



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

WR -
Making Work
Pay

May 3, 1993

MEMORANDUM FOR DAVID CUTLER

FROM: Richard Bavier 

SUBJECT: Benefit reduction rate graphs

Attached are graphs tracing the rates at which benefits are reduced and taxes are levied over a range of earnings. Both current law and the Administration's proposed changes to the EITC and the Food Stamp Program are modelled for full- and half-time work in 1996 (when the EITC changes would be fully phased-in). Each is shown separately with Medicaid and the refundable health insurance tax credit included and excluded. (The graphs combining the "tax" rates of current law and the Administration's proposals do not include Medicaid or the health tax credit.) Tables documenting the graphs are attached too, so you can see what is going on at each point.

The second, and sometimes the third, column of each graph reflects AFDC program effects that take place over two twelve-month periods (the \$30 plus one-third earnings disregard and transitional Medicaid eligibility for a family that leaves AFDC due to employment).

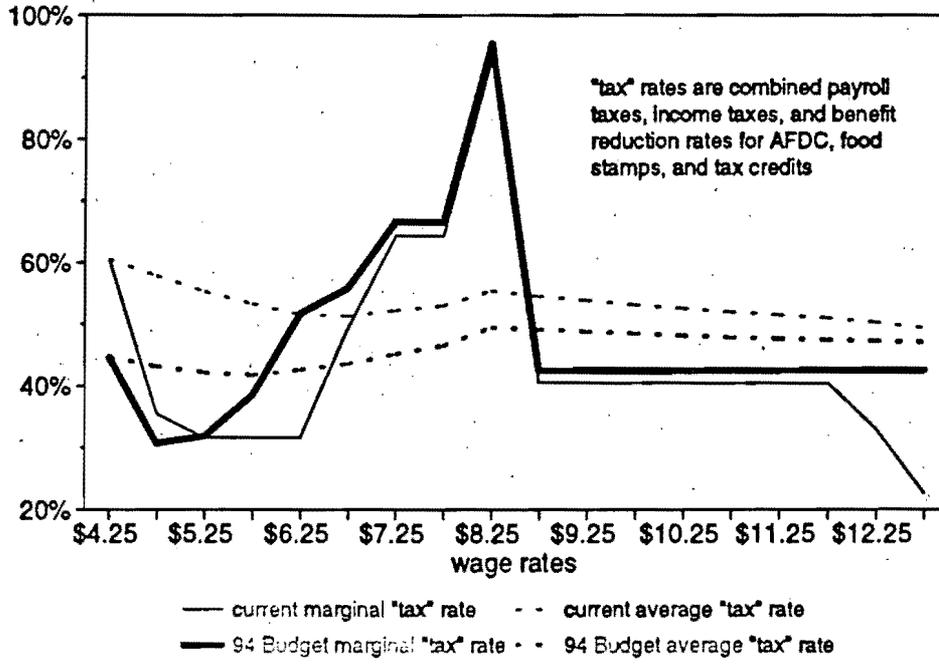
The line identified as the "marginal" rate shows the percentage by which additional earnings from a wage rate increment of \$.50/hr are reduced by social security payroll and federal income taxes and benefit reductions. The line identified as the "average" rate subtracts the welfare guarantee (including AFDC, food stamps, and Medicaid, on those graphs that include Medicaid) from total net income, then divides by earnings.

The family situation portrayed here is somewhat simplified. A mother and two children represent a typical AFDC family. A State with AFDC benefits around the median for all States is assumed. The picture would look different in States with relatively high or low AFDC benefits, or in some States where the formula for calculating AFDC benefits provides for a lower benefit reduction at first. For a family of this composition, benefits could also vary according to child care costs and shelter costs.

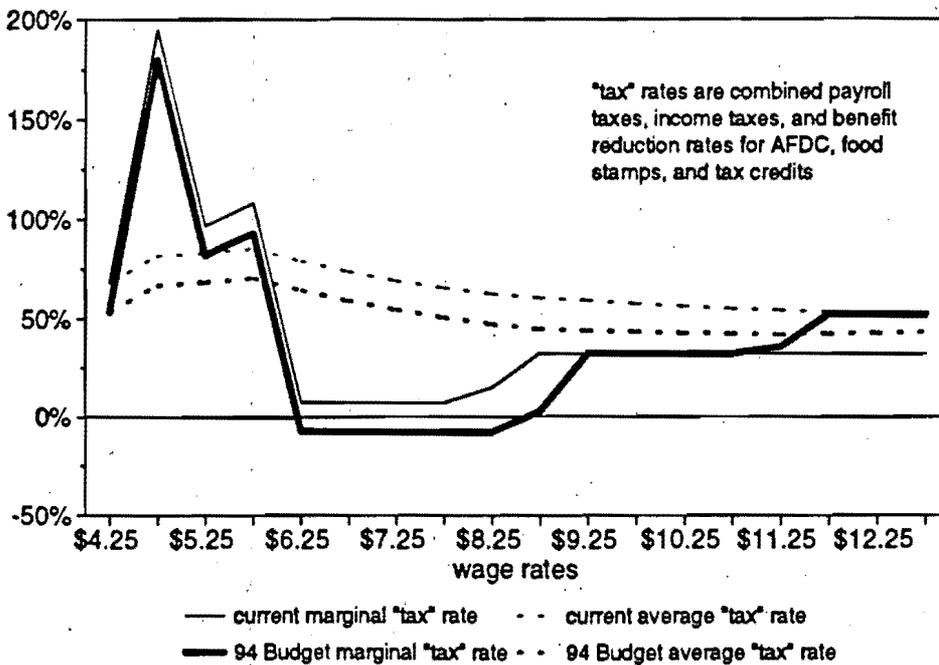
Attachments

cc: Isabel Sawhill
Barbara Selfridge

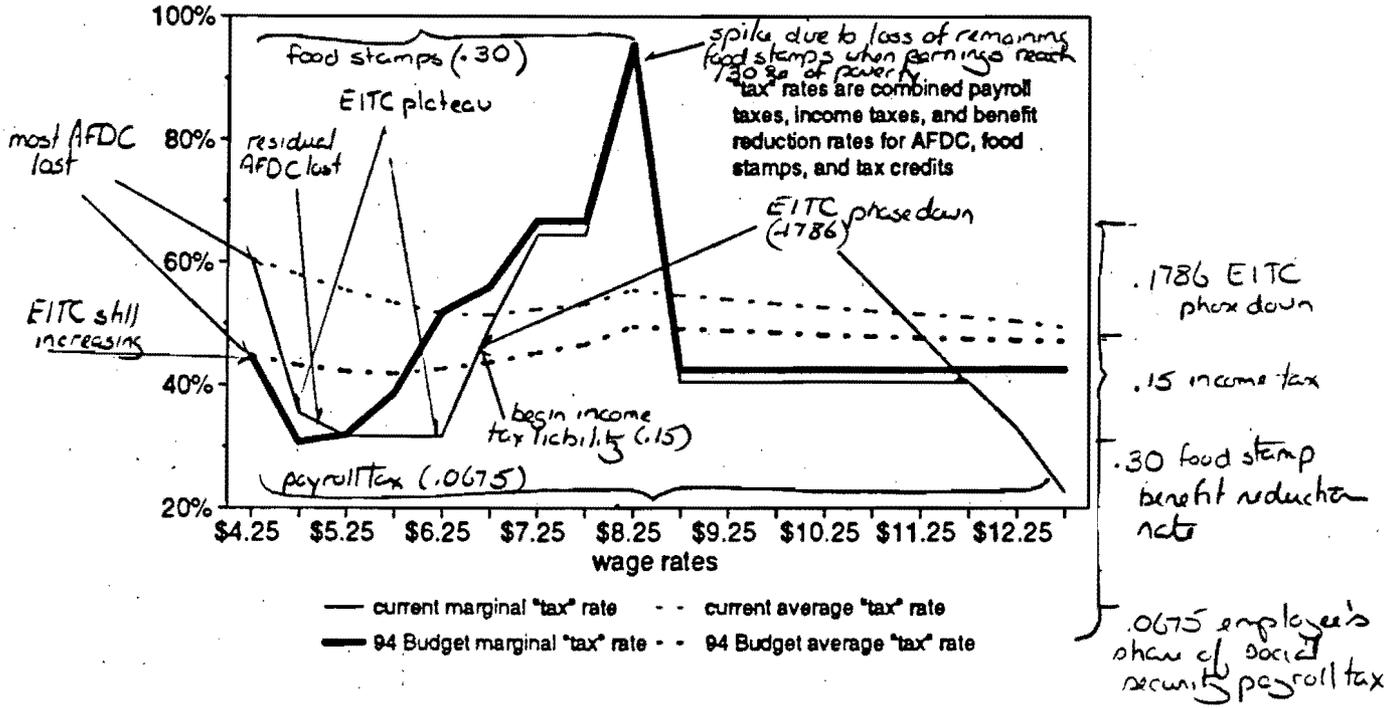
"Tax" rates leaving welfare in 1996
Mother and two children: full-time job



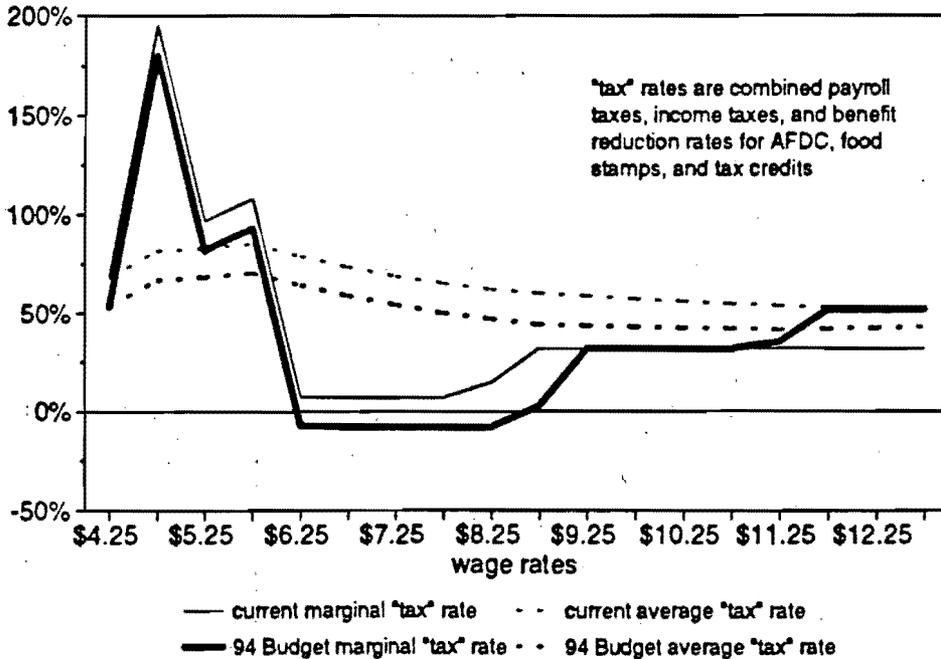
"Tax" rates leaving welfare in 1996
Mother and two children: half-time job

