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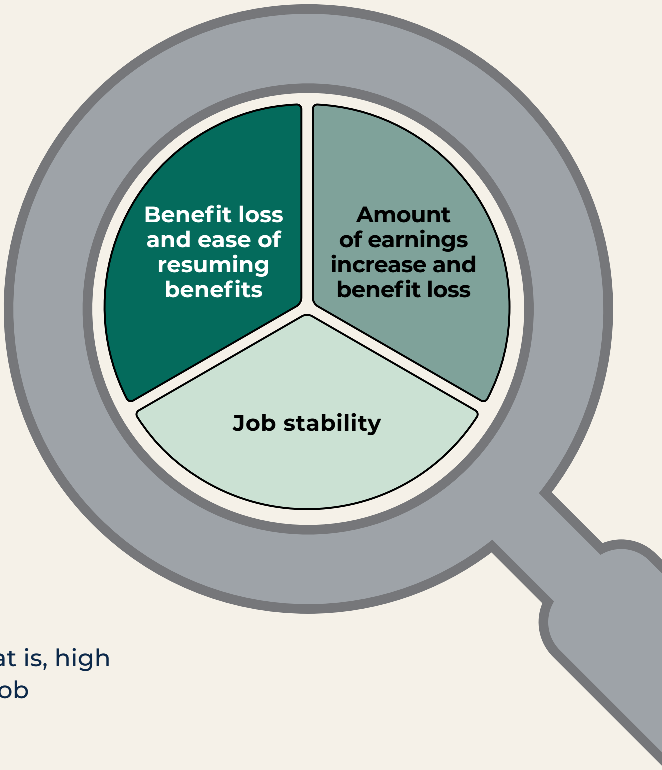
Earnings, Benefit Loss, and Job Instability: What Do Benefit Recipients Consider When Offered a Higher-Paying Job?

Key findings

- Benefit program participants were less likely to say they would accept a higher-paying job[a] if it meant facing benefit loss.
- But when they knew it would be easy to restart benefits if they lost earnings, (that is, the lost benefits **could be automatically resumed** without their having to reapply) they were more likely to accept a higher-paying job and more willing to lose benefits.
- In addition, being able to **automatically resume benefits in the event of earnings loss** made benefit program participants more willing to accept a higher-paying job even if some of the job's characteristics were less favorable (such as high marginal tax rates,[b] small net income increases, and unstable job situations).
- Benefit program participants were more likely to accept higher-paying jobs that were more stable versus those that were less stable.
- Benefit program participants were more willing to accept a higher-paying job in spite of less favorable characteristics (that is, high marginal tax rates[b] or small net income increases) when the job was more stable.
- Lower marginal tax rates and higher net income increases (earnings increase minus value of benefit loss) each, on their own, made benefit program participants more likely to accept higher-paying jobs.



[a] For ease of exposition, in this brief we state that the respondents said they would "accept a higher-paying job" when they recommended that a fictional character accept it.

[b] When a benefit recipient receives an earnings increase, the **marginal tax rate** refers to the proportion of the increase lost to a reduction in benefits.

Benefit loss and effective marginal tax rates

Each year, more than one-quarter of Americans rely on means-tested benefits for basic needs such as food, health insurance, housing, and child care (Macartney and Ghertner 2023). Benefit programs use strict income eligibility thresholds to allocate limited resources to the neediest households. As a result, increases in household income can result in a reduction or elimination of a person's benefits. This leads benefit recipients to face what is often referred to as an *effective marginal tax rate* (shortened to "marginal tax rate" hereafter) on their income, which refers to the proportion of income increase lost due to a reduction in benefits (Chien and Macartney 2019).

