WR-SPECS
Make Work Pay

EITC. does not count as income whether paid at once or forward funded. Does not ∴ move people off welfare

December 20, 1993

MEMORANDUM

To: Make Work Pay drafting group

From: Wendell E. Primus

Attached are some tables which illustrate the impact of option 2 proposals discussed in the draft specifications you received on Friday. The basic concept is putting a floor on the disregard policies potentially affecting earnings (and perhaps child support) with a state option to disregard more if they so choose. The time-sensitive nature of disregards would be eliminated.

The federal policy would be set for a mother and two children (once these parameters had been calculated they would apply to all family types) as a minimum flat disregard and a percentage of remaining earnings which is disregarded. The state could accomplish this policy in any way it chooses--through fill-the-gap, or explicit earnings disregards etc. The flat disregard would be equal to an amount such that AFDC + Food Stamps + earnings + any child support received must equal a given percentage of the poverty line before AFDC benefits could be reduced.

As shown in the first two tables for three selected states, work always pays, and work is rewarded more than under current law. However, if AFDC is taken away, both parts of the above sentence are FALSE.

Is this ending welfare as we know it? Yes, without a doubt. I would propose the following four tests as evidence of progress to meeting that statement:

1. The percentage of the AFDC caseload that is working;
2. The percentage of the AFDC caseload that is simply collecting the maximum payment and not engaged in any activity or in the workforce;
3. A reduction in AFDC payments (including amount recovered through tax system); and
4. A significant reduction in child poverty, which is defined under an expanded definition including food stamps, housing and federal tax policy.

I would be very comfortable predicting that we would be ahead on all counts if we adopted a generous earnings (and perhaps child support) disregard policy. States clearly want to do this. The polling results indicate American taxpayers can support such a policy. We will get more credit than we deserve for getting mothers into the labor force based on the evidence from Sandy Jencks and others which indicates that many mothers are currently working and receiving AFDC. These mothers will be potentially smoked out under our JOBS policies but will not be economically much worse off given these policies. They will be significantly worse off under a policy that denies working mothers AFDC.

The attached chart shows a table from Michigan illustrating the impact of their policies on getting more AFDC families into the workplace. The final table is not directly related to the topic at hand but shows the reduction in AFDC payments under various scenarios.

Table 1.—Examples of Earnings Disregard Policies
(Annual Disposable Income)

	0 Hours	20 Hours	30 Hours
Earnings	$0	$4,420	$6,630
ALABAMA			
Current law - flat $120/mo.	5,508	8,720	10,896
Flat $165 + 35 percent (65% pov)	--	8,984	10,896
Flat $165 + 40 percent (65% pov)	--	9,080	10,896
Flat $261 + 35 percent (75% pov)	--	9,512	NA
No AFDC	--	8,720	10,896
ILLINOIS			
Current law - flat $120/mo.	7,524	9,776	10,896
Flat $50 + 35 percent (65% pov)	--	10,136	11,304
Flat $50 + 40 percent (65% pov)	--	10,256	11,508
Flat $100 + 35 percent (75% pov)	--	10,400	NA
No AFDC	--	8,720	10,896
CONNECTICUT			
Current law - flat $120/mo.	10,092	12,344	12,972
Flat $50 + 35 percent (65% pov)	--	12,704	13,860
Flat $50 + 40 percent (65% pov)	--	12,836	14,076
Flat $100 + 35 percent (75% pov)	--	12,968	NA
No AFDC	--	8,720	10,896

Note: Disposable income is equal to earnings plus AFDC plus food stamps plus EITC less Federal taxes and work expenses. The food stamp excess shelter deduction is assumed to be 50 percent of the maximum. No child care expenses are assumed, but work expenses of 10 percent of earnings are assumed. 1996 EITC parameters (in 1993 dollars) are used.

Source: ASPE staff calculations.

Table 2.--Examples of Earnings and Child Support Disregard Policies
(Annual Disposable Income)

	0 Hours	0 Hours Plus Child Support	20 Hours Plus Child Support
Earnings	$0	$0	$4,420
Child support	$0	$1,800	$1,800
ALABAMA			
Current law - flat $120/mo.	5,508	6,108	9,980
Flat $165 + 35 percent (65% pov)	--	7,440	9,980
Flat $165 + 40 percent (65% pov)	--	7,440	9,980
Flat $261 + 35 percent (75% pov)	--	--	10,376
ILLINOIS			
Current law - flat $120/mo.	7,524	7,944	10,196
Flat $50 + 35 percent (65% pov)	--	8,664	10,988
Flat $50 + 40 percent (65% pov)	--	8,700	11,192
Flat $100 + 35 percent (75% pov)	--	--	11,264
CONNECTICUT			
Current law - flat $120/mo.	10,092	10,512	12,764
Flat $50 + 35 percent (65% pov)	--	11,220	13,556
Flat $50 + 40 percent (65% pov)	--	11,268	13,760
Flat $100 + 35 percent (75% pov)	--	--	13,832

Note: Disposable income is equal to earnings plus AFDC plus food stamps plus child support plus EITC less Federal taxes and work expenses. The food stamp excess shelter deduction is assumed to be 50 percent of the maximum. No child care expenses are assumed, but work expenses of 10 percent of earnings are assumed. 1996 EITC parameters (in 1993 dollars) are used. The $50 passthrough under current law is converted to a $50 bonus.

Source: ASPE staff calculations.

