Function 600:
Income Security

Let Trade Adjustment Assistance (TAA) Expire

#89

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$823	$867	$897	$922	$947	$973	$1,000	$1,028	$1,055	$1,084	$4,456	$9,596

Heritage Recommendation:

The entire Trade Adjustment Assistance (TAA) program was set to expire on December 31, 2014. However, Congress extended the life of the program through FY 2015 with passage of the Consolidated and Further Continuing Appropriations Act of 2015. Congress should not reauthorize TAA again, and should let the program expire at the end of FY 2015. This proposal saves $823 million in 2016, and $9.6 billion over 10 years.

Rationale:

TAA provides overly generous government benefits to American workers who lose their jobs because of foreign trade, even though these workers are a small fraction of laid-off workers.

However, is there any evidence that this assistance and training improves earnings based on newly acquired job skills? Program evaluations of TAA say no. This finding should not be surprising, because scientifically rigorous evaluations of federal job-training programs have consistently found these programs to be highly ineffective.

A 2012 quasi-experimental impact evaluation of TAA by Mathematica Policy Research and Social Policy Research Associates builds upon the consensus of three previous quasi-experimental impact evaluations that have found TAA ineffective at improving the employment outcomes of participants. Thus, Congress should let this costly and ineffective program expire by not reauthorizing the program.

Overall, there is little empirical support for the notion that TAA improves the employment outcomes of displaced workers. In fact, TAA participants are more likely to earn *less* after participating in the program. This trend was also confirmed by a Government Accountability Office report that concluded that TAA participants are more likely to earn less in their new employment. Last, TAA failed a commonsense test of determining whether the program produces more benefits than its costs.

Additional Reading:

- David B. Muhlhausen, "Trade Adjustment Assistance: Let the Ineffective and Wasteful Job-Training Program Expire," Heritage Foundation *Issue Brief* No. 4121, January 8, 2014, http://www.Heritage.org/research/reports/2014/01/trade-adjustment-assistance-and-ineffective-job-training-program.

- James Sherk, "Congress Should Allow Trade Adjustment Assistance to Expire," Heritage Foundation *WebMemo* No. 3134, February 4, 2011, http://www.Heritage.org/Research/Reports/2011/02/Congress-Should-Allow-Trade-Adjustment-Assistance-to-Expire.

- U.S. Government Accountability Office, "Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, But Better Outreach Needed on New Benefits," January 2006, http://www.gao.gov/new.items/d0643.pdf.

Calculations:

Savings based on CBO projections of program cost as found in "CBO's April 2014 Baseline for Farm Programs," April 14, 2014, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44202-2014-04-USDA.pdf. The CBO projections include program costs through 2024. We assume costs of $1,084 in 2025, using the same percentage increase in costs from 2024 to 2025 as occurred between 2020-2024.

Cap Total Means-Tested Welfare Spending

#90

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$100,000	$150,000	$229,472	$250,042	$268,599	$289,101	$316,622	$342,330	$367,309	$397,216	$998,113	$2,710,691

Heritage Recommendation:

Gradually scale back aggregate means-tested welfare spending to pre-recession (FY 2007) levels plus 10 percent, and cap at the rate of inflation going forward. This proposal would save $100 billion in 2016, and $2.7 trillion over 10 years.

Rationale:

The U.S. welfare system consists of approximately 80 federally means-tested welfare programs that provide cash, food, housing, medical care, and social services to poor and lower-income Americans. Total spending on these programs in FY 2013 was $943 billion. Total annual welfare spending has increased sixteenfold since the 1960s, and has cost taxpayers a total of $22 trillion, or three times the amount the government has spent on all military wars combined since the beginning of the nation's history. Furthermore, under President Obama's current plan, welfare spending will amount to $13 trillion over the next decade alone.

Welfare spending must be put on a more prudent course. Rolling back spending to pre-recession levels (plus 10 percent) as the economy recovers, and then capping it at the rate of inflation, would require policymakers to direct welfare spending to the areas of greatest priority, rather than allowing welfare spending to simply continue its upward climb without helping individuals achieve self-sufficiency.

Additional Reading:

- Robert Rector, "Examining the Means-Tested Welfare State: 79 Programs and $927 Billion in Annual Spending," testimony before the House Budget Committee, May 3, 2012, http://www.Heritage.org/research/testimony/2012/05/examining-the-means-tested-welfare-state.