The prospect of losing benefits can act as a disincentive to work. In addition to lowering the payoff to increased work, workers are keenly aware that benefits are easier to lose than they are to get back (Chien et al. 2021). For most benefits, people who lose eligibility must start the application process from scratch. In addition to the burden of reapplying, there is the risk of having an application rejected or spending a significant period of time without needed benefits while waiting for approval. As a result of this risk and uncertainty, people might be reluctant to take job opportunities that put them above the eligibility thresholds for their benefits. This concern can be heightened if the recipient views the job opportunity as unstable and likely to end unexpectedly, thereby putting them in a position where they need benefits again.

Our study

We used a discrete choice experiment to study factors that may influence a person's likelihood to accept a higher-paying job. Study participants (N = 1,804) were current and former recipients of Medicaid, Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and Child Care and Development Fund (CCDF) subsidies, which are all means-tested benefits programs.

Survey participants responded to a series of vignettes (see box) about fictional benefit recipients who were faced with a decision about whether to take a higher-paying job that involved more or different responsibilities (either with the same or a different employer), but not more work hours. These hypothetical higher-paying job opportunities varied across three key factors:

1. **Benefit loss and how benefits would be resumed.** Randomly-assigned conditions were:
   - No benefit loss
   - Benefits would be lost, but would be automatically resumed if needed later
   - Benefits would be lost, and person could reapply for benefits if needed later

Example vignette[a]

Angel is in her thirties and is married.

Angel works at a landscaping company, where she earns about $2,100 per month. Angel also receives SNAP from the government. She is the only person earning money in her household.

Recently, Angel was offered a new job as a groundskeeper at a golf course. The job has the same hours but pays more and would **increase her income by $300 per month.**

The higher income would cause Angel to **lose all her food stamps,** which is worth **$100 per month.**

Angel could always go back to her old job if things didn't work out. If this happened, **Angel would have to go through the reapplication process for SNAP again,** including filling out all the paperwork and waiting for approval.

Angel is trying to decide whether to take the job. **People who work there never seem to last long.**

[a] Language related to experimental factors was not bolded in the fielded survey and is bolded here for illustrative purposes. In this example, the earnings increase involves moving to a different employer. In other vignettes, the earnings increase involves staying with the same employer. To see how the vignettes appeared to survey respondents, see the example in Spitzer et al. (2024).

2. **Amount of additional earnings; and value of lost benefits (if assigned to one of the benefit-loss conditions).** Randomly-assigned conditions were:
   - $750 additional earnings; and $250 benefit loss (if relevant)
   - $300 additional earnings; and $100 benefit loss (if relevant)
   - $650 additional earnings; and $450 benefit loss (if relevant)
3. **Risk of losing the additional earnings (and thus returning to the current lower earnings level).** Randomly-assigned conditions were:
   - Job is unstable (for example, the restaurant does not get a lot of customers)
   - Job is stable (for example, there is promotion opportunity in current successful company)

Respondents were asked whether the fictional person should or should not accept the earning increase. For ease of exposition, in this brief we state that the respondents "accept a higher-paying job" when they recommend that the fictional character accept it.

The survey was administered online between January and February 2024. Participants were part of a nationally representative sample or an opt-in panel. We analyzed results using a statistical modeling approach that gave us more power to detect differences than a traditional frequentist approach and provided results that are easier to understand (called a Bayesian hierarchical linear probability model). Using this model, we controlled for respondent and vignette covariates such as age, education, and vignette order. Exhibit 1 describes the characteristics of the study sample. See Spitzer et al. (2024) for a more detailed description of methods.