Table 3-- **DISPOSABLE INCOME, SINGLE-PARENT FAMILY OF THREE PERSONS WITHOUT CHILD CARE EXPENSES, JULY 1993**

OPTION	A CURRENT LAW Income Disregard	A CURRENT LAW Disposable Income	B PROPOSED Income Disregard	B PROPOSED Disposable Income	C PROPOSED Income Disregard	C PROPOSED Disposable Income	D PROPOSED Income Disregard	D PROPOSED Disposable Income	B - A Proposed vs Cur Law	C - A Proposed vs Cur Law	D - A Proposed vs Cur Law
Poverty Minimum	None	None	65%	65%	70%	70%	75%	75%	65%	70%	75%
Hours Worked	20	20	20	20	20	20	20	20	20	20	20
EITC	'96	'96	'96	'96	'96	'96	'96	'96	'96	'96	'96
Child Support	-	-	-	-	-	-	-	-	-	-	-
AFDC	X	X	X	X	X	X	X	X	X	X	X
Food Stamps	X	X	X	X	X	X	X	X	X	X	X
Alabama	120	8,720	165	8,984	213	9,260	261	9,512	264	540	792
Alaska	120	16,340	100	16,952	100	16,952	100	16,952	612	612	612
Arizona	120	9,548	100	10,172	100	10,172	112	10,232	624	624	684
Arkansas	120	8,720	125	9,104	173	9,368	221	9,632	384	648	912
California	120	11,876	100	12,500	100	12,500	100	12,500	624	624	624
Colorado	120	9,956	105	10,472	100	10,472	108	10,496	516	516	540
Connecticut	120	12,344	100	12,968	100	12,968	100	12,968	624	624	624
Delaware	120	9,476	100	10,100	100	10,100	119	10,208	624	624	732
District of Columbia	120	10,064	100	10,688	100	10,688	100	10,688	624	624	624
Florida	120	9,176	100	9,800	100	9,800	143	10,040	624	624	864
Georgia	120	10,196	100	10,820	111	10,880	159	11,144	624	684	948
Hawaii.	120	15,332	100	15,956	100	15,956	100	15,956	624	624	624
Idaho	120	9,296	100	9,920	100	9,920	133	10,100	624	624	804
Illinois	120	9,776	100	10,400	100	10,400	100	10,400	624	624	624
Indiana	120	9,056	100	9,680	106	9,704	154	9,968	624	648	912
Iowa	120	10,208	100	10,832	100	10,832	100	10,832	624	624	624
Kansas	120	10,424	100	11,048	100	11,048	100	11,048	624	624	624
Kentucky	120	10,004	101	10,352	149	10,484	197	10,640	348	480	636
Louisana	120	8,720	139	9,068	187	9,332	235	9,596	348	612	876
Maine	120	11,276	100	11,900	100	11,900	100	11,900	624	624	624
Maryland	120	9,860	100	10,484	100	10,484	100	10,484	624	624	624
Massachusetts	120	11,156	100	11,780	100	11,780	100	11,780	624	624	624
Michigan (Washtenaw Co.	120	10,736	100	11,360	100	11,360	100	11,360	624	624	624
Michigan (Wayne Co.)	120	10,484	100	11,108	100	11,108	100	11,108	624	624	624
Minnesota	120	11,108	100	11,720	100	11,720	100	11,720	612	612	612
Mississippi	120	9,320	209	10,052	257	10,208	305	10,376	732	888	1,056
Missouri	120	9,092	100	9,704	103	9,728	151	9,980	612	636	888
Montana	120	10,004	100	10,628	100	10,628	100	10,628	624	624	624
Nebraska	120	9,692	100	10,316	100	10,316	100	10,316	624	624	624
Nevada	120	9,560	100	10,184	100	10,184	112	10,244	624	624	684
New Hampshire	120	10,964	100	11,588	100	11,588	100	11,588	624	624	624
New Jersey	120	10,280	100	10,904	100	10,904	100	10,904	624	624	624
New Mexico	120	9,632	100	10,256	100	10,256	105	10,280	624	624	648
New York (Suffolk Co.)	120	12,728	100	13,352	100	13,352	100	13,352	624	624	624
New York (N.Y.C.)	120	11,672	100	12,296	100	12,296	100	12,296	624	624	624
North Carolina	120	9,956	100	10,268	117	10,316	165	10,448	312	360	492
North Dakota	120	10,064	100	10,688	100	10,688	100	10,688	624	624	624
Ohio	120	9,548	100	10,172	100	10,172	112	10,232	624	624	684
Oklahoma	120	9,356	100	9,980	100	9,980	128	10,124	624	624	768
Oregon	120	10,928	100	11,540	100	11,540	100	11,540	612	612	612
Pennsylvania	120	10,172	100	10,796	100	10,796	100	10,796	624	624	624
Rhode Island	120	11,348	100	11,972	100	11,972	100	11,972	624	624	624
South Carolina	120	8,720	129	9,092	177	9,356	225	9,620	372	636	900
South Dakota	120	10,460	100	10,988	100	10,988	100	10,988	528	528	528
Tennessee	120	10,208	144	11,072	192	11,336	240	11,600	864	1,128	1,392
Texas	120	8,720	145	9,044	193	9,308	241	9,572	324	588	852
Utah	120	10,640	100	11,108	100	11,108	100	11,108	468	468	468
Vermont	120	12,164	100	12,788	100	12,788	100	12,788	624	624	624
Virginia	120	9,608	100	10,232	100	10,232	107	10,268	624	624	660
Washington	120	11,528	100	12,152	100	12,152	100	12,152	624	624	624
West Virginia	120	8,720	100	9,344	133	9,536	181	9,788	624	816	1,068
Wisconsin	120	10,976	100	11,600	100	11,600	100	11,600	624	624	624
Wyoming	120	11,588	100	12,212	100	12,212	103	12,224	624	624	636
Average	120	10,406	107	10,990	115	11,032	131	11,108	585	627	703

Note: Under the provisions of TEFRA (1982), monthly benefit calculations for AFDC & Food Stamps are rounded down to the nearest dollar.

