



## Research

# The Value of Introducing Work Requirements to Medicaid

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## EXECUTIVE SUMMARY

We examine the value of work requirements and argue that more work requirements are needed throughout the social safety net, particularly in Medicaid. Every year, the federal government spends hundreds of billions of dollars on programs aimed to eliminate poverty, with little success in reducing the official poverty rate. While federal programs do alleviate material deprivation, they must start raising self-sufficiency by connecting able-bodied people to work. In the past, work requirements have successfully reduced poverty by encouraging work and raising self-reliance. In particular,

- The federal government enforcing shorter time limits for receiving unemployment compensation in 2014 resulted in 2.1 million new jobs;
- The creation of TANF and introduction of work requirements to welfare raised single-mother labor force participation and lowered single-mother and child poverty rates;
- The EITC keeps 6.5 million people from living in poverty and its inherent work requirement makes it one of the most effective safety-net programs.

Congress is currently considering introducing work requirements to Medicaid. This change would bring an effective work incentive to the roughly 1 million able-bodied people who are covered by Medicaid, do not work, and do not have a good reason to be jobless.

## INTRODUCTION

In 2015, only 6.3 percent of all workers and 2.4 percent of full-time, year-round workers were in poverty. Meanwhile, 31.8 percent of people who did not work for at least one week were in poverty.<sup>[1]</sup> This means that non-workers are 5 times more likely to be in poverty than workers, and 13 times more likely to be in poverty than full-time, year-round workers. Clearly, in the United States, the difference between being in poverty and out of poverty is a job. Previously, the American Action Forum (AAF) [documented](#) that the federal government has failed to reduce poverty because anti-poverty programs have mainly alleviated suffering, not raised self-sufficiency. With labor force participation at the lowest levels since the 1970s, going forward anti-poverty efforts must begin to raise self-reliance by connecting more people to work. One of the most effective ways to do this is to institute work requirements throughout the social safety net. Currently, Congress is considering bringing work requirements to Medicaid. This change would ensure that able-bodied Medicaid recipients are investing in themselves by engaging in work activities that inherently build skills, increase labor force attachment, and place them on a path out of poverty.

## THE SAFETY NET MUST START RAISING SELF-RELIANCE BY

## ENCOURAGING WORK

Since President Lyndon Johnson declared a “War on Poverty,” the US government has introduced a multitude of public assistance programs and each year spends hundreds of billions of dollars to help disadvantaged individuals. The goals of these policies are twofold: first, provide immediate relief to real suffering experienced in low-income households. Second, place people on a path to self-sufficiency. Previously, AAF examined how the government’s safety net programs have impacted poverty and found that they have been quite successful in addressing material deprivation but have not been able to improve self-sufficiency.<sup>[2]</sup> We revealed this disconnect by developing two separate measures of poverty; one that measures material deprivation (the percent of people who are still in poverty after all government benefits are taken into account) and another that measures self-sufficiency (the percent in poverty when excluding all government benefits). Chart 1 contains both measures, which are anchored to the 1980 official rate of 13 percent.

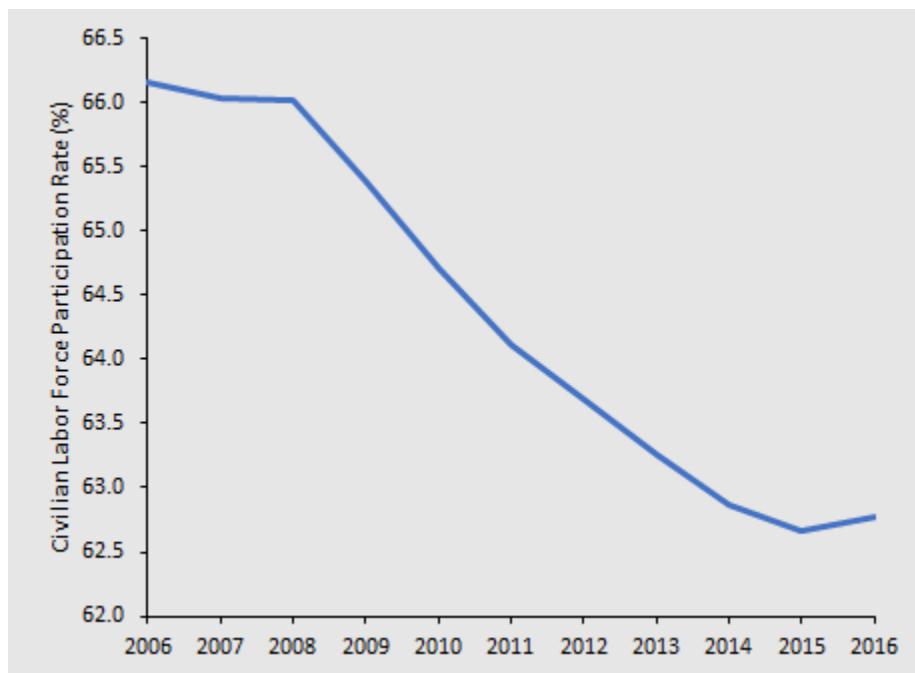
### **Chart 1: The Diverging Trend in Material Deprivation and Self Sufficiency<sup>[3]</sup>**