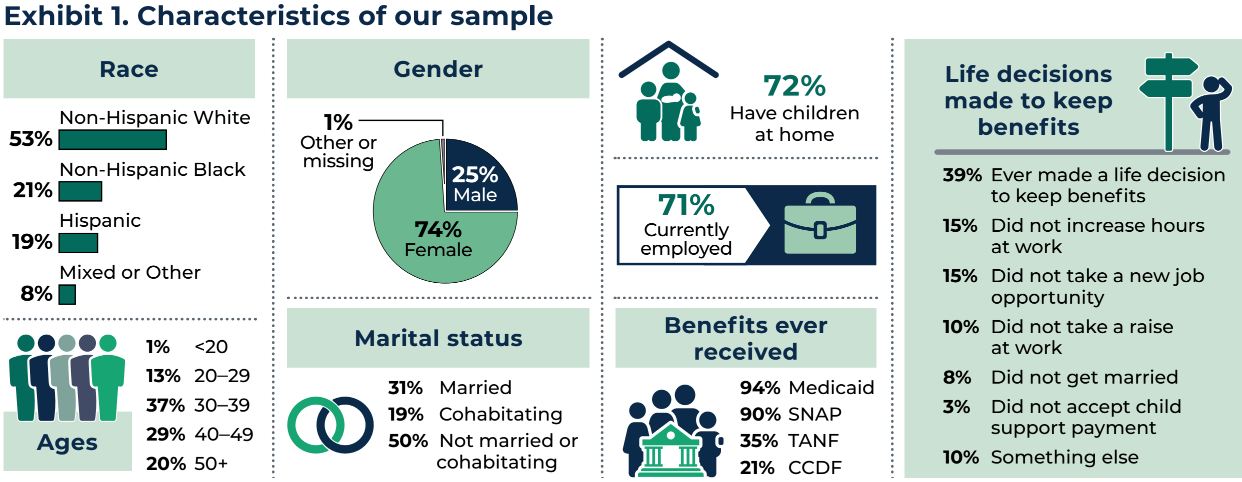
Study findings

We found that the likelihood of respondents accepting a higher-paying job was influenced by the prospect of losing benefits and how benefits would be resumed, the value of the earnings increase and lost benefits, and job stability.[1] All results discussed in the text are highly likely (>90 percent) to be different than zero in the direction of the result presented.

The prospect of losing benefits made respondents less likely to accept a higher-paying job

Not surprisingly, we found that fewer respondents would have accepted higher-paying jobs when they faced benefit loss as a result. When no benefits would be lost, 85 percent of participants would have accepted the higher-paying job. When benefits would be lost, depending on how benefits would resume between 67 and 76 percent of participants accepted the higher-paying job (Exhibit 2).

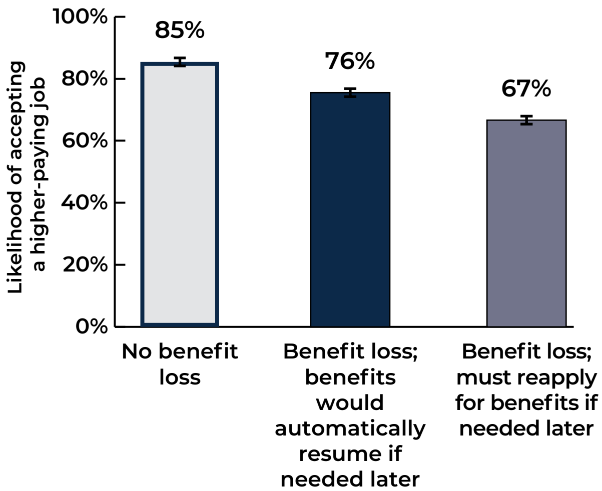
Exhibit 1. Characteristics of our sample



[1] Reminder to the reader that we describe that the respondent "accepts a higher-paying job" when they recommend that the fictional character accept it.

[2] Although it may seem surprising that only 85 percent of respondents would accept a higher-paying job even with no benefit loss, this is because some respondents in the "no benefit loss" condition were assigned to the "unstable job condition." For respondents assigned to the "no benefit loss" ***and*** "stable job" condition, 94 percent accepted the higher-paying job.

Exhibit 2. Likelihood of accepting a higher-paying job under different benefit loss conditions



Source: Understanding Economic Risk for Low-Income Families survey data (N = 1,804).

