

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
<b>Total</b>	<b>5,363</b>	<b>7,370</b>	<b>9,227</b>

- 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
<b>Working with No Child Care Expenses</b>		
Earnings	\$8,500	\$8,500
Taxes	(650)	(650)
EITC	1,998	3,282
Work expenses	(1,080)	(1,080)
<b>Total</b>	<b>8,768</b>	<b>10,052</b>
<b>Working with Child Care Expenses</b>		
Child care	(2,089)	(2,089)
<b>Total</b>	<b>6,679</b>	<b>7,963</b>

	Alabama	Pennsylvania	California
<b>Not Working</b>			
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
<b>Working with No Child Care Expenses</b>			
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
<b>Total</b>	<b>11,802</b>	<b>11,997</b>	<b>12,709</b>
<b>Working with Child Care Expenses</b>			
Child Care	(2,089)	(2,089)	(2,089)
<b>Total</b>	<b>\$10,340</b>	<b>\$10,535</b>	<b>\$12,709</b>
<b>Not Working</b>			
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
<b>Working with No Child Care Expenses</b>			
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
<b>Total</b>	<b>7,994</b>	<b>9,202</b>	<b>11,722</b>
<b>Working with Child Care Expenses</b>			
Child Care	(1,044)	(1,044)	(1,044)
<b>Total</b>	<b>\$7,262</b>	<b>\$9,202</b>	<b>\$11,722</b>
<b>Not Working</b>			
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
<b>Employed</b>		
Full-Time/Full-Year	35.3%	37.3%
Full-Time/Part-Year	13.1%	15.8%
Part-Time	24.8%	15.7%
<b>Not Employed</b>	26.8%	31.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

*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.

What is Goal?

DRAFT  
5/5/93

WR -  
Part time  
work

MAKING WORK PAY

Introduction

A key element, and the starting point, of the President's agenda for welfare restructuring is to make work pay for low income individuals. While the efforts to build into welfare a greater emphasis on education, employment and training are important and in the right direction, they cannot succeed without more fundamental change in the financial incentives of welfare and work. Although there is more to welfare reform than financial incentives, understanding the current incentives has to be the starting point in any restructuring.

In order to clarify the current incentives and future directions this paper explores a variety of comparisons between working at the minimum wage and not working. Necessarily, these examples are both simplified and not universal. However, they make it clear that for many individuals on welfare, work simply doesn't pay.

To standardize the comparisons, we use an example of a parent with two children, ages three and thirteen, on welfare. We examine their disposable income if they remain on welfare and the parent doesn't work compared to their disposable income one year after taking a minimum wage job at full-time or half-time. We

assume that if the parent works, she incurs child care costs for the three year old, but not for the thirteen year old. Because welfare benefits vary dramatically by state, we use examples of low, medium and high benefit states. Finally, we compare the family's disposable income to the current poverty guideline for a family of three (11,890). This is a useful guide, but is not strictly correct since the poverty guideline is intended to reflect gross cash income.

### Work Without Welfare

We begin by comparing a family that remains on welfare without working to a family that tries to get by with a minimum wage job and no means-tested support through the welfare system. This relieves the family of the hassle of having to deal with the welfare bureaucracy on an ongoing basis. We do assume, however, that the family does get the Earned Income Tax Credit (EITC), since that benefit is available through the tax system and is received by a very high proportion of eligible individuals.

Table 1 shows the results. With non-work the family receives between 5,339 and 9,203 in AFDC and Food Stamps (FS) and is categorically eligible for Medicaid. With full-time work the family is at a little more than 55 percent of poverty. Only the family in Alabama is better off working and its net increase on an hourly basis is about 67 cents per hour. In addition, almost

30 percent of the family's income would come from the EITC, which, although it is available on an advanced basis, is received by over 99 percent of recipients at the end of the tax year. Substantial expansion of the EITC has occurred over the past several years. (To illustrate current law, we have shown the fully expanded EITC which in reality won't become effective until 1994. The actual 1993 EITC would be \_\_\_\_\_; the 1988 EITC would be \_\_\_\_\_.)