- Robert Rector and Rachel Sheffield, "The War on Poverty After 50 Years," Heritage Foundation *Backgrounder* No. 2955, September 15, 2014, http://www.Heritage.org/research/reports/2014/09/the-war-on-poverty-after-50-years.

Calculations:

Savings were calculated by Heritage analyst Robert Rector, Senior Research Fellow in the Institute for Family, Community, and Opportunity. See Robert Rector and Rachel Sheffield, "How to Get Welfare Spending Under Control," Heritage Foundation *Issue Brief* No. 3874, March 11, 2013, http://www.Heritage.org/research/reports/2013/03/how-to-get-welfare-spending-under-control.

#91

Set a Work Requirement for Able-Bodied Adult Food Stamp Recipients

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$5,400	$5,400	$5,400	$5,400	$5,400	$5,400	$5,400	$5,400	$5,400	$5,400	$27,000	$54,000

Heritage Recommendation:

Reform the food stamps program to include a work requirement for able-bodied adults. Able-bodied adults must work, prepare for work, or look for work for a minimum number of hours each month in order to receive benefits. This proposal saves approximately $5.4 billion annually, and $54 billion over 10 years.

Rationale:

The food stamps program is one of the largest of the federal government's roughly 80 means-tested welfare programs. Food stamp spending increased from roughly $20 billion in FY 2000 to nearly $40 billion in FY 2007. Between FY 2008 and FY 2012, it doubled again to approximately $80 billion. Some of the growth in food stamp spending was due to the recession, but government policies have also made it easier for people to get on the rolls and remain there.

Food stamp assistance should be directed to those most in need. Able-bodied adults who receive food stamps should be required to work, prepare for work, or look for work in exchange for receiving assistance. Not only do work requirements help ensure that food stamps are directed to those who need them most, a work requirement also promotes the principle of self-sufficiency by directing individuals towards work.

Additional Reading:

- Robert Rector and Katherine Bradley, "Reforming the Food Stamp Program," Heritage Foundation *Backgrounder* No. 2708, July 25, 2012, http://www.Heritage.org/research/reports/2012/07/reforming-the-food-stamp-program.

- Rachel Sheffield, "How to Reform Food Stamps," Heritage Foundation *Issue Brief* No. 4045, September 12, 2013, http://www.Heritage.org/research/reports/2013/09/how-to-reform-food-stamps.

Calculations:

Savings are calculated based on the current level of 4.5 million able-bodied adults without dependents (ABAWD) receiving food stamps in FY 2013 at a monthly benefit of $200 (see C*haracteristic of Supplemental Nutrition Assistance Program Households: Fiscal Year 2013,* Table A.15, p. 51, http://www.fns.usda.gov/sites/default/files/ops/Characteristics2013.pdf). This adds up to a total cost of roughly $10.8 billion annually. It is projected that a work requirement would result in the ABAWD caseload dropping by half, yielding an annual savings of $5.4 billion.

Return Supplemental Security Income (SSI) to Serve Its Originally Intended Population

#92

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$12,000	$12,000	$11,000	$12,000	$12,000	$13,000	$14,000	$13,000	$13,000	$13,000	$59,000	$125,000

Heritage Recommendation:

Return Supplemental Security Income (SSI) to serve its originally intended population by ending SSI for children. This proposal would save $12 billion in 2016, and $125 billion over 10 years.

Rationale:

SSI is designed to provide cash assistance to low-income disabled adults who are unable to work, and to the low-income elderly. The program also provides cash assistance to households with children who are functionally disabled and come from low-income homes.

The original intent of SSI was to provide cash assistance for adults who are unable to support themselves because of a disability or because of age. Low-income parents with a disabled child are eligible for cash assistance from the Temporary Assistance for Needy Families (TANF) program, as well as for benefits from various other means-tested welfare programs, such as Medicaid and food stamps. Today, about 15 percent of SSI recipients are children.

SSI should focus on providing cash assistance to low-income adults who are unable to work, either because of disability or age. Cash SSI benefits for children should be eliminated. However, any medical expenses due to a child's disability that are not covered by another program, such as Medicaid, should be provided by SSI. Parents of children who are no longer receiving SSI cash benefits would continue to be eligible for a wide variety of means-tested welfare aid, including TANF, the Earned Income Tax Credit, food stamps, and Medicaid.

Additional Reading:

- Congressional Budget Office, "Options for Reducing the Deficit: 2015–2024," Option 12: Eliminate Supplemental Security Income Benefits for Children, November 2014, http://www.cbo.gov/sites/default/files/cbofiles/attachments/49638-BudgetOptions.pdf.