It's not all about effective marginal tax rates – net income increase matters, too

There are two ways people might weigh a benefit loss against a higher-paying job. First, people might think in terms of effective marginal tax rates (recall that this is the proportion of the earnings increase that is effectively "lost" to benefit reductions). Second, they could think about the net income increase—that is, the net dollar gain after subtracting the value of the benefit loss. Or they could think about both the effective marginal tax rate and the net income increase.

To assess how benefit recipients responded to effective marginal tax rates and net income increases, we asked about three pairings of earnings increase and benefit loss:

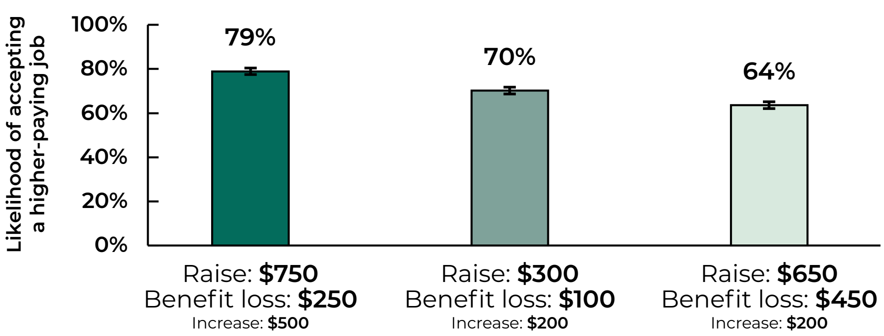
1. $750 additional earnings and $250 benefit loss
2. $300 additional earnings and $100 benefit loss
3. $650 additional earnings and $450 benefit loss

By design, #1 and #2 have the same marginal tax rate of 33 percent, but different net income increases ($500 versus $200). Conversely, #2 and #3 have the same $200 net income increase, but different marginal tax rates (33 percent versus 69 percent). This allowed us to better understand how respondents reacted to net income increases separately from effective marginal tax rates.

Our respondents were sensitive to both the net income increase and the effective marginal tax rate. That is, each one mattered, independent of the other.

For the most favorable condition—a raise of $750 combined with a benefit loss of $250—79 percent of respondents across conditions would accept the higher-paying job (Exhibit 3). For the next most favorable condition (a raise of $300 with a benefit loss of $100), although the marginal tax rate remained the same as in the most favorable condition (33 percent), the lower net income increase resulted in fewer respondents (70 percent) accepting the higher-paying job. And for the least favorable condition (a raise of $650 with a benefit loss of $450),

Exhibit 3. Likelihood of accepting a higher-paying job under different earnings increase/ benefit loss conditions



Source: Understanding Economic Risk for Low-Income Families survey data (N = 1,804).

MTR = marginal tax rate.

although the net income increase remained the same as in the previous condition ($200), the higher marginal tax rate resulted in even fewer respondents (64 percent) accepting the higher-paying job.

In summary, when new opportunities offered a higher net income increase, even when the effective marginal tax rate was the same, people were more likely to accept a higher-paying job. When the effective marginal tax rate was lower, and the net income increase stayed the same, people were also more likely to accept a new higher-paying job.

How easily benefits could be resumed (in the event of a future earnings loss) matters

The method of restarting benefits, once lost, mattered a great deal for participants' decision about accepting a new higher-paying job. In one of the two benefit loss conditions, participants were told they could automatically get benefits back again if needed later; in another, participants were told they would need to reapply.

