



## Increasing Resources Families Have to Create Slack



**P**overty is a context of scarcity, in which people lack the resources they need to get by. Unfortunately, the systems designed to support people—the tax system, the social safety net system, or the retirement saving system—do not provide the resources people need to achieve and maintain economic security. Instead, these systems often work to perpetuate inequality and keep people trapped in conditions of chronic scarcity.

- 1. Tax System:** The tax system provides tax credits to families with low incomes in an attempt to provide additional relief. However, these tax credits often exclude those who would benefit the most, including families experiencing deep poverty, younger and older individuals, and immigrant families.
- 2. Benefits System:** The benefits system is designed to provide direct support to families through various government sponsored programs. Yet, many of these programs have onerous strings attached that make engagement difficult and do not effectively support people and communities that have been historically excluded from benefits programs.
- 3. Savings System:** The savings system aims to provide all families with short term and long term economic security. Too often, families with low incomes are left behind, struggling to make ends meet and unable to build retirement or emergency savings.

The solution is relatively simple: increase the resources families have. Specifically, people need **slack**—this could mean extra cash to help make ends meet, extra flexibility to use government-provided support when and how it's needed, or extra savings to address financial emergencies. Policymakers can create slack for families in the tax system through tax credits, in the social safety net system through basic income programs, and in the savings system through emergency savings.

## CREATING SLACK

### Create Slack for Families through Tax Credits

Policymakers should leverage the tax system to provide additional, direct support to families. Tax credits, specifically the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC), support families with low incomes by putting extra cash in their pockets to help them afford basic necessities. In combination, the CTC and EITC keep an estimated 5.5 million children out of poverty.<sup>1</sup> These tax credits are also associated with improved health and educational outcomes and help advance racial equity.

In 2021, the American Rescue Plan Act (ARPA) created additional slack for families by expanding both eligibility to and benefits received from the CTC and EITC. The CTC pulled an estimated 3 million children out of poverty in 2021, while other refundable tax credits, including the EITC, kept just under 2 million children out of poverty.<sup>2</sup> In total, child poverty fell by 46% in 2021, with Black and Hispanic children experiencing the largest reductions. Unfortunately, expansions made to the CTC and EITC expired at the end of 2021 and have not been re-implemented since.

#### Congress should extend the expanded CTC by:

- ▶ Increasing the credit amount provided to children, especially kids under 6;
- ▶ Allowing families to receive monthly CTC checks (instead of annually via their tax return);
- ▶ Expanding eligibility to lawfully present immigrant families and children; and
- ▶ Ensuring families with the lowest incomes, who do not file taxes, still receive the credit.

#### Congress should improve the EITC by:

- ▶ Increasing the credit amount provided to working adults, especially those not raising children at home.
- ▶ Expanding eligibility to young adults (aged 19-24) and older adults (aged 65+).
- ▶ Expanding eligibility to lawfully present immigrant families and children.

#### States can take action by:

- ▶ Creating or expanding their state CTC and EITC with generous benefit amounts that are available to families with the lowest incomes and immigrant families. The EITC should be available to all workers aged 19 or older (including those not raising a child in their home).

## CREATING SLACK

# Create Slack for Families through Basic Income Programs

Policymakers should enact basic income programs to help families make ends meet. Guaranteed income—also referred to as guaranteed basic income—is a recurring, no-strings-attached cash payment given directly to individuals, particularly people living at or below certain income thresholds and members of historically marginalized groups.<sup>3</sup> It is meant to supplement, rather than replace, the social safety net by ensuring recipients have the financial resources necessary to meet their basic needs.

Over 100 guaranteed income programs have been launched across the country. These programs are broadly supported by voters and have been successful in promoting economic security, increasing employment, advancing racial wealth equity, and improving health outcomes.<sup>4</sup> To more effectively create slack and support families, guaranteed basic income programs should employ the following principles:

- ▶ **Center Equity:** Guaranteed income programs most effectively reduce poverty when they first recognize the link between systemic income inequality and historic forms of identity-based oppression. Basic income programs can help address the impacts of historic injustice by targeting people and communities historically excluded from benefits programs, wealth accumulation, and social and economic well-being—including Black, Indigenous, and Hispanic people and other people of color, women, LGBTQIA+ people, immigrants and refugees, and people with disabilities.
- ▶ **Simplify Engagement:** Too often, programs intended to increase slack for people do the opposite by imposing burdensome costs to participate: whether financial, temporal, or cognitive. The process for eligible people to learn about, apply for, and retain eligibility to guaranteed income programs should be easy and simple.
- ▶ **Community Involvement:** Guaranteed income programs must also engage the communities they're designed to serve. Washington State commissioned a study that found, for example, that basic income programs should incorporate the expertise and experiences of state agency leaders and staffers, community leaders, and people and communities historically excluded from well-being (and for whom basic income programs would benefit the most).<sup>5</sup>

## States can take action by:

- ▶ Implementing a state-wide guaranteed income program that provides certain low-income and/or historically marginalized groups with recurring, no-strings-attached cash payments. This program should utilize the principles mentioned above, including centering equity, simplifying engagement, and prioritizing community involvement.
- ▶ Ensuring that any money received through local or state-provided guaranteed income programs is not considered income for the purposes of determining eligibility for other benefits programs like SNAP or TANF.

