



# Extended Summary

## **HANGING BY A THREAD:** Puerto Rico's Safety Net and the Economic Mobility of Families






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## About Us

The Youth Development Institute (YDI) is the only entity in Puerto Rico exclusively dedicated to promoting research and people-driven public policies that strengthen the economic security of families with children and youth. YDI's ultimate goal is to reduce child poverty on the island. Our goal is that all children in Puerto Rico have the opportunities to escape poverty and live in homes with economic security.

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## Recognitions

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## Extended Summary

# Hanging by a Thread: Puerto Rico's Safety Net and the Economic Mobility of Families<sup>1</sup>

The most important responsibility of a government is to ensure the well-being and security of its citizens (Cordero, 2006). One of the mechanisms to attain this is the social protection system, which supports low-income families. But government's safety net system should not be limited to provide families with tangible benefits. It should also provide the tools to support the agency of the families and develop their capabilities to handle their own destinies (Sen, 1999).

Throughout the years, in Puerto Rico, this system has been under siege, been subjected to budget limitations, shifts in political ideologies, and changes in attitudes towards the poor. Nevertheless, the government's safety net remains a cornerstone for low-income families.

The safety net system in Puerto Rico is enormous. In 2018, 68% of Puerto Ricans participated in at least one of the three main social programs of this system: Vital Healthcare, Nutritional Assistance Program (NAP), and Temporary Assistance for Needy Families program (TANF).

Given the circumstances Puerto Rico has faced over the last few years, the government's safety net requires a careful review.

- **Over the last three years, Puerto Rico has faced hurricanes, earthquakes, and the COVID-19 pandemic.** During the pandemic, thousands of workers lost their jobs but were able to find refuge in governmental aid to survive. Also, given recent global warming patterns, extreme natural events like hurricanes and earthquakes are bound to be more common in coming years. The safety net is the government's first response to mitigate constituent's economic losses amid natural disasters.
- **For over a decade, Puerto Rico has faced an economic depression with no substantial employment growth,** leaving thousands of families without income

supports. Amid the economic crisis, families should have access to the social protection system to reduce their financial difficulties.

- The nature of work has changed (Loprest and Nightingale, 2018). **Nowadays, workers face more unstable working conditions and receive fewer benefits.** Even though Puerto Rico is part of a limited group of jurisdictions in the United States where workers have paid vacation and sick days, many workers still lack other benefits such as pensions, employer-provided healthcare, and good salaries. In these cases, the safety net could be an important complement to make work pay and increase labor force participation.
- Puerto Rico's **low labor force participation and high poverty rates** over the last three decades call for a deep examination into ways to reinvent its safety net to promote employment and support the economic mobility of families, especially those with children.

#### **The objectives of this report are:**

1. To present a general overview of Puerto Rico's safety net system.
2. Identify gaps in the system that leaves out and without cover vulnerable populations.
3. Identify areas that need improvement to achieve the wellbeing of Puerto Ricans residents, especially for families with children and youth, and to promote their economic mobility.

Program data presented throughout this report are the most recent available as of the moment this study was carried out and are based on documents from the federal and Puerto Rico governments.



### What programs are included in the safety net?

The government's safety net includes a variety of programs that serve diverse populations. In this exposition, we take a restricted approach and focus on programs that:

1. are means-tested and directed to families with low resources;
2. are available for a family unit;
3. impact families with children even though it may not be directed to them;  
and
4. are recurrent as long as the family meets the requirements.

**Figure 1** shows the means-tested safety net programs. These ten programs cover the needs of health, housing, nutrition, and early childhood development. The chart shows the number of participants for each program. It also indicates how the program is treated in comparison to the states of the United States. The following sections provide detailed information.



**Figure 1**

*Means-tested Safety Net Programs. Number of participants, state comparison, main challenges and implications.*

