

## Example 11.1

# The Take-Up of Public Assistance Programs

The sharpest difference between the conservatives and liberals in the United States would appear to be over the issue of public assistance for the poor. Conservatives are often critical of these programs because of the adverse incentives they generate, incentives that they see as undermining personal responsibility. They would like to ensure, for example, that able-bodied single women with children work to the extent possible rather than simply staying at home and accepting a TANF check from the government, or that people do not engage in the moral hazard of substituting Medicaid for private medical insurance, thereby asking the taxpayers to pay for their medical insurance when they could pay for it themselves. They also worry that some people will hide private information about their incomes and assets in order to participate in programs that are not intended for them. Liberals recognize the incentive problems, but they support these programs because they accept Franklin Delano Roosevelt's call for citizens in the United States to have freedom from want. Their main concern is that the poor receive cash and/or in-kind aid so that they can enjoy a minimally acceptable standard of living.

One issue that both conservatives and liberals can agree on, however, is that public assistance programs should be target efficient, that is, they should give aid only to the intended or targeted population. But they come at this issue from opposite directions. As noted, conservatives would like the government to be able to screen out those who should not receive aid. Liberals, in turn, are dismayed by the so-called take-up problem – that large numbers of people who are eligible for particular public assistance programs do not participate in them (“take them up”). Their ideal would be for 100% take up of all public assistance programs.

The textbook addresses some of the conservatives' concerns. Chapter 11 analyses the difficulties of maintaining work incentives within public assistance programs (and, by extension, incentives to keep families together), Chapter 12 discusses the moral hazard problem of social insurance substituting for (“crowding out”) private insurance, and Chapter 17 discusses the problem of screening out people who would use their private

information to receive public transfers that are not intended for them. This example addresses the liberals' concern about the take-up problem.

## The Variation in Take Up

The key question is why the take up of public assistance programs is less than 100%, often much less. Janet Currie reviewed the extensive literature on the take-up problem in an attempt to answer the question.<sup>1</sup> One fact she uncovered is that take up varies enormously, both across public assistance programs and across groups of recipients within certain programs. The Earned Income Tax Credit (EITC) has a relatively high take up, on the order of 80–86%, the Food Stamp Program (FSP) has a much lower take up of approximately 70%, and the State Children's Health Insurance Program (SCHIP) has a mediocre take up, somewhere between 8 and 14%<sup>2, 3</sup> (Table 1, pp. 1, 2, and 4). Within Medicaid, the take up is quite different for women giving birth and for children. In the U.S. 35–40% of all births are covered by Medicaid, which suggests that the take up of delivery services is close to universal (p. 10). The same cannot be said for the children who are eligible for Medicaid. Their take up in 1996 was only 73% (Table 1, p. 1).

Variations of this magnitude suggest that there is no simple answer to the take-up problem, and that the reasons for the take up of any given program are likely to be somewhat specific to that program. This appears to be the case. For example, some programs with very high take up receive assistance from businesses and institutions that are able to increase their profits by encouraging people to participate, a factor that is missing in other programs with a lower take up. In the case of the EITC, commercial tax preparers such as H.R. Block advertise heavily to the eligible population, indicating that they can generate a large transfer for them for a relatively modest fee. It is a win-win proposition for the low-income workers who are eligible for the EITC but unaware of it and the tax preparers. Similarly, the hospitals have an interest in having eligible pregnant women apply for Medicaid since they are required to accept women in active labor even if the women have no insurance or other means of paying the hospital. Many hospitals have opened Medicaid sign-up offices within the hospitals to help the women apply. The reverse is true for the children under Medicaid. Many physicians do not accept Medicaid

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<sup>1</sup> Janet Currie, *The Take-up of Social Benefits*, Working Paper, UCLA, NBER, and IZA, Revised June, 2004. The example is based on this paper, with page numbers for specific data and quotations noted in parentheses. Refer to the paper and the extensive 13-page bibliography for more information and analysis of the take-up problem, both in the U.S. and the U.K.

<sup>2</sup> SCHIP, established in 1998, is a federal program offered in the form of block grants to states to provide medical insurance for children in families who have too much income to qualify for Medicaid but less than twice the poverty line income.

<sup>3</sup> Distinguish between entitlement and non-entitlement public assistance programs in thinking about the take-up problem. We are considering the take up only of entitlement programs, for which all people who are eligible for a program and want to participate must be served. Examples are the EITC, Medicaid, the Food Stamp Program, and TANF. Non-entitlement programs, such as housing subsidies, may have a low take up simply because they have insufficient funds to serve all the people who are potentially eligible. The low take up in this case is mostly a budgetary problem.

patients because the Medicaid reimbursement rates for their services are relatively low. The result is that many poor and low-income children go without routine medical care.

## The Main Factors Affecting Take Up

The profit motives that increased the take up under the EITC and Medicaid are obviously specific to these programs. On a more general level, the literature identifies three main factors that are thought to affect take up: lack of information, stigma, and transactions costs. Lack of information can take one of two forms. For newer, or fairly small programs, people who are eligible for them may not have heard about them. For the older, large programs, people are probably aware of them but might not know how to apply to them. Stigma refers to the sense of shame some people feel when forced to turn to public assistance. As such, it is a psychic cost of accepting public assistance. In contrast, transactions costs refer to the explicit or implicit economic costs that people incur in applying to and remaining on a program, such things as the time and out-of-pocket costs to travel to an office to meet with program officials, the need to keep and produce records of income, assets, and certain expenses, the time and knowledge required to fill out forms, the need to recertify their eligibility periodically, and satisfying certain rules and requirements to retain their aid, such as work or education requirements.

