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The Impact of President Biden's American Families Plan on the Federal Entitlement System

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This paper presents an analysis of the American Families Plan's entitlement programs. Overall, the President's plan would add 6.2 million households, containing 21.3 million persons, to the federal entitlement benefit rolls. The increase would lift the percentage of all non-elderly U.S. households that receive benefits from at least one federal entitlement to over 50 percent. This would be the first time in U.S. history that a majority of working age households are federal entitlement recipients, except perhaps for the pandemic years 2020 and 2021 for which we are yet to have data. Over 40 percent of the plan's new entitlement benefits would go to households in the top half of the income distribution.

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On April 28th President Biden announced his American Families Plan. The plan proposes an array of new and expanded entitlement programs. It would provide families and individuals with increased federal tax credits and direct subsidies for children, daycare, nutrition, health care, education, and employment. The president proposes to finance his plan with higher taxes mainly on upper-income individuals. The American Families Plan, along with the president's equally ambitious American Jobs Plan, form the centerpiece of his recently released Fiscal Year 2022 budget proposal. The American Families Plan alone accounts for about one-fifth of the budget proposal's new 10-year outlays and taxes.

This paper presents an analysis of the American Families Plan's entitlement programs. These programs are the primary sources of the plan's expenditures, accounting for 84 percent of the plan's 10-year costs. Using data from the 2020 Annual Social and Economic Supplement of the Current Population Survey, we estimate the effect these initiatives would have on the number of households receiving assistance and the distribution of assistance across household types and household incomes. Our primary focus is on the plan's impact on entitlement program spending and recipiency. We present, but do not discuss in detail, the tax revenue changes from the proposal's refundable tax credits.

When fully phased-in, the American Families Plan would add 6.2 million households, containing 21.3 million persons, to the federal entitlement benefit rolls. The increase would lift the percentage of all non-elderly U.S. households that receive federal entitlements benefits to over 50 percent—an increase of 7 percentage points. Over 40 percent of the plan's entitlement spending would go to households in the top half of the income distribution. The estimates are lower-bound estimates. They do not incorporate an increase in take-up rates that should be expected as households respond to the incentives created by the entitlement expansions.

The outline of the paper is as follows. Section II provides a general overview of the American Families Plan. This section also describes the programs that are included in our analysis. Section III discusses the plan's programmatic changes in detail. It describes each program's new eligibility and benefit rules and how they are modeled in our analysis. Section IV presents budget estimates of the American Families Plan and its general impact on U.S. households. Section V focuses on the plan's entitlement spending and estimates the extent to which the plan would increase the share of non-senior households on the entitlement rolls. Section VI offers conclusions.

II. Overview of the American Families Plan

The Biden Administration touts the American Families Plan (AFP) as an "investment in our kids, our families, and our economic future." The proposal consists of several new programs and subsidies, expansions of existing government transfer programs, and tax measures intended to pay for the new spending. Broadly, the proposal can be divided into four categories: education initiatives, nutrition and health programs, direct subsidies to families and workers, and tax increases on high-income tax filers.

The education initiatives include grants to states for preschool education, increased spending for Head Start, subsidies to make community college education tuition free, an increase in Pell Grants, and a host of teacher training and development programs. It also includes smaller and more targeted initiatives for Historically Black Colleges and Universities, Teacher Colleges and Universities, and DACA students. The nutrition initiatives include an expansion of existing summer and school meal programs, and an increase in funding for maternal health programs.

The lion's share of the new subsidies consists of direct payments to families. The proposal would expand various refundable tax credits for families with children, childcare expenses, health insurance, and employment by adults without children. In addition, the AFP would create two new entitlement programs: a daycare subsidy for low- and middle-income families, and universal paid family and medical leave assistance.

To finance these programs, the AFP also contains significant tax increases, mainly on individuals with incomes over $400,000 and from increased tax compliance measures. The major tax increases include raising the top income tax rate, increasing the capital gains tax rate, eliminating its step-up basis provisions, and extending self-employment taxes to additional types of business income.

The focus of our analysis is on the effect of the plan's expanded tax credit initiatives and new programs on entitlement program recipiency. Our analysis includes all of the plan's tax credit programs and its other major entitlement programs with one exception: we exclude the free preschool education program. This is consistent with the treatment of federal assistance to K-12 education programs, which views the assistance as grants to states and local governments rather than as entitlement payments to households. The analysis also excludes the plan's smaller (and more targeted) education and nutrition programs.

Table 1. American Families Plan Provisions

	Deficit Impact (Billions)	
	2023	2022 to 2031
Programs included in analysis		
Child Tax Credit (CTC)	$111.0	$914
Earned Income Tax Credit (EITC)	$5.6	$105.2
Affordable Care Act Subsidies (ACA)	$11.5	$163.0
Child and Dependent Care Tax Credit (CDCTC)	$9.4	$81.7
New Childcare Program	$8.9	$225.0
Universal Paid Family and Medical Leave Program (FMLA)	$9.4	$225.0
Free Community College	$9.1	$88.3
Pell Grants	$8.3	$83.7
Programs excluded from analysis		
Universal Preschool	$4.7	$164.8
Teacher training and education programs	$1.0	$7.9
Nutrition programs	$3.2	$45.0
Targeted educational assistance	$7.8	$100.1
Other	$0.2	$3.6
Total	**$190.0**	**$2,207.5**
Percent included in analysis	91%	85%

Notes: With the exception of the Child Tax Credit, all budget estimates are from OMB (2021). The 10-year deficit impact for the Child Tax Credit assumes the expanded credit will be extended beyond 2025. If it is allowed to expire, the deficit impact would fall by $465 billion.

