DEPARTMENT OF THE TREASURY
WASHINGTON

October 4, 1993

MEMORANDUM TO TOM CORBETT (HHS)
BILL PROSSER (HHS)
ISAAC SHAPIRO (DOL)

FROM: JANET HOLTZBLATT
OFFICE OF TAX ANALYSIS, TREASURY

SUBJECT: EITC Options Paper

Attached is the options paper which explores ways to increase participation in the EITC advance payment program. As you know, this options paper represents the viewpoints of the "Make Work Pay" Issue Group, associated with the Welfare Reform Task Force. As such, it has not been cleared as an official Treasury Department document.

Please let me know if you have any additional comments on the paper. Also, I would appreciate seeing any of the other papers submitted by our issue group.

October 1, 1993

PRELIMINARY STAFF DOCUMENT/FOR INTERNAL USE ONLY
"Make Work Pay" Issue Group

Earned Income Tax Credit: Reducing Barriers to Receipt

Executive Summary

The earned income tax credit (EITC) is a refundable tax credit available to a low-income filer who has earned income and meets certain adjusted gross income (AGI) thresholds. Because the credit is refundable, individuals can receive the full amount to which they are entitled, even if the amount exceeds their tax liability. The size of the credit increases significantly if an individual has at least one or two qualifying children.

The Administration's proposal to significantly expand the EITC was included in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93) . When combined with other forms of Federal assistance to low-income workers (in particular, the minimum wage and food stamps), the expansion in the EITC will lift many families containing a full-time worker out of poverty. For example, the "poverty gap" -- the difference between the official poverty threshold and the sum of earnings from a full-time minimum wage job (less the employee share of social security taxes), EITC amounts, and food stamp allotments -- would be eliminated for families with up to four members. For larger families, the poverty gap would be reduced. By increasing the returns to work, the expansion should also provide many low-income families -- particularly those outside the workforce -- with a greater incentive to work.

Participation: Few other programs are as effective in reaching the eligible population as the EITC. According to a recent study, between 80 and 86 percent of eligible persons are receiving the EITC. In contrast, only about 59 percent of persons eligible for food stamps receive such benefits. The high participation rates in the EITC may reflect the unique nature of the program. One of the comparative advantages of a refundable tax program over other programs is its semi-automatic nature. Applicants do not have to endure long lines or extensive questioning by bureaucrats in order to apply for the credit. They merely have to file the appropriate tax forms. Moreover, every person who files a tax return encounters information about the EITC. Indeed, if the person does not claim the EITC but appears eligible for the credit based on information on his or her return, the IRS will send a letter to the person telling them about the credit. A Schedule EIC will accompany the letter.

However, it may not be sufficient to inform families about the EITC through tax returns. Many low-income persons do not have to file tax returns because their adjusted gross incomes are less than the tax thresholds (the sum of the standard deduction and personal exemptions) which are roughly equivalent to the poverty thresholds. Over the past several years, the IRS has developed a number of outreach activities aimed at ensuring that qualifying persons will receive the EITC intended for them. These efforts will be significantly expanded in 1994, with a particular focus being promotion of the advance payment feature of the EITC.

Advance Payments: Receiving the EITC at the end of the year after filing a tax return has certain advantages. Individuals can apply for the credit, knowing that they have met the eligibility criteria for the tax year. As suggested above, the relative simplicity of the application process may also be a contributing factor toward the high participation rates in the program. Individuals may also prefer the forced savings provided by receipt of a lump-sum payment at the end of the year. On the other hand, there are drawbacks to waiting to the end of the year to receive the credit. Individuals do not receive the credit as they earn wages, which may affect recipients' perceptions of the direct link between work effort and the EITC. Some workers, particularly those receiving the credit for the first time, may experience cash-flow problems, and the promise of the credit at the end of the year may not be sufficient collateral for a loan.

Because of these concerns, the EITC can also be received in advance. Employees can certify themselves as eligible for advance payments of the EITC by submitting a Form W-5 to their employer. The employer is required to make the credit available to workers through increases in their regular paychecks. The employer reduces his quarterly payments of withholding taxes in order to offset these payments to his workers.

While many eligible persons receive the EITC, fewer than 1 percent of EITC claimants receive the credit through advance payments in their paychecks. The reasons for the low utilization rate are not fully known. One popular explanation is that workers simply do not know that they have the option of claiming the credit in advance. A recent GAO study provided some support for this theory when investigators found widespread ignorance about the advance payment option among low-income workers.