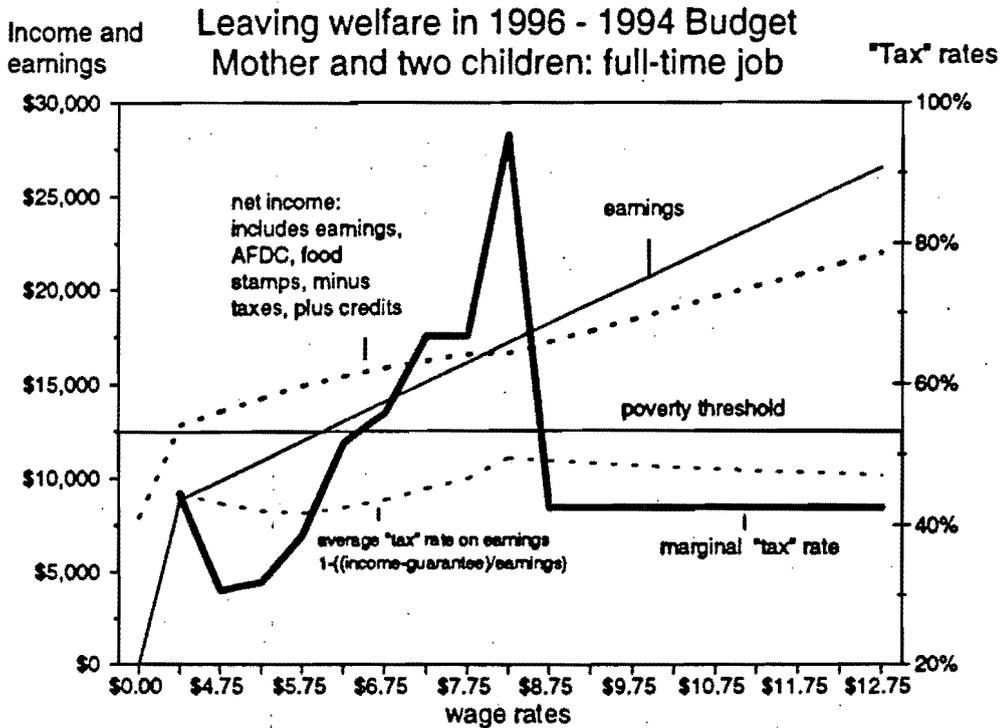
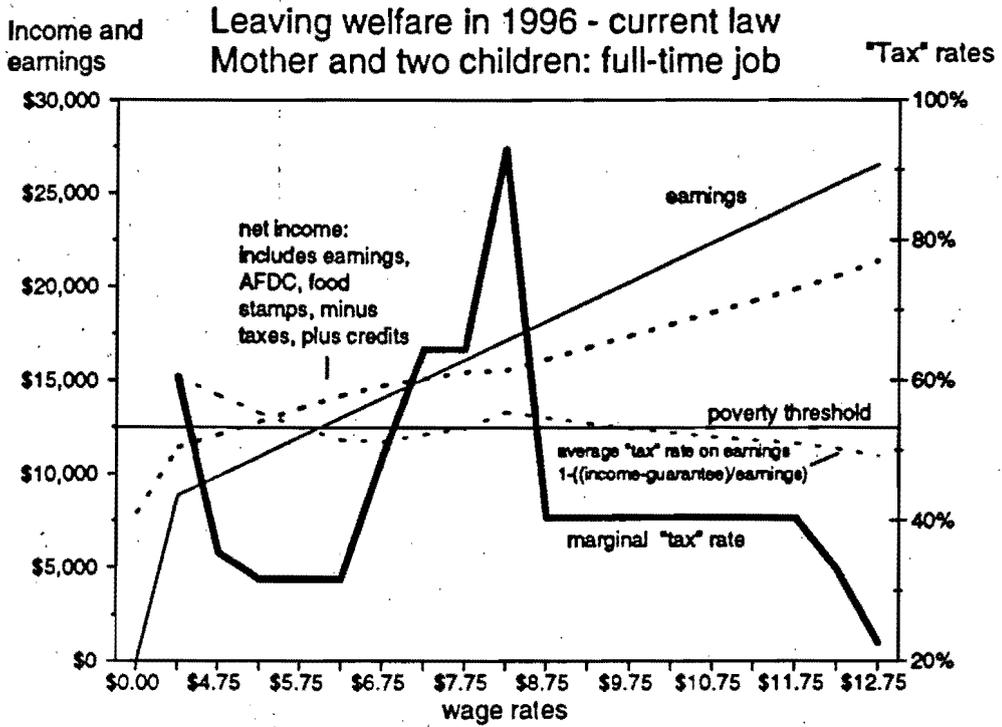


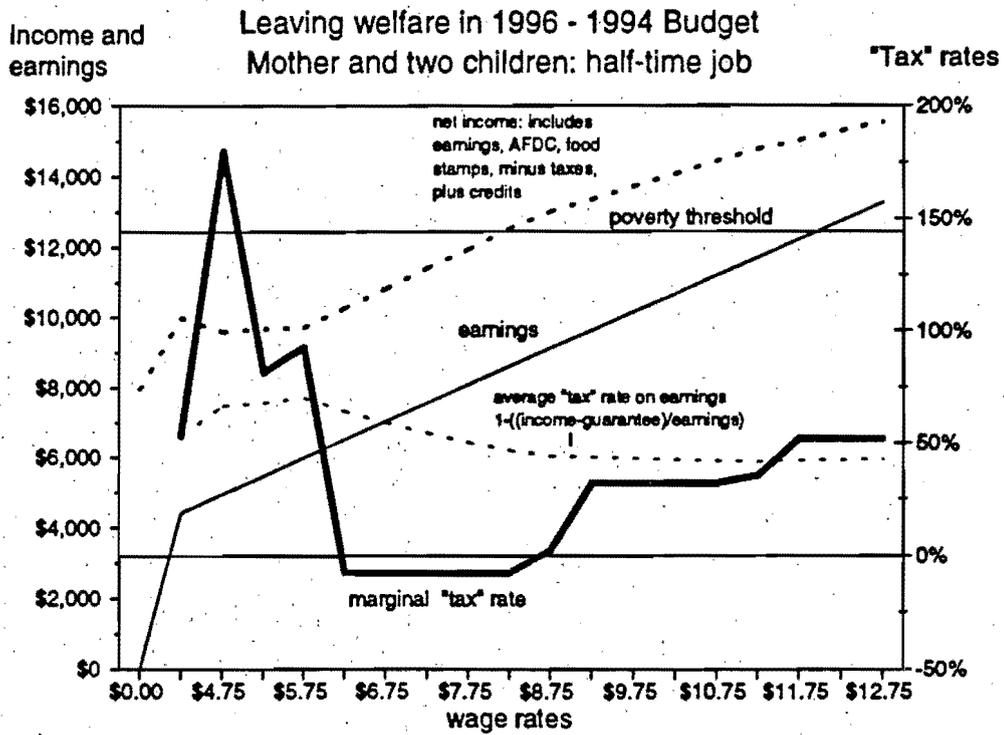
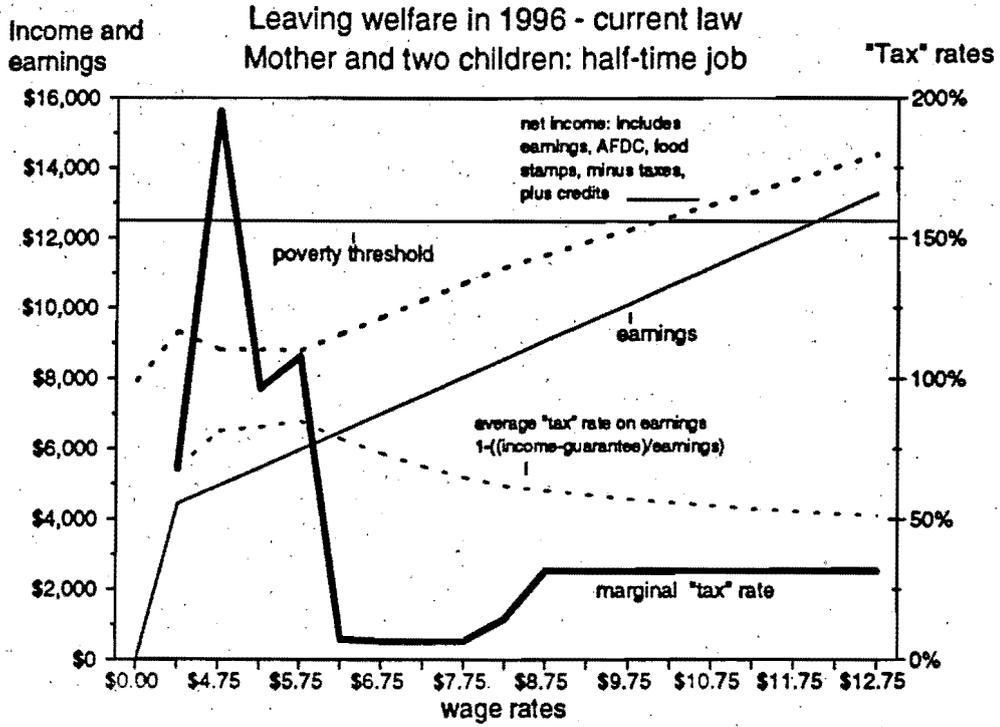
**"Tax" rates leaving welfare in 1996
Mother and two children: full-time job**