At half-time work the family's income is \$3,403 annually, less than thirty percent of the poverty level. Unless the family had some other regular source of income, this level of work would simply not be sustainable.

#### Work With Welfare

Many families working at the minimum wage continue to be eligible for means-tested supports, and in this section we explore how participation in these programs can augment a working family's income. It is important to realize, however, that for a number of reasons participation rates in these programs is relatively low. Thus, only about 55 percent of working poor families receive Food Stamps and many of the medicaid options are utilized primarily by those with very high expenses. The reasons for these low rates are several. First, many are not individual entitlements. Second, knowledge of the existence of the programs

is low. And, finally, many individuals are motivated to go to work primarily to escape the complex and conflicting rules, the stigma, and the hassle of the welfare system.

Table 2 presents the results of full-time and half-time minimum wage work on the assumption that families continue to receive AFDC and FS benefits for which they are eligible. The family remains on FS in all states and eligible for AFDC in California. The income available to the family in Alabama and Pennsylvania is less than 80 percent of the poverty level, and in California it approaches the poverty line. The hourly return to work is almost two dollars per hour in Alabama ranging down to about \$1.10 in California.

Half-time, minimum wage work leaves all families substantially below poverty with income ranging from \$6,800 in Alabama to \$10,600 in California and still receiving AFDC and FS in Pennsylvania and California. The hourly return to work would be about \$1.50 in all states.

There are other benefits which the family may receive which would improve their financial situation. The biggest benefit is housing. In Pennsylvania or California, whether a family is working or not, counting the value of housing subsidies moves the family's disposable income well-above the poverty guideline. In addition, the youngest child would be eligible for medicaid, and

if the family were lucky, they might be assisted with child care expenses.

### Work With Welfare--Post Current Clinton Proposals

There are a number of elements that the President has already submitted which would substantially change the current situation.

These items are:

- 1) universal health care coverage,
- 2) greatly expanded EITC,
- 3) improved FS benefits.

In this section we explore quantitatively the effects of the latter two changes. Clearly, eliminating the fear of loss of stable and ongoing health care coverage would also eliminate a major disincentive to leaving welfare.

The proposed EITC would have a very large impact, effectively converting a \$4.50 per hour job into a \$6.30 per hour job. However, although there are substantial improvements in income levels, only in California, where the family continues to be eligible for AFDC, does its disposable income exceed poverty. Furthermore the return to work ranges from about \$1.75 per hour

in California to about \$2.75 in Alabama. If the family were fortunate to have subsidized child care or housing, family income would exceed the poverty guideline in all states.

It is important to note, however, that these examples involve full year, full-time work, and we really need to address whether that's what we want to expect of single parents, especially those with young children. If we examine the work of wives, despite the increase of mothers in the work force, we see that the norm is not full-time, full year work.

Examining the half-time figures reveals a less rosy picture. Only in California does the family approach poverty level income, and in Alabama and Pennsylvania, it is well below that. Thus, if we are to have reasonable expectations for children in families where we cannot always expect full-time work, we need to be thinking about other sources of income. The most promising source is income from the other parent.

#### Work With Welfare and Child Support--Post Current Clinton Proposals

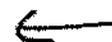
In this section we assume that the family receives \$250 every month in child support. Under current law when a family is on AFDC, except for the first \$50 per month in current support, child support payments reimburse the government for AFDC costs.

Child support received is currently counted fully against FS, but the Administration has proposed to disregard the first \$50 as in AFDC, and that is what we have assumed in the examples.

[I'm not sure what story to tell here, since, except for California, the family is still way below poverty. Furthermore, since the family remains eligible for AFDC in PA & CA, it only benefits to the tune of \$600/year. Even covering child care will leave the family at a bit less than 11K in Alabama and Pennsylvania.]