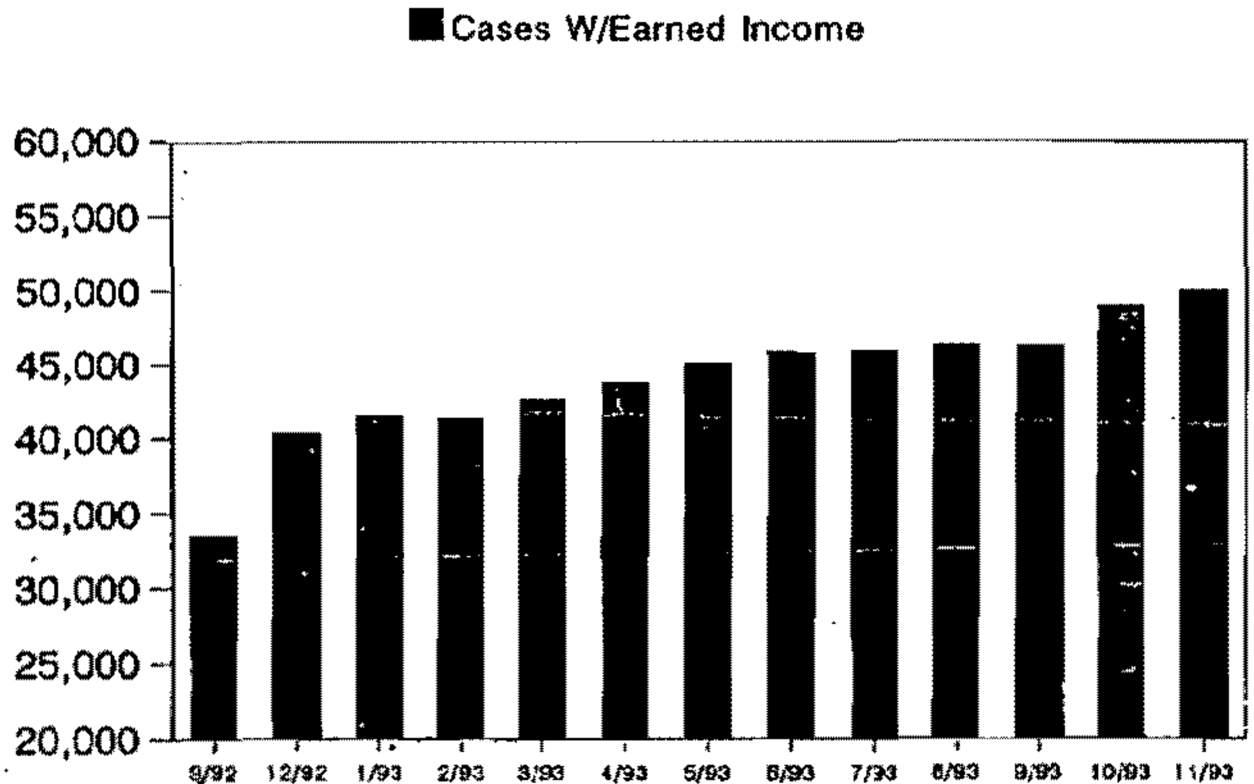
disregard is for earning $ (wages) and receipt of child support.

Wendell will put together a fill the gap option including filing unit changes.

Table 1 --

AFDC CASES WITH EARNED INCOME

Average Amount of Earnings



	9/92	12/92	1/93	2/93	3/93	4/93	5/93	6/93	7/93	8/93	9/93	10/93	11/93
Total Caseload	213,320	218,879	221,778	222,861	225,319	225,750	224,300	223,614	221,761	223,330	219,728	219,181	217,149
Cases W/Earned Income	33,519	40,401	41,531	41,462	42,657	43,594	45,125	45,862	46,051	46,341	46,302	49,141	50,152
% W/Earned Income	15.7%	18.4%	18.7%	18.6%	18.8%	19.4%	20.1%	20.5%	20.8%	21.1%	21.3%	22.4%	23.1%
Average Earnings	$396	$395	$422	$394	$384	$392	$410	$408	$413	$445	$423	$418	$440

Data Source: EY-180 Report (point-in-time data).

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Table 5.