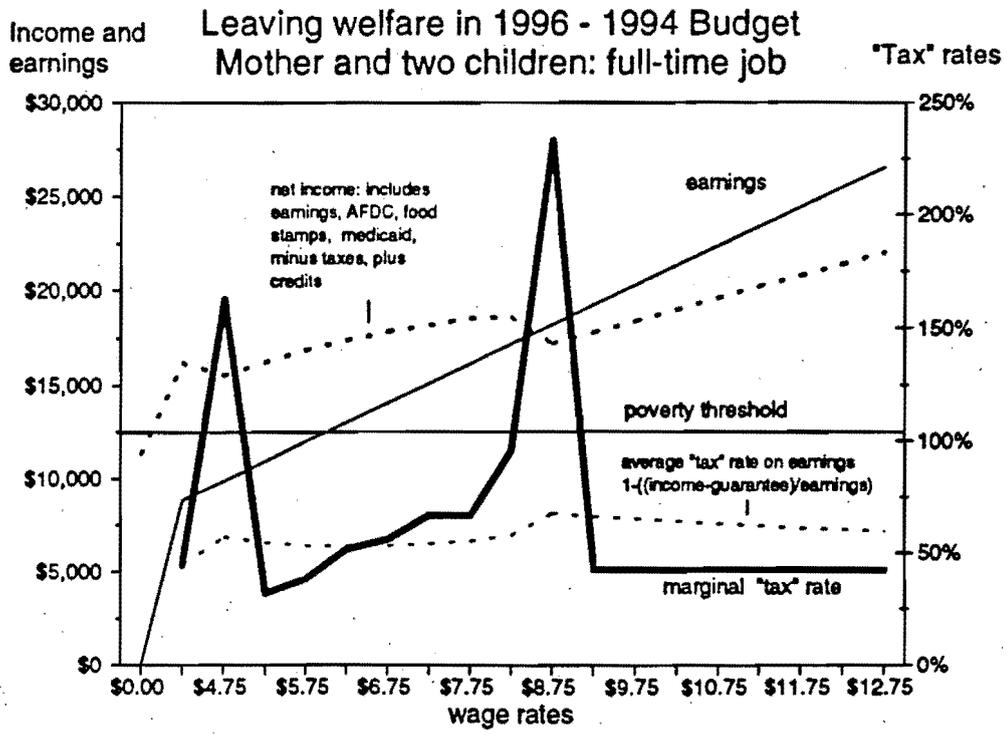
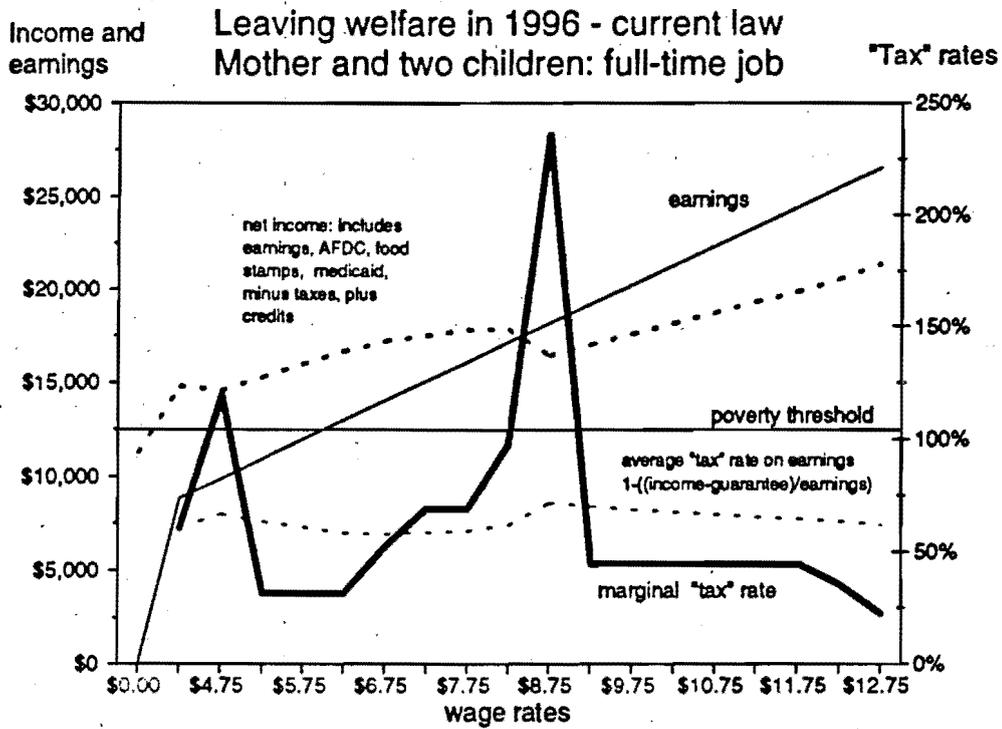


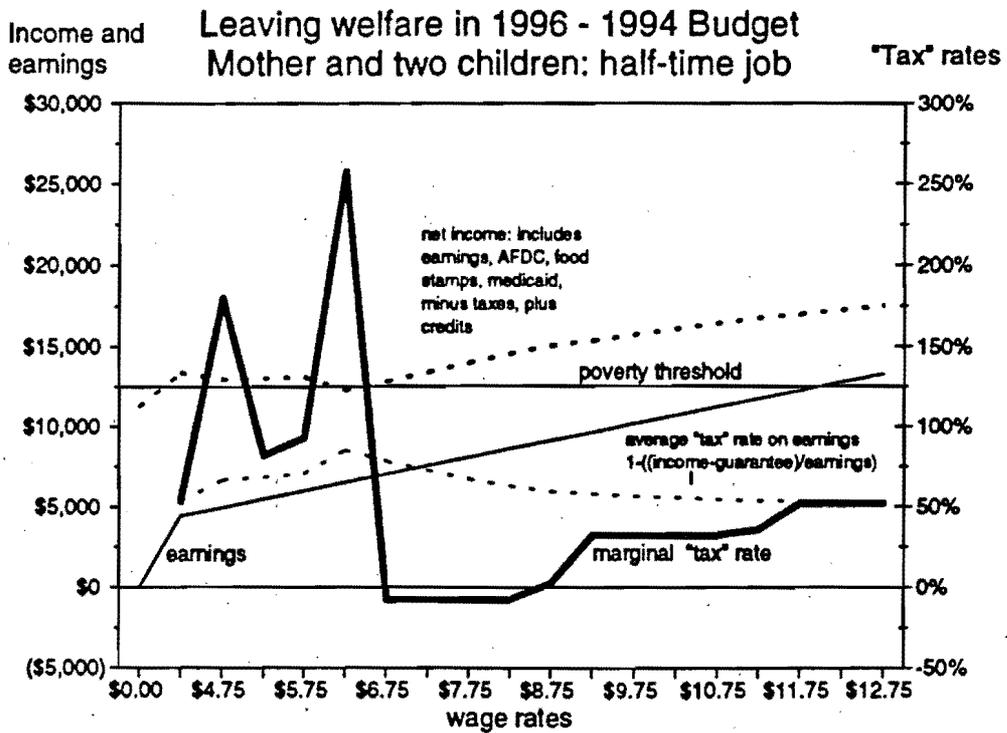
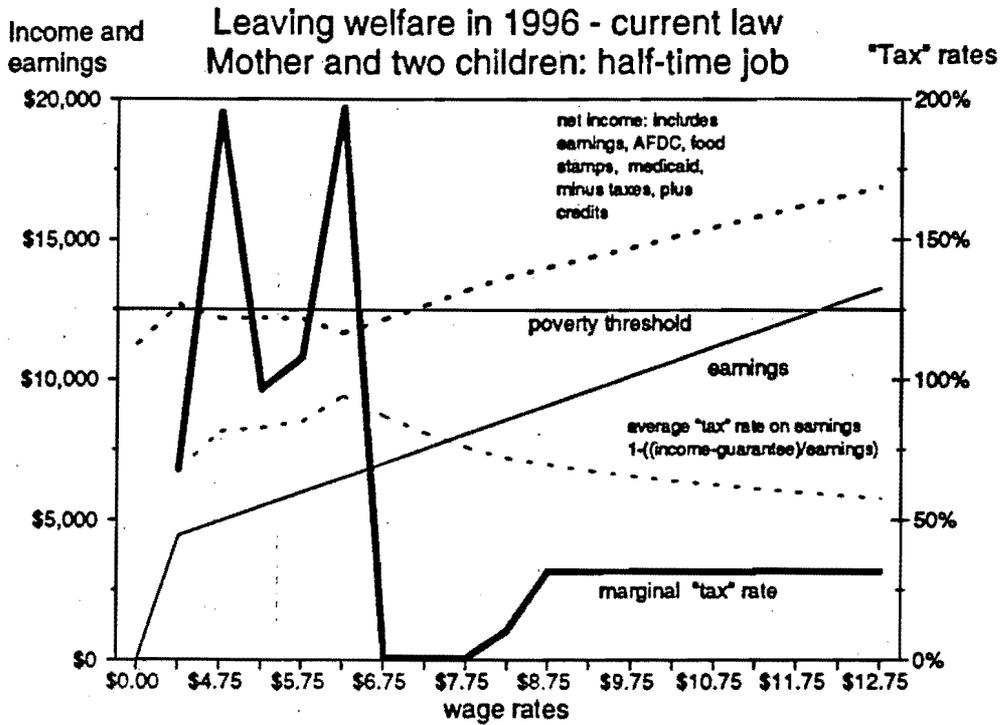
**"Tax" rates leaving welfare in 1996
Mother and two children: half-time job**