- **Being able to automatically resume benefits receipt (versus having to reapply for benefits) made respondents more likely to accept a higher-paying job**

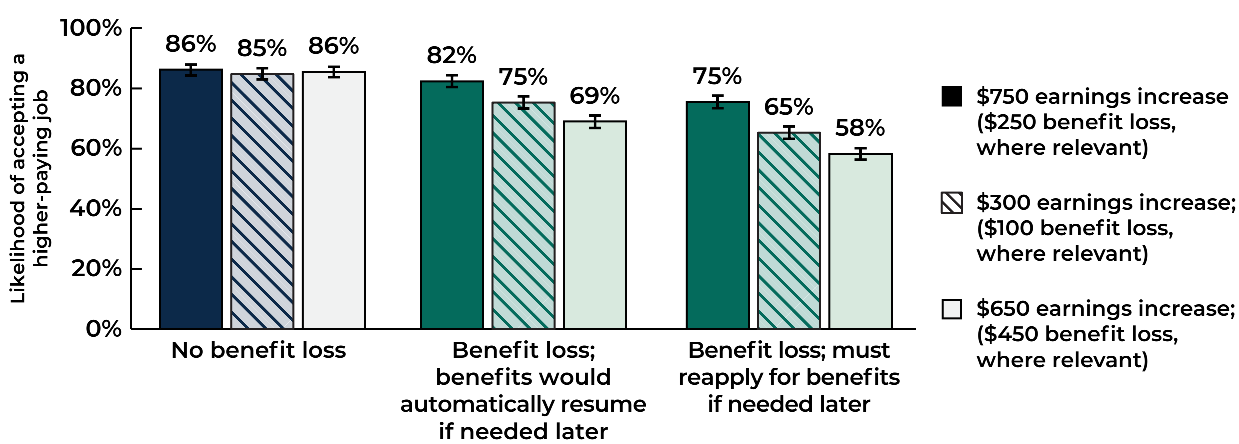
When participants were told they would be able to automatically resume lost benefits if their income fell, their likelihood of accepting a higher-paying job was 9 percentage points higher than it was when they were told they would have to reapply for benefits (Exhibit 2). Knowing that benefits could be automatically resumed if they needed them at a later time increased participants' likelihood of accepting a higher-paying job.

- **Being able to automatically resume benefits (versus having to reapply for benefits) made respondents more likely to take a higher-paying job in the face of higher marginal tax rates or low net income increases**

Not surprisingly, when their benefits would not be lost, respondents were very likely (ranging from 85 to 86 percent) to accept the higher-paying job across all three earnings increase conditions (Exhibit 4). In contrast, when respondents would lose benefits and have to reapply if they needed them again later, respondents became quite sensitive to the different earnings increase/benefit loss conditions. As the earnings increase and benefits loss combination became less favorable, the likelihood of accepting the higher-paying job decreased quite steeply (from 75 to 65 to 58 percent, respectively, for the $750 increase/$250 loss, $300 increase/$100 loss, and $650 increase/$450 loss conditions).

When respondents would be able to automatically restart benefits if needed, they were not only more likely to choose the higher-paying job (as discussed

Exhibit 4. Likelihood of accepting a higher-paying job under different benefit loss conditions and different earnings increase/benefit loss conditions



Source: Understanding Economic Risk for Low-Income Families survey data (N = 1,804).

previously), but also somewhat less sensitive to the various earnings increase/benefit loss conditions. As the earnings increase/benefit loss conditions became less favorable, the likelihood of accepting the higher-paying job also decreased, but less precipitously than it did for the reapply condition (from 82 to 75 to 69 percent, respectively, for the $750 increase/$250 loss, $300 increase/$100 loss, and $650 increase/$450 loss conditions).

In summary, people were more likely to accept a higher-paying job when they knew, in the event of job loss, they could automatically resume benefits instead of having to reapply for them. Knowing they could automatically resume benefits also made people more inclined to accept higher-paying job opportunities that involved high marginal tax rates and small net income increases (compared with the condition in which people had to reapply for benefits).