The percent of Americans who are still in poverty after taking into account all government benefits has fallen substantially. Specifically, the material deprivation poverty rate declined 5.2 percentage points from 13 percent in 1980 to 7.8 percent in 2013. The percent of Americans, however, that would be in poverty without any government assistance has not changed and remains at 13 percent.<sup>[4]</sup> So, while government benefits have clearly alleviated suffering by providing millions of families enough assistance to avoid poverty, it has failed at giving them the tools they need to escape poverty on their own.

The diverging trends reveal that federal anti-poverty efforts must focus on raising self-sufficiency, and encouraging work must be a part of any solution. This is particularly important given the steady decline in the US labor force participation rate that the US has experienced since 2007, the start of the Great Recession.

## Chart 2: Civilian Labor Force Participation Rate<sup>[5]</sup>



Since the beginning of the Great Recession almost ten years ago, the labor force participation rate has rapidly declined from 66.0 percent in 2007 to 62.8 percent in 2016.<sup>[6]</sup> While the labor force participation rate appears to have stabilized since 2015 and is no longer in a free fall, it has failed to bounce back and remains at the lowest levels the United States has experienced since the 1970s.

While much of the decline has been attributed to the country's aging baby boomer generation exiting the labor force for retirement, labor force participation has been falling among younger workers as well. Specifically, the labor force participation rate among men ages 25 to 54, generally considered prime working ages, has been steadily declining for more than sixty years. From its peak of 98 percent in 1954 the labor force participation rate of prime-age men has fallen to 88 percent in 2016.<sup>[7]</sup> Meanwhile, after steadily rising throughout the 1990s, the labor force participation rate among prime-age women plateaued in the 2000s and began declining.<sup>[8]</sup> These trends are particularly problematic because prime-age workers are the most productive in the economy.

Pro-work solutions in public assistance programs would be an effective way to both raise self-sufficiency and increase labor force participation among low-income workers. One option, work requirements, is proven to bolster the US labor market and increase self-reliance. Yet, work requirements are underutilized throughout government benefit programs and could become a more prominent feature of the US safety net.

## SUCCESS OF WORK REQUIREMENTS IN THE PAST

In general, there are two main forms of work requirements: time limits and work activity requirements. Some programs enforce a time limit on the duration that a person can receive a certain benefit so that recipients do not rely on the government and find work so that they have another source of income once the benefit runs out. Other benefits enforce work activity requirements, making able-bodied recipients participate in a certain set of work-related activities in exchange for the benefit. These activities include having a job, looking for a job, participating in community service, enrolling in educational courses, and workforce training. Programs that require recipients to participate in these types of activities aim to not only provide immediate relief from

poverty, but also increase self-reliance and place recipients on a stable path out of poverty.

The federal government's current use of work requirements is limited to just a handful of public assistance programs. The programs that have utilized work requirements, however, have successfully increased labor force participation and reduced poverty. These programs include unemployment compensation, Temporary Assistance for Needy Families (TANF), and the Earned Income Tax Credit (EITC).

