Expansion of Safety-Net Programs During the COVID-19 Crisis

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KEY TAKEAWAYS

Washington policymakers responded to the global pandemic by expanding safety-net programs to counter the dramatic financial consequences of the closed economy.

As schools and most businesses re-open safely, federal safety-net programs should return to their standard program-integrity safeguards.

As the economy recovers, lawmakers should avoid permanent expansions of welfare programs that could have negative long-term consequences for workers and society.

The United States had not encountered a global pandemic on the scale of COVID-19 in more than a century—and never with the structure of a modern federal safety net.

By the end of March, more than 45 states had instituted restrictions that closed schools and non-essential businesses.1 This caused immediate and unprecedented economic ramifications for the millions of Americans who were suddenly unemployed. The April jobs report showed that the unemployment rate rose to 14.7 percent, and that employment fell by 20.5 million jobs.2 The Bureau of Labor Statistics tersely summarized these catastrophic numbers: “This is the highest rate and the largest over-the-month increase in the history of the series.”

Federal political and administrative leaders understood that even a temporarily closed economy would have serious and unprecedented consequences as
Americans who lost jobs were suddenly unable to afford basic necessities, such as rent and mortgage payments, health care, or food. In order to alleviate the unparalleled financial consequences of the closed economy, federal policymakers took dramatic action to expand safety-net programs and to allow states to mobilize needed resources.

Federal efforts focused primarily on three programs: (1) a new cash benefit administered through Unemployment Insurance (UI); (2) health care coverage through Medicaid; and (3) food through the Supplemental Nutrition Assistance Program (food stamps).

Federal safety-net programs, in turn, focused on three areas: (1) funding increases for state governments and beneficiaries, (2) expansion of eligibility standards, and (3) temporary suspension of standard program-integrity safeguards.

**Administrative Expansion**

Within months after the novel coronavirus (COVID-19) was first identified in Wuhan, China, the United States had its first recorded case in January 2020. Administration officials immediately sought to expand program flexibilities wherever they had the authority, and to permit state employees and the beneficiaries of safety-net programs to adhere to state shutdown orders.

The reasoning for many of changes was simple: If governors asked the majority of their citizens to stay home, the “normal” procedures of a state agency could be impossible. For example, a state employee would not be able to host an in-person interview. A beneficiary may not have access to the Internet, a public library, or the local Department of Motor Vehicles (DMV) to be able to provide documentation that would customarily be required.

Weeks after the first domestic COVID-19 case was recorded, the U.S. Department of Health and Human Services (HHS) declared a public health emergency, granting itself expanded legal authorities to implement an immediate public health and medical response. Many of the congressional expansions were tied to this public health emergency. President Donald Trump declared a national health emergency under the Stafford Act on March 13, 2020. The HHS’s Centers for Medicare and Medicaid Services (CMS) and the U.S. Department of Agriculture’s Food and Nutrition Services (FNS) likewise outlined available administrative and program-integrity flexibilities for state agencies and program beneficiaries.
Legislative Expansion

Within the month of March, Congress concurrently responded with three major legislative packages also intended to offset the financial impact of state shutdown orders by raising benefit levels and expanding eligibility standards.

Congress passed three major pieces of response legislation:

1. The Coronavirus Preparedness and Response Supplemental Appropriations Act, enacted on March 6, 2020. This first measure appropriated $8.3 billion in emergency funding for federal agencies to counter the spread of COVID-19.

2. The Families First Coronavirus Response Act (FFCRA), signed March 18, 2020. This $192 billion package included increased funding for nutrition assistance programs.

3. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted March 27, 2020, was the largest response costing $2.2 trillion.

Unemployment Insurance. Congress created an unprecedented cash benefit through state unemployment insurance.

Funding Increase. The Coronavirus Aid, Relief and Economic Security (CARES) Act established a groundbreaking $600-per-week federal bonus distributed in addition to state UI benefits. The legislation also included the Pandemic Unemployment Assistance (PUA) program, which extended unemployment benefits to self-employed individuals who do not typically qualify for unemployment benefits. While the additional $600-per-week cash benefits are available through the end of July (about 18 weeks total), the CARES Act also extended regular unemployment benefits through December 2020, for a total of 39 weeks.