- **Automatically being able to resume benefit receipt (versus having to reapply for benefits) made respondents more likely to accept a higher-paying job, even if the job was less stable**

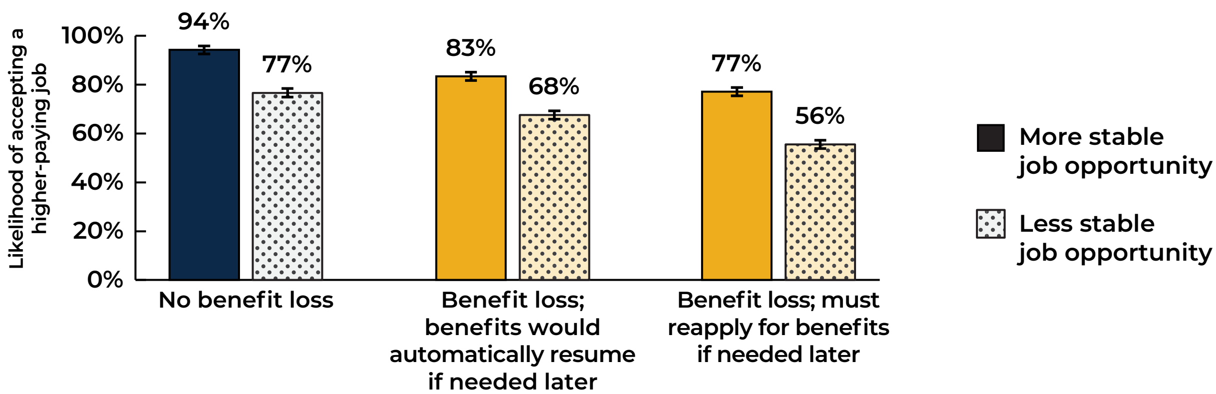
For each higher-paying job opportunity, we presented the opportunity as either being stable (for example, with a successful business) or unstable (for example, with an employer known to have a lot of employee turnover). Knowing their benefits could be automatically resumed at a later time (compared with having to reapply for benefits) also made people more willing to accept higher-paying jobs that were less stable. When people knew they would need to reapply for lost benefits, 77 percent of respondents accepted a stable job. and 56 percent accepted an unstable job (a difference of 21 percentage points; Exhibit 5). In comparison, when benefits would be automatically resumed, 83 percent of respondents accepted a stable job, and 68 accepted an unstable job (a difference of 15 percentage points). This makes sense: knowing that benefits would be there if and when they needed them again should increase job risk tolerance.

Job stability

- **Respondents were more likely to accept a higher-paying job that was described as stable versus one described as unstable**

Earlier, we discussed how the consideration of job stability interacted with considering different levels of ability to easily resume benefits. We also examined the overall effects of job stability. Our results showed that respondents were very sensitive to the riskiness of an opportunity, with respondents being 18 percentage points more likely to accept more stable opportunities than less stable ones (Exhibit 6).

Exhibit 5. Likelihood of accepting a higher-paying job under different benefit loss conditions and more versus less stable job conditions

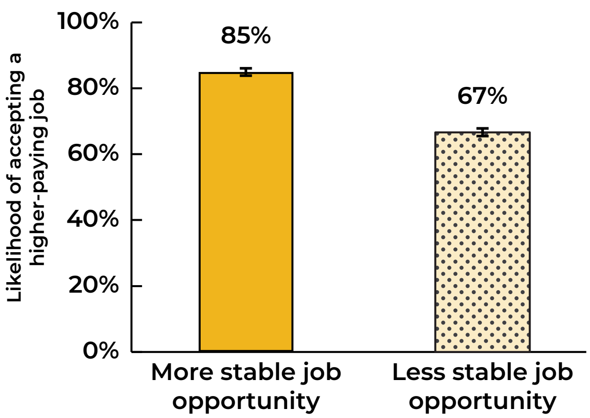


Source: Understanding Economic Risk for Low-Income Families survey data (N = 1,804).