OBRA 1993 Enter "Head of household" or "Married couple" Head of household	Exemptions Deduction \$4,400 Guideline \$12,940 Thresholds w/ \$30-1/3 w/out	3	# kids < 1 2 # kids < 8	Child care/s/rd s/hr/rd Child Support Medical costs	\$3,358	Work:		Household:		1992 AFDC Need Max Pay	9607 \$7,288 \$13,479	Age child 1 \$415 Age child 2 Age child 4	1		1			
						Hour/week	Year	2	4				1	1				
Householder's wage Rate	\$4.28	\$4.75	\$5.25	\$5.75	\$6.25	\$6.75	\$7.25	\$7.75	\$8.25	\$8.75	\$9.25	\$9.75	\$10.25	\$10.75	\$11.25	\$11.75	\$12.25	\$12.75
Annual earnings	\$8,640	\$9,880	\$10,920	\$11,960	\$13,000	\$14,040	\$15,080	\$16,120	\$17,160	\$18,200	\$19,240	\$20,280	\$21,320	\$22,360	\$23,400	\$24,440	\$25,480	\$26,520
Work expenses	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
AGI	\$8,640	\$9,880	\$10,920	\$11,960	\$13,000	\$14,040	\$15,080	\$16,120	\$17,160	\$18,200	\$19,240	\$20,280	\$21,320	\$22,360	\$23,400	\$24,440	\$25,480	\$26,520
Exemptions	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800
Standard Deduction	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950
Taxable Income					\$200	\$1,330	\$2,370	\$3,410	\$4,450	\$5,490	\$6,530	\$7,570	\$8,610	\$9,650	\$10,690	\$11,730	\$12,770	
Income Taxes					\$44	\$200	\$356	\$512	\$668	\$824	\$980	\$1,136	\$1,292	\$1,448	\$1,604	\$1,760	\$1,916	
DCTC																		
Total Tax					\$44	\$200	\$356	\$512	\$668	\$824	\$980	\$1,136	\$1,292	\$1,448	\$1,604	\$1,760	\$1,916	
EITC	\$2,108	\$2,108	\$2,108	\$2,108	\$2,108	\$1,968	\$1,780	\$1,594	\$1,408	\$1,223	\$1,037	\$851	\$665	\$480	\$294	\$108		
Health Insurance Credit		\$506	\$506	\$506	\$506	\$472	\$427	\$383	\$338	\$294	\$249	\$204	\$160	\$115	\$71	\$26		
Young Child EITC Supplement																		
Refundable Credits	\$2,108	\$2,610	\$2,610	\$2,610	\$2,610	\$2,437	\$2,207	\$1,977	\$1,747	\$1,516	\$1,286	\$1,056	\$825	\$595	\$365	\$134		
Refund	\$2,108	\$2,610	\$2,610	\$2,610	\$2,610	\$2,304	\$2,008	\$1,621	\$1,235	\$849	\$462	\$78						
Income Tax due												\$310	\$608	\$1,083	\$1,489	\$1,780	\$1,916	
Payroll Taxes	\$678	\$758	\$836	\$915	\$995	\$1,074	\$1,154	\$1,233	\$1,313	\$1,392	\$1,472	\$1,551	\$1,631	\$1,711	\$1,790	\$1,870	\$1,949	\$2,029
Monthly Child Support																		
AFDC Countable Jan-Apr	\$401	\$733	\$820	\$907	\$993	\$1,080	\$1,167	\$1,253	\$1,340	\$1,427	\$1,513	\$1,600	\$1,687	\$1,773	\$1,860	\$1,947	\$2,033	\$2,120
AFDC Countable May-Dec	\$617	\$733	\$820	\$907	\$993	\$1,080	\$1,167	\$1,253	\$1,340	\$1,427	\$1,513	\$1,600	\$1,687	\$1,773	\$1,860	\$1,947	\$2,033	\$2,120
AFDC Benefit Jan-Apr	\$415	\$14																
AFDC Benefit May-Dec	\$415																	
Annual AFDC	\$4,082	\$58																
Annual Medicaid	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983
FSP Gross Jan-Apr	\$415	\$751	\$823	\$910	\$997	\$1,083	\$1,170	\$1,257	\$1,343	\$1,430	\$1,517	\$1,603	\$1,690	\$1,777	\$1,863	\$1,950	\$2,037	\$2,123
FSP Gross May-Dec	\$415	\$737	\$823	\$910	\$997	\$1,083	\$1,170	\$1,257	\$1,343	\$1,430	\$1,517	\$1,603	\$1,690	\$1,777	\$1,863	\$1,950	\$2,037	\$2,123
FSP Countable Jan-Apr	\$275	\$484	\$519	\$588	\$657	\$727	\$796	\$865	\$935	\$1,004	\$1,073	\$1,143	\$1,212	\$1,281	\$1,351	\$1,420	\$1,489	\$1,558
FSP Countable May-Dec	\$275	\$448	\$519	\$588	\$657	\$727	\$796	\$865	\$935	\$1,004	\$1,073	\$1,143	\$1,212	\$1,281	\$1,351	\$1,420	\$1,489	\$1,558
Coupons Jan-Apr	\$243	\$187	\$170	\$149	\$129	\$108	\$87	\$66	\$45									
Coupons May-Dec	\$243	\$191	\$170	\$149	\$129	\$108	\$87	\$66	\$45									
Annual Food Stamps	\$2,919	\$2,278	\$2,043	\$1,793	\$1,544	\$1,294	\$1,045	\$795	\$545									
Gross Private Income	\$8,640	\$9,880	\$10,920	\$11,960	\$13,000	\$14,040	\$15,080	\$16,120	\$17,160	\$18,200	\$19,240	\$20,280	\$21,320	\$22,360	\$23,400	\$24,440	\$25,480	\$26,520
Child Care and Work Expenses	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Medical Expenses	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358
Govt Benefits (without Medicaid & health or Taxes)	\$7,802	\$4,437	\$4,148	\$3,898	\$3,649	\$3,399	\$3,149	\$2,899	\$2,649	\$2,399	\$2,149	\$1,899	\$1,649	\$1,399	\$1,149	\$899	\$649	\$399
Gross Total Income (without Medicaid & on Net Total Income)	\$7,802	\$13,277	\$14,028	\$14,618	\$15,609	\$16,399	\$17,060	\$17,655	\$18,280	\$18,968	\$19,623	\$20,277	\$21,131	\$21,985	\$22,840	\$23,694	\$24,548	\$25,480
Gross Income/ Poverty	63.3%	108.3%	112.3%	118.6%	125.0%	131.3%	136.5%	141.4%	146.2%	148.7%	155.5%	162.3%	169.2%	176.0%	182.9%	189.7%	196.5%	204.0%
Net Income/ Poverty	63.3%	91.3%	96.7%	102.3%	108.0%	113.7%	118.0%	120.9%	123.9%	124.5%	129.4%	134.4%	139.3%	144.3%	149.2%	154.2%	159.1%	164.7%
"Tax" rate on increased earnings		80.4%	36.4%	31.6%	31.6%	31.7%	49.2%	64.5%	64.5%	62.9%	40.5%	40.5%	40.5%	40.5%	40.5%	40.5%	33.1%	22.6%
"Tax" rate on all earnings		60.4%	57.6%	55.3%	53.2%	51.5%	51.3%	52.3%	53.0%	55.5%	54.6%	53.6%	53.2%	52.5%	52.0%	51.5%	51.0%	50.3%
Taxes	\$678	\$758	\$836	\$915	\$995	\$1,074	\$1,154	\$1,233	\$1,313	\$1,392	\$1,472	\$1,551	\$1,631	\$1,711	\$1,790	\$1,870	\$1,949	\$2,029
Medical Expenses	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358
Net Earnings	\$4,800	\$5,798	\$6,727	\$7,687	\$8,648	\$9,608	\$10,569	\$11,529	\$12,490	\$13,450	\$14,410	\$15,371	\$16,021	\$16,585	\$17,169	\$17,744	\$18,414	\$19,218
AFDC	\$4,082	\$58																
Medicaid	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983
Food Stamps	\$2,919	\$2,278	\$2,043	\$1,793	\$1,544	\$1,294	\$1,045	\$795	\$545									
Tax refund	\$2,108	\$2,108	\$2,610	\$2,610	\$2,610	\$2,610	\$2,304	\$2,008	\$1,621	\$1,235	\$849	\$462	\$78					
Total	\$11,259	\$16,036	\$16,516	\$17,306	\$18,097	\$18,887	\$19,481	\$19,885	\$20,289	\$20,378	\$19,049	\$19,702	\$20,356	\$21,320	\$22,380	\$23,400	\$24,440	\$25,480