Ignorance of the advance payment option should be remedied by the number of new and extensive outreach initiatives to be taken by the IRS next year. As part of this effort, the IRS will build stronger coalitions with charitable groups and trade associations to help publicize the EITC and advance payment option to their constituencies, support IRS outreach efforts at local levels, and generate new volunteer tax assistance sites. The IRS has also begun an intensive effort to educate and encourage employers to help deliver advanced EITC in workers' paychecks. The IRS will promote the advance payment option through public service advertising. Information about the advance payment option will be included in the Forms W-4 and W-2 and in the tax package. For the first time, the cover of the 1993 1040A and 1040 tax packages will alert filers to the advance payment option. The Schedule EIC will also include references to the advance payment option and the Form W-5.

But there may be other barriers to participation in the advance payment option. The GAO study also found that once informed, many workers stated that they would prefer to receive the EITC in a lump-sum payment. Workers may be reluctant to apply for the credit in advance for a number of reasons. Workers may not claim the EITC in advance for fear of being forced to repay a sizable overpayment at the end of the year if their income or family status changes during the course of the year. Workers may not want their employers to know of their eligibility for the credit. They may not want their employers to know too much about their family's financial status. Or, they may fear that their employer will reduce their wages by the amount of the credit or, at a minimum, by the costs of administering the advance payment. Some workers, as stated above, may simply prefer the forced savings provided by receipt of a lump-sum payment at the end of the year.

Removing these barriers has implications for the other key actors in the advance payment system: the Federal government and employers. Individuals must repay excessive advance credits when they file tax returns. Faced with a large tax bill, individuals -- particularly those without savings or opportunities to borrow -- may choose simply not to file a tax return or misreport the advance credit amounts. To reduce the chance of erroneous payments, employers might be required to more carefully verify their workers' eligibility for the credit. But increasing the administrative burden on employers might cause them to discourage workers from participating in the program.

Options: During the past several months, the "Make Work Pay" issue group considered a number of options to improve the advance payment system (see attached table). Within the existing framework, the group agreed that the program might be incrementally improved by taking such steps as:

- Aggressively promoting the advance payment feature of the EITC through trade associations and labor unions;

- Clarifying and publicizing the penalties for employers who do not provide advance payments to workers who request it;

- Encouraging employers to actively remind workers to modify their certification for the advance payment as their income and family status change during the year; and

- Further simplifying the instructions for the Form W-5 and possibly requiring employers to file the Form W-5 with the IRS.

Other options discussed represented a more significant departure from the current system. For example, advance payments could be issued based on receipt of the EITC during the prior year, or individuals could file quarterly statements with the IRS (e.g., reverse "estimated payments") requesting the EITC. In both cases, the role of the employer would be diminished, while a greater burden would be placed on individuals and the IRS. This approach might be effective if employees are, in fact, reluctant to apply for the credit through their employer. But, because the IRS does not have access to information about a person's eligibility status during the course of the year, the risk of overpayments remains for both the individual and the Federal government.

A third set of options also sever the tie between the employer and the advance payment system, but provide greater assurances that errors may not be made. In these options, a government entity, rather than the employer, would be given responsibility for verifying, certifying, and paying the advance payments. These responsibilities could be given to the new "Work Support Offices" which would be established to handle the issues and concerns faced by labor force participants. Alternatively, existing agencies, such as unemployment insurance (UI) or welfare offices, could fulfil these responsibilities. These offices could verify eligibility using the resources generally available to them (e.g., access to paystubs or independent data, such as UI earnings reports). While many working individuals would not have contact with UI or welfare offices, those who might most benefit from advance payments -- welfare recipients making the transition to work or unemployed persons returning to the workforce -- could be reached through such agencies.

Such a system may be viewed a step back from the relative administrative simplicity of the current world. However, it introduces safeguards for both the worker and Federal government by reducing the probability that erroneous payments would be made in advance. Workers would still have the opportunity to apply for the credit through the relatively simple exercise of filing a tax return at the end of the year. Simplicity would, as under the current world, come with a constraint: the credit would not be paid until the end of the year. If individuals prefer to receive the credit in advance, they would bear additional transactions costs, but these costs would be partially offset by reducing the risk of a large tax bill at the end of the year.

Most importantly, an examination of the advance payment system highlights the fact that little is known about the reasons persons choose to claim the credit as a lump-sum payment at the end of the year. Rather than choosing one option at this point, and implementing it nationwide, the "Make Work Pay" issue group recommends first testing several of these approaches in demonstration projects.