DISPOSABLE INCOME, SINGLE-PARENT FAMILY OF THREE PERSONS WITHOUT CHILD CARE EXPENSES, JULY 1993

OPTION	A Dis Income Current Law	B AFDC Current Law	C Reduced AFDC with 70% Poverty Limit Factor	C Level	D Reduced AFDC with 65% Poverty Limit Factor	D Level	E Reduced AFDC with 60% Poverty Limit Factor	E Level	B - C Change in AFDC (70% Pov Limit)	B - D Change in AFDC (65% Pov Limit)	B - E Change in AFDC (60% Pov Limit)
Hours Worked	0	0		0		0		0	0	0	0
EITC	'96	'96		'96		'96		'96	'96	'96	'96
Child Support	-	-		-		-		-	-	-	-
AFDC	X	X		X		X		X	X	X	X
Food Stamps	X	X		X		X		X	X	X	X
Alabama	5,508	1,968		1,968		1,968		1,968	0	0	0
Alaska	14,076	11,400	20.0%	9,120	20.0%	9,120	20.0%	9,120	2,280	2,280	2,280
Arizona	7,296	4,164		4,164		4,164	12.9%	3,625	0	0	539
Arkansas	5,988	2,448		2,448		2,448		2,448	0	0	0
California	9,824	7,488	20.0%	5,990	20.0%	5,990	20.0%	5,990	1,498	1,498	1,498
Colorado	7,368	4,272		4,272		4,272	15.1%	3,625	0	0	647
Connecticut	10,092	8,160	20.0%	6,528	20.0%	6,528	20.0%	6,528	1,632	1,632	1,632
Delaware	7,212	4,056		4,056		4,056	10.6%	3,625	0	0	431
District of Columbia	7,812	4,908		4,908	9.8%	4,441	20.0%	3,926	0	467	982
Florida	6,924	3,636		3,636		3,636	0.3%	3,625	0	0	11
Georgia	6,732	3,360		3,360		3,360		3,360	0	0	0
Hawaii	13,080	8,544	20.0%	6,835	20.0%	6,835	20.0%	6,835	1,709	1,709	1,709
Idaho	7,044	3,804		3,804		3,804	4.7%	3,625	0	0	179
Illinois	7,524	4,404		4,404	1.3%	4,345	19.9%	3,529	0	59	875
Indiana	6,792	3,456		3,456		3,456		3,456	0	0	0
Iowa	7,956	5,112		5,112	13.1%	4,441	20.0%	4,090	0	671	1,022
Kansas	8,172	5,148	3.0%	4,993	18.9%	4,177	20.0%	4,118	155	971	1,030
Kentucky	6,276	2,736		2,736		2,736		2,736	0	0	0
Louisiana	5,820	2,280		2,280		2,280		2,280	0	0	0
Maine	8,164	5,436	3.1%	5,269	18.3%	4,441	20.0%	4,349	167	995	1,087
Maryland	7,608	4,392		4,392	3.8%	4,225	20.0%	3,514	0	167	878
Massachusetts	8,904	6,468	18.8%	5,269	20.0%	5,174	20.0%	5,174	1,199	1,294	1,294
Michigan (Washtenaw Co.)	8,484	5,868	10.2%	5,269	20.0%	4,694	20.0%	4,694	599	1,174	1,174
Michigan (Wayne Co.)	8,232	5,508	4.3%	5,269	19.4%	4,441	20.0%	4,406	239	1,067	1,102
Minnesota	8,644	6,384	17.6%	5,269	20.0%	5,107	20.0%	5,107	1,115	1,277	1,277
Mississippi	4,080	1,440		1,440		1,440		1,440	0	0	0
Missouri	6,628	3,504		3,504		3,504		3,504	0	0	0
Montana	7,752	4,812		4,812	7.7%	4,441	20.0%	3,850	0	371	962
Nebraska	7,440	4,368		4,368		4,368	17.0%	3,625	0	0	743
Nevada	7,296	4,176		4,176		4,176	13.2%	3,625	0	0	551
New Hampshire	8,712	6,192	14.9%	5,269	20.0%	4,954	20.0%	4,954	923	1,238	1,238
New Jersey	8,028	5,088		5,088	15.1%	4,321	20.0%	4,070	0	767	1,018
New Mexico	7,380	4,284		4,284		4,284	15.4%	3,625	0	0	659
New York (Suffolk Co.)	10,476	8,436	20.0%	6,749	20.0%	6,749	20.0%	6,749	1,687	1,687	1,687
New York (N.Y.C.)	9,420	6,924	20.0%	5,539	20.0%	5,539	20.0%	5,539	1,385	1,385	1,385
North Carolina	6,660	3,264		3,264		3,264		3,264	0	0	0
North Dakota	7,812	4,908		4,908	9.8%	4,441	20.0%	3,926	0	467	982
Ohio	7,296	4,092		4,092		4,092	13.2%	3,553	0	0	539
Oklahoma	7,104	3,888		3,888		3,888	6.8%	3,625	0	0	263
Oregon	8,664	5,520	16.6%	4,857	20.0%	4,416	20.0%	4,416	663	1,104	1,104
Pennsylvania	7,920	5,052		5,052	12.1%	4,441	20.0%	4,042	0	611	1,010
Rhode Island	9,096	6,648	20.0%	5,318	20.0%	5,318	20.0%	5,318	1,330	1,330	1,330
South Carolina	5,940	2,400		2,400		2,400		2,400	0	0	0
South Dakota	7,684	5,004		5,004	11.2%	4,441	20.0%	4,003	0	563	1,001
Tennessee	5,760	2,220		2,220		2,220		2,220	0	0	0
Texas	5,748	2,208		2,208		2,208		2,208	0	0	0
Utah	7,680	4,968		4,968	10.6%	4,441	20.0%	3,974	0	527	994
Vermont	9,912	7,908	20.0%	6,326	20.0%	6,326	20.0%	6,326	1,582	1,582	1,582
Virginia	7,356	4,248		4,248		4,248	14.7%	3,625	0	0	623
Washington	9,276	6,552	20.0%	5,242	20.0%	5,242	20.0%	5,242	1,310	1,310	1,310
West Virginia	6,468	2,988		2,988		2,988		2,988	0	0	0
Wisconsin	8,724	6,204	15.1%	5,269	20.0%	4,963	20.0%	4,963	935	1,241	1,241
Wyoming	7,404	4,320		4,320		4,320	16.1%	3,625	0	0	695
Average	7,863	4,849		4,461		4,294		4,064	388	555	785

Note: Under the provisions of TEFRA (1982), monthly benefit calculations for AFDC & Food Stamps are rounded down to the nearest dollar.

WR SPECS (Make Work Pay)

DRAFT—Specifications

MAKE WORK PAY

Work is not a guaranteed route out of poverty, particularly now, due to the decline in real wages over the past two decades. For example, mean hourly wages for males at the lower end of the wage distribution (bottom quintile) dropped by 20.6% between 1973 and 1991 in inflation-adjusted terms; the comparable drop for females was 10.3%. Moreover, working poor families frequently have no health coverage and lack access to affordable child care.