Comparison 1: Work Without Welfare vs. Non-work

<u>Income/Expenses</u>	<u>Full Time Work</u>	<u>Half Time Work</u>	<u>Non-work</u>		
			<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>
Earnings	8,500	4,250	0	0	0
FICA	(650)	(325)	0	0	0
EITC	1,998	1,063	0	0	0
AFDC	0	0	1,968	4,836	7,488
FS	0	0	3,371	2,510	1,715
Work Expenses	(1,080)	(540)	0	0	0
Child Care	<u>(2,089)</u>	<u>(1,044)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net	6,678	3,403	5,339	7,346	9,203



Comparison 2: Work with Welfare vs. Non-work

<u>Income/Expenses</u>	<u>Full Time Work</u>			<u>Non-Work</u>		
	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>
Earnings	8,500	8,500	8,500	0	0	0
FICA	(650)	(650)	(650)	0	0	0
EITC	1,998	1,998	1,998	0	0	0
AFDC	0	0	<u>3,105</u>	1,968	4,836	7,488
FS	2,548	2,548	1,616	3,371	2,510	1,715
Work Expenses	(1,080)	(1,080)	(1,080)	0	0	0
Child Care	<u>(2,089)</u>	<u>(2,089)</u>	<u>(2,089)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net	9,226	9,226	11,400	5,339	7,346	9,203 ←
Add Housing	<u>3,264</u>	<u>5,736</u>	<u>7,145</u>	<u>4,834</u>	<u>6,445</u>	<u>7,990</u>
Total	12,490	14,962	18,544	10,172	13,792	17,192 ←

<u>Income/Expenses</u>	<u>Half Time Work</u>			<u>Non-Work</u>		
	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>
Earnings	4,250	4,250	4,250	0	0	0
FICA	(325)	(325)	(325)	0	0	0
EITC	1,063	1,063	1,063	0	0	0
AFDC	0	<u>(2,710)</u>	<u>(6,310)</u>	1,968	4,836	7,488
FS	3,255	2,441	1,520	3,371	2,510	1,715
Work Expenses	(540)	(540)	(540)	0	0	0
Child Care	(1,044)	(1,044)	(1,044)	0	0	0
Net	6,657	6,555	11,234	5,339	7,346	9,203 ←
Add Housing	<u>4,462</u>	<u>6,121</u>	<u>7,381</u>	<u>4,834</u>	<u>6,445</u>	<u>7,990</u>
Total	11,120	14,676	18,615	10,172	13,792	17,192

does EITC count as housing subsidies.

are there work <sup>disregards</sup> ~~subsidies~~ for housing subsidies?

Comparison 3: Work with Welfare vs. Non-work (President's Budget)

<u>Income/Expenses</u>	<u>Full Time Work</u>			<u>Non-Work</u>		
	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>
Earnings	9,000	9,000	9,000	0	0	0
FICA	(689)	(689)	(689)	0	0	0
EITC	3,282	3,282	3,282	0	0	0
AFDC	0	0	2,605	1,968	4,838	7,488
FS	2,572	2,572	1,790	3,515	2,654	1,859
Work Expenses	(1,080)	(1,080)	(1,080)	0	0	0
Child Care	<u>(2,089)</u>	<u>(2,089)</u>	<u>(2,089)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net	10,997	10,997	12,820	5,483	7,490	9,347 ←
Add Housing	<u>3,114</u>	<u>5,586</u>	<u>7,145</u>	<u>5,136</u>	<u>6,445</u>	<u>7,990</u>
Total	14,111	16,583	19,965	10,619	13,936	17,336

<u>Income/Expenses</u>	<u>Half Time Work</u>			<u>Non-Work</u>		
	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>	<u>Alabama</u>	<u>Pennsylvania</u>	<u>California</u>
Earnings	4,250	4,250	4,250	0	0	0
FICA	(344)	(344)	(344)	0	0	0
EITC	1,785	1,785	1,785	0	0	0
AFDC	0	2,460	6,060	1,968	4,838	7,488
FS	3,339	2,600	1,520	3,515	2,654	1,859
Work Expenses	(540)	(540)	(540)	0	0	0
Child Care	<u>(1,044)</u>	<u>(1,044)</u>	<u>(1,044)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net	7,445	9,167	11,687	5,483	7,490	9,347
Add Housing	<u>2,496</u>	<u>4,956</u>	<u>7,381</u>	<u>5,136</u>	<u>6,445</u>	<u>7,990</u>
Total	9,940	14,123	19,068	10,619	13,936	17,336