Calculations:

Savings based on 2014 CBO budget options, option 12, found in CBO, "Options for Reducing the Deficit: 2015 to 2014," http://www.cbo.gov/sites/default/files/cbofiles/attachments/49638-BudgetOptions.pdf. CBO's projections go through 2024. We assume the same level of savings for 2025 as projected for both 2023 and 2024.

#93

Reduce Fraud in the Earned Income Tax Credit (EITC)

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$8,000	$8,000	$8,000	$8,000	$8,000	$8,000	$8,000	$8,000	$8,000	$8,000	$40,000	$80,000

Heritage Recommendation:

Reduce fraud due to false income reporting in the Earned Income Tax Credit (EITC) program. This proposal saves approximately $8 billion annually, and $80 billion over 10 years.

Specifically, policymakers should change the law as follows:

- Require the IRS to fully verify income through a review of form W-2, form 1099, business licensing or registration, and relevant invoices before any refundable EITC payment is made.
- Require individuals claiming self-employment or small business income to:
  a. Provide a form 1099 documenting the income; or,
  b. Be a registered or licensed small business and provide invoices of payments received including date of service and identifying contact information from customers.
- Require the IRS to check the administrative records of the Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, and subsidized housing programs to determine if the tax filer received benefits or a dependent child received benefits from the program during the calendar year and to determine whether the household composition and income reported on the claimant tax form is consistent with that reported to state agencies operating those programs.
- Provide a $2,000 penalty for any tax filing involving an erroneous claim for a refundable tax credit that is based on substantial misreported income.

Rationale:

The Earned Income Tax Credit is the nation's largest means-tested cash welfare program. Although the EITC in some cases reduces federal income taxes owed, its major function is to provide "refundable" tax credits to low-income individuals. A "refundable tax credit" is simply a cash welfare grant to individuals who have no federal income tax liability. About 15 percent of the total expense of the EITC goes to tax reduction, while 85 percent goes to refundable cash credits.[61] In 2012, 24.3 million individuals received refundable EITC payments at a cost of $56.2 billion.[62]

Fraud is prevalent in this expensive welfare program. An IRS audit conducted from 2006 to 2008 found that 43 percent to 50 percent of tax returns claiming the EITC involved erroneous overclaims. These overclaims were not minor filing errors; the overwhelming majority of individuals making overclaims were not eligible for the credit at all. According to the IRS, the erroneous, often fraudulent, overclaims accounted for 28 percent to 39 percent of all EITC payments. The total overclaim amounts were estimated at $14 billion to $19.3 billion per year during the period.[63]

The EITC differs favorably from other means-tested aid programs: Individuals must report earned income to receive cash aid. Thus, in certain income ranges, the EITC can encourage work effort. However, millions of individuals each year fraudulently report income to obtain EITC cash bonuses. These individuals invent fictitious income (or under-report earnings) to maximize their EITC welfare payments. According to the IRS, 30 percent of all EITC claims are based on false or erroneous income claims. In the 2006–2008 audit, 50 percent of the overclaim amount of $14 billion to $19.3 billion per year involved false income reporting.[64]

If the income misreporting ratios from the 2006–2008 audits are applied to 2012 EITC payments, an estimated 8 million households engaged in false income reporting in that year, yielding roughly $10 billion in overclaimed refundable EITC credits. We project that this fraud could be reduced by 80 percent by implementing these proposed anti-fraud measures.

The IRS has an effective capability to detect false income claims. But typically, the IRS scrutinizes claims only in a small number of cases. Audits generally occur after the EITC cash payments have already been made. There are apparently current legal restrictions on the IRS, which require it to make EITC refunds prior to proper income verification. The Department of the Treasury's "Agency Financial Report" for FY 2013 states that 30 percent of EITC overpayments are the result of detectable income misreporting. The report adds:

> These [EITC payment] errors relate to improper income reporting which allows claimants to fall within the EITC income limitations and qualify for EITC. The errors include both under-reporting and over-reporting of income by both wage earners and taxpayers who report that they are self-employed. Income reported through information returns such as Forms W-2, Forms 1099, etc., which can be used for verification of some income, becomes available only after tax returns are processed. Under law, the IRS must process income tax returns within 45 days of receipt or pay interest to taxpayers.[65]

Overclaims and overpayments can be significantly reduced by requiring the IRS to fully verify reported income before any refundable EITC payment is made.