 <b>VITAL HEALTHCARE</b>	<b>1,391,550 PARTICIPANTS</b>	Does not work the same as in US	Eligibility determined by Puerto Rico	<b>MAIN CHALLENGE</b> Funding	<b>IMPLICATIONS:</b> Uncertainty, poor medical offering, does not receive the necessary investment to improve the quality of its services.
 <b>PAN</b>	<b>1,350,000 PARTICIPANTS</b>	Does not work the same as in US	Eligibility determined by Puerto Rico	<b>MAIN CHALLENGE</b> Funding and desing	<b>IMPLICATIONS:</b> The block grant is too small to support low income working families.
 <b>WIC</b>	<b>100,019 PARTICIPANTS</b>	Works the same as in the US	Eligibility determined by DHHS <sup>b</sup> federal guidelines	<b>MAIN CHALLENGE</b> Technology	<b>IMPLICATIONS:</b> The vouchers are sent by mail posing difficulties and limiting their use in emergency events.
 <b>CHILD CARE</b>	<b>5,442 PARTICIPANTS</b>	Does not work the same as in US	Eligibility determined by 85% of the median income	<b>MAIN CHALLENGE</b> Access and benefit cliffs	<b>IMPLICATIONS:</b> Shortage of slots, low participation lack of access after the 85% median income.
 <b>HEAD START &amp; EARLY HEAD START</b>	<b>29,457 PARTICIPANTS</b>	Works the same as in the US	Eligibility determined by DHHS <sup>b</sup> federal guidelines	<b>MAIN CHALLENGE</b> Access	<b>IMPLICATIONS:</b> Low participation, lack of access in rural areas and limited service hours.
 <b>TANF</b>	<b>50,000 PARTICIPANTS</b>	Does not work the same as in US	Eligibility determined by Puerto Rico	<b>MAIN CHALLENGE</b> Design, use of evidence and low participation	<b>IMPLICATIONS:</b> Unknown effectiveness of employment program, burdensome and culturally insensitive requirements.
 <b>EARNED INCOME TAX CREDIT</b>	<b>469,000<sup>a</sup> PARTICIPANTS</b>	Does not apply	Eligibility determined by Puerto Rico	<b>MAIN CHALLENGE</b> Promotion	<b>IMPLICATIONS:</b> Families have limited knowledge about the program and how it can help them increase their income.
 <b>LIHEAP</b>	Number of PARTICIPANTS not available	Does not work the same as in US	Eligibility determined by DHHS <sup>b</sup> federal adjusted guidelines	<b>MAIN CHALLENGE</b> Access	<b>IMPLICATIONS:</b> Families that do not participate in NAP and TANF are at a disadvantage.
 <b>SECTION 9 PUBLIC HOUSING</b>	<b>103,679 PARTICIPANTS</b>	Works the same as in the US	Eligibility is determined by the state's median income geographical area and by the FMR <sup>c</sup>	<b>MAIN CHALLENGE</b> Changes in demographics and benefit cliffs	<b>IMPLICATIONS:</b> Rent increases when a person generates income and high demand for one-bedroom apartments.
 <b>SECTION 8 HOUSING CHOICE VOUCHER</b>	<b>67,010 PARTICIPANTS</b>	Works the same as in the US	Eligibility is determined by the state's median income geographical area and by the FMR <sup>c</sup>	<b>MAIN CHALLENGE</b> Limited number of vouchers and housing units	<b>IMPLICATIONS:</b> Decrease in housing available for rent possibly because of the rise in short term rentals.

**NOTE**

The data of participants was obtained from the sources cited in the full report and indicate the most recent available data.

<sup>a</sup> 2012 data, data from the new earned income tax credit approved in 2018 was not available at the time of publication.

<sup>b</sup> Department of Health and Human Services (DHHS)

<sup>c</sup> Fair Market Rent

## **The main challenges facing the safety net**

The programs that compose the social protection system face a wide range of challenges, leaving families that need them hanging by a thread (Figure 1). The information suggests that Vital Healthcare, the program with the most utilization, is the most threaten. The high incidence of chronic diseases, an aging population, short supply of medical staff, a low matching of federal funds, and the instability of additional funds place the Vital Healthcare Plan in a constant threat so as to provide the stability that the health market needs and the quality of services that families require. The program's main issue is funding, and this is the social support program where the government of Puerto Rico makes its largest contribution. Federal matching funds similar to the states would be necessary to reduce the threat this program faces.

Another program with challenges is the NAP. One of its first challenges is its design, as many low-income working families do not participate in this program. This suggests that the rules of eligibility require adjustments to improve access for these families. But allowing more working families in the program poses a second challenge: a permanent increase in the size of the NAP block grant is needed to serve the larger number of families. This cannot be done by way of special allocations like NAP Relief or related aid to mitigate the impact of the COVID-19 pandemic. Although there has been a population decline, the number of households in NAP shows no sign of declining.

