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## What You Need to Know About Means-Tested Entitlements

Means-tested entitlement<sup>1</sup> programs are the core of our nation's social safety net. They deliver vital assistance that protects millions of Americans from entering poverty, while providing ongoing safety and stability for individuals and families facing poverty every single day. Means-tested entitlement programs fall into two major categories – health programs (i.e. Medicaid, Children's Health Insurance Program, and Affordable Care Act subsidies) and income security programs (i.e. nutrition assistance, Supplemental Security Income [SSI], the Earned Income Tax Credit [EITC], and the Child Tax Credit [CTC]). Also included are pensions for low-income veterans and portions of the Pell grant program. This report focuses on income security programs.

Eligibility for means-tested entitlement programs varies by program. However, across the board they primarily benefit individuals and families living at or near the federal poverty level (FPL). As of 2015 (the latest data available), 43.1 million Americans, or 13.5 percent of the population, were living at or below the FPL. This is the lowest poverty rate since the recession began in 2008, and is below the historical average. Congress should build on this progress by continuing to support means-tested entitlement programs, which help hard-working Americans provide for their families as they work their way out of poverty.

### The Federal Poverty Level

Each year, the U.S. Census Bureau puts out poverty thresholds (the federal poverty level or FPL) used to measure the number of individuals and families facing poverty. For 2016, these thresholds for those under 65 are:

Family of 1: \$12,486

Family of 2 (no children): \$16,072

Family of 2 (1 child): \$16,453

Family of 4 (2 children): \$24,339

Without assistance, a family of four in poverty would have to survive on less than \$67 per day over the course of a year.

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<sup>1</sup> An entitlement is a legal obligation of the federal government to make payments to a person, group of people, business, unit of government, or similar entity that meets the eligibility criteria set in law. Spending levels for entitlement programs are determined by those programs' eligibility criteria and benefit or payment rules rather than through the annual appropriations process.

## What are income security means-tested entitlements<sup>2</sup>?

Income security programs aid millions of Americans in poverty by providing direct monetary or non-cash assistance. As designed, they respond automatically to changes in economic conditions that result in more individuals and families needing assistance, immediately kicking in when families need them the most by providing instant relief and stability. Not only do these programs provide a safety net for families in need, they also provide stimulus to the economy during downturns by ensuring families possess the resources to purchase vital goods and services – giving families the ability to protect themselves while simultaneously pumping money back into the economy.

The largest income security programs in terms of federal dollars spent are the EITC and the Child Tax Credit (CTC), which together are one of “the strongest tools to promote work and help workers with children escape poverty and achieve self-sufficiency<sup>3</sup>.” The major non-cash benefits are the Supplemental Nutrition Assistance Program (SNAP) and child nutrition programs, including free and reduced-price school lunch. Other forms of income security include cash assistance to low-income parents (Temporary Assistance for Needy Families), subsidized child care, and support for children in the foster care system. While most low-income Americans benefit from some, but not all of these programs, the ones for which they do qualify provide a critical economic safety net. This section highlights the major programs.

***Refundable tax credits (EITC and CTC):*** EITC and CTC are tax expenditures, or benefits provided through the tax code. Because both credits are refundable, families with very low income can benefit even if they owe no individual income tax.

The EITC provides low-income workers with a supplement to their wages, keeping many from being taxed into poverty. At the low end of the income scale, the EITC rises with income. As income continues to grow, the EITC gradually phases out. Workers with children receive a larger benefit than those without. In 2015, more than 27 million eligible workers and families received more than \$67 billion from the refundable portion of the EITC; collecting an average benefit of \$2,455. Multiple studies have shown that the EITC encourages work, lifts people out of poverty, results in long-term benefits for children in families receiving the EITC, and improves overall health and wellness.

The CTC assists working families by helping with the costs of raising children. Almost 20 million households received a refundable CTC in 2014. Multiple studies have shown that boosting a

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<sup>2</sup> References in this section to the number of individuals kept out of poverty by specific means-tested entitlement programs use a measure of poverty developed by the census bureau that takes in-kind and other assistance into account.