Less stable jobs made respondents more sensitive to higher marginal tax rates and lower net income increases

When the higher-paying job was described as less stable, people were more sensitive to differences in marginal tax rates. When the job was unstable, 52 percent of respondents accepted the higher-paying job in the least favorable condition ($650 earnings increase, $450 benefit loss) relative to 72 percent who accepted it in the most favorable condition ($750 increase, $250 benefit loss), a difference of 20 percentage points (Exhibit 7).

Exhibit 6. Likelihood of accepting a higher paying job under more versus less stable job conditions



Source: Understanding Economic Risk for Low-Income Families survey data (N = 1,804).

In comparison, for stable job opportunities, 75 percent of respondents recommended accepting the higher-paying job in the least favorable condition ($650 earnings increase, $450 benefit loss) relative to 86 percent accepting it in the most favorable condition ($750 increase, $250 benefit loss), a difference of 11 percentage points.

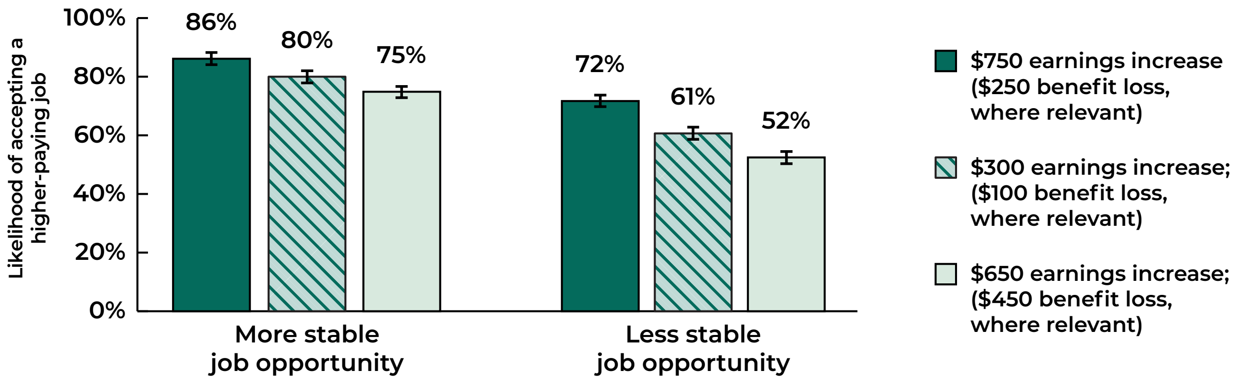
Discussion

The results of this study demonstrate the important role that benefit loss and job stability play in shaping the decisions that benefit recipients make about employment. Our study reveals that people receiving means-tested benefits consider the loss of their benefits when evaluating whether to accept a higher-paying job.

The results provide new information that could be used to guide policies designed to encourage benefit recipients to increase their earnings in the face of both benefit loss and potential job stability and job security risks. Respondents considered how easy it would be to resume lost benefits when accepting new earnings: the easier it was to resume benefits, the more willing people were to take job risks that involved losing benefits.

We also found that respondents were responsive not only to marginal tax rates but also to the amount of the net income increases. Finally, we found that respondents were highly sensitive to job instability in evaluating new opportunities that could result in a loss of benefits.

Exhibit 7. Likelihood of accepting a higher-paying job under more versus less stable job conditions and different earnings increase/benefit loss conditions



Source: Understanding Economic Risk for Low-Income Families survey data (N = 1,804).

Policy implications

Policies that make it easier for people to restart benefits (for example, **automatically resuming benefits)** in the event of earnings loss would **encourage recipients of means-tested benefits** to take opportunities to raise their earnings, even if it meant losing their benefits.

Policies that **support benefit recipients** by increasing the stability of new job opportunities would **encourage them to accept opportunities to raise their earnings.**

Lower effective marginal tax rates and **higher net income increases** each made respondents **more likely to accept a higher-paying job.** Policy considerations should proceed by considering both levers; the current discussion tends to focus on effective marginal tax rates to the exclusion of net income increases.

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