1994 Budget for EIT	/ stamps 1998	Exemptions Deduction \$4,400 Guideline \$12,940 Threshold \$12,490 w/ \$30+1/3 w/out	3	# kids < 1 2 @ kids < 8	Child cared/ld \$/hr/ld Child Support/mc Medical costs	\$3,358	Householder 40 52	50 52	1992 AFDC Need Max Pay	AFDC Needs Max Pay	\$907 \$415 \$7,288 \$13,479	Age child 1 Age child 2 Age child 3 Age child 4	2 4	1 1	1 1				
Head of household																			
Householder's wage Rate		\$4.25	\$4.75	\$5.25	\$5.75	\$6.25	\$6.75	\$7.25	\$7.75	\$8.25	\$8.75	\$9.25	\$9.75	\$10.25	\$10.75	\$11.25	\$11.75	\$12.25	\$12.75
Annual earnings		\$8,640	\$9,880	\$10,920	\$11,960	\$13,000	\$14,040	\$15,080	\$16,120	\$17,160	\$18,200	\$19,240	\$20,280	\$21,320	\$22,360	\$23,400	\$24,440	\$25,480	\$26,520
Work expenses		\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
AGI		\$8,640	\$9,880	\$10,920	\$11,960	\$13,000	\$14,040	\$15,080	\$16,120	\$17,160	\$18,200	\$19,240	\$20,280	\$21,320	\$22,360	\$23,400	\$24,440	\$25,480	\$26,520
Exemptions	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800
Standard Deduction	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950
Taxable Income						\$290	\$1,330	\$2,370	\$3,410	\$4,450	\$5,490	\$6,530	\$7,570	\$8,610	\$9,650	\$10,690	\$11,730	\$12,770	
Income Taxes						\$44	\$200	\$356	\$512	\$668	\$824	\$980	\$1,136	\$1,292	\$1,448	\$1,604	\$1,760	\$1,916	
DCTC							\$44	\$200	\$356	\$512	\$668	\$824	\$980	\$1,136	\$1,292	\$1,448	\$1,604	\$1,760	\$1,916
Total Tax						\$44	\$200	\$356	\$512	\$668	\$824	\$980	\$1,136	\$1,292	\$1,448	\$1,604	\$1,760	\$1,916	
94 Budget EITC		\$3,508	\$3,561	\$3,561	\$3,492	\$3,285	\$3,079	\$2,873	\$2,667	\$2,461	\$2,254	\$2,048	\$1,842	\$1,636	\$1,429	\$1,223	\$1,017	\$811	\$604
Refundable Credits		\$3,508	\$3,561	\$3,561	\$3,492	\$3,285	\$3,079	\$2,873	\$2,667	\$2,461	\$2,254	\$2,048	\$1,842	\$1,636	\$1,429	\$1,223	\$1,017	\$811	\$604
Refund		\$3,508	\$3,561	\$3,561	\$3,492	\$3,285	\$3,038	\$2,873	\$2,311	\$1,949	\$1,587	\$1,225	\$862	\$500	\$138				
Income Tax due															\$224	\$587	\$949	\$1,311	
Payroll Taxes		\$678	\$758	\$835	\$915	\$995	\$1,074	\$1,154	\$1,233	\$1,313	\$1,392	\$1,472	\$1,551	\$1,631	\$1,711	\$1,790	\$1,870	\$1,949	\$2,029
Monthly Child Support																			
AFDC Countable Jan-Apr		\$401	\$733	\$820	\$907	\$993	\$1,080	\$1,167	\$1,253	\$1,340	\$1,427	\$1,513	\$1,600	\$1,687	\$1,773	\$1,860	\$1,947	\$2,033	\$2,120
AFDC Countable May-Dec		\$817	\$733	\$820	\$907	\$993	\$1,080	\$1,167	\$1,253	\$1,340	\$1,427	\$1,513	\$1,600	\$1,687	\$1,773	\$1,860	\$1,947	\$2,033	\$2,120
AFDC Benefit Jan-Apr	\$415	\$14																	
AFDC Benefit May-Dec	\$415																		
Annual AFDC	\$4,082	\$56																	
Annual Medicaid	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983
FSP Gross Jan-Apr	\$415	\$751	\$823	\$910	\$997	\$1,083	\$1,170	\$1,257	\$1,343	\$1,430	\$1,517	\$1,603	\$1,690	\$1,777	\$1,863	\$1,950	\$2,037	\$2,123	\$2,210
FSP Gross May-Dec	\$415	\$737	\$823	\$910	\$997	\$1,083	\$1,170	\$1,257	\$1,343	\$1,430	\$1,517	\$1,603	\$1,690	\$1,777	\$1,863	\$1,950	\$2,037	\$2,123	\$2,210
FSP Countable Jan-Apr	\$275	\$464	\$519	\$568	\$657	\$727	\$798	\$865	\$935	\$1,004	\$1,073	\$1,143	\$1,212	\$1,281	\$1,351	\$1,420	\$1,489	\$1,559	\$1,628
FSP Countable May-Dec	\$275	\$449	\$519	\$568	\$657	\$727	\$798	\$865	\$935	\$1,004	\$1,073	\$1,143	\$1,212	\$1,281	\$1,351	\$1,420	\$1,489	\$1,559	\$1,628
Coupons Jan-Apr	\$248	\$189	\$172	\$151	\$130	\$109	\$88	\$67	\$46										
Coupons May-Dec	\$248	\$193	\$172	\$151	\$130	\$109	\$88	\$67	\$46										
Annual Food Stamps	\$2,948	\$2,298	\$2,063	\$1,811	\$1,559	\$1,307	\$1,055	\$803	\$551										
Gross Private Income		\$8,640	\$9,880	\$10,920	\$11,960	\$13,000	\$14,040	\$15,080	\$16,120	\$17,160	\$18,200	\$19,240	\$20,280	\$21,320	\$22,360	\$23,400	\$24,440	\$25,480	\$26,520
Child Care and Work Expenses		\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200
Medical Expenses	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358
Govt Benefits (without Medicaid & health o	\$7,830	\$5,984	\$5,824	\$5,372	\$5,050	\$4,592	\$4,134	\$3,678	\$3,217	\$2,461	\$2,254	\$2,048	\$1,842	\$1,636	\$1,429	\$1,223	\$1,017	\$811	\$604
Taxes		\$678	\$758	\$835	\$915	\$995	\$1,118	\$1,353	\$1,589	\$1,824	\$2,060	\$2,295	\$2,531	\$2,766	\$3,002	\$3,238	\$3,473	\$3,709	\$3,944
Gross Total Income (without Medicaid & or	\$7,830	\$14,704	\$15,504	\$16,292	\$17,010	\$17,592	\$18,174	\$18,756	\$19,337	\$19,821	\$20,454	\$21,288	\$22,122	\$22,956	\$23,789	\$24,623	\$25,457	\$26,291	\$27,124
Net Total Income	\$7,830	\$12,827	\$13,548	\$14,258	\$14,895	\$15,398	\$15,856	\$16,203	\$16,549	\$16,598	\$17,194	\$17,793	\$18,391	\$18,989	\$19,587	\$20,186	\$20,784	\$21,382	\$21,980
Gross Income/Poverty	63.5%	117.7%	124.1%	130.4%	136.2%	140.9%	145.5%	150.2%	154.8%	157.1%	163.6%	170.4%	177.1%	183.8%	190.5%	197.1%	203.8%	210.5%	217.2%
Net Income/Poverty	63.5%	102.7%	108.5%	114.1%	119.3%	123.3%	127.0%	129.7%	132.5%	132.9%	137.7%	142.5%	147.2%	152.0%	156.8%	161.6%	166.4%	171.2%	176.0%
"Tax" rate on increased earnings		44.8%	30.7%	31.9%	38.8%	51.7%	56.9%	66.7%	66.7%	65.4%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%	42.5%
"Tax" rate on all earnings		44.8%	43.1%	42.1%	41.8%	42.8%	43.5%	45.1%	46.5%	49.5%	49.1%	48.7%	48.4%	48.1%	47.9%	47.6%	47.4%	47.2%	47.0%
Taxes	\$7,830	\$11,194	\$11,943																
Medical Expenses		\$678	\$758	\$835	\$915	\$995	\$1,074	\$1,154	\$1,233	\$1,313	\$1,392	\$1,472	\$1,551	\$1,631	\$1,711	\$2,014	\$2,458	\$2,898	\$3,340
Net Earnings		\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358
AFDC	\$4,082	\$56																	
Medicaid	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983
Food Stamps	\$2,948	\$2,298	\$2,063	\$1,811	\$1,559	\$1,307	\$1,055	\$803	\$551										
Tax refund		\$3,508	\$3,561	\$3,561	\$3,492	\$3,285	\$3,038	\$2,873	\$2,311	\$1,949	\$1,587	\$1,225	\$862	\$500	\$138				
Total	\$11,288	\$18,081	\$17,487	\$18,275	\$18,993	\$19,575	\$20,113	\$20,539	\$20,965	\$21,092	\$19,787	\$20,465	\$21,142	\$21,820	\$22,498	\$23,400	\$24,440	\$25,480	\$26,520