Table 1 lists the American Families Plan programs that are included in and excluded from our analysis. We include the Biden Administration's official budget estimates for each program for fiscal year 2023, a representative year early in the plan's implementation, and during the 10-year budget window (2022 to 2031). We make one modification to the Administration's estimates. The Administration assumes that the Child Tax Credit increase of 2017 (which raised the credit from $1,000 to $2,000), and the Administration's proposed expansion would both expire at the end of 2025. The expiration would cause the child credit to decline precipitously from the Administration's proposed $3,600 per child under age 6 to $1,000. This assumption seems unreasonable, especially in view of the bipartisan support the child tax credit enjoys and in light of President Biden's promise to not raise taxes on tax filers with incomes below $400,000. Assuming the Biden Administration would not allow its own initiative to expire in just four years

offers a more politically realistic assessment of the AFP's budget impact. As table 1 makes clear, the programs included in our analysis are among the AFP's largest initiatives, accounting for 85 percent of the American Families Plan's 10-year deficit impact.

III. Methodology and Data

Our analysis is based on data from the 2020 Annual Social and Economic Supplement of Current Population Survey (CPS). The survey contains extensive demographic and economic information during 2019 on 60,460 U.S. households. The CPS provides a nationally representative sample of household incomes, labor supply, and income transfer program participation status. We update the 2020 CPS data to reflect expected changes in income and demographics over the next ten years. Projected income growth rates are derived from the Congressional Budget Office's 10-year economic outlook.[2] Demographic changes were incorporated by adjusting the CPS's individual household weights to conform with the Census Bureau age-specific population forecasts.[3]

The U.S. economy in 2019 was particularly strong, with low levels of unemployment and relatively high household incomes. Thus, the estimates we report should be interpreted as impacts in a full-employment economy. The impacts should also be interpreted as estimates of the American Families Plan when it is fully phased-in. While all of the AFP tax credits would be fully effective by 2023, Administration documents indicate that the new childcare program and the paid Family and Medical Leave program would be slowly phased in.[4] To estimate the full long-term impact of the American Families Plan on households we have incorporated both programs on a fully phased-in basis.

The AFP's tax credits are extensions of emergency measures enacted in the American Rescue Plan (ARP) as part of the Biden Administration's initial response to the pandemic.[5] As a result, the specification of their policy parameters is complete. However, other new programs,

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[2] Household earnings are assumed to grow at the same rate as CBO's projected wage and salaries per household. All other income sources are indexed to CBO's forecasted growth rate for non-wage income per household. CBO's projected wage growth rate is lower than the Administration's forecasted rate. CBO (2021) projects wages per household to rise annually by 2.9 percent from 2019 to 2031; OMB (2021) projects annual rates of 3.3 percent.
[3] The population projections are based on 2017 estimates and do not account for the potential demographic effects of the COVID-19 pandemic (U.S. Census Bureau, 2017).
[4] Expenditures by the new childcare program and the universal paid FMLA program are only about one-fifth of their presumably fully phased in 2031 level.
[5] American Rescue Plan, Public Law, 117-2

such as the new childcare program and the paid Family and Medical Leave program are described in Administration documents only at a high-level. Hence, their specification is incomplete. Estimating their impacts requires us to make assumptions about unspecified parameters. Below, we discuss the specific policy assumptions we have made for each program.

Child Care Tax Credit (CTC)

The ARP expanded the size and refundable amount of the per child tax credit. The maximum credit was expanded to $3,600 for each child under age 6 and $3,000 for each child age 6 and older, from a prior level of $2,000 per child. In addition, the entire tax credit was made refundable, up from a minimum of $1,400 per child or 15 percent of tax filer's reported earnings. The ARP also increased the maximum age a child qualifies for the credit to age 17—up from age 16.

Under the American Families Plan, the child tax credit expansions would remain through the 2025 tax year. In 2026, the child tax credit would revert to its pre-2017 level of $1,000 per child and would no longer be refundable. The maximum age of a child's eligibility would be reduced to 16. The loss of the tax credit would be partially offset by the return of the personal exemption. The reduced child tax credit and the reintroduction of the personal exemption, however, provide less benefit than the expanded child tax credit for low- and middle-income tax filers. For example, for those in the lowest tax bracket, the personal exemption and the $1,000 refundable child tax credit would only be worth $1,475 in tax savings per child in 2026—at least $1,525 less than the filer would receive from the expanded tax credit.[6] Because the 2017 tax credit was not fully refundable, the benefit reductions would be even larger for families that do not owe any income taxes. Consequently, as noted above, we assume the Administration would not allow their child tax credit expansion to expire.[7]

Earned Income Tax Credit (EITC)

The ARP temporarily expanded the earned income tax credit for childless workers. It increased the maximum benefit from $543 to $1,502. It doubled the EITC phase-in and phase-

[6] The Congressional Budget Office projects the 2026 personal exemption will be $4,750 (CBO, 2021).