<sup>3</sup> Center on Budget and Policy Priorities – United States Fact Sheet: Expand Tax Credits to Promote Work and Fight Poverty. <http://apps.cbpp.org/3-5-14tax/?state=US>

family's income often expands opportunities for children, improves school performance, and leads to better health and well-being. The CTC has proven to be a powerful tool to combat poverty, lifting roughly 2.8 million people out of poverty, including nearly 1.6 million children. The combined effects of the EITC and the CTC lifted 9.4 million people out of poverty, including 5 million children.

**SNAP:** SNAP will provide benefits to purchase food to an estimated 43 million Americans in fiscal year 2017. Nearly nine in ten SNAP households contain a child under 18 or an adult over 60 or an individual with disabilities. Most importantly, SNAP benefits help families most in need because 92 percent of the benefits go to households in poverty, including 57 percent going to households below half of the poverty line. Even with an average benefit of only \$1.40 per person per meal, SNAP keeps 4.6 million Americans, including 2 million children, from poverty. Other nutrition programs keep children out of poverty as well; without the school lunch program, 1.3 million more people would be living in poverty.

**SSI:** SSI provides cash benefits to low-income Americans, specifically those who are 65 and older, blind, or disabled. SSI kept more than 3.3 million people out of poverty in 2015. More than 8 million people currently benefit from the SSI program, including more than 1.2 million children. Most individuals who receive SSI do so because they suffer from either blindness or a severe disability. However, even with their disabilities, more than 300,000 recipients worked in 2015. Strikingly, 58 percent of SSI recipients receive no other source of income, even though the average benefit is approximately \$540 per month.

### How much do they cost?

Means-tested entitlements fall under the category of mandatory spending (programs for which spending levels are determined by the rules of the program rather than by annual appropriation acts). In 2017, spending on means-tested mandatory income security programs will total \$260 billion out of the expected \$2.5 trillion spent on all mandatory programs.

EITC & CTC (Refundable Portions only)	80
SNAP	71
SSI	55
Family Support & Foster Care	31
Child Nutrition	23
<b>Total</b>	<b>260</b>

As intended, spending for income security means-tested entitlements is automatically responsive to larger economic conditions, increasing during economic downturns as the programs provide immediate relief to families when they need help the most. Between 2007 and 2011, many of these programs saw significant growth as more Americans became eligible for, or needed to take advantage of their eligibility for, vital food and income

assistance during the recession.

This growth during the recession proves that these programs performed as designed – growing in times of economic need. Since then, as the economy improved, spending on these programs has leveled out, and actually declined in real terms. Looking out at the next decade, the Congressional Budget Office projects spending growth for these programs to be slower than the overall growth in the economy. Thus, these effective income security programs are not drivers of the long-term fiscal challenges America faces.

<b>Growth in Means-tested Entitlement Income Security Program Spending</b>			
	Average Annual Growth 2007 - 2011	Average Annual Growth 2011 - 2017	Average Annual Growth 2018 - 2027
EITC and CTC (Refundable Portions Only)	9.6%	0.4%	1.7%
SNAP	21.8%	-1.3%	-0.2%
SSI	10.2%	0.6%	3.1%
Family Support & Foster Care	1.6%	-1.0%	1.1%
Child nutrition	6.9%	5.2%	4.4%
Total	11.3%	0.1%	1.7%
Memorandum: Nominal GDP Growth	1.8%	3.7%	3.9%

## Conclusion

Means-tested entitlement programs are vital to millions of Americans, especially children. As the economy continues to recover from the Great Recession and the spending growth in these programs slows as a result, it is critical to remember that many families still face economic difficulties and these programs stand as a last line of defense against abject poverty. Means-tested entitlements have been, and continue to be, an effective way for Americans to work their way out of poverty and provide a better and more successful future for their families. Congress must protect and preserve these programs.