CREATING SLACK

## Create Slack for Families through Emergency Savings

Policymakers should enact programs that help families build emergency savings. Emergency savings provide extra financial slack to help families weather financial emergencies, reduce stress, and increase economic security. Unfortunately, 45% of households can't pay an unexpected \$400 expense, including 65.2% of Black households—compared to 46.7% of white households.<sup>6</sup> Families without emergency savings are more likely to dip into their retirement savings or borrow money from predatory lenders and get trapped in cycles of debt.

To build emergency savings and promote financial equity, families need access to emergency savings vehicles. Whether provided by an employer, state government, or Congress, emergency savings programs should leverage principles from behavioral science to best support families:

- ▶ **Automaticity and Defaults:** People are more likely to engage in behaviors that are simple and easy. Emergency savings programs that include automatic processes—like automatic enrollment—and default options—like defined contribution amounts—reduce required effort and have been shown to increase participation in savings programs and actual dollars saved.
- ▶ **Financial Incentives:** Financial rewards, even micro-incentives, can have outsized impacts on behavior. Emergency savings programs that provide additional tax credits or small cash payments to employers for offering retirement plans, or employees for participating in them, have been shown to increase savings.
- ▶ **Choice and Flexibility:** People may actively avoid engaging in certain behaviors if they feel forced or coerced into them. Emergency savings programs must not restrict participant choice; otherwise, people may avoid them. Instead, participants should be able to opt out of default program features and be given the flexibility to make penalty-free withdrawals from their emergency savings account as needed.

### The federal government should help families build emergency savings by:

- ▶ Creating a national emergency savings plan that provides everyone with the option to build emergency savings, even if their employer does not offer one. This program should utilize the principles mentioned above, including automaticity and defaults, financial incentives, and choice and flexibility.

### States can help families build emergency savings by:

- ▶ Implementing a state-provided emergency savings plan that provides all workers with the option to build emergency savings, even if their employer does not offer one. This program should utilize the principles mentioned above, including automaticity and defaults, financial incentives, and choice and flexibility. The state of Maryland's MarylandSaves program offers one potential model for a state-based emergency savings solution.

## Endnotes

- <sup>1</sup> Marr, Chuck, Kris Cox, Stephanie Hingten, Katie Windham, and Arloc Sherman. (2021). "American Rescue Plan Act Includes Critical Expansions of Child Tax Credit and EITC." Center on Budget and Policy Priorities. 12 March 2021. Accessed at: <https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and>
- <sup>2</sup> Hughes, Joe. (2022). "Census Data Shows Need to Make 2021 Child Tax Credit Expansion Permanent." Institute on Taxation and Economic Policy. 14 September 2022. Accessed at: <https://itep.org/census-data-shows-need-to-make-2021-child-tax-credit-expansion-permanent/>
- <sup>3</sup> Garcia, Kelli. (2022). "Guaranteed Income Programs Give People What They Need Most." ideas42 Policy Lab. 2022. Accessed at: <http://www.ideas42.org/blog/policy-lab-guaranteed-income-programs-give-people-what-they-need-most/>
- <sup>4</sup> Penumaka, Evangel, Isa Alomran, and Abby Steckel. (2021). "Majority of Voters Support a Guaranteed Income." Data for Progress. July 2021. Accessed at: <https://www.filesforprogress.org/memos/voters-support-a-guaranteed-income.pdf>
- <sup>5</sup> "Washington State Basic Income Feasibility Study." (2022). A DSHS Report to the Legislature ESSB 5092 Sec. 205(11). Washington State Department of Social and Health Services. 01 June 2022. Accessed at: [https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=Universal%20Basic%20Income%20Pilot\\_de25f1fb-b4b7-4669-9d57-923d94ba4f53.pdf](https://app.leg.wa.gov/ReportsToTheLegislature/Home/GetPDF?fileName=Universal%20Basic%20Income%20Pilot_de25f1fb-b4b7-4669-9d57-923d94ba4f53.pdf)
- <sup>6</sup> Akabas, Shai, and Nicko Gladstone. (2021). "New BPC Survey Shows Americans Need Better Ways to Save for Emergencies." Bipartisan Policy Center. 25 February 2021. Accessed at: <https://bipartisanpolicy.org/blog/new-bpc-survey-shows-americans-need-better-ways-to-save-for-emergencies/>