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Income Instability and Income Support Programs: Recommendations for Policy and Practice

Since the 1970s, Americans' household incomes have become more volatile, fluctuating year-to-year and week-to-week.[1] Increased income volatility is particularly prominent among low-income families, many of whom are served by the U.S. system of means-tested income support programs.[2] These programs provide income, goods, and services to families who prove that their income (and sometimes assets) are low enough to qualify for a particular program and meet other program requirements.

At initial application, during benefit receipt, and at recertification periods, each income support program has unique rules about whether, how, and when income is counted. These rules have good intentions: to target limited resources to the families most in need. They were designed, however, in a time with far less instability in jobs, parental and family relationships, housing, and other aspects of family life. The current context requires greater attention to income fluctuations, particularly those that are detrimental and do not lead to economic mobility, what we call "income instability." This brief presents background on income volatility and income support programs before making recommendations for policymakers and program administrators to promote income stability and mobility with income support programs.

What is Income Instability?

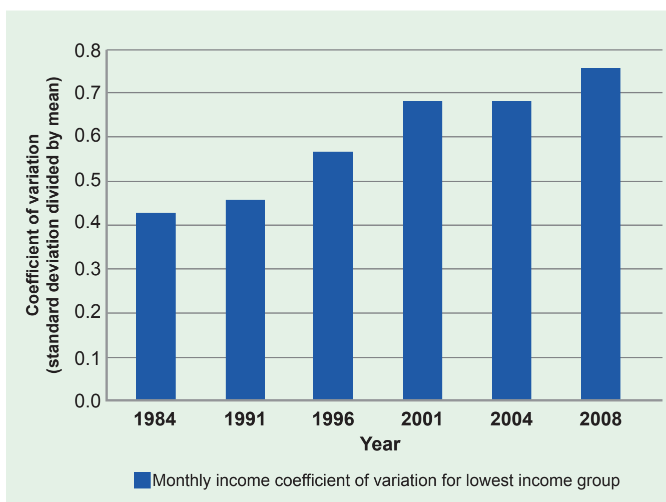
Repeated changes in income that are unpredictable or unintentional, and that do not lead to improved economic circumstances.

INCOME VOLATILITY HAS RISEN FOR LOW-INCOME AMERICANS

Since the 1970s, income volatility has increased substantially for all Americans, but particularly for the economically-disadvantaged (see Figure 1). Fluctuations in market earnings are dampened by tax policy and some income support programs, but income volatility still remains high and higher now than previously

The increase in income volatility for low-income families has occurred amidst three major demographic, economic, and policy shifts.

Figure 1. Income volatility is increasing in the lowest income households



Adapted from *Morris et al.*[3] Figure 1 displays trends of average yearly coefficient of variation, which is the standard deviation of income divided by its mean. This analysis focused on families with children in the lowest income decile from the Survey of Income & Program Participation.

1. **Increasingly unpredictable employment and work schedules** particularly among the least educated workers.[4] The rise of alternative work arrangements—temporary or "gig" employment—suggests that the future of work and earnings may be even more volatile.[5]
2. **Closer ties between employment and eligibility for the major income support programs,** including TANF, EITC, and food stamps.[6]
3. **Rising instability in romantic relationships and household composition,** which affects who contributes to household income.[7]

Not all variability is bad, of course. In fact, increasing income over time, or economic mobility, is a positive form of income volatility. We know, however, that economic mobility has been stagnant in the U.S for many years.[8] This suggests that there has been an increase in *detrimental volatility*, which is unpredictable or unintentional and does not lead to improved economic circumstances. These types of changes are most likely to be stressful and to make it difficult to meet basic needs and invest consistently in children's development. Detrimental income volatility is likely more common and more harmful for poor and near-poor families, who lack the resources to smooth income and consumption. We call this detrimental volatility "income instability."

Understanding the phenomenon of income instability, and being able to distinguish it from mobility, is increasingly crucial to achieving the goals of means-tested programs, and to their efficient and effective management. Improved program design and administration can promote stability without hindering mobility, but doing so requires re-examining our income supports, from program goals down to case management practices.

INCOME SUPPORT PROGRAMS MAY REDUCE INCOME INSTABILITY, BUT THEY PRIMARILY SERVE OTHER GOALS

Publicly-funded programs that supplement income and subsidize necessities are designed to improve the well-being of low-income Americans, particularly poor families with children. The goals of improving current material well-being must be balanced with the goal of increasing family self-sufficiency (through employment) and the goal of minimizing public costs. In addition to these goals, a select few human services programs explicitly consider stability a goal. For instance, asset-building programs (e.g. Individual Development Accounts) prioritize family financial stability, and child welfare programs often aim to maintain family and residential stability for children. We are not aware of any income support program that includes stable household incomes as a specifically stated policy goal.