OEBA 1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Enter "Head of household" or "Married couple"																			
Head of household																			
Householder's wage Rate	\$4.28	\$4.78	\$5.28	\$5.78	\$6.28	\$6.78	\$7.28	\$7.78	\$8.28	\$8.78	\$9.28	\$9.78	\$10.28	\$10.78	\$11.28	\$11.78	\$12.28	\$12.78	
Annual earnings	\$4,420	\$4,940	\$5,460	\$5,980	\$6,500	\$7,020	\$7,540	\$8,060	\$8,580	\$9,100	\$9,620	\$10,140	\$10,660	\$11,180	\$11,700	\$12,220	\$12,740	\$13,260	
Work expenses	\$884	\$968	\$1,052	\$1,136	\$1,220	\$1,304	\$1,388	\$1,472	\$1,556	\$1,640	\$1,724	\$1,808	\$1,892	\$1,976	\$2,060	\$2,144	\$2,228	\$2,312	
AGI	\$4,420	\$4,940	\$5,460	\$5,980	\$6,500	\$7,020	\$7,540	\$8,060	\$8,580	\$9,100	\$9,620	\$10,140	\$10,660	\$11,180	\$11,700	\$12,220	\$12,740	\$13,260	
Exemptions	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	
Standard Deduction	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	
Taxable Income																			
Income Taxes																			
DCTG																			
Total Tax																			
EITC	\$1,108	\$1,238	\$1,368	\$1,498	\$1,628	\$1,758	\$1,888	\$2,018	\$2,148	\$2,278	\$2,408	\$2,538	\$2,668	\$2,798	\$2,928	\$3,058	\$3,188	\$3,318	
Health Insurance Credit					\$390	\$421	\$452	\$484	\$505	\$505	\$505	\$505	\$505	\$505	\$505	\$505	\$505	\$505	
Young Child EITC Supplement																			
Refundable Credits	\$1,108	\$1,238	\$1,368	\$1,498	\$2,018	\$2,178	\$2,337	\$2,496	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	
Refund	\$1,108	\$1,238	\$1,368	\$1,498	\$2,018	\$2,178	\$2,337	\$2,496	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	
Income Tax due																			
Payroll Taxes	\$338	\$378	\$418	\$457	\$497	\$537	\$577	\$617	\$656	\$696	\$736	\$776	\$815	\$855	\$895	\$935	\$975	\$1,014	
Monthly Child Support																			
AFDC Countable Jan-Apr	\$158	\$322	\$365	\$408	\$452	\$495	\$538	\$582	\$625	\$668	\$712	\$756	\$798	\$842	\$885	\$928	\$972	\$1,015	
AFDC Countable May-Dec	\$248	\$322	\$365	\$408	\$452	\$495	\$538	\$582	\$625	\$668	\$712	\$756	\$798	\$842	\$885	\$928	\$972	\$1,015	
AFDC Benefit Jan-Apr	\$415	\$290	\$94	\$50															
AFDC Benefit May-Dec	\$415	\$187	\$94	\$50															
Annual AFDC	\$4,982	\$2,373	\$1,122	\$802															
Annual Medicaid	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	
FSP Gross Jan-Apr	\$415	\$628	\$505	\$505	\$496	\$542	\$585	\$628	\$672	\$715	\$758	\$802	\$845	\$888	\$932	\$975	\$1,018	\$1,062	
FSP Gross May-Dec	\$415	\$535	\$505	\$496	\$542	\$585	\$628	\$672	\$715	\$758	\$802	\$845	\$888	\$932	\$975	\$1,018	\$1,062	\$1,105	
FSP Countable Jan-Apr	\$275	\$414	\$283	\$274	\$259	\$293	\$328	\$363	\$397	\$432	\$467	\$501	\$536	\$571	\$605	\$640	\$675	\$709	
FSP Countable May-Dec	\$275	\$322	\$283	\$274	\$259	\$293	\$328	\$363	\$397	\$432	\$467	\$501	\$536	\$571	\$605	\$640	\$675	\$709	
Coupons Jan-Apr	\$243	\$202	\$241	\$244	\$248	\$238	\$227	\$217	\$207	\$196	\$186	\$175	\$165	\$155	\$144	\$134	\$123	\$113	
Coupons May-Dec	\$243	\$229	\$241	\$244	\$248	\$238	\$227	\$217	\$207	\$196	\$186	\$175	\$165	\$155	\$144	\$134	\$123	\$113	
Annual Food Stamps	\$2,919	\$2,641	\$2,892	\$2,923	\$2,979	\$2,854	\$2,729	\$2,605	\$2,480	\$2,355	\$2,230	\$2,105	\$1,981	\$1,856	\$1,731	\$1,606	\$1,481	\$1,357	
Gross Private Income	\$4,420	\$4,940	\$5,460	\$5,980	\$6,500	\$7,020	\$7,540	\$8,060	\$8,580	\$9,100	\$9,620	\$10,140	\$10,660	\$11,180	\$11,700	\$12,220	\$12,740	\$13,260	
Child Care and Work Expenses	\$884	\$968	\$1,052	\$1,136	\$1,220	\$1,304	\$1,388	\$1,472	\$1,556	\$1,640	\$1,724	\$1,808	\$1,892	\$1,976	\$2,060	\$2,144	\$2,228	\$2,312	
Medical Expenses	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	
Govt Benefits (without Medicaid & health or Taxes	\$7,902	\$8,120	\$5,249	\$4,890	\$4,474	\$4,470	\$4,484	\$4,490	\$4,495	\$4,490	\$4,335	\$4,210	\$4,086	\$3,961	\$3,836	\$3,711	\$3,586	\$3,462	
Gross Total Income (without Medicaid & on	\$7,902	\$10,540	\$10,189	\$10,350	\$10,454	\$10,979	\$11,504	\$12,030	\$12,555	\$13,040	\$13,435	\$13,830	\$14,226	\$14,621	\$15,016	\$15,411	\$15,806	\$16,202	
Net Total Income	\$7,902	\$9,318	\$8,823	\$8,841	\$8,800	\$9,282	\$9,767	\$10,253	\$10,738	\$11,184	\$11,539	\$11,894	\$12,250	\$12,605	\$12,961	\$13,316	\$13,672	\$14,027	
Gross Income/ Poverty	63.3%	64.4%	61.6%	62.9%	63.7%	67.9%	62.1%	68.3%	100.5%	104.4%	107.6%	110.7%	113.9%	117.1%	120.2%	123.4%	126.6%		
Net Income/ Poverty	63.3%	74.6%	70.6%	70.6%	70.5%	74.3%	78.2%	82.1%	86.0%	89.5%	92.4%	95.2%	98.1%	100.6%	103.6%	106.6%	109.5%		
"Tax" rate on increased earnings	68.0%	68.0%	105.1%	98.7%	107.7%	7.4%	8.7%	6.6%	8.6%	14.3%	31.6%	31.6%	31.6%	31.6%	31.6%	31.6%	31.6%		
"Tax" rate on all earnings	68.0%	61.3%	62.6%	65.0%	75.6%	73.4%	68.6%	64.6%	61.7%	60.0%	58.5%	57.1%	55.9%	54.7%	53.7%	52.6%	51.6%		
Taxes	\$338	\$378	\$418	\$457	\$497	\$537	\$577	\$617	\$656	\$696	\$736	\$776	\$815	\$855	\$895	\$935	\$975		
Medical Expenses	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358		
Net Earnings	\$724	\$1,204	\$1,685	\$2,165	\$2,645	\$3,125	\$3,605	\$4,086	\$4,566	\$5,046	\$5,526	\$6,007	\$6,487	\$6,967	\$7,447	\$7,927	\$8,406		
AFDC	\$4,982	\$2,373	\$1,122	\$802															
Medicaid	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983		
Food Stamps	\$2,919	\$2,641	\$2,892	\$2,923	\$2,979	\$2,854	\$2,729	\$2,605	\$2,480	\$2,355	\$2,230	\$2,105	\$1,981	\$1,856	\$1,731	\$1,606	\$1,481		
Tax refund	\$1,105	\$1,235	\$1,365	\$1,495	\$2,015	\$2,175	\$2,337	\$2,496	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610	\$2,610		
Total	\$11,250	\$13,697	\$13,547	\$13,708	\$13,812	\$13,352	\$13,908	\$14,465	\$15,021	\$15,528	\$15,923	\$16,318	\$16,713	\$17,108	\$17,504	\$17,899	\$18,294		

1994 Budget for E	of stamps 1998	Exemptions Deduction Guidelines Thresholds w/ \$30+ 1/3 w/out	3	# kids < 1 2 # kids < 6 2 # kids < 13 2 # kids < 18	Child care/td S/r/td Child Support/mc Medical costs	\$3,358	Householder 40 52	20 52	1992 AFDC Need Max Pay	AFDC Needs Max Pay	8907 Age child 1 \$415 \$7,298 \$13,478	2 Age child 2 Age child 3 Age child 4	1 1 1	1 1 1						
Head of household																				
Householder's wage Rate		\$4.25	\$4.75	\$5.25	\$5.75	\$6.25	\$6.75	\$7.25	\$7.75	\$8.25	\$8.75	\$9.25	\$9.75	\$10.25	\$10.75	\$11.25	\$11.75	\$12.25	\$12.75	
Annual earnings		\$4,420	\$4,940	\$5,460	\$5,980	\$6,500	\$7,020	\$7,540	\$8,060	\$8,580	\$9,100	\$9,620	\$10,140	\$10,660	\$11,180	\$11,700	\$12,220	\$12,740	\$13,260	
Work expenses		\$684	\$688	\$1,092	\$1,198	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	
AGI		\$4,420	\$4,940	\$5,460	\$5,980	\$6,500	\$7,020	\$7,540	\$8,060	\$8,580	\$9,100	\$9,620	\$10,140	\$10,660	\$11,180	\$11,700	\$12,220	\$12,740	\$13,260	
Exemptions	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	\$7,800	
Standard Deduction	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	\$5,950	
Taxable Income																				
Income Taxes																				
DCTC																				
Total Tax																				
94 Budget EITC		\$1,755	\$1,981	\$2,168	\$2,374	\$2,561	\$2,787	\$2,993	\$3,200	\$3,408	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,543	\$3,440	\$3,337	\$3,234
Refundable Credits		\$1,755	\$1,981	\$2,168	\$2,374	\$2,561	\$2,787	\$2,993	\$3,200	\$3,408	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,543	\$3,440	\$3,337	\$3,234
Refund		\$1,755	\$1,981	\$2,168	\$2,374	\$2,561	\$2,787	\$2,993	\$3,200	\$3,408	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,581	\$3,543	\$3,440	\$3,337	\$3,234
Income Tax due																				
Payroll Taxes		\$336	\$378	\$416	\$457	\$497	\$537	\$577	\$617	\$656	\$698	\$738	\$778	\$815	\$855	\$895	\$935	\$975	\$1,014	
Monthly Child Support																				
AFDC Countable Jan-Apr		\$156	\$322	\$365	\$408	\$452	\$495	\$538	\$582	\$625	\$668	\$712	\$755	\$798	\$842	\$885	\$928	\$972	\$1,015	
AFDC Countable May-Dec		\$248	\$322	\$365	\$408	\$452	\$495	\$538	\$582	\$625	\$668	\$712	\$755	\$798	\$842	\$885	\$928	\$972	\$1,015	
AFDC Benefit Jan-Apr	\$415	\$290	\$94	\$50																
AFDC Benefit May-Dec	\$415	\$167	\$94	\$50																
Annual AFDC	\$4,962	\$2,373	\$1,122	\$602																
Annual Medicaid	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	
FSP Gross Jan-Apr	\$415	\$628	\$505	\$505	\$498	\$542	\$585	\$628	\$672	\$715	\$758	\$802	\$845	\$888	\$932	\$975	\$1,018	\$1,062	\$1,105	
FSP Gross May-Dec	\$415	\$535	\$505	\$505	\$498	\$542	\$585	\$628	\$672	\$715	\$758	\$802	\$845	\$888	\$932	\$975	\$1,018	\$1,062	\$1,105	
FSP Countable Jan-Apr	\$275	\$414	\$283	\$274	\$259	\$293	\$328	\$363	\$397	\$432	\$467	\$501	\$536	\$571	\$605	\$640	\$675	\$709	\$744	
FSP Countable May-Dec	\$275	\$322	\$283	\$274	\$259	\$293	\$328	\$363	\$397	\$432	\$467	\$501	\$536	\$571	\$605	\$640	\$675	\$709	\$744	
Coupons Jan-Apr	\$246	\$204	\$243	\$246	\$251	\$240	\$230	\$219	\$209	\$198	\$188	\$177	\$167	\$156	\$146	\$135	\$125	\$114	\$104	
Coupons May-Dec	\$246	\$232	\$243	\$246	\$251	\$240	\$230	\$219	\$209	\$198	\$188	\$177	\$167	\$156	\$146	\$135	\$125	\$114	\$104	
Annual Food Stamps	\$2,948	\$2,867	\$2,920	\$2,951	\$3,008	\$2,882	\$2,758	\$2,630	\$2,504	\$2,378	\$2,252	\$2,126	\$2,000	\$1,874	\$1,748	\$1,622	\$1,496	\$1,370	\$1,244	
Gross Private Income		\$4,420	\$4,940	\$5,460	\$5,980	\$6,500	\$7,020	\$7,540	\$8,060	\$8,580	\$9,100	\$9,620	\$10,140	\$10,660	\$11,180	\$11,700	\$12,220	\$12,740	\$13,260	
Child Care and Work Expenses		\$684	\$688	\$1,092	\$1,198	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	
Medical Expenses	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	
Govt Benefits (without Medicaid & health c	\$7,930	\$8,796	\$9,003	\$5,721	\$5,382	\$5,462	\$5,543	\$5,623	\$5,704	\$5,784	\$5,813	\$5,887	\$5,961	\$6,035	\$6,109	\$6,183	\$6,257	\$6,331	\$6,405	
Taxes		\$336	\$378	\$416	\$457	\$497	\$537	\$577	\$617	\$656	\$698	\$738	\$778	\$815	\$855	\$895	\$935	\$975	\$1,014	
Gross Total Income (without Medicaid & c	\$7,930	\$11,215	\$10,943	\$11,181	\$11,362	\$11,962	\$12,563	\$13,163	\$13,764	\$14,364	\$14,913	\$15,307	\$15,701	\$16,095	\$16,489	\$16,883	\$17,158	\$17,447	\$17,738	
Net Total Income	\$7,930	\$9,980	\$9,577	\$9,672	\$9,706	\$10,265	\$10,826	\$11,386	\$11,947	\$12,508	\$13,017	\$13,371	\$13,725	\$14,079	\$14,434	\$14,770	\$15,021	\$15,272	\$15,523	
Gross Income/ Poverty	63.5%	69.6%	67.6%	66.5%	61.0%	65.6%	100.6%	105.4%	110.2%	115.0%	119.4%	122.8%	125.7%	128.6%	132.0%	135.0%	137.4%	139.7%	142.0%	
Net Income/ Poverty	63.5%	80.0%	78.7%	77.4%	77.7%	82.2%	88.7%	91.2%	95.7%	100.1%	104.2%	107.1%	109.6%	112.7%	115.8%	118.3%	120.3%	122.3%	124.3%	
"Tax" rate on increased earnings		53.3%	179.9%	81.6%	92.6%	-7.0%	-7.8%	-7.8%	-7.8%	-7.8%	2.1%	31.9%	31.9%	31.9%	31.9%	35.3%	51.7%	51.7%	51.7%	
"Tax" rate on all earnings		53.3%	68.7%	68.1%	70.3%	64.1%	58.7%	54.2%	50.2%	48.6%	44.1%	43.4%	42.6%	42.5%	41.8%	41.5%	42.0%	42.4%	42.7%	
Taxes	\$7,930	\$8,460	\$8,982																	
Medical Expenses		\$336	\$378	\$416	\$457	\$497	\$537	\$577	\$617	\$656	\$698	\$738	\$778	\$815	\$855	\$895	\$935	\$975	\$1,014	
Net Earnings		\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	
AFDC		\$724	\$1,204	\$1,685	\$2,165	\$2,645	\$3,125	\$3,605	\$4,086	\$4,566	\$5,046	\$5,526	\$6,007	\$6,487	\$6,967	\$7,447	\$7,927	\$8,408	\$8,888	
Medicaid	\$4,962	\$2,373	\$1,122	\$602																
Food Stamps	\$3,358	\$3,358	\$3,358	\$3,358	\$3,358	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	\$1,983	
Tax refund	\$2,948	\$2,867	\$2,920	\$2,951	\$3,008	\$2,882	\$2,758	\$2,630	\$2,504	\$2,378	\$2,252	\$2,126	\$2,000	\$1,874	\$1,748	\$1,622	\$1,496	\$1,370	\$1,244	
Total	\$11,288	\$14,673	\$14,301	\$14,539	\$14,720	\$13,945	\$14,548	\$15,148	\$15,748	\$16,347	\$16,896	\$17,290	\$17,684	\$18,078	\$18,472	\$18,868	\$19,138	\$19,429	\$19,720	