[7] Consistent with this assumption, we assume tax filers will not be able to claim the personal exemption for children who qualify for the enhanced child tax credit.

out rates to 15.3 percent (from 7.65 percent). The expansion also liberalized age requirements for childless filers. Childless workers ages 18 to 24 and those older than 64 may now claim the credit. With the increased benefit and higher phase-in rate, individuals with earnings up to $21,430 and married couples with earnings up to $27,380 will receive benefits from the program. The American Families Plan would make these changes permanent.

Affordable Care Act (ACA) subsidies

The ARP temporarily expanded ACA health insurance subsidies. In contrast to the rescue plan's other programs, which expire after the 2021 tax year, the law extended the ACA expansion for two years: 2021 and 2022. The ARP substantially reduced the amount that ACA participants are expected to pay for insurance premiums as a share of their income. It made the ACA silver plan free for persons with incomes between 100 percent and 150 percent of the federal poverty line (FPL) and reduced the required share for higher income participants by between 33 and 67 percent depending on a family's poverty level. Finally, the ARP extended ACA health insurance subsidies to households with incomes above 400 percent of FPL. With this extension, a typical family of four that purchases the ACA silver plan will receive federal subsidies until its income reaches $204,000, or 770 percent of the poverty line.[8] The American Families Plan would permanently extend all of these provisions.

In modeling the AFP's ACA provisions, our model relies on CPS respondents' reported enrollment in the ACA's marketplace exchanges. We do not estimate any increased participation in the exchanges due to the expansions. In 2023, CBO (2020a) estimates that 37 million people under age 65 will be uninsured or purchase individual health care coverage outside of the marketplace exchanges. This total is far larger than the 9 million non-seniors who are expected to be covered by the exchanges. Thus, with increased subsidies and relaxed eligibility requirements, enrollment in subsidized exchange plans may be far higher than our model would predict.

The Child and Dependent Care Tax Credit (CDCTC)

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[8] We use the Kaiser Family Foundation's (2021) nationwide mean benchmark premiums for a 40-year-old to impute total annual premiums for the family. In 2021, annual premiums for a family with married 40-year-old parents and two children under age 15 would be $17,342 in 2021. The ARP limits the family's required share to 8.5 percent of their income.

The ARP temporarily expanded the child and dependent care credit. Under previous law, filers could claim a non-refundable credit for 20 percent of qualified childcare spending (e.g., full-time daycare, after school care) for children under age 13.[9] Qualified childcare spending was limited to the minimum of $3,000 per child or $6,000 per family. The ARP increased the credit to 50 percent of qualified spending for tax filers with incomes below $125,000, raised the upper limit of qualified spending to $8,000 per child and $16,000 per family, and made the tax credit fully refundable. Combined, these changes mean the maximum tax credit is now $4,000 per child and $8,000 per family, up from $600 per child or $1,200 per family prior to the ARP expansion. The ARP tax credit's enhanced rate falls from 50 percent to 20 percent for families making between $125,000 and $185,000. The rate remains at 20 percent until $400,000 at which point it falls by 1 percentage for every $2,000 of income until it is fully phased out at $440,000. These changes would become permanent fixtures in the tax code under the American Families Plan.

Modeling the American Families Plan's CDCTC extension requires assumptions about the number of families who would avail themselves of qualifying daycare and the cost-per child of this care. To ensure against any overestimate of the CDCTC's impact, we have assumed that the expanded program does not increase the number of households who rely on daycare. The 2020 CPS was used to identify households who used daycare in 2019. For households with children under 5, we assume each household's daycare expenditures per child are equal to their state's mean annual daycare expense. We use estimates from the Economic Policy Institute, which report mean expenditures for infant care and daycare for a 4-year-old.[10] We assume infant costs apply to children under age 2 and 4-year-old costs apply to children age 2 to 5. For children older than five, we use CPS reported childcare expenditures. Over the 10-year budget window, we index all childcare expenditures to the national average wage growth per household.

New Childcare for American Families Program

The new childcare program entitles families with incomes up to 1.5 times their state's median income to government subsidies to ensure that they spend no more than 7 percent of their income on childcare for children under age 5. The Administration has not completely specified

[9] Filers with earnings below $15,000 could claim up to 35 percent, but the rate would quickly fall to 20 percent for all filers with earnings above $43,000. Since the credit was non-refundable, however, few low-income filers had sufficient tax liabilities to claim a large portion of the tax credit.
[10] See Economic Policy Institute (2020).

the new program's policy parameters. In lieu of these specifics we have made certain assumptions.