Options for Increasing Utilization of the Earned Income Tax Credit Advance Payments Considered by the "Make Work Pay" Issue Group

	Staff Recommendation			
Option	Yes	No	Possible	No Consensus
Aggressively promote the advance payment system through trade associations and labor unions.	X			
Make instructions in Circular E clearer and more visible.			X	
Require employers to provide each new employee with Form W-5 to be effective until rescinded; or, combine Forms W-4 and W-5.		X		
Impose "due-diligence" requirements on employers to verify workers' eligibility.		X		
Clarify or increase penalties for employers who fail to provide advance payments to workers who request them.			X	
Give a bonus to employers who provide advance payments.		X		
Require employers to remind recipients to file a tax return when distributing Forms W-2.			X	
Make the formula for calculating advance payment more flexible.			X	
Simplify Form W-5 instructions.	X			
Require employers to file Form W-5 with IRS.			X	
Require semi-annual recertification of advance payments.			X	
Explore ways to improve reporting of advance payments on Form W-2.	X			

	Staff Recommendation			
Option	**Yes**	**No**	**Possible**	**No Consensus**
Replace or supplement advance payments with staggered payments of the credit during the following year.			X*	
Require IRS to make advance payments, based on receipt of credit in the prior year, to taxpayers who request them.		X		
Allow workers to file quarterly claims for credit payments with IRS.				X
Develop an electronic transfer system.				X
Increase the role of other agencies in disseminating information about the advance payment system.	X*			
Increase the role of state and local welfare offices in certification of eligibility and distribution of payments.	X*			
Increase the role of the Social Security Administration in certification of eligibility and distribution of payments.			X*	
Increase the role of employment service offices in certification of eligibility and distribution of payments.	X*			
Give a new "Work Support Agency" a role in certification of eligibility and distribution of payments.	X*			
Allow tax preparers and volunteer organizations to help enroll workers in the advance payment system.			X*	

*Demonstration project.

Description of EITC

The earned income tax credit (EITC) is a refundable tax credit available to a low-income filer who has earned income and meets certain adjusted gross income (AGI) thresholds. Because the credit is refundable, individuals can receive the full amount to which they are entitled, even if the amount exceeds their tax liability. The size of the credit increases significantly, if an individual has one or two qualifying children. A child qualifies a filer for the EITC by meeting age, residency, and relationship tests.

The Administration's proposal to significantly expand the EITC was included in the Omnibus Budget Reconciliation Act of 1993 (OBRA '93). When combined with other forms of Federal assistance to low-income workers (in particular, the minimum wage and food stamps), the expansion in the EITC will lift many families containing a full-time worker out of poverty. For example, the "poverty gap" -- the difference between the official poverty threshold and the sum of earnings (after the employee share of social security taxes), EITC amounts, and food stamp allotments -- would be eliminated for four-person families. For larger families, the poverty gap would be reduced. By increasing the returns to work, the expansion should also provide many low-income families -- particularly those outside the workforce -- with a greater incentive to work.

The OBRA '93 expansion is phased in over a three-year period. Below, the policy parameters are described for 1996 (in 1994 dollars), when the full expansion will be fully implemented. A table containing the parameters for the transition years follows.

Basic Credit for Families with Children

The basic credit is determined by multiplying an individual's earned income by a credit percentage. For a family with only one qualifying child, the credit percentage for 1996 is 34 percent. The basic credit amount increases as income increases, up to a maximum income threshold. For 1996, the income threshold is projected to be $6,000. Therefore, if there is only one qualifying child, the maximum basic credit for 1996 is projected to be $2,040 (34 percent of $6,000).

The basic credit is reduced and eventually phases out once AGI (or, if greater, earned income) exceeds a certain phase-out threshold. For 1996, the phase-out threshold is projected to be $11,000. The phase-out is accomplished by reducing the basic credit by a phase-out percentage. In 1996, for a family with only one qualifying child, the basic credit is reduced by an amount equal to 15.98 percent of the excess of AGI (or, if greater, earned income) over $11,000. The basic credit is completely phased out and is no longer available to taxpayers with incomes above the end of the phase-out range. In 1996, this income level is projected to be $23,760.

The income thresholds for both the phase-in and phase-out ranges are adjusted for changes in the cost of living.

Basic Credit with Family Size Adjustment

If there are two or more qualifying children, the basic credit percentage, income thresholds, and phase-out percentage are increased. For 1996, the basic credit percentage for families with two or more children is increased to 40 percent of the first $8,425 of earned income. Filers with earnings between $8,425 and $11,000 would be entitled to the maximum credit of $3,370 (40 percent of $8,425).

The phase-out percentage would also be increased to 21.06 percent. As in the case of the credit for families with one child, the credit would be phased out starting at $11,000. However, the phase-out range for families with two or more children would extend to $27,000, an increase of $3,200 over prior law.