WR -

~~WAGE SUBSIDIES~~

WAGE SUBSIDIES

May 6, 1993

MEMORANDUM FOR LARRY MATLACK

FROM: Richard Bavier

SUBJECT: Matrix of employment and wage subsidies

As part of thinking about a time-limited AFDC program, I've been looking at our experience with subsidies of jobs in the private sector. The attached matrix tries to identify the major program design dimensions that are relevant to the kind of job subsidies that might be associated with time-limited welfare. Along with the main alternative features for each dimension, the matrix identifies both the intended effects of the feature (the pros) and the collateral effects (most, but not all, cons). Finally, the matrix identifies past and present government job subsidy programs that have incorporated each alternative for each dimension.

The matrix is intended to help policy officials organize their thinking about job subsidies, and recognize the major design issues that need to be faced. In addition, the last column is intended to guide users to more information about experience and research on policies of interest.

I am not a trained labor economist. Most of the information on the matrix is drawn from two sources:

Daniel S. Hamermesh, "Subsidies for Jobs in the Private Sector," in John Palmer (ed), Creating Jobs, Public Employment Programs and Wage Subsidies, (Brookings, 1978).

"The Use of Tax Subsidies for Employment, A Report to Congress by the Departments of Labor and Treasury," (May 1986).

Could you have your staff and/or staff at DoL look this over for accuracy, completeness, and clarity? I'd be glad to have alternative conceptual approaches suggested, or even just quibbles about classification of the examples.

Attachment

cc: Isabel Sawhill
Barbara Selfridge
Keith Fontenot

June 18, 1993

Employment and Wage Subsidies

The following matrix identifies major design dimensions of government subsidies of employment, lists the major alternative design features, then summarizes both the intended effects of incorporating the element in the design as well as collateral, often unintended and undesired, effects. The matrix focusses on aspects of job subsidies most relevant to planning for time-limited welfare policies. Some program design issues relevant to job subsidy programs in other contexts are ignored. For example, issues related to the counter-cyclical, GDP, and inflationary effects of job subsidies are not included. Nor are issues related to subsidies available to employees regardless of present or former welfare status, or available only to certain regions or certain industries. Although, arguably, it is just a variety of fully-subsidized job, public employment is not included here.

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
Targeting	Less targeted	Ease of administration. More equitable than targeting on some basis other than need.	Increased costs.	NJTC, EITC ¹
	More targeted	Increased employment or wages for target group members. Efficiency.	Substitution of target group members for other employees. Induced increase in target group membership.	TJTC, OJT, NSW, work-supp, WINcredit, JOBS68, BRRs
Duration of program	Permanent	Predictability. Ease of administration.	Windfalls to employers who substitute subsidized for unsubsidized employees.	EITC, OJT, work-supp, TJTC, BRRs
	Temporary	Reduction in windfall to employers who would have hired anyway.	Accelerated, rather than increased, employment. Insufficient time to increase employment by planning for substitution of factors or increase in scale.	NJTC, NSW, JOBS68, WINcredit

¹ EITC = Earned Income Tax Credit (1975 to present); NJTC = New Jobs Tax Credit (1977-78); TJTC = Targeted Jobs Tax Credit (1979 to present); JOBS68 = contracts to offset added costs of hiring disadvantaged (1968-73); WINcredit = TJTC predecessor for welfare recipients (1971-81); work-supp = grant diversion or work supplementation for AFDC recipients (1981 to present); NSW = National Supported Work Demonstration (1976-81); OJT = on-the-job-training under JTPA and predecessors; BRRs = income disregards lowering benefit reduction rates in AFDC (\$90/mo for work expenses, \$30 plus one-third for four months, then \$30 for another eight) and the Food Stamp Program (standard deduction and 20 percent of earnings) to offset work expenses and create work incentives.

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
Qualified employment	All employment	Ease of administration.	Windfall to employers.	EITC, BRRs
	Additions to employment	Increase impact by subsidizing only increased employment. Reduce windfall.	Govt induced competitive disadvantage for employers unsubsidized due to inevitable arbitrariness in definition and error in measurement of incremental employment.	NJTC
Size of subsidy to employer relative to labor costs	Small	Lower program cost. Less windfall to employers.	Lower uptake due to less reduction in labor costs for employers. Substitute part-time for full-time employees.	
	Large	Greater incentive for participation.	Higher costs.	
Duration of subsidy	Temporary	Maximize efficiency of individual subsidies by not subsidizing after the point that employer would retain employee and employee would keep job without subsidy.	Induce turn-over when subsidy ends.	TJTC, NJTC, work-suppl, WINcredit, JOBS68, AFDC-BRR
	Permanent	Assure job retention and income floor for subsidized worker.	Reduce program efficiency - spend more of public resources on those who would remain employed anyway.	EITC, food stamps BRR
Purpose of subsidy	Increase hires	Accelerate hiring (that would have taken place anyway). Give foot-in-door to targeted employees, a chance to demonstrate productivity.	Induce turnover, lower average tenure.	JOBS68
	Subsidize training	Increase hiring and employment of workers who would not have been hired because of cost of training necessary to raise productivity.	Induce turnover. Net effect depends on human capital enhancement in training.	TJTC, NSW, work-suppl, OJT

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
	Subsidize wages	Increase labor force participation and income of workers whose reservation wage exceeds their marginal product.	Induce increase in target group membership. Inverse targeting - higher subsidies to those with higher wages. May increase hours of current employees rather than number of employees.	EITC
	Increase employment	Increase employment by inducing substitution of labor for other factors or increasing scale of production.	Induce increase in target group membership. Competitive disadvantage and reduced (probably skilled) employment in industries producing capital-intensive substitute goods.	NJTC, BRRs
Direct recipient	Employer	Provide incentive of reduced labor cost in most visible way.	Stigmatize subsidized workers. Impose cost of administration on employers.	TJTC, NJTC, work-sup, NSW, OJT, JOBS68, WINcredit
	Employee	Provide incentive of higher income in most visible way.	When targeted by income and permanent, increase "tax" rate on employee as income rises and subsidy phases out.	EITC, BRRs
Method	Tax credit to employer	Administrative efficiency of using current tax collection machinery - additional staff needed mainly for audit.		TJTC, NJTC, WINcredit
	Tax credit to employee	No welfare system contact. Uses current tax collection machinery - additional staff needed mainly for audit.	Low uptake in advance payment of credit, so potentially large lump sum payment at tax refund time. Experience with EITC suggests potential for fraud that is too expensive to audit and prosecute.	EITC
	Require hiring of target employees as condition of govt contract.	Efficiency - bids for lowest subsidy to include specified number of target employees in contract labor force.	Administrative costs of monitoring compliance. Depending on rules, incentive for phantom employees.	

Design Dimensions

Alternatives

Intended effects

Collateral effects

Examples

Transfer to employer

More documentation can target subsidy to individual employee and employer characteristics and reduce fraud.

Higher administrative costs for employer and government.

OJT, work-supp, NSW, JOBS68

Transfer to employee

Best targeting to employee's need. Sub-yearly eligibility period provides benefit closer to period of eligibility.

Employee must come into contact with welfare system. Higher levels of targeting, documentation, and audit impose higher administrative costs.