## Unemployment Compensation

Recent changes to the duration of unemployment compensation reveal just how important time limits are to encourage work. During the recession when millions of workers lost their jobs and were unable to obtain new positions, the federal government enacted an unprecedented extension in the duration of unemployment compensation. Specifically, the duration of benefits rose from the standard 26 weeks to 99 weeks.<sup>[9]</sup> While these temporary changes were intended to bring relief to the millions of unemployed workers and act as a stimulus to increase spending, evidence suggests that the extension prevented the job market from recovering because recipients had less incentive to immediately return to work.<sup>[10]</sup> Consequently, lawmakers allowed the emergency benefits to expire at the end of 2013, which returned the duration of unemployment compensation back to the 26 week norm.<sup>[11]</sup>

By cutting the duration of unemployment compensation available back to down 26 weeks, the relative value of not working declined and employment began to grow more rapidly in 2014. Specifically, the labor market created nearly 3 million jobs in 2014, the most jobs the United States has created in a single year during the new millennium.<sup>[12]</sup> Moreover, research indicates that the rapid job growth in 2014 was mainly due to the expiration of extended unemployment compensation. Hagedorn, Manovskii, and Mitman (2015) conclude that of the 3 million jobs added in 2014, 2.1 million were created because the benefit extensions were allowed to expire. Moreover, 1.1 million of the new jobs were filled by workers who reentered the labor force because to the government re-enforcing the 26-week time limit.<sup>[13]</sup>

## TANF

Welfare reform in the mid-1990s also reveals how work requirements greatly improve a government program's ability to combat poverty by raising self-sufficiency. In 1996, the federal government replaced Aid to Families with Dependent Children (AFDC), a 1930s-era welfare entitlement program, with TANF, a program that provides cash assistance to low-income families with children. By the end of the 20th century, AFDC enrollment had ballooned without making a measurable impact on poverty, particularly for children and single mothers. Policymakers feared that AFDC actually made matters worse because some parents had become too reliant on the program. Thus, in an effort to increase self-sufficiency, policymakers introduced work requirements when they replaced AFDC with TANF.<sup>[14]</sup> In particular, the government imposed a 60-month (five-year) lifetime time limit for receiving TANF cash assistance and introduced work activity requirements, making able-bodied recipients engage in work or work-related activities in exchange for the cash the benefits.<sup>[15]</sup>

These changes were particularly intended to help children and single mothers, who are far more likely to be in poverty than the rest of the population. As AAF previously [illustrated](#), by 2000 the labor force participation rates of single mothers rose and the poverty rates of single mothers and children both fell substantially relative to the early 1990s, before welfare reform took place. Specifically, the labor force participation rate of single

mothers jumped from 66 percent in 1993 to an all-time high of 79 percent in 2000 and their poverty rate dropped to an all-time low of 33 percent. Additionally, between 1993 and 2000 the child poverty rate dropped from 22.7 percent to 16.2 percent. Together, these trends indicate that TANF reduced poverty by attaching able-bodied persons to the labor force. Unfortunately, this progress did not last long as poverty rose and labor force participation fell with the onset of the Great Recession.<sup>[16]</sup>

## EITC

The EITC is an income subsidy provided through the tax code to low-income working families. Credited for keeping 6.5 million people from living in poverty, it is perhaps the federal government's most effective anti-poverty program.<sup>[17]</sup> The value of the credit received is a fixed percentage of family earnings; as earnings increase, so does the credit at a constant rate determined by the number of children. The credit hits a maximum value also determined by the number of children. The credit is then flat at the maximum value for a certain earnings range and when earnings rise above that range, the credit reduces at a constant rate until the family phases out and no longer qualifies for the EITC. The phase-out begins sooner for single filers than it does for married ones. In addition, the EITC is fully refundable, meaning that if the credit exceeds a family's tax liability, the family still receives the full credit. As a result, they receive the excess credit as a tax refund.<sup>[18]</sup>

The EITC is so effective because it uses household income information to aid families who are truly in need and it has an inherent work requirement. Specifically, since the value of the EITC is based on family earnings, a family needs earned income to receive the benefit at all. So, at least one member of a family must have a job in order to receive the benefit. Researchers have found that this inherent work requirement has indeed caused EITC recipients to work. Consequently, since a job is the best path out of poverty, the EITC goes a long way to both alleviate suffering and increase self-sufficiency. A recent study found that a \$1,000 increase in the EITC is associated with a 7.3 percentage point increase in employment and a 9.4 percentage point reduction in the percent of families living in poverty.<sup>[19]</sup>

## MEDICAID WORK REQUIREMENTS UNDER CONSIDERATION

With a clear track record of success, policymakers are now considering introducing work requirements to Medicaid. In particular, a recent proposal included in a manager's amendment to the American Health Care Act (AHCA) would allow states, beginning on October 1, 2017, to impose a work requirement as a condition of eligibility for Medicaid for non-disabled, non-elderly, non-pregnant individuals.<sup>[20]</sup> While states are not currently prohibited from imposing such requirements, they first must get a waiver approved by the Secretary of Health and Human Services; this change would remove the waiver requirement and give more power directly to the states to develop their Medicaid program in a more tailored manner.

