. The Hamilton Project.

[486] Fichtner et al. 2019 review the literature and conclude that "the aggregate cost of federal tax compliance for [U.S.] taxpayers probably exceeds $200 billion annually" and draw on IRS data in their discussion of the $458 billion in tax revenue per year that went uncollected between 2008 and 2010.