Several programs show low participation rates and access problems. In Head Start and Early Head Start, participation is low considering the high number of children that live in poverty. It should be examined if the population decline affected the availability of these programs outside of urban areas. It should also be looked at if the limited service hours of this program is an obstacle for employment and other reasons why more children are not participating. Concerning LIHEAP, its problem regarding access could be arising because families that do not receive NAP are not registered automatically for this program. Funds may not be available when these families fill out their applications. In the case of TANF, there is an issue of low participation considering the high number of families with children that have women as head of households, plus this being the only program that offers cash aid to low-income families.



TANF's participation requirements, as determined by the 1996 Welfare Reform, can be considered strenuous and culturally insensible since Puerto Rico' has a longstanding tradition of women as heads of households. TANF also faces the challenge of evidence use: this is the only program that has implemented a transition to employment with case managers. However, experiences concerning this program have not been evaluated rigorously to grasp what works and what does not in the goal of increasing employment of the beneficiaries of government programs and how to improve them.

NAP, Housing, TANF, and Child Care programs all have relatively low-income limits. When there is an increase in income, benefits drop abruptly with short transition periods. Thus, this could discourage families from continuing working. But most importantly, it leaves low-income working families unprotected. Since there is no coordination between the different programs, their capacity to promote the economic mobility for these families is limited. The WIC program has a high participation rate. But its biggest challenge is to develop an electronic system that could allow the program to distribute its vouchers and facilitate its use.



In the Housing Choice Voucher Program (also known as Section 8), we identified a possible threat to the housing offering available for rent. The rise and lack of regulation in the short-term rental market could be hindering the housing offer of Section 8 units.



It is possible that properties that were once available for Section 8 participants are offered in the short-term rental market. This situation could limit the housing options for many low-income families. It is urgent that the government regulate the short-term rental market by adopting rules and guidelines that allow oversight of this industry. These decisions could guarantee long-term affordable rental housing for participants. Moreover, in terms of public housing and demographic changes, most of the demand and investment has focused on housing for the elderly. However, given the high poverty rates, families with children continue to face a need for housing.

## **The safety net as an ally for the economic mobility of families with children**

The safety net has a complex mission. It should provide support to people that cannot get by on their own either because of their health conditions or advanced age. At the same time, it should assist those who are temporarily unable to provide resources to their families and rely on government aid to overcome the difficulties caused by unemployment, natural disasters, or temporary health conditions. This system should also be able to assist those who work but whose income is not enough to make ends meet.

Improvements are needed in these three areas, from the small cash assistance for people with disabilities and families living under extreme poverty to the bureaucratic difficulties to receive speedy services. However, assisting low-income working families appears to be the most abandoned role within the prevailing social protection system in Puerto Rico and one that merits special attention.

### **From the presented analysis, we can reach the following conclusions:**

1. In Puerto Rico, the safety net has a broad reach with participation of at least two-thirds of the population.
2. The safety net in Puerto Rico is federalized, relying almost entirely on funds provided by the United States federal government.
3. The programs for which the central government makes the larger contributions are Vital and the state Earned Income Tax Credit. However, Puerto Rico has allocated little or none of its funds to the rest of the social support programs. Federal aid does not preclude states to allocate from their own funds to reinforce or extend these programs. For example, many states contribute additional funds to existing programs to cover more participants or to broaden services in programs such as Child Care, SNAP, TANF, and SSI. Nevertheless, Puerto Rico depends almost entirely on federal funds.
4. These federal funds have protected low-income families and have provided economic stability during the crisis and after the impact of the natural disasters that Puerto Rico has faced in recent years.
5. The dominance of federal funds implies that Puerto Rico does not participate in the design of the actual system due to its political status and thus, this safety net does not

necessarily respond to the needs of Puerto Ricans. For example, low wages and employment instability call for a safety net that is friendly to working families.

Likewise, the high rate of chronic diseases and disabilities along with extreme poverty requires cash subsidies to meet the basic needs of these families. TANF is an example of a program that does not consider the reality of Puerto Rico as its participation requirements are culturally insensible.

