# WORK DISINCENTIVES: Policy Responses to Low Returns of Full-Time Work for Poor Households

**In this study, we find that while full-time employment significantly improves economic wellbeing for most households, it yields almost no improvement for those already living in poverty.**

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## Executive Summary

For decades, U.S. anti-poverty policy has rested on the assumption that employment — particularly full-time work — provides a reliable pathway out of poverty. However, new evidence from our national analysis of household data challenges this long-standing belief. In this study (adapted from Fisher, et al., 2023), we find that while full-time employment significantly improves economic wellbeing for most households, it yields almost no improvement for those already living in poverty.

Drawing on ten years of national data (2010–2019) from the Current Population Survey Annual Social and Economic Supplement (CPS-ASEC), we find that full-time work increases economic wellbeing by 49%–78% among all working households, but by only 1.3%–2.7% among working-poor households — a statistically negligible difference.

This lack of improvement in the financial stability and wellbeing of the working poor stems from a combination of structural factors, and modest wage gains from full-time work are often offset by reductions in public benefits and rising costs and expenses. Together, these factors create a system in which millions of Americans remain economically vulnerable despite full-time employment. Addressing “America’s contradiction” — the reality that one can work and still be poor (Levitan, et al., 1993) — will require better alignment of labor, health, and social support policies.

**We find that full-time work increases the economic wellbeing of working poor households by only 1.3%-2.7%.**

# Background

In the United States, hard work is deeply woven into the national narrative of opportunity and self-sufficiency. Policymakers have historically designed anti-poverty programs to promote labor market participation as a pathway to independence. For example, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 introduced work requirements for most public assistance programs, while the Earned Income Tax Credit (EITC), established in 1975, provided income supplements for low-wage working households. Despite these efforts, millions of working Americans continue to live in poverty. In fact, roughly 45% of low-income households include at least one employed adult, underscoring a central flaw in U.S. poverty policy—and our key finding: ***full-time employment does not consistently lead to greater economic well-being.***

# Data and Methods

In this study, we analyze ten years of data (2010–2019) from the Current Population Survey Annual Social and Economic Supplement (CPS-ASEC), which provides detailed information on income, public assistance, taxes, and household characteristics for approximately 100,000 U.S. households each year. Notably, the CPS-ASEC includes a sub-sample of working-poor households, allowing us to compare these households to the broader population of working households.

We define *working households* as those in which adults aged 25–64 worked a combined total of at least 875 total hours annually. Within this group, we categorize households as follows:

- *Part-time households:* 875–1,749 hours annually
- *Full-time households:* 1,750 or more hours annually (equivalent to 35 or more hours per week for 50 weeks)

Using the Supplemental Poverty Measure (SPM), we divide working households into *poor* (below the SPM poverty threshold) and *non-poor* (above the threshold) working households. The SPM, developed by the Census Bureau in 2009 and used widely by governmental agencies and researchers alike, offers significant improvements in the measurement of poverty over the Official Poverty Measure (see Short, 2011 for a review of SPM and OPM).

To assess economic well-being, we use the SPM's *resources-to-needs ratio*, which measures a household's ability to meet its basic needs with its existing financial resources. Resources in the SPM include cash income and in-kind benefits (e.g. SNAP, housing subsidies, etc.) minus necessary household expenses (e.g. taxes, work-related expenses, medical expenses, etc.), and needs include necessities like food, shelter, utilities, etc.

Using these definitions, our central research question asks: ***Would the economic well-being of working-poor households improve if they moved from part-time to full-time employment?***

## Analytical Approach

To address this question, we employ two complementary econometric methods:

1. ***Blinder–Oaxaca Decomposition*** — This model separates observed income differences between groups into *explained components* (attributable to measurable characteristics such as education and marital status) and *unexplained components* (reflecting unobserved factors) (Blinder, 1973). Using this approach, we estimate and interpret differences in economic well-being between full-time and part-time households in both the full sample and the working-poor subsample.