Additional Reading:

- Department of the Treasury, "Fiscal Year 2013 Agency Financial Report," December 16, 2013, pp. 206–208, http://www.treasury.gov/about/budget-performance/annual-performance-plan/Documents/2013%20Department%20of%20the%20Treasury%20AFR%20Report%20v2.pdf.

Calculations:

Per the above explanations, estimated fraud due to false income reporting in the EITC amounts to about $10 billion per year. We estimate that this amount could be reduced by about 80 percent if the proposed anti-fraud measures are implemented, yielding $8 billion in annual savings.

#94

Reduce Anti-Marriage Penalties in the Earned Income Tax Credit (EITC)

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$6,000	$30,000	$60,000

Heritage Recommendation:

Restrict eligibility for Earned Income Tax Credit (EITC) payments to married parents, adoptive parents, and foster parents who reside with and support the child. Single parents who reside with the child and have formal legal custody would also be eligible. Eliminate eligibility for relatives of the child and parents who do not have legal custody. Adults who claim the EITC for dependent children must reside with the child. Requirements for documentation of residency should be strengthened. This proposal saves approximately $6 billion annually, and $60 billion over 10 years.

Rationale:

The purpose of the EITC is to provide a refundable tax credit to low-income parents with children. To receive the credit, a person should have to be the actual custodial parent of the child. Non-custodial parents should not be eligible for the EITC. In the event of cohabiting, non-married parents should receive the credit based only on the mother's income.

Erroneous overclaims equal between 29 percent and 38 percent of the dollar value of EITC claims.[66] Refundable EITC payments in 2012 equaled some $52.6 billion;[67] therefore the overclaim amount would be between $15 billion and $20 billion.

Roughly 20 percent of all EITC claims involve a qualifying-child error—cases in which the parent or the child or both are not eligible to receive the credit.[68] About three-quarters of overclaims with qualifying-child errors involve false claims of residency. Many qualifying-child errors involve payments to relatives and non-custodial parents of the child, many of whom do not reside with the child. Restricting EITC eligibility and tightening residency documentation would reduce qualifying child errors and other unjustified payments.

Current qualifying child claim errors may cost taxpayers as much as $10 billion per year. We estimate savings could equal roughly 35 percent of the cost of qualifying child errors, or $3.5 billion per year.

Additional Reading:

- Robert Rector, "How Welfare Undermines Marriage and What to Do About It," Heritage Foundation *Issue Brief* No. 4302, November 17, 2014, http://www.heritage.org/research/reports/2014/11/how-welfare-undermines-marriage-and-what-to-do-about-it.

Calculations:

Savings were calculated by Heritage analyst Robert Rector, Senior Research Fellow in the Institute for Family, Community, and Opportunity.

Endnotes: Income Security

61. Internal Revenue Service, "SOI Tax Stats–Individual Statistical Tables by Size of Adjusted Gross Income: Individual Income Tax Returns with Earned Income Credit," http://www.irs.gov/uac/SOI-Tax-Stats---Individual-Statistical-Tables-by-Size-of-Adjusted-Gross-Income (accessed December 12, 2014).
62. Ibid.
63. Internal Revenue Service, "Compliance Estimates for the Earned Income Tax Credit Claimed on 2006–2008 Returns," Publication 5162(8-2014), August 2014, p. iv.
64. Ibid., p. 16.
65. Department of the Treasury, "Fiscal Year 2013 Agency Financial Report," December 16, 2013, pp. 206–208, http://www.treasury.gov/about/budget-performance/annual-performance-plan/Documents/2013%20Department%20of%20the%20Treasury%20AFR%20Report%20v2.pdf (accessed December 12, 2014).
66. Internal Revenue Service, *Compliance Estimates for the Earned Income Tax Credit Claimed on 2006–2008 Returns,* Publication 5162 (8-2014), August 2014, p. 11.
67. Internal Revenue Service, "SOI Tax Stats–Individual Statistical Tables by Size of Adjusted Gross Income, Individual Income Tax Returns with Earned Income Credit," http://www.irs.gov/uac/SOI-Tax-Stats---Individual-Statistical-Tables-by-Size-of-Adjusted-Gross-Income (accessed January 7, 2015).
68. Internal Revenue Service, *Compliance Estimates for the Earned Income Tax Credit Claimed on 2006–2008 Returns,* p. 21.