The expansion of the EITC enacted in the last budget legislation will substantially increase the income of working poor families. The EITC, however, generally comes in the form of a lump sum payment after the tax return is filed. Fewer than 1 percent of EITC eligibles avail themselves of the advance payment option (AEITC). The EITC is consequently not available to poor families to meet needs that arise throughout the year.

Passage of the Health Security Act will ensure health care coverage for low-income working families. To ensure that work truly does pay, still more needs to be done. Access to child care for poor families must be expanded and the EITC delivered on a timely basis throughout the year so that poor families can reap the full benefit of the credit.

NOTE: SPECS FOR PROVISIONS ON PAGES 1 TO 5 TO BE DONE ELSEWHERE IN GENERAL, TREASURY WILL TAKE THE LEAD

ADVANCE PAYMENT OF THE EITC

Current Law and General Direction of Proposal

Under current law, an employee initiates the AEITC process by filing the W-5 form with his/her employer. The employer is not required to verify the claim and incurs no liability for payments to ineligible individuals. Employers are penalized for failing to comply with an employee's request for an advance payment, with the penalty being equal to the amount of the advance payments not made.

The employer calculates the AEITC payment to which an employee is entitled based on his/her wages and adds the appropriate amount to the employee's paycheck. The employer reduces his/her quarterly payments of employment and income taxes to the IRS by the aggregate amount of AEITC payments made during the period, and reports this amount to the IRS. The employer also records the amount of AEITC payments made to the employee on the W-2 form. Employees report the amount of AEITC payments received on their tax returns.

The maximum annual AEITC payment is 60 percent of the maximum full-year EITC for a family with one child. A family entitled to an EITC greater than the maximum annual AEITC payment must file a tax return in order to receive the remainder due.

The proposal would promote use of advance payment through outreach to employers and employees, including sending W-5 forms to all EITC-eligible workers, and simplification of the relevant forms (W-2, W-5, Circular E), and by permitting States to deliver the advance payment through food stamp offices.

<u>NOTE: THE SPECS FOR POINT 1 WILL BE DONE BY TREASURY DEPARTMENT.</u>

<u>1. EXPANDING AND IMPROVING EMPLOYER-BASED ADVANCE PAYMENTS</u>

(a) Adopt Treasury's ideas for expanding use of employer-based advance payments, the most important of which is to send W-5 forms and information to all workers who received an EITC in the past year. [Treasury should expand on this section]

(b) Automatic IRS calculation of EITC (two options):

i. The EITC would be automatically calculated by the IRS based on information provided on the tax return and sent to the beneficiary as a year end payment.

ii. The advanced payment option for the EITC would be calculated by IRS and sent to beneficiaries on a quarterly basis. Calculations would be based on information included on prior years tax return.

Either option under 1 (b) might well require that the following changes be considered:

* Nontaxable items such as certain military benefits, housing allowances or rental value of a parsonage for clergy, and excludable employer-provided dependent care benefits will be excluded from earned income for the purpose of calculating the EITC.

* The residence-based determination of a qualifying child for the purpose of determining EITC eligibility and the support-based definition used for other tax purposes will be brought into conformity. The support-based definition of dependency will be changed to one that relies on residency.

* The age requirements for EITC qualifying children will be eliminated. A taxpayer will list his or her dependents (based on residency) on the face of the tax return as is currently done. EITC eligibility would then be based on the taxpayers earned income, adjusted gross income, and number of dependents.

(c) Treasury, HHS, and Labor would develop materials and training efforts to aggressively promote the advance EITC payment option through trade associations and labor unions.

(d) The role of other agencies in the dissemination of information about the advance payment would be expanded. An interagency team of representatives from Treasury, HHS (welfare agencies, JTPA Service Delivery Area's, social security agencies), Labor (employment service, one-stop shopping), Education (educational institutions) and HUD would be created to develop and initiate a plan.

(e) Treasury would revise the EITC instructions in circular E to make them more visible and comprehensible. Treasury would conduct focus groups and otherwise obtain client input as part of this initiative.

(f) Tax forms W-2 and W-5 would be simplified and improved.

(g) Treasury would amend the current cap on EITC advanced payments; recipients can only collect 60% of the EITC credit for a family with one child as an advanced payment. [This effectively reduces the advance to larger size families to 36% of their maximum allowable credit in some cases.] We could suggest that Treasury seek legislation to make it 60% of allowable credit irrespective of family size.

2. DEMONSTRATING GOVERNMENT-BASED APPROACHES TO THE ADVANCE PAYMENT OF THE EITC

NOTE: SPECS (IF REQUIRED) FOR 2 A. WILL BE DONE BY TREASURY AND FNS.

A. Joint Administration of Food Stamps and the Advance Payment of the EITC

States would be given the option of creating systems to provide both food stamps and the advance EITC payment to working families using the existing food stamp system, and, where appropriate, EBT technology. A sample joint administration system, based on a State of Michigan proposal, is presented below.

(a) The State IV-A agency, or other agency responsible for the joint administration system, would receive an IRS employer ID number and would act as the employer for advance EITC administrative purposes.

(b) All recipients of AFDC and/or Food Stamps who have provided the food stamp office with evidence of earnings (and otherwise appear eligible for the AEITC) would be sent a W-5 or an equivalent form.

(c) The benefits of the AEITC option would be explained to all members of the target population, through written and/or oral communication.

(d) Any eligible worker, upon submitting the W-5 form, would be able to receive 80 percent of annual EITC credit due in the form of advance payments. [Question: Would those using the employee-based system still only be able to receive 60 percent of the maximum credit for a one-child family, as is the case under current law?]