6. Due to the large number of families in need, the government of Puerto Rico faces a fiscal dilemma: how to administer the multimillion-dollar sums in federal funds assigned to the social protection system during a crisis, since a large number of government employees are required to run it, who are not paid with these funds.
7. The federal government exercises significant discretion on the way it treats Puerto Rico in the safety net programs. In some programs, Puerto Rico receives the same treatment as the states. For example, Puerto Rico gets treated like a state in programs like WIC and the housing program's Section 8 and 9. However, in other programs, Puerto Rico does not get treated as the states. But that unequal treatment can vary across the federal programs. For example, in some programs, the federal government establishes a maximum of funds or determines specific formulas for Puerto Rico like in PAN, TANF, and LIHEAP. And in other programs, like SSI, Puerto Rico is completely excluded. In some programs, Puerto Rico is treated as a state for some funds but not for others like in the case of Child Care.
8. This difference in treatment across the different programs causes fundamental inequalities of race and ethnicity within the context of the United States and its territories.
9. There is great variation in the way the different programs define poverty and consequently in the income limits to determine eligibility. Meanwhile, in the states, the application of the guidelines established by DHHS is broader. These guidelines are established for the 48 continental states, Alaska, and Hawaii, but not for Puerto Rico. The Vital Healthcare plan uses a local poverty rate. Whereas WIC uses the DHHS guidelines adopted for the 48 states. NAP and TANF use guidelines determined at their discretion. The LIHEAP, meanwhile, adjusts the DHHS guidelines to Puerto Rico. Both in Puerto Rico and the United States, the Housing programs of Section 8 and 9 use Census data concerning the median income. The variation in the definition of

poverty hinders efforts to establish a set of standards of need that can regulate all the programs to battle poverty.

10. Puerto Rico's safety net lacks cash benefits for low-income families. After the federal government eliminated the provision that allowed NAP participants to withdraw up to 25% in cash, only the nearly 50,000 families that participate in TANF receive cash benefits, but the amount it distributes is little. The lack of aid programs that offer cash benefits aggravates the precarious living conditions of low-income families and their children, especially those in extreme poverty.
11. The income limits established by NAP are low, which causes the exclusion of many working families. One in three families that live in poverty and that worked more than half of the year do not participate in NAP (Ruggles, et al. 2018). In Puerto Rico's context with low salaries and employment instability, NAP program should adjust its eligibility rules to incorporate low income working families permanently and not only during emergency periods.
12. The block grant of NAP provides flexibility to accommodate the family composition within the Puerto Rican culture like multi-generational households, young adults in the parental household, students that depend on their guardians, and the difficult employment situation. It also allows rules which promote public policy to further higher education and agriculture through the treatment of college students and income from agricultural jobs. NAP also allows multiple deductions to income while SNAP imposes greater restrictions in these aspects as well as the transition to employment.
13. For families with children, benefit cliffs in NAP, TANF, sections 8 and 9 of Housing, and Child Care programs could discourage them to join the labor force or increasing their work hours. This impedes economic mobility and puts these families in a dilemma: join the workforce and risk losing all the benefits and the financial stability they provide, or to continue to receive the benefits with no possibility of economic progress.
14. The safety net is focused on assistencialism, centered on remediation and maintenance (Negrón-Velásquez y Zavaleta-Calderón, 2003) and with little or no emphasis on the development and building of capabilities of the families it serves to remove them from poverty.

15. The safety net eases the economic uncertainty in many families with children. But unless a person earns income, these programs are not capable of lifting families out of poverty. Thus, these benefits must be available for working families, and the government should emphasize training and education of participants, eliminate barriers to employment and create quality jobs for these families.



### **Recommendations for changes in public policy, programs and practices**

Based on the present analysis, the principal recommendation is that the safety net of Puerto Rico should increase its support toward the economic mobility of families. This recommendation, while simple, is also profound. And it is done considering that poverty harms the capabilities and potential of children and hence Puerto Rico's competitiveness. Stronger support for the economic mobility of families means that the safety net should provide assistance that guarantees housing, health, and access to food for families that work and have low income. To achieve this, it is required to implement changes in these three aspects: 1) program's design; 2) the culture and capacity of the agencies that operate these programs and deal with low-income families on a day-to-day basis; and 3) in the available resources and how these are used.



**Figure 2**

## How to Change the Safety Net to Promote de Economic Mobility in Families?

### Stronger support to low-income working families



- Adjust the eligibility requirements to increase benefit access of working families.
- Reduce benefits cliff through agency and program coordination in order for working families to receive assistance as they navigate towards their economic mobility.
- Conduct demonstration and fiscal feasibility studies of a universal basic income program for families with children since cash transfers reduce poverty faster, and it can lessen its adverse effects.