First, the Administration has not specified how rapidly the partial credits will be phased down for households with incomes above 150 percent of their state's median income. We have assumed that benefits are reduced by 5 percent for each $2,000 of income. Under this assumption, benefits fully phaseout at 150 percent of a state's median income plus $40,000. This is consistent with the phaseout rules for CDCTC and the child tax credit.

Estimating the program's impact on households requires estimating the cost of qualifying daycare, which varies considerably by state, and to identify households that would use this care. As noted in the CDCTC discussion, we use state-level average daycare costs and update these averages over time by the growth in national average wages. This approach produces a nationwide average cost of daycare of $14,500 for households with childcare expenses for children under age 5 in 2023. This estimate implies that our daycare expenditures are below the estimate of the Biden Administration which assumes that the program will *save* the average family $14,800.[11] The Administration estimates that 3 million children would benefit from its daycare program. We estimate that in 2023 nearly 3.2 million children under age 5 will be in households receiving assistance from the program. We use the latter number to estimate the program's effects.

Under the Biden Administration plan, families would be unable to claim the CDCTC and the new childcare program. We have assumed that families would choose the program that provides higher benefits.

Our assumptions produce a fully phased-in program with lower average subsidies per household than the Administration's projects. In 2031, for example, when the program is presumably fully phased-in, the Administration estimates its new childcare program would cost $49.3 billion. Our model estimates 2031 costs would be $39.5 billion. As we noted earlier, there is considerable overlap between the new childcare program and the CDCTC. Thus, comparing our estimates of both programs when fully phased-in to the Administration's corresponding estimate provides a better indication of the degree to which our estimates approximate this Administration's. As shown in table 2, for both programs combined and each taken individually,

[11] White House (April 28, 2021)

our cost estimates of the fully phased-in programs are about 20 percent lower than the Administration's estimates.[12]

Table 2. Budget Impact of Childcare Initiatives in 2031 (Billions)

	Administration Projections	Model Projections
New Childcare Program	$49.3	$39.5
Child and Dependent Care Tax Credit	$7.7	$5.6
Total	$56.9	$45.1

Notes: CDCTC budget costs are net of any interactions between the two childcare programs

Universal Paid Family and Medical Leave Program

The universal paid family and medical leave program would provide subsidies for up to 12 weeks for parental, family, and personal illness leave. Workers would be eligible to receive a minimum subsidy equal to two-thirds of their average weekly wage, up to $4,000 per month. Low-wage workers would be eligible for subsidies up to 80 percent of their wage, subject to the same upper limit.

The Administration assumes that the program would be gradually phased in over 10 years. In its first year, the program would cover 3 days of bereavement leave. In contrast, our model assumes the program will be fully phased-in by 2023. We impute eligibility for each household based on whether the household has a child that was born in the previous calendar year. We then use reported earnings for each parent to estimate their maximum benefit. This procedure likely understates the number of individuals that could benefit annually from the program as it excludes households who would qualify due to a family illness or other qualifying event.

Free Community College

The AFP would provide subsidies for community college tuition and fees. The Administration claims these subsidies would be sufficient to pay for two years of full-time enrollment. Part-time students could spread their tuition benefits over as many as four years.

[12] A portion of this difference may be explained by differences in the assumed growth rate of average childcare costs. As explained above, we use CBO's forecasted nominal growth rate in wages per household to inflate childcare costs. On average, we estimate costs will rise by 2.9 percent annually from their 2019. In comparison, the Administration's assumed wage growth estimate is 3.3 percent. Complicating matters further, the administration is proposing to increase daycare worker compensation and make other investments in daycare centers. These efforts would likely further increase the growth rate in childcare costs.

The CPS data do not indicate whether a college student is enrolled in a 4-year or 2-year community college. Therefore, we impute community college enrollment to a subset of college students who do not have bachelor's degree or higher degree. In 2014, 25 percent of full-time undergraduate students and 42 percent of all undergraduates were enrolled in community colleges.[13] Accordingly, we randomly assign community college enrollment to college students in the CPS who do not have a bachelor's degree or higher so that the share of full-time students enrolled in community colleges is equal to 25 percent. We assign community college enrollment for all part-time students. The number of part-time undergraduate students in the CPS is lower than the 2014 estimate, and, consequently, fewer than 42 percent of undergraduate students in our sample are assumed to be enrolled in community colleges.

Our imputation strategy yields 4.7 million community college students in 2019. In comparison, the Administration states that 5.5 million students would benefit if all states participated in the program.[14] The Administration's cost estimates show a steep decline in outlays beginning in 2026. This may be due to initial beneficiaries exhausting their eligibility. Our model does not account for this possibility, and thus likely overstates the number enrolled after 2025. On the other hand, our model does not assume that tuition costs will rise in response to federal subsidies. Evidence from the impact of federal subsidies on four-year college tuition cost strongly suggests that community college tuition costs will rise. To the extent they do rise, both the Administration's and our estimate will understate the true costs of the policy. To model per enrollee benefits of the plan, we use the Administration's reported annual costs from the program and divide the outlays evenly across imputed community college enrollees.