BRRs

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

KARU -
GOOD IDEA ??
-BR

June 2, 1993

MEMORANDUM FOR BRUCE REED
DPC

FROM: DEBORAH LUCAS *DL*

SUBJECT: Making Work Pay for the Disabled

As we discussed last week, there are a number of compelling reasons to consider the SSI and SSDI programs in the context of welfare reform. The current structure of these programs in combination with Medicaid makes it impossible for many disabled people to work, so the theme of making work pay resonates especially deeply in the disabled community. This memo describes some of the strong work disincentives created by the current program structure.

People who have paid sufficient social security taxes are eligible for SSDI assistance if they are disabled and establish that they cannot work. On average, SSDI pays about \$550 per month, or \$6,600 per year. Recipients can retain all benefits and earn up to \$6,000 per year from other sources. At \$6,000 or over, benefits go to zero after the first nine months of work. Reestablishing eligibility is risky and time-consuming, so many people choose not to earn more than the limit.

Over 3.8 million low-income disabled persons receive SSI. Income and asset restrictions are similar to those for AFDC, and the average monthly payment is similar, but SSI has a minimum guaranteed federal benefit that is uniform across states. In most states, SSI recipients automatically qualify for Medicaid and Food Stamps. Some work incentives have been added to the SSI program. Recipients only lose \$.50 in benefits for every \$1 earned, and states can extend Medicaid coverage to disabled people who require Medicaid to enable them to work, even if they no longer qualify for cash benefits. Nevertheless, the prospect of losing Medicaid benefits serves as an impediment to work for many SSI recipients. It is important to note that health care reform is unlikely to solve this problem for the disabled because the personal assistance services received under Medicaid are unlikely to be covered in the guaranteed benefits package.

A striking statistic is that there has been a 49% increase in the number of disabled SSI recipients between 1975 and 1991. This increase far exceeds the increase in disability rates in the population. The most prevalent disabling conditions for SSI recipients are mental disorders (26.2%) and mental retardation (28.2%). If AFDC is time-limited, it is likely that AFDC recipients who can qualify will turn to the SSI program. While this might not be a bad solution

for those who are truly unable to work, improving the work incentives for SSI recipients could reduce the amount of unintended substitution between programs.

Finally, I wanted to let you know that the way the term "disabled" is being used in the context of welfare reform is objectionable to the disabled community and could cause avoidable misunderstandings. This came up in a meeting of the disabilities working group which is charged with identifying people who may be exempted from time-limited welfare. Although this seems like a reasonable task, the semantic problem is that of equating disability status with the inability to work. Advocates for the disabled emphasize that most disabled people can work if they are given some extra assistance. Illness or medical condition rather than disability is a valid reason for an exemption.

If you would like more information about any of these issues please let me know.



Nia M

July 7, 1993

TO: Bruce Reed
FROM: George Kohl *GK*
Administrative Assistant to the President
Director, Development and Research

I appreciated the opportunity to meet with you last week to discuss CWA's positions on welfare reform, family support and independence.

Attached is the CWA background paper on these issues.

CWA Background Paper
Welfare Reform, Family Support, and Independence

CWA wholeheartedly supports the general Clinton Administration approach to "make work pay" and to create an society in which people don't need welfare. We support the following public policies which are components of such a strategy:

- Policies to promote good jobs that pay enough and with the medical benefits necessary to support a family;
- Education, training, child care, transportation and other supports to provide unemployed welfare recipients the support and training they need to participate in the work force;
- Strengthened child support enforcement;
- Expansion of the earned income tax credit;
- Substantial increase in the minimum wage.

CWA does not support mandatory community work experience programs (CWEP) or other mandatory work programs which require welfare recipients to work off their benefits. We oppose such programs for two reasons. First, experience in the 1980s documents that such programs inevitably cause displacement of public and private sector workers. Particularly in these tight fiscal times, mandatory work programs would encourage fiscally strapped states and cities to displace public workers with unqualified welfare recipients. Second, research documents that mandatory work programs don't provide the education, training, and other supports welfare recipients need to get jobs that will take them permanently off the welfare rolls. (See various Manpower Demonstration Research Corporation reports.)

However, CWA does support public job creation programs which provide real jobs for welfare recipients unable to find jobs in the private sector. CWA also supports transitional subsidized employment programs to encourage employers in the private sector to hire welfare recipients. These programs must include strong anti-displacement language and labor protections. MDRC research documents that such programs are the most effective in providing permanent, family wage jobs for welfare recipients.

We are concerned that any welfare reform that includes a mandatory work requirement without adequate federal resources for education, training, child care, and job creation will inevitably fail and leave millions of children destitute.

In 1988, Congress passed with great fanfare the Family Support Act, including the JOBS welfare-to-work component. Then the recession hit, with expanding welfare rolls and state fiscal

crises. States couldn't or didn't come up with money to draw down the inadequate federal matching money, and job training programs in the states have been cut back. In this environment, mandatory work programs without job creation elements won't work.

Finally, any welfare reform proposal should structure federal funding to encourage cooperative action among state agencies in the actual operation of welfare-to-work programs. While inter-agency task forces were instrumental in developing state JOBS programs, in many states inter-agency coordination never filtered down to the actual operation of the programs. Rather than integrate the work of experienced and skilled state income maintenance workers, case managers, employment counselors, etc., states chose to contract with private agencies, often sacrificing quality of service, causing public sector job loss, and denying career opportunities to skilled public workers. This problem should be addressed in any welfare reform proposal.

Table I

Welfare Without Work (President's Budget) Family of Three

Poverty Guideline for Family of Three = \$11,890

	Alabama	Pennsylvania	California
AFDC	\$1,968	\$4,836	\$7,488
Food Stamps	3,395	2,534	1,739
Total	5,363	7,370	9,227

- Benefits vary widely across States.
- AFDC and Food Stamp benefits total well below poverty in all States.

Table II

Full-time Minimum Wage Work - No Welfare

Poverty Guideline for Family of Three = \$11,890

	Current Law	President's Budget
Working with No Child Care Expenses		
Earnings	\$8,500	\$8,500
Taxes	(650)	(650)
EITC	1,998	3,282
Work expenses	(1,080)	(1,080)
Total	8,768	10,052
Working with Child Care Expenses		
Child care	(2,089)	(2,089)
Total	6,679	7,963

	Alabama	Pennsylvania	California
Not Working			
AFDC and Food Stamps	\$5,363	\$7,370	\$9,227

- Under current law, someone going to work who wants to avoid means-tested benefits, is often far worse off than under welfare, especially if they have child care costs.
- The President's budget significantly improves the situation, but if a family has child care and does not collect government benefits, they are still worse off than on welfare in high benefit States.

Table III a

Full-time Work With Welfare (President's Budget)

Poverty Guideline for Family of Three = \$11,890

	Alabama	Pennsylvania	California
Working with No Child Care Expenses			
Earnings	\$8,500	\$8,500	\$8,500
Taxes	(845)	(650)	(650)
Work Expenses	(1,080)	(1,080)	(1,080)
EITC	3,282	3,282	3,282
AFDC	0	0	1,016
Food Stamps	1,945	1,945	1,640
Total	11,802	11,997	12,709
Working with Child Care Expenses			
Child Care	(2,089)	(2,089)	(2,089)
Total	\$10,340	\$10,535	\$12,709
Not Working			
AFDC and Food Stamps	\$5,363	\$7,370	\$9,227

- Under new budget, if someone collects all possible government benefits, she is at least somewhat better off working full-time. But often the effective wage rate is only about \$1.50 per hour.
- To get ahead financially, full-time workers must collect benefits from up to 4 different support systems. In reality, only 45% of working poor families even collect Food Stamps.
- In high benefit States, even a full-time worker could still qualify for AFDC.
- Most of the gain to working is traceable to the EITC which currently almost always arrives at the end of the year.

Table III b

Half-time Work With Welfare (President's Budget)

Poverty Guideline for Family of Three = \$11,890

	Alabama	Pennsylvania	California
Working with No Child Care Expenses			
Earnings	\$4,250	\$4,250	\$4,250
Taxes	(367)	(325)	(325)
Work Expenses	(540)	(540)	(540)
EITC	1,686	1,686	1,686
AFDC	0	1,666	5,266
Food Stamps	2,965	2,465	1,385
Total	7,994	9,202	11,722
Working with Child Care Expenses			
Child Care	(1,044)	(1,044)	(1,044)
Total	\$7,262	\$9,202	\$11,722
Not Working			
AFDC and Food Stamps	\$5,363	\$7,370	\$9,227

- Even half-time work pays somewhat, but only if the person collects EITC, AFDC, and Food Stamps, and has low child care costs.
- Half-time work leaves people well below poverty in States paying median AFDC benefits (such as Pennsylvania)
- The effective rate of pay is less than \$2 per hour.
- Nearly the entire gain comes from EITC which is paid at the end of the year.

Table IV

Work Experience of Mothers 16 Years and Over With Children Under 18 by Marital Status: 1991

	Married Spouse Present	Unmarried No Spouse Present
Employed		
Full-Time/Full-Year	35.3%	37.3%
Full-Time/Part-Year	13.1%	15.8%
Part-Time	24.8%	15.7%
Not Employed	26.8%	31.2%
Total	100.0%	100.0%

Note: Full-Year is 50-52 weeks

SOURCE: Bureau of Labor Statistics,
"Marital and Family Characteristics of the Labor Force from the March 1992 Current Population Survey," Table 28

- Only 35% of married mothers work full-time, full-year.
- Part time work is far less common among single parents, probably because part-time work rarely pays better than welfare.

Table V

Strategies to Make Work Pay Without AFDC but Including Food Stamps

Poverty Guideline for Family of Three = \$11,890

	Half-Time	Full-Time
Earnings at minimum wage	\$4,250	\$8,500
Earnings less expenses	3,710	7,420
President's budget including EITC and Food Stamps (PB)	7,304	10,535
PB + Minimum wage = \$4.75 (MW)	7,845	11,219
PB + Child care subsidized (CC)	8,036	11,997
PB + \$3,000 in child support	9,584	12,815
PB + CC + CS	10,316	14,277
PB + CC + CS + MW	10,856	14,961

- All three additional policies individually can help make work pay.
- Individually, only child support is significant in making part-time work feasible.
- A combination of all three really makes work pay.