Credit for Childless Workers

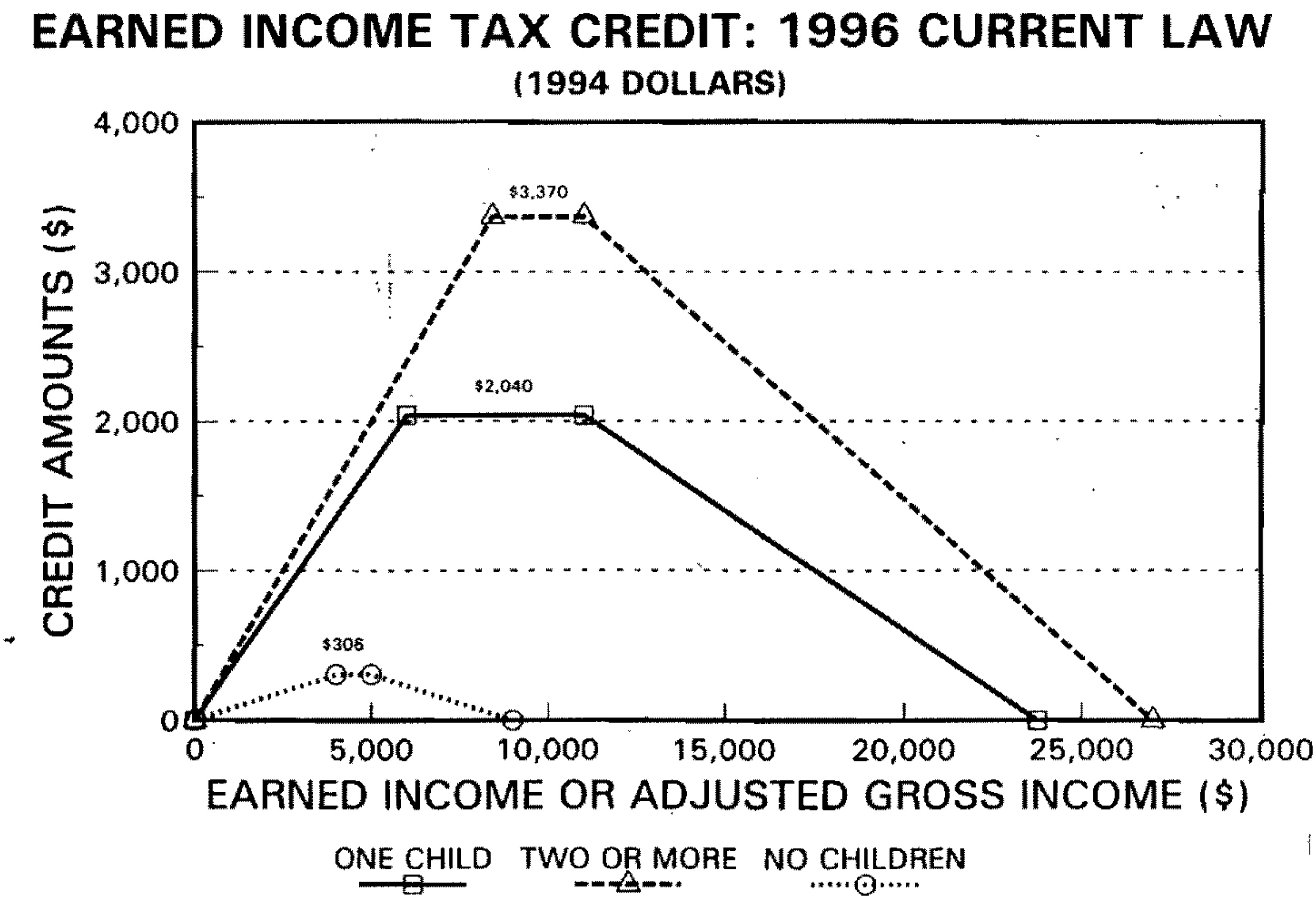
Under OBRA '93, the EITC would be extended for the first time to low-income workers who do not have children. Qualifying workers must be age 25 and may not be claimed as a dependent on another taxpayer's return. The credit is not available to workers who are age 65 or older. For qualifying workers, the basic credit would be 7.65 percent of their first $4,000 of earned income. In 1994, the phase-out range for these workers would be between $5,000 and $9,000 of AGI (or, if greater, earned income). The phase-out percentage would also be 7.65 percent.