Expanded Pell Grants

The Pell Grant provides educational assistance to low-income students. The AFP would raise the maximum Pell Grant by $1,400—an increase of 21.6 percent above the 2021 level. We assume all individuals currently reporting government education assistance would qualify for the increased grant. Similar to the other programs analyzed, we do not account for any increase in take-up rates following the expansion.

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[13] Ma and Baum (2016)

[14] White House (April 28, 2021)

IV. Budget Effects and the Beneficiaries of the American Families Plan

The primary aim of the AFP is to assist families with children. Most of the major entitlement and tax benefits are directed at such families. Of the programs we include in our analysis, the only exceptions are the EITC expansion and increased ACA subsidies. The former expands coverage to individuals without children. The latter increases subsidies to both individuals and families with children. Individuals age 65 and older without dependent children are largely unaffected by the programs. Thus, the participation and distribution analyses below focus on the population of households without seniors.

Table 3 shows two measures of the size of each of the American Family Plan's initiatives in isolation of its other initiatives: participation by household and the expected budget, or equivalently, deficit impact according to our model estimates. Columns 1 and 2 show the number of non-senior households that we estimate would receive some tax or expenditure benefit from each initiative and the number expressed as a percentage of the population. Column 3 shows the annual budget deficit impact of each program when fully phased-in using estimated demographic and previously described economic assumptions for 2023.

Table 3. Participation and Budget Impact by Program in 2023

	Non-Senior Households (1000s)	Share of Non-Senior HH	Deficit Impact (Billions)
Child Tax Credit (CTC)	28,498	32.0%	$91.4
Earned Income Tax Credit (EITC)	9,582	10.8%	$11.5
Affordable Care Act Subsidies (ACA)	3,763	4.2%	$12.5
Child and Dependent Care Tax Credit (CDCTC)	4,318	4.9%	$7.4
New Childcare Program	2,341	2.6%	$29.7
Universal FMLA	2,899	3.3%	$37.1
Free Community College	3,726	4.2%	$8.8
Pell Grants	6,006	6.8%	$7.8

Notes: Deficit effects for the universal FMLA and the new childcare program are based on their expected impacts when fully phased-in.

As the data show, taken individually, the largest program both in terms of participation and budgetary impacts is the Child Tax Credit expansion. By itself, over 32 percent of all households would receive payments from the expanded Child Tax Credit. We estimate the

expanded program would cost the treasury about $91 billion annually. This underestimates the Administration's estimate the 2023 deficit impact of $111 billion.

Refundable tax credits have both a tax reduction and expenditure component. As tax credits, they reduce a household's income tax liability. But as *refundable* tax credits, they may also provide payments to households in excess of their income tax liabilities. Our treatment of the AFP's refundable tax credits follows the official U.S. budget treatment. Accordingly, tax credit payments up to a household's income tax liability are treated as a reduction in taxes. Payments in excess of household tax liability are treated as expenditures.

Table 4: Impact of AFP Tax Credits in 2023 (Billions)

	Tax Reductions	Outlays	Total
Child Tax Credit	$31.0	$60.4	$91.4
Earned Income Tax Credit	$5.3	$6.2	$11.5
Affordable Care Act	$7.3	$5.2	$12.5
Child and Dependent Care Tax Credit	$3.7	$3.7	$7.4
Total	$53.2	$69.7	$122.8

Notes: Outlay estimates for individual tax credits exclude the effects of other tax credits.

Table 4 shows our estimates of the separate revenue and expenditure effects of each proposed refundable tax credit taken individually and all four tax credits taken together. In the three largest programs (CTC, EITC, and the ACA), the majority of tax credit payments are in excess of households' tax liabilities. Expenditures constitute just over half of the budget impact of the CDCTC. The even split reflects the fact that most low-income families with young children would receive more benefits from the new childcare program. Increased expenditures account for more than half (57 percent) of the 2023 total budget impact of all four tax credit programs combined. Including the American Families Plan's other programs, new expenditures account for 74 percent of the deficit effect of the AFP's new programs; the remaining 26 percent is attributable to tax reductions.

As the foregoing discussion suggests, the American Families Plan would distribute its tax reductions and federal assistance payments across a broad segment of the under age 65 population. Table 5 shows the number of non-senior households that would receive benefits from the plan and the total amount of benefits received in 2023. On a fully-phased-in basis, a total of 42.6 million households, containing 149 million individuals, would receive benefits from the plan. Families with children—the primary focus of the American Families plan—are obviously the plan's main beneficiaries, accounting for 74 percent of households that benefit from the plan.

They receive 88 percent of the plan's benefits that are received by non-senior households. Only 22 percent of households without children would benefit from the plan.

Table 5. Non-Senior Beneficiaries of the American Families Plan in 2023

Household Type	Recipient HH (1000s)	Share Receiving Benefits	Persons in Recipient HH (1000s)	Mean Benefit	Total Benefit (Billions)
HH with Children	31,557	83.3%	125,763	$5,335	$168.3
Married	20,752	79.5%	88,717	$5,357	$111.2
Single Mothers	8,419	92.9%	28,884	$5,493	$46.2
Single Fathers	2,386	88.3%	8,162	$4,579	$10.9
All Non-Senior HH	42,566	47.9%	149,463	$4,478	$190.6

Notes: Mean benefit only includes recipient households.