Comparison 4: Work with Welfare vs. Non-work (President's Budget) and Including Child Support

Income/Expenses	Full Time Work			Non-Work		
	Alabama	Pennsylvania	California	Alabama	Pennsylvania	California
Earnings	9,000	9,000	9,000	0	0	0
FICA	(689)	(689)	(689)	0	0	0
EITC	3,282	3,282	3,282	0	0	0
AFDC	0	0	2,605	0	4,836	7,488
Child Support	3,000	3,000	600	3,000	600	600
FS	1,852	1,852	1,790	3,385	3,648	3,648
Work Expenses	(1,080)	(1,080)	(1,080)	0	0	0
Child Care	(2,089)	(2,089)	(2,089)	0	0	0
Net	13,277	13,277	13,420	6,385	9,084	11,736 ←
Add Housing	2,214	4,686	6,965	4,524	6,265	7,810
Total	15,491	17,963	20,385	10,909	15,349	19,546

Income/Expenses	Half Time Work			Non-Work		
	Alabama	Pennsylvania	California	Alabama	Pennsylvania	California
Earnings	4,250	4,250	4,250	0	0	0
FICA	(344)	(344)	(344)	0	0	0
EITC	1,785	1,785	1,785	0	0	0
AFDC	0	2,460	6,060	0	4,836	7,488
Child Support	3,000	600	600	3,000	600	600
FS	2,619	2,600	1,520	3,385	3,648	3,648
Work Expenses	(540)	(540)	(540)	0	0	0
Child Care	(1,044)	(1,044)	(1,044)	0	0	0
Net	9,725	9,767	12,267	6,385	9,084	11,736 ←
Add Housing	3,487	5,941	7,201	4,524	6,265	7,810
Total	13,212	15,708	19,468	10,909	15,349	19,546

Conclusion:  
 working doesn't pay  
 food stamps, housing subsidies, and child care important.

poverty for family 3 \$11,900

- minimum wage  
 - child care

earnings 4250  
 FICA (344)  
 EITC 1785  
 child support 3000  
 F.S. 2600  
 child care 1044  
 -----  
 12,335  
 540 WORK EXP  
 1044 child care  
 -----  
 10,751

WR - Part Time Work

**OPTION: PART TIME WORK**

There has been discussion of finding a way to provide income support to people working part time outside of the AFDC system. Here's an option for discussion purposes of how such a program could work:

Divide AFDC into two programs: Transitional Support and Work Support.

**Transitional Support** would be the time limited AFDC program. JOBS participation would be mandatory for receipt of TS, although deferrals and extensions would be available as discussed.

**Work Support** would be a much simpler income supplement program:

- To be eligible, applicant would have to be working 20 hours a week [Less in low benefit states].
- WS rules could be simplified much further than TS -- namely, it might sense to adopt Food Stamp filing unit and rules for WS, and determine WS as a percentage of Food Stamps.
- Asset rules for Work Support would be more liberal, and any asset accumulation demonstrations would only be open to those on Work Support.
- States could have the option of setting up the Work Support program as a state EITC (as more states are doing - Cuomo just proposed one for NY) provided advanced payment was made available regularly and simply.
- Work Support would not be time limited.

This proposal could:

- make life easier for the working poor by simplifying their interaction with assistance programs
- separate two distinct missions -- transitional support for non-workers and income support for poor workers -- currently captured in one program -- into two distinct programs
- permit AFDC workers to be trained to link clients with Child Support, EITC, Child care, etc. -- the role we had once conceptualized for the Work Support Agency

CON: Little more than a cosmetic name change.

PRO: Even a cosmetic distinction may be important -- otherwise AFDC will be moving in two directions: contracting because of time limits while expanding as an income supplement.

CON: Complexity; Counter to reinventing government to create two programs where one exists.

PRO: Clarity; One two year program for those who aren't working but want to; Another simpler, more supportive program for those who work.