Earned Income Tax Credit Parameters Under Current Law, Administration's Proposal, & Conference Agreement
1994 Dollars

	Credit Rate	Plateau Beginning Point	Plateau End Point	Maximum Credit	Phase-out Rate	Income Cut-off
Current Law						
1994 and after						
Families with one child	23%	$7,990	$12,580	$1,838	16.43%	$23,760
Families with two or more children	25%	$7,990	$12,580	$1,998	17.86%	$23,760
Health Insurance Supplement	6%	$7,990	$12,580	$479	4.285%	$23,760
Young Child Supplement	5%	$7,990	$12,580	$400	3.57%	$23,760
Administration's FY 1994 Budget Proposal						
1994						
Families with one child	26.6%	$7,750	$11,000	$2,062	16.16%	$23,760
Families with two or more children	31.6%	$8,500	$11,000	$2,685	15.80%	$28,000
Workers without children	7.65%	$4,000	$5,000	$306	7.65%	$9,000
1995 and after						
Families with one child	34.4%	$6,000	$11,000	$2,062	16.16%	$23,760
Families with two or more children	39.7%	$8,500	$11,000	$3,371	19.83%	$28,000
Workers without children	7.65%	$4,000	$5,000	$306	7.65%	$9,000
Conference Agreement						
1994						
Families with one child	26.3%	$7,750	$11,000	$2,038	15.98%	$23,760
Families with two or more children	30.0%	$8,425	$11,000	$2,528	17.68%	$25,300
Workers without children	7.65%	$4,000	$5,000	$306	7.65%	$9,000
1995						
Families with one child	34.0%	$6,000	$11,000	$2,040	15.98%	$23,760
Families with two or more children	36.0%	$8,425	$11,000	$3,033	20.22%	$26,000
Workers without children	7.65%	$4,000	$5,000	$306	7.65%	$9,000
1996 and after						
Families with one child	34.0%	$6,000	$11,000	$2,040	15.98%	$23,760
Families with two or more children	40.0%	$8,425	$11,000	$3,370	21.06%	$27,000
Workers without children	7.65%	$4,000	$5,000	$306	7.65%	$9,000

Department of the Treasury
Office of Tax Analysis

August 3, 1993


EARNED INCOME TAX CREDIT: 1996 CURRENT LAW
(1994 DOLLARS)
CREDIT AMOUNTS ($)
4,000
3,000
2,000
1,000
0
$3,370
$2,040
$306
0
5,000
10,000
15,000
20,000
25,000
30,000
EARNED INCOME OR ADJUSTED GROSS INCOME ($)
ONE CHILD
TWO OR MORE
NO CHILDREN

Features of the EITC Which May Affect Utilization

Three design features of the EITC may affect the numbers of persons claiming the credit. These are:

- Whether the eligibility rules are simple to understand and administer;
- Whether the application process imposes a significant burden on either the credit recipient or the person processing the paperwork; and
- Whether the program can be effectively publicize to the eligible population.

A. Eligibility Rules

One of the comparative advantages of a refundable tax program over other programs is its semi-automatic nature. Applicants do not have to endure long lines or extensive questioning by bureaucrats to obtain the credit. They merely have to file the appropriate tax forms. If the eligibility criteria are simple, participation can be expected to be high. If the criteria are also verifiable through reasonable reporting requirements to the IRS, payments can be accurate.

In 1975, the Ways and Means committee proposed that the EITC serve as an offset against payroll and income taxes and thus be available to all low-income workers. Under this proposal, the IRS would have been able to determine the credit for any recipient by simply referring to adjusted gross incomes and earnings. The Senate objected to this proposal on the grounds that the most significant objective of the EITC provision should be to encourage family heads to seek work over welfare. The House receded to the Senate, and the EITC was made available only to low-income workers with family responsibilities. However, discerning family responsibilities through the tax code led to complicated rules.

To claim the EITC, a married couple had to file a joint return with at least one child dependent, while a single parent had to file as a head of household. But the rules governing the determination of filing status and dependency can be confusing to taxpayers and difficult for the IRS to administer. Compliance data from the eighties seem to confirm this claim -- at least with respect to those eligible for the EITC. The data suggested a relationship between EITC overpayments and errors in reporting either filing status or dependents. Complicated eligibility rules may also discourage some low-income workers from applying for the EITC, although the compliance data would not be able to identify these effects.

For example, three single mothers who are neighbors and identical in many respects could have interpreted the eligibility criteria very differently. One of the mothers was on welfare for part of the year before she was able to find a job. Her neighbor worked the entire year. At the end of the year, the two neighbors believed that they were heads of households (as single parents) and that they were eligible for the EITC because of their jobs. In fact, one of the women might not have been eligible for the EITC under the pre-1990 rules. She could not have claimed the EITC (or head of household filing status) if over half of the costs of maintaining her home during the year came from welfare income. Even the IRS would initially have thought that both women were eligible. Both women probably received a check from the IRS because the agency could not detect that the former welfare recipient was ineligible based on the information provided on the tax return.