V. Entitlement Benefits and Recipiency

As noted above, three-quarters of the budget impact of the American Families Plan's entitlement programs would result from higher federal outlays. These outlay changes would increase the share of Americans that receive assistance from federal entitlement programs. Table 6 shows the number of households that would be new recipients of entitlement program for various household types. Overall, the President's plan would add 6.2 million households, containing 21.3 million persons, to the federal entitlement benefit rolls. The increase would lift the percentage of all non-elderly U.S. households that receive benefits from at least one federal entitlement to over 50 percent. This would be the first time in U.S. history that a majority of working age households are federal entitlement recipients, except perhaps for the pandemic years 2020 and 2021 for which we are yet to have data. The plan would, at the same time, remove 5 million households from the federal income tax rolls, further dividing the U.S. population into two separate groups: those who pay taxes and those who receive transfers financed by those taxes.

It is important to keep in mind that our estimates are based on income and employment data in 2019. Thus, they should be interpreted as entitlement participation rates in a full employment economy, not rates that are temporarily high because of an economic recession.

The entitlement expansion would extend benefits to middle- and upper-income households high up the U.S. income distribution. To illustrate this point, Table 7 reports each program's income eligibility threshold for married couples and single parent households with

Table 6. New Entitlement Recipients After the AFP

	Households (1000s)	Share of New Recipients on Each Program				
		Ref. Tax Credits	ACA	New Childcare Program	Paid FMLA	Comm. College
HH with Children	4,585	42.5%	4.5%	14.7%	31.0%	19.1%
Married	3,666	38.3%	4.2%	13.5%	36.0%	20.4%
Single Mothers	641	63.2%	5.3%	17.0%	10.6%	19.4%
Single Fathers	278	50.6%	6.8%	25.4%	12.6%	13.8%
All Non-Senior HH	6,241	41.7%	11.8%	11.0%	22.8%	23.2%

two pre-school children. For the Child Tax Credit and the Child and Dependent Care Tax Credit, filers receive entitlement payments when the amount of their credit exceeds the household's income tax liability. This income level in 2021 is $88,000 for married couples with two children who claim the child tax credit and, importantly, do not avail themselves of daycare subsidies. All such families with incomes below this threshold would receive entitlement benefits from the Child Tax Credit program alone. But many families with two pre-school children would also use daycare. Those who do could claim up to $8,000 in refundable tax credits from the CDCTC. Between the CTC and the CDCTC, married couples with two children in daycare and incomes less than $131,000 could pay zero income taxes and instead receive entitlement benefits in the form of cash transfers from the U.S. Treasury. This threshold is above the 2021 estimated median family income for married families with two children ($123,000).

Table 7. Maximum Income to Receive Entitlement Payment

	Married w/ Two Children Under 5	Single w/ Two Children Under 5
Child Tax Credit (CTC)	$88,416	$77,454
Child and Dependent Care Tax Credit (CDCTC) + CTC	$130,659	$112,991
Affordable Care Act	$204,006	$140,194
New childcare program	$104,400	$104,400

Notes: Calculations are based on the current tax code. For the CTC and the CDCTC, income limits reflect the income at which a tax filer no longer has a negative income tax liability. For the CDCTC, we assume families have at least $16,000 in annual day care expenses. The income limits for the new childcare program do not include any assumed phaseouts.

The new childcare program promises to subsidize childcare expenses that exceed 7 percent of income for families with incomes of up to 150 percent of the state median income.

The eligibility threshold reported in table 7 for the program, $104,400, is 150 percent of the national median income for all households. This threshold does not account for any assumed phase-out, which may be necessary to avoid a large cliff in benefits.[15] There is also considerable variation in state median incomes and hence, under the program. For example, in Connecticut, Maryland, New Jersey, Massachusetts, New Jersey, Hawaii, and the District of Columbia, the income eligibility threshold would be over $130,000 in 2021. In certain southern states, including Florida, West Virginia, Arkansas, New Mexico and Louisiana, the income eligibility thresholds would be between $80,000 and $90,000. Mississippi's income cutoff, at around $70,000 would be only half its level in the aforementioned northeastern states.

The extent of the president's proposed expansion of ACA subsidies has been under appreciated. As discussed above, one dimension of that expansion is to substantially increase eligibility thresholds for health insurance subsidies. For example, married 40-year-olds with two young children would continue to receive ACA subsidies until their household income exceeded $204,000—or nearly 8 times the federal poverty line (FPL). This is up from $106,000—400% of the FPL)—prior to the president's "temporary" expansion in the March 2021 American Rescue Plan.

Of the remaining programs included in our analysis, the paid family and medical leave program and the free community college initiative have no income limits. Thus, the only major entitlement programs proposed by the AFP that would primarily target low-income families are the earned income tax credit and Pell Grant expansions. Yet, these two programs account for only about 11 percent of the total 10-year budget impacts of the programs we analyze.