If income support programs become more generous when incomes fall, and less generous when incomes rise, they should decrease instability. Indeed, evidence suggests that the combined set of income support programs reduces *year-on-year* instability.[9] This stabilizing effect of programs in both the tax and transfer system seems to be strongest for the most disadvantaged families. But the effect has weakened over time. The existing research does not yet do a good job capturing the effects of policy on *within-year* income instability, due in large part to data limitations.

Hence, the safety net's role in promoting household income stability and mobility is unclear. On one hand, means-tested programs provide cash or subsidies, which may help stabilize household income when other income sources fluctuate. On the other hand, income supports that are work-contingent (such as the EITC) or fluctuate with earnings (because means-tested programs use earnings or income to determine eligibility and benefit levels) may exacerbate market instability.

EARNINGS INSTABILITY COMPLICATES PROGRAM ADMINISTRATION

Whether or not the programs see stability as a goal, fluctuations in earnings pose administrative challenges.[10] By definition, the means-testing process of income support programs involves collecting information about household need. Typically, this includes the number and ages of household members and their resources in the form of earnings, other income, and assets. Programs allocate assistance according to a prescribed relationship between need and resources.

Program rules and administrative practices are designed to meet the goals noted above. They inevitably have to address fluctuating earnings or other income at three points.

1. **Initial application:** Policies establish a time period over which resources are counted and compared to program rules.
2. **During period of receipt:** Policies determine whether changes in income during the receipt period are counted and how. If income changes affect eligibility within a period of receipt, then program rules determine how these changes must be reported or detected and how eligibility or benefit amounts change. If programs require recipients to report income changes, then penalties or consequences for non-reporting, as well as ways of verifying income are needed.
3. **At recertification:** Many programs have automatic receipt periods or require periodic recertification. Tax benefits including the EITC are delivered on an annual basis with recipients claiming the credit through the tax filling system every year. Other benefits, such as housing subsidies, require recertification in which income eligibility is verified and benefits are extended or changed on a quarterly, semi-annual or annual basis.

For families with stable income, policies at each of these points may affect the administrative burden placed on recipients, but they are unlikely to affect benefit receipt or benefit levels. When family income fluctuates over short periods of time, however, these program rules may not work well. Ideally, families exit income support programs after a permanent, or sustained, increase in income. Yet, the reality of low-income family life shows that changes in employment and family structure are rarely permanent. Program rules could make a family seem eligible in some periods but not in others, when the family's needs have not fundamentally changed. This seems particularly likely with seasonal employment, large fluctuations in work hours, or varying income from multiple jobs or self-employment income. A study of SNAP churning provides evidence of this problem: SNAP churn is defined as leaving the program and returning within four months. Most churning is related to changes in residence, employment, and household composition, and many of those changes are short-lived.[11]

A mismatch between program rules and the reality of low-income family life is costly both to the program itself, because staff time is being used to verify short-term changes, and to the families, who would benefit from a stabilizing income support program. Research suggests that programs with more frequent and complex recertification processes, such as Medicaid/CHIP and child care subsidies, have more disenrollment and churning.[12]

PROGRAM RULES AND DELIVERY AFFECT INCOME INSTABILITY

Policies and rules governing how earnings fluctuations are treated in eligibility and benefit level determination likely affect the income stability of recipients. For instance, the time period over which applicants have to document their income, and the length of the eligibility period, during which changes in income do not trigger changes in eligibility, can influence how often families will experience changes in benefits. Asymmetrical earnings change policies, in which benefits increase in response to drops in income but do not fall in response to increases may also help create stability for recipients.

The National School Lunch Program provides one example of high flexibility in the means-testing process. This program, which provides free and reduced-price lunches to K-12 schoolchildren, asks households in the initial application to provide information on the prior *month's* earnings.[13] If the prior month is not representative of typical earnings, then households can submit income about their prior year's earnings. Once qualified, students receive benefits for the duration of the academic year. Households do not have to report changes in income, and if they voluntarily report changes in income then school districts have to advise them that they can, but do not have to, request reductions or terminations of benefits.

More restrictive policies might have more frequent recertification or require prompt reporting of income changes with penalties for non-reporting. Such measures can reduce the stability of benefits, both by design when small or short-lived income increases trigger benefit reductions or losses in eligibility and by increasing the potential for recipient non-response or administrative error. More frequent recertification also increases administrative costs, a consideration which should be weighed against the potential cost of extending benefit coverage to recipients who no longer meet the program criteria.