### Lack of information

It is often difficult to determine the separate effect of these three factors on the take up for a particular program. For instance, the incentive to learn about a program clearly depends in part on the perceived costs of participating in the program. Therefore, if people claim not to know how to apply to the program, is lack of information the source of the problem or is it really the perceived costs of applying and participating? Nonetheless, it is entirely plausible that lack of information explains at least some of the take-up problem for most public assistance programs. Indeed, the tax preparers appear to have made many low-income workers aware of the EITC, and the hospitals undoubtedly helped show some pregnant women how to apply for Medicaid. Their efforts may also have reduced stigma and/or transactions costs for some people as well, but supplying information was certainly part of their strategy for increasing the take up.

Another clue to the relationship between take up and information is that participation in public assistance programs is often interrelated. One study estimated that for every ten new families who participate in Medicaid, four also apply to the FSP. Conversely, participation in FSP fell with the sharp decrease in caseloads under TANF in the late 1990s (p. 22). These interrelationships suggest that participation in one public assistance program helps people learn about other programs they are eligible for.

### Stigma and transactions costs

The separate effects of stigma and transactions costs on take up are also difficult to untangle because they are simply different kinds of cost. Two questions arise regarding them. First, do costs prevent eligible people from participating in public assistance

programs, regardless of what form the costs take? If yes, then which costs are the more important in lowering take up, the psychic costs of stigma or the various kinds of transactions costs?

The answer to the first question from the literature is yes, costs definitely appear to matter for the take up of public assistance. One reason to believe that they do is simply that the transactions costs are quite high for some programs, for example, FSP, Medicaid, and TANF:

*FSP*: “The average FSP application took nearly 5 hours of time to complete, including at least two trips to a FSP office. Out-of-pocket application costs averaged about \$10.31 or 6% of average monthly benefit” (Table 1, p. 4).

*Medicaid*: “Applicants who are not on welfare may be required to show birth certificates and/or citizenship papers, rent receipts and utility bills to prove residency, and pay stubs as proof of income. Many states have a time limit on the number of days the applicant can take to produce documentation and applicants are often required to return for several interviews. Up to a quarter of Medicaid applications are denied because applicants do not fulfill these administrative requirements ... Coverage may need to be re-established as often as every six months” (Table 1, p. 1).

*TANF*: The replacement of AFDC with TANF in 1996 came with the imposition of a number of new rules and requirements for continuing to receive aid, such as working a minimum number of hours per week or enrolling in an education program, either of which also force most women to seek child-care services for their children. In addition, recipients are now subject to time limits for receiving aid. The number of TANF recipients fell dramatically in its first four years of operation, from 11.5 million in 1996 to 7.2 million by 1999 (Table 1, p. 3). Various studies estimate that the TANF rules and requirements accounted for anywhere from  $\frac{1}{3}$ – $\frac{2}{3}$  of the decline (p. 13).

Another convincing form of evidence that costs matter is that take up is positively related to a program’s benefit levels. To give one example, immigrant families who are eligible for Medicaid are more likely to apply the more children they have (p. 11). The transactions costs (and, presumably, the psychic costs of stigma) are independent of family size, but larger families clearly receive more benefits. This suggests that these families engage in cost–benefit calculations when applying to Medicaid, and that at least for some of them the benefits must exceed a certain threshold to justify the costs of applying and participating in the program. A similar indication of eligible families undertaking cost–benefit calculations was uncovered in studies of participation under TANF. Families are subject to an overall time limit of five years of receiving benefits, and benefits stop for children once they reach 18-years of age. Studies have found that women with children near 18 are more likely to participate in TANF than women with younger children, other things equal. The women with the older children realize that they are in a use-it-or-lose-it situation regarding benefits for their children, whereas those with younger children are conserving their options for future benefits. These kinds of cost–benefit calculations are really quite sophisticated (p. 13).

The second question, then, is the relative importance of the psychic costs of stigma and the economic transactions costs. The preponderance of evidence is that transactions costs are by far the more important. The FSP offers one example. As noted, the transactions costs of applying to and participating in the FSP are quite high. At one point, the time period over which recipients had to recertify their eligibility was reduced, thereby further increasing the transactions costs. One study found that participation in FSP decreased following that reform (holding other things equal). Another reform of FSP was to give recipients electronic debit cards with the value of their food stamps on them so that they did not have to present paper stamps to store clerks. One goal of the reform was to reduce the stigma of using food stamps. Yet a study showed that the introduction of the debit card had no effect on participation in the program (again, other things equal) (p. 12).

Perhaps the most convincing evidence in favor of transactions costs over stigma, however, is that some non-means tested programs in the U.S. also have surprisingly low take up. For example, the take up for unemployment insurance (UI) is between 65% and 70%, about the same as for the FSP (Table 2, p. 1). Presumably stigma is not an issue for UI since all workers who have been laid off are eligible – what is the stigma if a program is not means tested? Yet take up of UI varies across states in direct proportion to the benefit levels (replacement wages) offered. As indicated above, this indicates that costs matter, and the costs in this case are almost certainly transactions costs. But if transactions costs matter for a non-means tested program such as UI, then they are likely to matter for the means tested public assistance programs as well.

Based on her literature review, Currie is convinced that transactions costs are by far the most important of the three general factors that reduce the take up of public assistance programs. Therefore, she believes that lowering administrative barriers and costs is probably the best way to improve take up. This suggestion might not sit well with conservatives, however, because those same administrative barriers and costs presumably help to counter the adverse incentives of the public assistance programs that they are concerned about.