Certain individuals would be explicitly exempted from any such requirements: women who are still eligible for Medicaid as a result of having just had a child within the past 60 days; an individual who is a parent or caretaker relative of a child younger than six or the only parent or caretaker of a child with disabilities; and an individual who is not a dependent and under age 20 who remains in school or other educational program directly related to employment. The types of activities that would be permitted are the same as those currently permitted and required under TANF, including employment, whether subsidized or not; activities gaining work experience, if private sector work is unavailable; on-the-job training, vocational educational training, job skills training, or job readiness assistance; actively searching for a job; community service; enrollment in an educational program directly related to employment or a secondary school; or providing child care services to an individual who is

participating in a community service program.<sup>[21]</sup>

The states would be allowed to direct and administer the program as they see fit, including specifying the amount of time an individual must be engaged in such activities to meet the requirement. In order to encourage states to adopt such a policy, the proposal also includes a five-percentage point increase to the state's federal matching percentage for any expenditures attributable to implementation of the program.

## HOW WORK REQUIREMENTS WOULD IMPACT MEDICAID

While work requirements must be more prevalent throughout the entire safety net, Medicaid would be a great place to start because it would provide a work incentive to a large number of Americans without greatly disrupting the program itself. Further, because a majority of employers provide health insurance as an employee benefit, the more likely it is that an individual with a job will not be reliant upon Medicaid for health care coverage.<sup>[22]</sup> A report from the Kaiser Family Foundation reveals that just over 1 million non-elderly, non-disabled people covered by Medicaid would be impacted by work requirements because they do not work and do not have a good reason to be jobless.<sup>[23]</sup> So, if Congress were to introduce work requirements to Medicaid, over 1 million people would need to find a job, search for a job, or participate in work-related activities in order to remain covered. Clearly, introducing work requirements to Medicaid would bring the successful qualities of TANF and the EITC to healthcare by bringing a large number of able-bodied people to the labor force and increasing self-sufficiency.

Yet, given that 70 million people are covered by Medicaid, imposing work requirements on these 1 million people would not greatly disrupt the program, as this change would not impact 98 percent of benefit recipients. That's because nearly two-thirds of Medicaid recipients are a non-working age (either elderly or a child) or are disabled.<sup>[24]</sup> Millions more are either pregnant or the parent or caretaker of a child that would exempt them from such a requirement. Moreover, the majority of non-elderly adults covered by Medicaid already work. According to Kaiser, 24 million people covered by Medicaid are non-elderly adults who do not receive Supplemental Security Income (Kaiser excludes anyone who receives Supplemental Security Income from their analysis because the program provides benefits to low-income Americans who are disabled and would be exempt from the proposed Medicaid work requirements). Within that population of 24 million, 59 percent are already working. That leaves 41 percent or 9.8 million non-elderly adults who are covered by Medicaid and do not have a job. In addition, when examining the 9.8 million non-working, non-elderly adult recipients, Kaiser found that 89 percent would either be exempt from the work requirements or are already engaging in activities that would be considered to satisfy the work requirements: 35 percent are either ill or disabled, 28 percent are taking care of family, 18 percent are in school, and 8 percent are unemployed and looking for work. This leaves 11 percent, just over 1 million people, who do not have a good reason to be without a job.<sup>[25]</sup> So, while implementing work requirements in Medicaid would impact a large number of benefit recipients, it would not be an extreme change to the program.

## CONCLUSION

In the United States, the difference between being in poverty and out of poverty is a job. The nation's public assistance programs successfully alleviate suffering among low-income households, but they fail to raise self-sufficiency because they do not connect able-bodied people to work. Going forward, policymakers must incorporate work requirements throughout the safety net, which are proven to enhance programs like TANF and the EITC. Medicaid is an ideal candidate for work requirements, as it would encourage over 1 million people to



find work without greatly disrupting the program itself.

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