RECOMMENDATIONS TO PROMOTE INCOME STABILITY AND MOBILITY

Income instability poses challenges to the safety net, which is not designed to buffer against short-term fluctuations in income. For example, there is growing evidence that greater income instability is associated with poor educational outcomes.[14] We argue that safety net programs should consider changing program rules and delivery to promote stability without hindering mobility.

Programs are most likely to stabilize income when benefits

- are higher when income is lower,
- remain constant during short-term fluctuations in income,
- reduce gradually as income rises over a long period, and
- do not require frequent recertification or all changes to income reported.

The specific policy and practice recommendations below are informed by behavioral science. This work suggests that relatively small barriers can have large impacts on program participation and outcomes. It also suggests that those most in need of help may be the ones affected most by small barriers. As part of Executive Order 13707, federal agencies are encouraged to consider streamlining processes, revisiting program-eligibility criteria if they unduly limit access, and using alternative data sources to avoid frequent recertification. Those same tools could be used to improve family stability.[15]

Weigh the benefits of stability against the risks of over-coverage. Accountability is important, but income support programs may focus too much on concerns about over-coverage, which is defined as the use of benefits and services by families outside the target population. Target populations—as defined by income levels—are dynamic, and families with unstable incomes may move in and out of eligibility. In crafting programs, policymakers can recognize that short-term changes in income do not necessarily move families outside of the target population in a meaningful way. In fact, maintaining benefits as incomes rise may support mobility, which often is one key goal of the safety net. While maintaining rules to reduce over-coverage, programs could grant families alternative approaches to reporting and recertifying. For example, they could require that an income change be reported only when a dollar threshold is met. The goals of mobility, reduced instability, and long-term well-being may best be achieved by ignoring small and temporary changes in income. Waiting to remove families from a program or reduce benefits until it is clear that income changes can last may create stability that families can build on.

Develop more holistic eligibility and benefit processes across multiple programs. The complex mix of programs on which families depend[16] means that changes in income can have vast and sometimes contradictory effects across a families' set of benefit programs. Rules should consider the family or household perspective, weighing the benefits of stability along with the incentives for mobility. By using the household as the unit of analysis, looking across numerous programs and income sources, it may be possible to monitor better the progress a family is making and the "balancing act" they may be engaged in. Integrated data systems at the state and local level will make it increasingly easier for agencies to take this comprehensive view. The District of Columbia, for instance, allows families to apply for TANF, SNAP, and medical insurance simultaneously.

Consider the full costs of frequent reassessment. Reassessing eligibility for benefits imposes costs on both families and administrative systems. Arguably, more stable support may serve as a precursor to economic mobility, allowing families to catch their breath and prepare for stretching further upward. By forgiving temporarily bumps in income, or by expanding the time period considered, programs may allow families more stability. If that stability leads to better outcomes, the costs and benefits of the approach may be more positive, in the longer run, for the government. Administrators, possibly in partnership with researchers, can explore these issues through administrative experiments, which are relatively low cost, quick, and provide high-quality evidence.

Test methods to reduce the burden of reassessing eligibility. Some program churning may occur not because families truly become ineligible, but because the costs of program re-certification are so high, for both families and agency workers. By testing methods to reduce costs and increase the accuracy of eligibility testing, administrators may learn ways to achieve overall program goals in ways that are more efficient. For example, administrators may waive certain requirements, such as extending eligibility periods, for some families and see whether this results in more stability while meeting other program goals.

Leverage agency and caseworker discretion to maximize the stability of income and income supports. Income support programs involve rules and decisions made at multiple levels: the agency, office, and caseworker level. Each level can influence the stability of benefit receipt. These areas of discretion are especially numerous in block-granted programs such as TANF and childcare subsidies. They are less common, but still present, in Federal entitlement programs such as SNAP. For instance, childcare subsidy case managers have discretion to set the length of vouchers for a specific provider (a determination that is distinct from the recertification length). Of course, changes to providers can be necessary to meet a recipient's employment needs or a child's developmental needs. But, all things equal, the longer a recipient can use a subsidy with a particular provider, the better for stability. In Maryland, for example, as recertification has become less frequent, voucher length has become shorter.[17]

CONCLUSION

Low-income families face frequent fluctuations in income across weeks, months, and years. The design and administration of the current system of income support programs does not fully acknowledge that reality, or aim to reduce detrimental variability of income. At times, program rules and requirements may be exacerbating income fluctuations caused by work and family changes. Policy makers and program administrators and staff should consider changes to eligibility determination and recertification that would promote stable income and reduce the cost of program administration.

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