The third woman also had earnings during the year. She conscientiously read the instructions and determined that she would qualify for the EITC if she provided half the costs of maintaining a home in which her child resided. On her own, she tried filling out an 11-line worksheet to determine if she qualified as a head of household and a 23-line worksheet to determine if she could claim her child as a dependent. She may or may not have claimed the credit after attempting to complete these forms.[1]

The 1990 provisions were designed, in part, to conform the EITC eligibility criteria with what people actually did. The 1990 Act replaced complex rules with simple tests for determining eligibility for the EITC which, in most cases, could be easily verified by the IRS. For purposes of the determining eligibility for the EITC, the complex head of household and dependency tests were replaced with simple tests, based on the age, relationship, and residence of a child. Under the 1990 rules, the first two single mothers, in the example above, would qualify for the EITC and would be rewarded for their work effort. The third mother would have known she was eligible for the credit if her child met the three simple tests listed above.

B. Applying for the EITC

There are two ways of applying for the EITC. Individuals can receive the credit when filing their tax return at the end of the year. In addition, individuals also have the choice of obtaining the credit in advance through their employers.

1. Applying for EITC through Tax Returns

To receive the credit, individuals must file a tax return at the end of the year, even if they do not have any tax liability. Prior to 1991, EITC recipients did not have to complete a schedule to obtain the credit. A worksheet was provided in the instructions for those recipients who wanted to determine their credit amount on their own. Recipients were not required to attach the worksheet to their tax return, nor even to indicate whether they were eligible for the credit on the tax return. Based on the information available on the tax return -- filing status, dependents, earnings, and AGI -- the IRS would determine if a filer appeared eligible for the credit and calculate the credit for them. But most recipients tried to calculate the credit on their

[1] If she filed a tax return, the IRS would probably have identified that she was eligible from information on the face of the tax return, as long as she filed as a head of household, and she would have been informed of her eligibility for the credit.

own.

To reduce the error rates, the Omnibus Budget Reconciliation Act of 1990 (OBRA '90) significantly simplified the eligibility criteria for the EITC. In addition, the report language accompanying the Act required the IRS to develop a new schedule for the EITC. A separate schedule was viewed as necessary because the credit was -- and continues to be -- based on certain items which are not otherwise reported on the tax return. The child who qualifies a parent for the EITC is not necessarily a dependent, and as a consequence, a social security number would not, in the absence of the schedule, be reported on the tax return. The taxpayer must also affirm if a child who is over the age of 18 qualifies the taxpayer for the EITC because he is disabled or a full-time student. In addition, the schedule requires the taxpayer to report nontaxable earned income.

Throughout 1991, the IRS devoted much time and resources to the development of the Schedule EIC. Drafts of the schedule were reviewed both internally and externally. In June 1991, the IRS released a draft of the Schedule for public comment. The Schedule was revised to meet the concerns of taxpayers, practitioners, and low-income program advocates.

As part of this review process, the IRS contracted with Booz-Allen & Hamilton, Inc. to conduct a series of focus groups to test several versions of the Schedule EIC. Nearly 300 persons who were eligible for the EITC participated in these groups. During the testing period, the schedule was refined to meet the concerns of the persons participating in the focus group. As a consequence, accuracy more than doubled over the testing period. At the conclusion of testing, Booz-Allen concluded that, "Taxpayers generally found the new Earned Income Credit schedules...workable and not overly intimidating...taxpayers did not find the mechanics of the form particularly difficult. Taxpayers indicated that the form is fairly self-explanatory, requiring minimal reference to the accompanying instructions for further information or clarification."

The final version of the Schedule EIC is two pages and consists of four parts. The first part is about one-half a page and shows a simple flow chart outlining the key criteria for eligibility for the credit. The remainder of the first page contains the second and third parts of the Schedule. These sections require the taxpayer to report information missing from the tax return which is necessary in determining eligibility for the credit. At the bottom of the first page, the filer is informed that he or she does not have to continue on; the remaining steps -- the calculation of the credit -- will be done by the IRS. However, if a filer prefers to determine the amount of the credit, a worksheet is provided on the second page.

Based on the information available, IRS staff consider the implementation of the new Schedule to be a success. The numbers of persons claiming the credit have increased by nearly 2 million since 1990. For tax year 1992, over 14 million persons are projected to have received the credit. Among those persons completing the Schedule, accuracy is nearly 95 percent.