Eligibility Standards. UI benefits typically average about 40 percent of prior wages, a national average of about $400-per-week. The $600-per-week addition represented a massive income increase for the majority of workers. A majority of workers can now receive more from UI than they earned working. For example, a worker who ordinarily earned $600 per week from a job could receive a national average of between $840 and $900 per week for not working. (The $840 and $900 per week represent $600 per week plus 40 percent and 50 percent of prior earnings).
A recent National Bureau of Economic Research working paper found: “Under the CARES Act, 68% of workers have replacement rates above 100%. The median replacement rate is 134%.” As Heritage Foundation analysts Drew Gonshorowski and Rachel Greszler summarized,

The median full-time worker in America (who earns $933 per week, or $48,500 per year) would earn about 15 percent more from unemployment insurance—an additional $2,300 over the course of four months of unemployment—than if he had remained employed. The lower that worker’s earnings are, the greater financial incentive he will have to collect UI instead of staying employed.

If the benefit were extended beyond July, one can expect the work disincentive to continue—if not expand. The Congressional Budget Office (CBO) projected that if the benefit were continued beyond July, “Roughly five of every six recipients would receive benefits that exceeded the weekly amounts they could expect to earn from work during those six months.”

Program Integrity. Over 44 million Americans filed for unemployment—more than one in four workers—since the coronavirus shutdowns began in March. Some state offices saw 100-fold increases in the number of weekly applications. The combination of the economic hardships, availability of generous cash benefits, and overwrought state systems led to increased fraud.

The Secret Service recently warned of a major fraud ring that could cost states hundreds of millions in illegitimate unemployment claims. Washington State had to temporarily stop processing UI claims, only recouping $333 million of a potential total of $650 million in fraudulent claims. Oklahoma is investigating 4,200 UI fraud complaints. The FBI is inspecting fraudulent claims in Rhode Island. Maine negated 12,000 claims due to fraud.

The Department of Labor’s Inspector General issued a report warning that the PUA program is “highly vulnerable to improper payments and fraud,” primarily due to the ability of individuals to self-attest to the income lost due to the pandemic, and without any consequence for failing to provide follow-up documentation after receiving benefits.

Current Effects. While federal assistance—such as expanded unemployment benefits and the Paycheck Protection Program—were arguably necessary and helpful for minimizing the economic consequences and helping to prevent a major recession, the $600-per-week additional federal unemployment benefit has created an unemployment incentive that is preventing the economic recovery and could have harmful long-term
consequences for workers and society. As many small businesses are struggling to survive, the fact that some are having to compete with excessive unemployment benefits to get their workers to come back is making it even harder for them to stay afloat and recover. In the CBO’s recent assessment, “the extension of the $600-per-week benefit would probably reduce employment in the second half of 2020, and it would reduce employment in calendar year 2021.” Moreover, unemployment has both short-term and long-term consequences for individuals, including a decline in physical and mental well-being, fewer opportunities, and lower incomes.

Medicaid. As unemployment increased, many more Americans turned to Medicaid, the joint federal–state program that provides health care coverage for low-income individuals. The program saw funding, eligibility, and program integrity changes.

Funding Increases. In order to offset the strain of increased enrollment on state budgets, Congress provided all 50 states with a 6.2 percent increase in the federal matching rate until the end of the emergency period. The “emergency period” is expected to last well into next year according to the CBO. It could also last much longer.

Eligibility Standards. Clearly, health care coverage is vital to combat a global pandemic. Congress recognized that the some of those who lost their jobs would also be losing their employer-sponsored health insurance. Some individuals and families were able to turn to COBRA coverage, although this coverage is still expensive for most. Individuals pay the full cost of premiums—which averages $7,188 a year for a single person, and $20,576 a year for a family of four in 2019. A July report by the Galen Institute estimates that according to survey data, the number of those who have lost employer-sponsored coverage was likely below three million, as of early June. 

Furthermore, the CARES Act excluded the $600 UI cash benefit from Medicaid eligibility, considerably expanding Medicaid eligibility during the public health emergency. Standard Medicaid eligibility for adults is capped at incomes up to 138 percent of the federal poverty level (FPL), which would roughly be $1,467 per month for an individual, and $3,013 per month for a family of four. With this congressional change, an individual on UI could earn the national average of between $840 and $900 per week ($3,360 to $3,600 per month) and still qualify for Medicaid coverage. As one in four workers applied for UI since March, that means that many of those workers may be newly eligible for Medicaid.