### Cultural and capacity changes in government agencies

#### Cultural transformation



- Move from an assistencialist model to one of economic mobility
- Promote a culture of data and evaluation
- Design services and programs based on data and evidence

#### Technology investment



- Faster verification of income and other eligibility requirements
- Less waiting times
- Better data systems

#### Staff investments



Staff trained in:

- Mentoring participants
- Occupational counseling
- Intensive case management

### Optimization of funds and use of resources



Greater contribution of the state government to the TANF and Child Care programs

Increase in the federal matching of Medicaid



Increase NAP block grant

Interagency collaborations to concretize, blend and braid resources



Consolidation of services in a single office

Use of two-generation models in the provision of services



## Changes in the design of programs

1. Adjust the eligibility requirements to increase the access of working families to means-tested government programs.
2. Programs show benefit cliffs when a person's income increases. For example, in the Child Care Program, a participant loses benefits when her or his income exceeds 85% of the state median income. Benefit cliffs should be reduced so that working families can receive assistance as they navigate towards their economic mobility. There should also be a better coordination between agencies to address benefit cliffs across multiple programs.
3. Conduct demonstration and fiscal feasibility studies to implement a universal basic income program for families with children since direct money subsidies have an immediate effect on the reduction of poverty, and it could lessen the adverse effects of child poverty.

## Changes in an agency culture and capacity to provide better services

1. Move away from assistentialism and toward a model of economic mobility.
2. Provide training to staff who offer services so that they can steer these families towards economic mobility.
3. Invest in the agencies' technology as to provide better services to clients and improve efficiency.
4. Increase and/or restructure agency personnel to offer more services like occupational counseling, mentoring and intensive case management.
5. Improve the data systems to facilitate reporting and use in continuous learnings of government agencies.
6. Adopt practices of continuous evaluation in the provision of services; collecting and analyzing data about results and impacts on families.
7. Document with rigorous evaluations the execution of the transition to work program and the time limits of TANF.
8. Design services and programs based on data and evidence and promote a data and evaluation culture.

## Optimization of funds and the use of resources

1. Interagency collaborations to concretize, blend and braid resources to promote the economic mobility of families with children. Funds that are spread across different agencies can be combined to facilitate the services to people who need it, avoid duplicity, and provide flexibility in the allocation of funds. In the braiding of resources, the funds continue under the management of the main agency or program but are considered in the planning to reach comprehensive solutions with the totality of the funds. Examples of these collaborations could be to combine funds from Child Care and Head Start, and from WIOA and TANF, and explore opportunities within CDBG-R for training, early education and job creation.
2. Integration of services for the participants to make the most of their time, and program staff can provide all the services families need.
3. Creation of an office that focuses on planning and coordination of strategies, taking stock of available resources, and following up on results, with the goal of tackling child poverty. Many states have created Children's Cabinets (Forum for Youth Investment) to coordinate services for children and young people. These Cabinets also facilitate the optimization, simplification, and agility of services, provide a breakdown of all available funds, and track their use.
4. Increase the central government contribution to TANF and Child Care programs. The government of Puerto Rico depends almost entirely on federal funds to provide services regarding the TANF, Child Care, and early education programs. In Child Care, the government can assign funds to increase participation and make room for more working families. The services that offer TANF cash benefits can be complemented with state funds to provide greater stability to families that need it and a better quality of employment services.
5. Increase in federal matching funds for the Medicaid program. This would greatly diminish the uncertainty that revolves around coverage for working families, and it would also allow extending the program to more low-income families.
6. It is necessary to permanently increase the NAP block grant to reduce food insecurity in families with children and make room for working families. The allocation of more funds could also allow continuous educational campaigns to improve the quality of nutrition of family participants. A similar contribution to the states in terms of number

of people living in poverty, could be used as a formula, while allowing ADSEF to maintain control of eligibility requirements adjusted to the context of Puerto Rico.

7. Use two-generation models to break the intergenerational cycle of poverty. Two-generation models have been proven to be effective and are a way to maximize resources in the provision of services (National Conference of State Legislatures, 2018). These models look after the difficulties that children and their families face, and provide mentorship and intensive case management to assist families in their path towards economic mobility. All this provides a way to break down the intergenerational cycle of poverty.

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<sup>1</sup> At the time of the writing of this report, Puerto Rico and the whole world were confronting the COVID-19 pandemic. The US federal government passed various laws granting benefits to families with the goal of mitigating the negative impacts of COVID-19 and to stabilize the economy. Benefits and eligibility rules of various programs of the safety net analyzed in this report changed temporarily under these laws. These temporary changes are not discussed in this analysis.