   To mitigate potential model misspecification and strengthen the robustness of our results, we supplement this analysis with the Propensity Score Matching (PSM) method described below.

2. ***Propensity Score Matching (PSM)*** — This method is used to make fair comparisons in studies where people are not randomly assigned to a treatment or program. It works by pairing each person who received the treatment with someone who did not, but who has a similar likelihood—or "propensity"—of receiving it based on characteristics like age, income, or health. This creates two groups that are similar in all the important ways we can measure, so that differences in outcomes are more likely due to the treatment itself rather than other factors.

   PSM is a way to mimic a randomized experiment using real-world data. In our model, we paired full-time and part-time workers who are statistically similar across key characteristics, allowing us to isolate the effect of work hours on household well-being.

# Key Findings

## Finding 1: Full-time work improves outcomes for most workers, but not for the poor.

Results from both analytical methods tell the same story. In general, moving from part-time to full-time work significantly improves economic well-being. This is the relationship you would expect — when you work more hours, you have more money to meet your basic needs, and your well-being improves. Indeed, this is the underlining assumption of the U.S. social safety net and is why most programs include a work requirement.

However, this logical assumption does *not* hold true for poor-working households (see *Sidebar 1*). Both methods find that full-time poor-working households are only slightly better off than their part-time counterparts, and even this slight improvement in economic well-being is not statistically significant. ***In short, for households already in poverty, working full-time provides little to no measurable economic advantage over part-time employment.***

### SIDEBAR 1: APPLICATION OF ANALYSIS

***The Blinder-Oaxaca Decomposition*** shows that full-time working households are, on average, **78% better off** (in terms of their resources-to-needs ratio) than part-time working household, but full-time working-poor households are only **2.7% better off** than their part-time counterparts.

***The Propensity Score Matching (PSM) analysis*** produces similar results. The difference between full-time and part-time working households is **49%** in the overall sample but only **1.3%** among working-poor households.

Importantly, while the difference in the resource-to-need ratio between part-time and full-time households is statistically significant for the general population, it is ***not significantly different*** between part-time and full-time working poor households.

## Finding 2: Higher income is offset by higher costs and lost benefits.

The next obvious question is *why* full-time work fails to improve the economic wellbeing of low-income households. At first glance, ***it may seem counterintuitive that working more does not lead to better financial outcomes***, but increased work hours are rarely a neutral tradeoff — they often bring higher costs related to medical care, childcare, and work-related expenses.

For most households, additional earnings from full-time employment are sufficient to absorb these costs. But, as we note, "the incentive structure to working full time is very different for the poor." So, although poor households defined as working full-time earn nearly twice as much as part-time households, higher expenses (particularly medical expenses) and the loss or reduction of public benefits effectively nullify these gains and prevent additional work from translating into greater financial well-being.

### *Medical Expenses*

A major component of this tradeoff is the sharp rise in out-of-pocket medical costs. On average, full-time poor households incur $6,685 annually in medical expenses, compared with $2,872 for part-time working poor households. These higher costs erode nearly all income gains from additional work hours. In part, the increase reflects less reliance on Medicaid and more on private or employer-based insurance, resulting in higher premiums and copayments for full-time poor households.

Higher medical costs may also reflect improved access to preventative care rather than emergency-only care, as suggested by Dennis et al. (2013), though the scope of our analysis cannot confirm this. It is important to note here, however, that families in full-time working households pay substantially more for care *despite better reported health*, suggesting that they face ***structural, not medical, drivers of cost increases***.

### *Benefit Loss*

The loss of public assistance benefits when moving from part-time to full-time work is both structural and, in many cases, experiential. Structurally, sharp eligibility cutoffs and steep phase-outs in means-tested programs mean that even modest increases in income can offset much of the financial gain from additional earnings (Albelda & Shea, 2010). This creates a work disincentive that runs counter to the stated goal of the U.S. social safety net: to encourage employment.