(e) The participant would, for example, report January's earnings in early February--much as he or she would under current welfare regulations--to the food stamp office. If EBT technology were available, the encoded information on the card would be modified. Absent EBT capabilities, a check that is distinctly identified as an AEITC payment based on earnings would be sent out in early March.

(f) The State IV-A (or other) agency would report to the IRS the total amount of advance payments made under the system and would send W-2s or equivalent forms to all persons receiving advance EITC payments through the food stamp office. The IRS would determine the appropriate methods of reporting.

(g) The IRS would determine the method for reimbursing States for advance EITC payments made through the food stamp office.

Proposals for joint administration systems need not follow the model described above, but any proposed system must receive prior approval from the Departments of HHS, Agriculture and Treasury.

NOTE: SPECS (WHERE NECESSARY) FOR 2 B. WILL BE DONE BY TREASURY.

B. Other State Approaches to Administering EITC Payments

The Minnesota Department of Revenue (in cooperation with the State Department of Human Services) is developing a pilot for distributing all income and property tax credit to low-income families. This Department also oversees the Minnesota Family Working Credit, which provides 15 percent of the federal EIC claimed by families. The Revenue Department would distribute state and federal credits on a monthly basis using the Human Service Departments centralized public assistance check distribution capabilities for this purpose. Several options are being considered:

1. Families would be determined eligible for the monthly advanced EIC. Application would demonstrate current wages and estimated annual income, and comparison to prior year's tax return and EIC claim; or

2. Same as option 1. except that staff would verify reported earnings with tape reports of wages gathered for existing unemployment insurance or revenue purposes (likely to be available one quarter following the report of earnings). Advance payment could possibly be adjusted to reflect current information.

3. A tape match would determine the amount of EIC to be distributed to a family, based on earnings of that quarter. Monthly payment would be received by the family one quarter following the earnings report.

Under all options, the amount of the EIC paid out as an advanced payment would be reconciled with the amount for which the family is eligible at the annual tax filing.

The Secretary of DHHS will ensure that technical assistance is provided to states undertaking pilot programs aimed at increasing participation in the EITC and the EITC advanced payment programs. The Secretary shall see that such pilots are rigorously evaluated and, where such demonstrations prove efficacious, take such steps to ensure that technical assistance designed to assist introduction into other states is available.

WORK SHOULD BE BETTER THAN WELFARE

Current Law and General Direction of Proposal

There is nothing in Title IV of the Social Security Act directly comparable to the provision described in this section. Several States have, however, established their own Earned Income Tax Credits. Some States in which the maximum benefit is less than the need standard disregard earned income such that working families continue to receive assistance up to the full need standard.

The measure is intended to ensure that families, regardless of size, with a half-time, full-year worker are better off than families of the same size on welfare.

Ensuring That Work Is Better Than Welfare

The combination of the EITC, health reform, and child care will largely ensure that people with fewer than three children can avoid poverty with a full-time, full-year worker. But full-time work may not always be feasible, especially for single mothers with very young children or children with special needs. However, in combination with support from the noncustodial parent, the EITC, and other government assistance, earnings from half-time to three-quarters time work should allow most single-parent families to escape poverty.

Nevertheless, for larger families and in high-benefit States, welfare may still pay better than work. In addition, in many instances welfare is reduced by one dollar for each dollar of additional earnings. This results in situations where there is no economic gain from accepting part-time work. One possible reform principle is to ensure that families in which someone is working at least half-time ought to always be better off than families who are receiving welfare (AFDC and Food Stamps) in which no one is working. A second potential principle is that families with an adult working at least half time worker ought to have access to an income level that falls no lower than some percentage of the poverty threshold for a family of that size. If one or both of these principles were accepted, at least four options are possible:

GENERAL ISSUES:

To what extent should welfare or welfare-related policy be used to support part-time work: will it distort labor market decisions about the kind of jobs that will be offered; will it encourage a standard of expected behavior among recipients that will fall short of self-sufficiency (in the eyes of many observers);

In some steady-state analytic scenarios, large numbers of recipients will "hit the wall," requiring large numbers of public jobs that will be difficult and expensive to create. The options below generally serve to mitigate that problematic outcome by either encouraging and rewarding part-time private sector work or allowing such work to delay the time-clock.

OPTION 1: ALLOW (OR REQUIRE) STATES TO SUPPLEMENT THE EITC, FOOD STAMPS OR HOUSING BENEFITS FOR WORKING FAMILIES WHEN WORK PAYS LESS THAN WELFARE.

Approaches

State sponsored supplements to federal EITC program.

State supplements to Food Stamp benefits and/or Housing benefits for working families after their transitional assistance has been exhausted.

Provisions

Standards might be set for states in legislation--recipients working at least part-time should have income no less than a percentage of the poverty threshold, or the states standard of need, or must exceed the welfare package available to them by ___ percent.

States would have considerable flexibility in how they would meet those standards but would have to submit a plan to the Secretary of HHS for approval.

A variable federal match rate (where appropriate) would be established to encourage states.

ISSUES (Option 1):

What would the federal involvement in this option be?

How would these initiatives be encouraged by the federal government?

Would the federal government treat state EITC in means-tested programs like the federal EITC is treated?

OPTION 2: REQUIRE STATES TO PROVIDE SUFFICIENT AFDC ASSISTANCE TO FAMILIES WORKING PART-TIME TO ENABLE WORK AND WELFARE TO BE MORE ATTRACTIVE THAN WELFARE ITSELF AND TO ENABLE THE FAMILY TO HAVE AN INCOME LEVEL NO LOWER THAN 65 PERCENT OF THE POVERTY THRESHOLD.