Program Integrity. In return for the 6.2 percent increase in the federal matching rate, Congress sought to ensure that those individuals had access to Medicaid for the entirety of the public health emergency, and therefore
prohibited states from removing ineligible enrollees from their Medicaid programs. The FFCRA stipulates that states “may not receive” the financial assistance unless all enrollees are “treated as eligible for such benefits through the end of the month in which such emergency period ends unless the individual requests a voluntary termination of eligibility or the individual ceases to be a resident of the State.”

The CMS also granted maximum administrative flexibilities in order to allow its state counterparts to comply with shutdown orders. These were commonsense measures to enable state agencies and program beneficiaries to participate in programs while complying with stay-at-home orders.

Many of these flexibilities were useful and long overdue, such as the expanded use of telemedicine. Others were focused on eligibility criteria or processes that could be difficult to carry out if either the state agency or beneficiaries complied with stay-at-home orders. For instance, the CMS permitted states to allow self-attestation of eligibility criteria, including date of birth, state residency, and household size (all of which affect eligibility) when documentation was not available—for instance when the applicant did not have access to the DMV to secure the documentation, or to the Internet or a public library to fax or e-mail necessary paperwork. States were likewise allowed to provide extended time limits for the completion of application or provision of verification. The CMS also permitted states to expand presumptive eligibility, which allows the authorization of qualified entities, such as hospitals, to enroll individuals in Medicaid. The CMS expanded the provision to other entities, such as community health centers and schools, to ensure that no matter where an individual receives medical assistance during the pandemic, that entity will have the ability to enroll the individual in Medicaid. The CMS also relied on blanket 1135 waivers and emergency section 1115 waivers (which reference sections of the Social Security Act that authorize Medicaid). These waivers give the states latitude to modify their individual programs to fit their unique circumstances.

Current Effects. States will undoubtedly see increased Medicaid enrollment during the pandemic and economic downturn. The Health Management Associate’s May report estimates that “Medicaid enrollment could increase by 5 to 18 million by the end of the year.” The same report estimated that between 3 million and 4 million of that increase will be due to the FFCRRA provision preventing states from disenrolling ineligible beneficiaries. In June, the Foundation for Government Accountability estimated that states could see 55 million new Medicaid enrollees this year, a 73 percent increase from 2019. If that were the case, the cost to states would nearly reach $128 billion.
Many states already have budgets in the red. Government-funded health care proposals, including Medicaid expansion plans in Kansas, Oklahoma, and California and public option plans in Colorado and Washington, are projected to be delayed.\(^{35}\)

**Nutrition Assistance.** Policymakers also changed funding and eligibility levels in food stamps, the largest of the federal nutrition programs, which distributes money through electronic-benefit-transfer (EBT) cards to help low-income individuals buy food.

*Funding and Eligibility Changes.* The FFCRA ensured that all households are able to receive the maximum allowable food stamps benefit for the duration of the HHS-declared public health emergency and state-declared public health emergency. The average five-person family generally receives $528 a month in food stamps. This change increased the benefits to $768 a month. This increased the monthly federal food stamp expenditures by $2 billion a month—an increase from previous expenditures from $4.5 billion to $6.5 billion—representing a 40 percent increase in benefit levels.\(^{36}\)

Congress was concerned that during the pandemic and economic crisis, food stamps benefit levels, which are primarily calculated by reported income, could be insufficient. Food stamps are designed to be supplemented by other forms of income—whether through paid employment or nonprofit support. However, in a pandemic, families could reasonably need access to increased funds if normal supplemental forms of income were reduced or food costs increased.

In addition, many families that receive food stamps also generally have their resources supplemented by other nutrition programs for school-aged children, particularly through the School Lunch and Breakfast programs. As schools were closed across the nation, the FFCRA mandated that if a school were closed for five consecutive days, the families of children eligible for free and reduced-price lunch would have the full cost of missed meals added to their EBT cards.

*Program Integrity.* The FNS, both through already available authorities and broad authorities that the FFCRA made available while the declaration of public health emergency is in place, also made allowances so that state employees and food stamp beneficiaries were able to comply with shutdown orders that effected government agencies and non-essential workers during the months of April, May, and June. These flexibilities included waiving standard program-integrity safeguards, such as verifying that the applicants are who they say they are, and that they qualify for the program. These allowances included the ability of states to suspend in-person applications and verifications, and to allow the signing of applications through
non-recorded telephone verification; four states (California, Indiana, Iowa, and Ohio) were permitted to suspend Income and Eligibility Verification System (IEVS) checks—which double check immigration status—through May 31, 2020.37

Current Effects. The March food stamp numbers jumped to 37,347,458 individuals in the program, an increase of nearly half a million enrollees from February.38 As shutdowns were first enacted in the last few weeks of March, it is expected that April and May numbers will see even more substantial increases. In the 27 states with available state food stamp caseload data, there was an average 13 percent increase between March and May, which would be a total of about 42 million nationally if the other states mirror the increases.