Even for households that remain eligible, research has identified persistent coverage gaps in programs such as SNAP (Supplemental Nutrition Assistance Program), TANF (Temporary Assistance for Needy Families), and Medicaid/SCHIP (State Children's Health Insurance Program) (Albeda & Boushey, 2007; Parker, 2011). Time-consuming application and recertification processes, limited program awareness, and stigma all discourage participation among working-poor households — particularly those with long or irregular hours (Camillo, 2021). Evidence from multiple states indicates that between one-quarter and one-half of eligible families fail to receive assistance due to administrative burdens (Albeda & Boushey, 2007).

# Policy Implications and Recommendations

Aligning the outcomes of social service policies with their intended goals will be a complex task requiring strong coordination and commitment at both federal and state levels. However, potential strategies are well-documented in existing research.

## Strategy 1: Ensure that work pays by strengthening wages and job quality.

- **Raise minimum and subminimum wages** to align full-time earnings with basic living costs (Lyon, 2018).
- **Support career mobility programs** (training, apprenticeships, and community college pathways) to help low-wage workers transition to higher-paying roles (Andersson et al., 2005; Besharov & Call, 2009).
- **Address involuntary part-time work** through scheduling protections and employer incentives for stable, full-time employment (Borowczyk-Martins & Lale, 2018).

## Strategy 2: Reform benefit phase-outs to prevent the "benefits cliff."

- Adjust eligibility thresholds and tapering rates for programs such as **SNAP, TANF, housing assistance, and childcare subsidies**, allowing for the gradual reduction of benefits rather than an abrupt loss.
- Coordinate federal and state benefit structures to **align income definitions and reporting schedules.**
- Expand refundable tax credits, especially the **Earned Income Tax Credit and Child Tax Credit**, which effectively reward work without penalizing increased hours (Froemel & Gottlieb, 2021).

## Strategy 3: Simplify and modernize access to assistance programs.

- **Streamline application and recertification processes** across programs using unified digital portals.
- **Reduce paperwork/documentation requirements** for households with stable employment or verified earnings history.
- **Expand administrative capacity** at state and county levels, including outreach to employers to assist eligible workers in maintaining benefits (Camillo, 2021).

## Strategy 4: Reduce cost burdens for healthcare and childcare.

- **Broaden Medicaid and CHIP eligibility** to ensure continuity of coverage as workers move between part-time and full-time status.
- **Subsidize employer-based insurance premiums** for low-wage workers to reduce out-of-pocket costs.
- **Expand access to affordable childcare**, particularly in rural and small-town labor markets where shortages are most acute (Forry and Walker, 2011).

## Strategy 5: Improve data integration and coordination among agencies.

- **Encourage data sharing across benefit programs** to align eligibility rules and reduce redundant verification steps.
- **Support integrated case management systems** that track household resources across programs.
- **Promote state experimentation** through demonstration grants aimed at smoothing benefit phase-outs and reducing administrative burden.

### SIDEBAR 2: POLICY LEVERS BY GOVERNANCE LEVEL

*Federal Level*

- Expand refundable credits (EITC, CTC)
- Reform SNAP, housing, and childcare phase-outs
- Strengthen ACA marketplace subsidies
- Invest in data interoperability across agencies

*State/Local Level*

- Develop one-stop eligibility systems
- Fund regional childcare and workforce partnerships
- Pilot benefit smoothing for Medicaid and SNAP
- Coordinate health, housing, and labor policy at regional level

# Conclusion and Takeaways

**This analysis provides robust evidence that the U.S. safety net and labor market policies are misaligned for working poor households.** While full-time work is assumed to provide economic stability, the reality is that higher hours often bring new costs and lost benefits without substantial improvement in financial wellbeing.

*A more coherent policy approach would:*

- **Ensure that work leads to real gains in net resources.**
- **Reduce administrative and structural disincentives that discourage upward mobility.**
- **Address regional, health, and childcare costs that compound barriers for rural and low-wage workers.**

Ultimately, to help working families achieve economic security, the connection between work and welfare must be reimagined to ensure that policy rewards effort without penalizing progress.

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