The high-income cut-off rates suggest that substantial numbers of high-income households, particularly those with children, will be added to the federal entitlement rolls. Table 8 disaggregates the plan's entitlement benefits across income deciles. Middle- and upper-income deciles are less likely to receive the refundable portion of the expanded tax credit (although, as discussed above, many will still receive tax reductions), and accordingly their mean entitlement benefits are less than the lower deciles. Nevertheless, over 40 percent of the plan's benefits would still go to households in the top half of the income distribution.[16]

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[15] As noted above, we use the phaseouts rules for the child and dependent care tax credits and assume benefits will be entirely phased out over the next $40,000 in income.

[16] Median household income in 2023 is estimated at $73,900. The ninth decile begins at $155,500 and the top decile begins at $220,000.

Table 8. AFP Entitlement Benefits by Decile in 2023

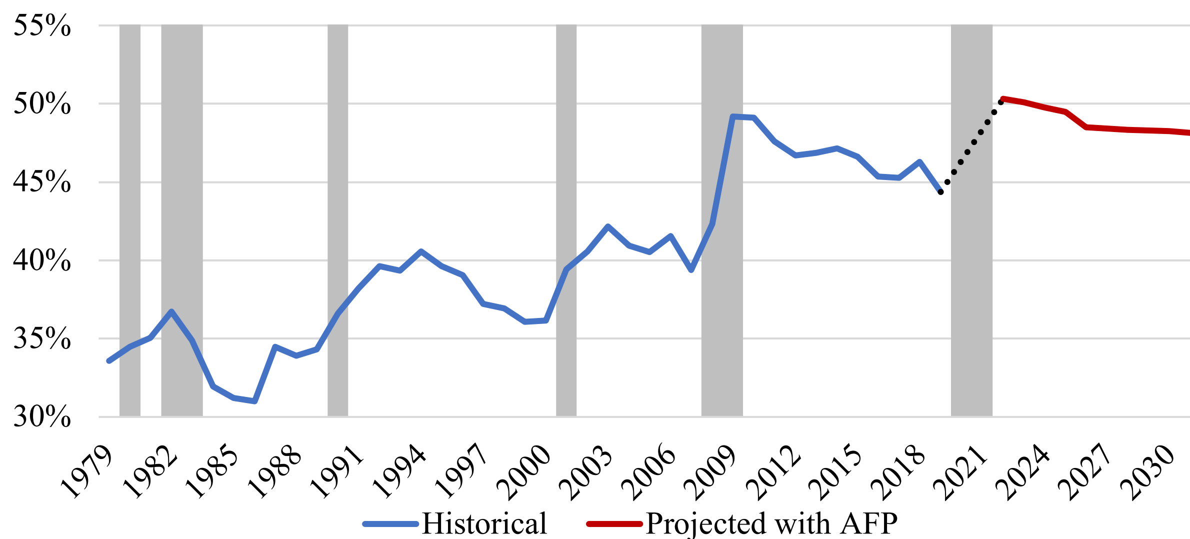
Decile	Share of HH Receiving AFP Entitlement Benefits	Recipient HH (1000s)	Mean Entitlement Benefits	Share of Total Benefits by Decile
Lowest	55.5%	4,521	$2,134	11.7%
2nd	53.3%	3,891	$2,308	11.4%
3rd	48.5%	4,251	$2,014	11.9%
4th	41.8%	3,769	$2,010	12.2%
5th	35.5%	3,239	$1,854	11.4%
6th	27.3%	2,647	$1,661	10.9%
7th	21.1%	2,084	$1,592	10.6%
8th	15.7%	1,506	$1,237	8.0%
9th	13.0%	1,205	$1,054	6.6%
Highest	11.9%	966	$983	5.4%
Total	**31.6%**	**28,079**	**$1,669**	**--**

Notes: Entitlement benefits include the share of tax credits in excess of a filer's tax liability. Estimates do not include the AFP's tax increase measures.

The American Families Plan is a marked acceleration of the long trend of increasing the percentage of the working age population who receive federal entitlement benefits. Figure 1 displays the trend, among non-senior households since the late 1970s. The time series pattern is a highly cyclical pattern on top of an upward secular trend. The cyclical component reflects the effects of the business cycle. In each recession, as unemployment increases, more individuals collect unemployment assistance and benefits from certain means tested entitlement programs, causing the percentage of the working age population receiving entitlement benefits to rise. After each recession, as hiring increases, participation in these counter cyclical programs declines.

But the last twenty years has not followed this pattern. The percentage of the working age population receiving entitlement benefits has not materially declined after the 2001 recession. This may be partially a consequence of increased refundable tax credits and income tax rate reductions for low- and middle-income tax filers. From 2000 to 2005, the share of non-senior households receiving refundable tax credits rose by 3 percentage points. Similarly, following the Great Recession, the rate of recipiency remained near all-time highs long after the recession officially ended. The share receiving benefits reached an all-time high (prior to the COVID-19 pandemic) of 49 percent in 2009. It fell slightly thereafter as unemployment and other low-

Figure 1. Non-Senior Households Receiving Federal Entitlements



Notes: Gray bars denote recessions. Historical estimates for refundable tax credit are calculated using

income benefit programs declined as the economy improved. But their declines were offset by the Affordable Care Act's Medicaid expansion and health insurance subsidies. The result was a permanent rise in the federal entitlement participation rate by about 7 percentage points.