In general, states would simplify the existing earnings disregard rules in the AFDC program; eliminate the time-sensitive nature of these disregards; and not count those months (toward a time limit) if the adult were working at least half time. The following steps operationalize a two strategies for achieving these principles are described in OPTIONS 2A and 2B:

OPTION 2A.

1. A minimal income standard (or normative standard) will be established for all states whereby the total value of AFDC, Food Stamps, Child Support, and earnings will not

fall below that level when the income disregard and other provisions described below are applied. For the purpose of argument here, that standard is set at 65 percent of the poverty threshold for the applicable family size.

2. In low-benefit states, the AFDC income disregard must be equal to the larger of:

   i. $50 + 35 percent of earnings and possibly child support income, or

   ii. the gap between AFDC plus FS at zero earnings and 65 percent of the poverty threshold. [ex. In Mississippi, 65% of the poverty threshold for a family of three is $7,509 and the AFDC/FS guarantee is $4,980. The earnings plus child support disregard must equal $2,529 annually or $211 per month.

4. The revised subsidy schedule will be time-invariant; the disregard rules will not change over time.

5. Nothing in the above set of provisions would prohibit a state from attempting to further enhance the relative rewards of part-time work to full-time dependency. For example, states may do one or more of the following:

   a. Adopt more liberal disregard policies, either by increasing the $50 disregard and/or the 35 percent rate on remaining income.

   b. Combine the disregard policy with other related policy initiatives--a state may adopt its own EITC as a way of helping working families with children outside of welfare.

OPTION 2B:

States may choose any option they want for achieving the principle of making half-time work more attractive than full-time dependence on welfare.

ISSUES (Option 2 A & B):

The policy as described above uses 65 percent as the normative standard. This might be altered to 70 percent (which is about what the average state now guarantees in AFDC and Food Stamps with no other earnings) or some other standard that made sense. Would states which currently guarantee more then be held to a higher standard?

Should we treat income from Child Support as if it were the same as earnings for the purpose of applying the disregard policy?

Can we allow states to lower their AFDC guarantee as long as part time work will be supplemented in a way that the percentage of the poverty threshold standard can be reached?

Should we separate the earnings supplementation issue from the issue of part-time work

stopping the clock which raises all kinds of concerns about the optics of "ending welfare as we know it."

Will this create an adverse incentive to enter AFDC (or is this considered an adverse incentive given the nature of the labor market and what we expect of single-parent family heads.

Would option 2B give too much flexibility to states?

OPTION 3: USE ADVANCE CHILD SUPPORT PAYMENTS OR CHILD SUPPORT ASSURANCE PAYMENTS TO SUPPLEMENT EARNINGS.

> **A TENTATIVE DECISION APPARENTLY HAS BEEN MADE AS PART OF THE CHILD SUPPORT RECOMMENDATIONS TO PERMIT AND ENCOURAGE DEMONSTRATIONS OF VARIOUS CHILD SUPPORT INSURANCE SCHEMES.**

OPTION 4: ALLOW STATES TO MATCH SOME PORTION OF THE EARNINGS OF RECIPIENTS AND PLACE THE MONEY IN INDIVIDUAL DEVELOPMENT ACCOUNTS (IDAs) TO BE USED TO FINANCE INVESTMENTS SUCH AS EDUCATION, TRAINING, OR A PURCHASE OF A CAR OR HOME.

1. At state discretion, up to 50 percent of earnings would be disregarded in the calculation of countable income for the purposes of calculating AFDC benefits.

2. The difference in benefits between the amount calculated according to the current rules and the amount calculated according to the liberalized rules will be put into a client Individual Development Account (IDA).

3. The amount that can be accumulated in the escrow account will be capped at ___ ?

4. Any amounts dispensed from the account must be approved by a designated agency representative, according to rules developed by the agency.

5. The resources must be dispensed for purposes approved by the agency; education, training, home purchase, car purchase (for work purposes), and so forth.

ISSUES (Option 4):

Will the restrictions imposed on the use of the IDA resources detract from the attractiveness of part time work from the recipients point of view?

Will this create an unacceptable level of bureaucratic hassle?

GENERAL ISSUES (All Options):

Would States be permitted to reduce AFDC benefits in order to meet the principle of ensuring that half-time work is better than welfare? Conversely, would they be required to maintain guarantees at some inflation-adjusted level?

Again, Are we comfortable with sending a message that half-time work is playing by the rules and supporting what some consider market failures through the welfare system?

DEMONSTRATIONS

A series of demonstrations would be adopted to test other strategies to support low-income working families:

1. Work Support Agencies

States would establish work support agencies with distinctly different responsibilities than IV-A agencies and possibly housed separately from the local IV-A agencies to provide centralized services specifically to working families. The Work Support agencies could be administered, for example, by the State employment or labor departments; by Community Action Agencies, or a One-Stop Shopping Center.

The work support offices would provide food stamps, child care, advance EITC payments, and possibly health insurance subsidies to eligible low-income working families, or (at local discretion) families suffering a temporary labor market disruption. Employment-related services such as career counseling, assistance with updating resumes and filling out job applications would also be made available specifically to working families, as opposed to AFDC recipients, through the work support office.

The participating State would be responsible for the design of the work support agency, including the administrative structure and the menu of services, but would have to receive approval from the appropriate departments (in most cases Agriculture, Health and Human Services and Treasury)

The Secretary of DHHS and Labor jointly would issue general guidelines for the development of these pilot programs. Among other things, these pilots generally would address the following design and administrative questions:

* **Target Population:** Who should such an agency serve. Possible populations range from working welfare clients to broad groups of current and former recipients as well as other low-income families with children.