Recent legislative changes will also make the form easier to use. In their final report, Booz-Allen identified one trouble spot on the Schedule. Many recipients could not understand the

SCHEDULE EIC
(Form 1040A or 1040)
Department of the Treasury
Internal Revenue Service (0)

Earned Income Credit

▶ Attach to Form 1040A or 1040. ▶ See instructions for Schedule EIC.

TIP: Why not let the IRS figure the credit for you? Give us only the information asked for on this page and we'll do the rest.

OMB No. 1545-0074
1992
Attachment Sequence No. 43

Name(s) shown on return | Your social security number

Part I General Information

To take this credit →
- You MUST have worked and earned LESS than $22,370, AND
- Your adjusted gross income (Form 1040A, line 16, or Form 1040, line 31) MUST be LESS than $22,370, AND
- Your filing status can be any status except married filing a separate return, AND
- You MUST have at least one qualifying child (see boxes below), AND
- You cannot be a qualifying child yourself.

A qualifying child is a child who: →

is your:		was (at the end of 1992):		who (in 1992):
son daughter adopted child grandchild stepchild or foster child	AND	under age 19 or under age 24 and a full-time student or any age and permanently and totally disabled	AND	lived with you in the U.S. for more than 6 months* (or all year if a foster child*)

*If the child didn't live with you for the required time (for example, was born in 1992), see the Exception on page 61 of 1040A booklet (or page EIC-2 of 1040 booklet).

Do you have at least one qualifying child?
— No → You cannot take the credit. Enter "NO" next to line 28c of Form 1040A (or line 56 of Form 1040).
— Yes → Go to Part II. But if the child was married or is also a qualifying child of another person, first see page 61 of 1040A booklet (or page EIC-2 of 1040 booklet).

Part II Information About Your Two Youngest Qualifying Children

If more than two qualifying children, see page 62 of 1040A booklet (or page EIC-2 of 1040 booklet). 1(a) Child's name (first, initial, and last name)	(b) Child's year of birth	For a child born BEFORE 1974, check if child was— (c) a student under age 24 at end of 1992	(d) disabled (see booklet)	(e) If child was born BEFORE 1992, enter the child's social security number	(f) Child's relationship to you (for example, son, grandchild, etc.)	(g) Number of months child lived with you in the U.S. in 1992
	19					
	19					

√ **Caution:** *If a child you listed above was born in 1992 AND you chose to claim the credit or exclusion for child care expenses for this child on Schedule 2 (Form 1040A) or Form 2441 (Form 1040), check here* . . . . ▶ ☐

Do you want the IRS to figure the credit for you?
— Yes → Fill in Part III below. — AND → Enter the amount from Form 1040A, line 16, or Form 1040, line 31, here. ▶ ....
— No → Go to Part IV on the back now.

Part III Other Information

2	If you had any nontaxable earned income (see page 62 of 1040A booklet or page EIC-2 of 1040 booklet) such as military housing and subsistence or contributions to a 401(k) plan, enter the total of that income on line 2. Also, list type and amount here. ▶	2	
√ 3	Enter the total amount you paid in 1992 for health insurance that covered at least one qualifying child. (See page 63 of 1040A booklet or page EIC-2 of 1040 booklet.)	3	

If you want the IRS to figure the credit for you, STOP!

Attach this schedule to your return. If filing Form 1040A, print "EIC" on the line next to line 28c. If filing Form 1040, print "EIC" on the dotted line next to line 56.

Part IV **Figure Your Earned Income Credit**—You can take **ALL THREE** parts of the credit if you qualify

BASIC CREDIT

4 Enter the amount from line 7 of Form 1040A or Form 1040 (wages, salaries, tips, etc.). If you received a taxable scholarship or fellowship grant, see page 64 of 1040A booklet (or page EIC-3 of 1040 booklet) for the amount to enter 4

5 If you had any **nontaxable earned income** (see page 62 of 1040A booklet or page EIC-2 of 1040 booklet) such as military housing and subsistence or contributions to a 401(k) plan, enter the total of that income on line 5. Also, list type and amount here. ▶ 5

6 **Form 1040 Filers Only:** If you were self-employed or reported income and expenses on Sch. C or C-EZ as a statutory employee, enter the amount from the worksheet on page EIC-3 of 1040 booklet 6

7 Add lines 4, 5, and 6. This is your **earned income.** If $22,370 or more, you **cannot** take the earned income credit. Enter "NO" next to line 28c of Form 1040A (or line 56 of Form 1040) ▶ 7

8 Use the amount on **line 7** above to look up your credit in **TABLE A** on pages 65 and 66 of 1040A booklet (or pages **EIC-4 and 5** of 1040 booklet). Then, enter the credit here 8

9 Enter your **adjusted gross income** (from Form 1040A, line 16, or Form 1040, line 31). If $22,370 or more, you **cannot** take the credit . . . . ▶ 9

10 **Is line 9 $11,850 or more?**

- **YES.** Use the amount on **line 9** to look up your credit in **TABLE A** on pages 65 and 66 of 1040A booklet (or pages **EIC-4 and 5** of 1040 booklet). Then, enter the credit here 10
- **NO.** Enter the amount from line 8 on line 11.