A work requirement had been scheduled to go into effect in April, but, recognizing the impossibility of implementing it in the midst of a closed economy, the FNS issued guidance to states ensuring they knew that they have the authority to suspend the time limit associated with the work requirements for able-bodied individuals without dependents for the duration of the national emergency. The FFCRA also confirmed that work-requirement time limits were not implemented during the HHS-declared public health emergency.39

In addition, current law is sensitive to negative economic conditions and only makes the work requirement applicable when the state unemployment rate is below a 6 percent average for the most recent 24-month period. As the April unemployment rate rose to 14.7 percent and the June unemployment rate only declined to 11.1 percent, no state will meet the unemployment threshold in the near future.40

Moreover, once the threshold is reached at some future date, the food stamp work requirements will only apply to work-capable individuals without dependents—beneficiaries ages 18 to 49, who do not have any children or other dependents in the home.41 Had there been no economic downturn due to the COVID pandemic, the number of work-capable individuals without dependents would have been 688,000 in fiscal year 2021, among nearly 40 million food stamp beneficiaries.42

Other Nutrition Assistance Funding. The FFCRA also provided $500 million for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) in addition to funding to cover increases in program participation. In addition, the FNS permitted WIC state agencies to issue up to four months of benefits at a time on WIC EBT cards.

Furthermore, the FFRCA provided $400 million for the Commodity Assistance Program’s Emergency Food Assistance Program, as well as $100
million in additional nutrition assistance for the Northern Mariana Islands, Puerto Rico, and American Samoa.

**House Proposal.** The main proposal for further benefits passed by the Democratic-controlled House is the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act. This 1,800-page, $3 trillion package contains a liberal wish list of policies. It would extend the $600-per-week UI increase through the end of 2020. The White House issued a veto threat, and this legislation has not been taken up by the Republican-controlled Senate.

**Recommendations for U.S. Policymakers**

While a federal response was warranted in the case of an unforeseen global pandemic and a shutdown of the U.S. economy, that response should remain targeted and temporary. Congress should:

- **Allow the federal $600-per-week cash benefit via UI to expire at the end of July.** This additional federal unemployment benefit has created an unemployment incentive that is preventing the economic recovery and could have long-term consequences for workers and society.

- **Ensure that states have the flexibility to manage their Medicaid enrollment.** States should not be forced to continue to enroll individuals who do not qualify for the program if they have access to employer-sponsored insurance.

- **Phase out the administrative permissions** that provided reasonable flexibilities in Medicaid and food stamps in order to allow state agencies and beneficiaries to comply with the shutdown orders as the majority of states re-open and phase out shutdown orders. As states open up, federal and state agencies should ensure that the suspended basic program-integrity measures are conducted again, so that federal resources are preserved for those who truly need them.

**Conclusion**

Federal leaders confronted with a global pandemic used the federal safety net as tool to support Americans suddenly thrust into an economic downturn. The federal safety net was temporarily bolstered to include
unprecedented unemployment cash benefits, expanded Medicaid eligibility, and increased food stamp benefits. With these safety-net programs, many Americans were able to weather the temporarily closed economy without which many would have been unable to afford basic necessities.

While the first stage of the coronavirus response was arguably necessary for controlling the initial spread of the virus and minimizing the economic consequences of the shutdowns, in the next stage, policymakers will have to balance contending with an ongoing pandemic with supporting an economic recovery. Policymakers must ensure that these safety-net programs—particularly for health care—continue to be available for those who truly need them, while ensuring that they do not become a way of life after the economic recovery. As states begin to re-open the doors of businesses, schools, and society in general, the focus of federal leaders must be on supporting the economic recovery and avoiding policies that could have harmful long-term consequences for workers and society.

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Endnotes


3. Ibid.


29. Medicaid eligibility up to 138 percent FPL is a state option. 37 states, including DC, have adopted this expanded eligibility.
30. Families First Coronavirus Response Act, Sec. 6008.
41. These individuals are limited to three months of food stamp benefits over a three-year period unless they work, look for work, or participate in education or job training for 20 hours a week.