* **Basic Organizational Questions:** Who should run such a program; the welfare office, the JTPA Service Delivery Areas, employment service, an integrated one-stop career center, and entirely new agency? Who should make key strategic and case-level decisions? What type of staff is needed? And so forth.

* **Basic Design Questions:** Should services be on-site or should the agency merely broker, refer, and/or advocate for clients? What range of services ought to be offered? And so forth.

- **Basic Process Questions:** Which clients should get what, when, and in what order? Who should make these decisions and on what basis? For how long should services be provided? And so forth.

- **Definition of Success:** What will constitute a successful system's exit? How will we know if such a program is working? What cost of success is acceptable?

To answer these and other questions, the Secretary of DHHS will carry out the following steps:

1. No less than ___ state/or local demonstrations of the Work Support Agency concept be undertaken, testing out various alternatives and strategies for developing effective work support functions.

2. The relevant federal agencies (see above) will prepare guidelines for establishing the pilot programs by ___ .

3. A host of possible organizations and agencies (e.g., local and state, profit and non-profit, public and private) will be permitted and encouraged to apply.

4. No less than $ ___ million be set aside to support these pilot efforts. States (or local sponsors) will be required to put up __ % of the total cost and none of the evaluation costs.

5. These pilots will be implemented in a variety of environments: urban and rural sites; good and bad labor markets; sites encompassing various design and service strategies.

6. Work will immediately begin by DHHS on conducting an evaluability assessment. A plan for evaluating these pilots will be available by ___ .

7. The pilots will be coordinated to the extent feasible with the one-stop career center concept being developed within the Department of Labor. The Secretaries of HHS and Labor shall report to Congress on what steps have been taken to ensure that such coordination and integration takes place.

To become a pilot program for this concept, States must respond to an RFP and submit a detailed plan for accomplishing the objectives established by the Secretaries of Labor and HHS.

2. Temporary Unemployment Support/Assistance for Working Families.

Pilot programs would be developed to demonstrate alternative ways to provide support to low-income families who experience temporary bouts of unemployment. Low paying jobs in the secondary labor market are often short-lived. Moreover, low-income working families often do not qualify for UI and may thus return to AFDC when they only need short term economic assistance that is coupled with help to get back into the labor market.

Demonstrations under this concept would extend the help that might be provided under the Work Support Agency concept (see above) by providing short term economic aid to those experiencing a labor market disruption. The AFDC emergency assistance program may be restructured as part of this effort.

Separately, or as part of the WSA pilots described above, the following pilot programs will be undertaken:

1. The target population will be low-income families with children who had exited AFDC and/or Food Stamps for work. The precise definition of the target population will be arrived at by mutual agreement between the DHHS, Department of Agriculture (DOA), and the local demonstration sponsors.

2. Only those eligible as defined above and who are not eligible for UI benefits are eligible to participate in this program.

3. These cash benefits are to be provided in one lump-sum or in monthly amounts for a period not to exceed six months (or as mutually agreed to otherwise by the State, HHS, and DOA).

4. The receipt of any benefits under this program is conditioned on the signing of a social contract between the client and agency. While the specifics of such a contract are to be worked out, no cash assistance shall be received independent of a concerted effort to reenter the labor market.

5. Federal expenditures for the temporary income support provided under this pilot programs will be capped at $ ____ per year.

6. The DHHS will prepare a plan to evaluate the demonstration programs authorized under this Act.

ISSUES: IS THIS A REASONABLE CONCEPT IF AFDC WILL BE AVAILABLE TO PART TIME WORKERS AND PEOPLE CAN EARN BACK AFDC RIGHTS AS A FUNCTION OF TIME OFF AID?

WHO SHOULD BE ABLE TO APPLY?

WHO WOULD PAY FOR THIS?

WOULD THIS MAKE STATES EVEN MORE RESTRICTIVE IN THEIR UI PROGRAM IF THEY CAN SHIFT COSTS TO FEDS BY MAXIMIZING USE OF THIS PROGRAM?

<u>3. Work Is Better Than Welfare Demonstration--Utah.</u>

States will be encouraged to develop innovative approaches to ensuring that work always makes economic sense relative to an exclusive dependence on welfare. The <u>Utah Single Parent</u>

Demonstration might be used as a model for such an initiative. The features of this program include:

a. the current JOBS exemptions are eliminated. All parents and children not attending school would be expected to participate, with a $100 reduction in the family's grant for non-participation.

b. Self-sufficiency planning would be required prior to eligibility determination for financial assistance; with one-time payments used to divert certain applicants from assistance through employment and child support.

c. Child support enforcement would be focussed on participant self-sufficiency through: coordinating with AFDC and JOBS; "fast-tracking" members of certain sub-populations; and prioritizing workloads based on self-sufficiency and collections criteria.

d. Eligibility and benefit determination procedures would be simplified. Incentives for work would be enhanced by: raising the cash asset limit to $2,000 (or more?); raising the car equity limit to $8,000; replacing the current earnings disregard with a $100 and 50 percent policy (that is time-invariant); and extending eligibility for transitional Medicaid and child care help-- pending the enactment of other reforms in these areas.

e. AFDC demonstration families in public housing would be given an opportunity to be included in the self-sufficiency program that includes the escrow provision for earned income.

ISSUE: How can HHS proactively engage states to undertake innovations that are consistent with reform principles?

- **Actively solicit volunteer states?**
- **Provide incentive money or favorable match?**

ISSUE: How can HHS better ensure that rigorous evaluations are done and the results used for policy purposes?

ISSUE: How can successful demonstrations best be effectively transferred to other sites?