The AFP promises to raise the working age federal entitlement participation rate another 7 percentage points—a sharp increase to a new historic high. As noted above, the president's plan would add 3.7 million married couple families to the entitlement benefit rolls. With the plan in effect, 55 percent of married couple households with children in the U.S. would be receiving benefits from at least one federal entitlement program. Perhaps, even more remarkable, more than 8 out of every 10 single-parent households would be recipients of at least one federal entitlement program.

Importantly, our estimates likely represent the lower bound of recipiency among non-senior households once the AFP is fully phased-in. As discussed above, our analysis does not include all proposals in the plan such as the universal preschool initiative, expanded nutrition assistance, and access to Pell Grants for DACA recipients. We also do not account for increased take-up rates in the programs analyzed; these rates are expected to grow substantially given the large increase in subsidies for childcare, education, and health insurance. Furthermore, limitations in our data are also likely lead to underestimating total participation. First, employment and program participation rates in our sample are based on the 2019 full-

employment economy. Second, the CPS suffers from well-known undercounts for low-income programs such as Medicaid and the Supplemental Nutrition Assistance Program (formerly food stamps).[17] Except for programs where the Administration promises a slow phase-in rate (e.g., paid FMLA, new childcare program), our costs estimates are lower than the Administration's projections. This is consistent with the idea that our participation estimates represent a lower bound of the likely effects of the American Families Plan.

VI. Conclusions

Over the last two decades, participation in government programs has risen dramatically while the share of households paying income taxes has fallen to new lows. This has been a bipartisan endeavor. The Child Tax Credit, for example, was created in 1997 by a Republican-controlled Congress and Democrat-held White House; since then, every administration has expanded the credit.[18] These entitlement expansions have been poorly targeted, with benefits increasingly going to households in the top half of the income distribution.

If enacted the American Families Plan would dramatically expand this decades-long trend. More than half of non-senior households would receive assistance from one or more federal entitlement programs. Rates among households with children will be far higher—with more than 80 percent of single-parent households receiving assistance. Reflecting relaxed or nonexistent income limits, the plan's proposals would distribute benefits up the income ladder. More than 40 percent of plan's entitlement spending will go to families in the top half of the income distribution.

Paying for these expensive middle-class entitlement programs will require substantially higher taxes or increased deficits. The president claims that the AFP does not increase the deficit because the new expenditures are offset by tax increases on high-income tax filers.[19] The Administration's own deficit projections show that the proposal would add $270 billion to non-interest deficits over the federal budget's official 10-year horizon. This budget math, however, relies on several budgetary gimmicks. First, as discussed above, the proposal assumes the child tax credit expansion will not continue beyond 2025. Allowing the credit to expire would amount

[17] For an overview of underreporting issues see Meyer, Mok, and Sullivan (2015).
[18] For the legislative history of the child tax credit see Crandall-Hollick (2018).
[19] In describing his plan on May 3rd at Tidewater Community College, the president remarked, "And we will not increase the deficit either."

to a large year-over-year tax increase for many low- and middle-income families. Second, the Administration double counts $237 billion in revenue from extending the net investment income tax (NIIT) and self-employment taxes (SECA) to additional types of business income. These revenues are counted as offsets to the American Families Plan's new spending provisions *and* as additional revenues to Medicare's Hospital Insurance Trust Fund. Finally, the budget proposal includes $71 billion to fund new IRS tax-compliance efforts. The Administration expects the addition funds will yield $266 billion in revenues. This estimate, however, is far larger than a similar analysis by the Congressional Budget Office, which estimates that $40 billion in new IRS funding would increase revenue by $103 billion.[20] Applying this ratio to the administration's $71 billion in new funding would yield only $183 billion—$83 billion less than the Administration projects. As shown in table 9, the American Families Plan's would increase 10-year deficits by over $1 trillion after accounting for these gimmicks.[21]

Table 9. AFP 10-Year Deficits with Adjustments (Billions)

Administration's official deficit estimate	$270.1
Adjustments to official estimates…	
Permanent expansion of child tax credit	$465.0
Double-counted business taxes (NIIT and SECA)	$236.5
Adjustments to revenue gains from increased IRS funding	$82.9
10-year deficits estimated after adjustments	$1,054.5

The American Families Plan's fiscal effects would worsen an already bleak budget picture. Even without the president's budget proposals, the Administration forecasts federal deficits will remain above 4 percent of GDP over the 10-year budget window. Further increasing deficit spending and raising personal income tax on high-income filers will ultimately leave future policymakers with fewer options to address the nation's budget challenges. The prospects of future middle-class tax increases or large, across-the-board spending cuts would thus increase under the American Families Plan.

[20] See CBO (2020b).

[21] Other revenue projects in the President's budget may also be overly optimistic. For example, the Administration expects $465 billion in revenue from its proposal to increase reporting requirements for financial institutions. See Holtz-Eakin (2021) for an overview.

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