11 If you answered "YES" to line 10, enter the **smaller** of line 8 or line 10 here. This is your **basic credit** . . 11

NEXT: *To take the health insurance credit, fill in lines 12–16. To take the extra credit for a child born in 1992, fill in lines 17–19. Otherwise, go to line 20 now.*

HEALTH INSURANCE CREDIT—Take this credit **ONLY** if you paid for health insurance that covered at least one qualifying child.

12 Look at the amount on **line 7** above. Use that amount to look up your credit in **TABLE B** on page 67 of 1040A booklet (or page **EIC-6** of 1040 booklet). Then, enter the credit here 12

13 Look at the amount on **line 9** above. **Is line 9 $11,850 or more?**

- **YES.** Use the amount on **line 9** to look up your credit in **TABLE B** on page 67 of 1040A booklet (or page **EIC-6** of 1040 booklet). Then, enter the credit here 13
- **NO.** Enter the amount from line 12 on line 14.

14 If you answered "YES" to line 13, enter the **smaller** of line 12 or line 13 here. 14

15 Enter the total amount you paid in 1992 for health insurance that covered at least one qualifying child. (See page 64 of 1040A booklet or page EIC-3 of 1040 booklet.) 15

16 Enter the smaller of line 14 or line 15 here. This is your **health insurance credit** 16

EXTRA CREDIT FOR CHILD BORN IN 1992—Take this credit **ONLY** if:

- You listed in Part II a child born in 1992, **AND**
- You did not take the credit or exclusion for child care expenses on Schedule 2 or Form 2441 for the same child.

TIP: You can take both the **basic credit** and the **extra credit** for your child born in 1992.

17 Look at the amount on **line 7** above. Use that amount to look up your credit in **TABLE C** on **page 68** of 1040A booklet (or **page EIC-7** of 1040 booklet). Then, enter the credit here 17

18 Look at the amount on **line 9** above. **Is line 9 $11,850 or more?**

- **YES.** Use the amount on **line 9** to look up your credit in **TABLE C** on page 68 of 1040A booklet (or page **EIC-7** of 1040 booklet). Then, enter the credit here 18
- **NO.** Enter the amount from line 17 on line 19.

19 If you answered "YES" to line 18, enter the **smaller** of line 17 or line 18 here. This is your **extra credit for a child born in 1992** 19

TOTAL EARNED INCOME CREDIT

20 Add lines 11, 16, and 19. Enter the total here and on Form 1040A, line 28c (or on Form 1040, line 56). This is your **total earned income credit** . . . . ▶ 20

eligibility rules for the supplemental credits for young children and health insurance expenditures. The Administration's Budget proposal addressed this issue directly by calling for the repeal of the young child credit and the health insurance credit, while increasing the simpler basic credit amounts. The Budget Reconciliation bill adopts the Administration's proposal. As a consequence, the schedule for the EITC will be reduced by at least one-half a page. On the attached Schedule EIC, a check is placed next to the lines which could be removed as a consequence of the repeal of the supplemental credits. The IRS is modifying the Schedule EIC in 1993 in an effort to further simplify the form.

2. Applying for Advance Payments of the EITC

Under current law, eligible individuals may elect to receive their earned income tax credit in advance by filing a Form W-5 with their employer.[2] In 1993, the individual is entitled to receive up to the basic credit allowable for a family with one qualifying child. The employer is not required to verify a person's eligibility for the credit. However, he is required to provide workers with advance payments of the credit. Failure to fulfill this obligation can result in financial penalties equal to the amount of the advance EITC payments not made. Using look-up tables in the IRS Circular E, the employer calculates the amount of the credit to which the worker is entitled based on his wages. The worker's paycheck is increased by this amount. The employer then reduces his quarterly payments of employment and income taxes by the aggregate amount of advance payments he makes to his employees. The employer notes on the Form 941 (or 941E, 942, or 943) this aggregate amount.

At the end of the year, the employer notifies both the IRS and workers of the actual amounts of advance credits paid to individual workers by filling in a box on the Form W-2. When filing tax returns at the end of the year, workers are required to report advance payments, if any, of the EITC. Payments of the EITC are reduced by the amount of advance payments received during the year.

Within forty-five days of the receipt of a tax return, the IRS is required to pay a refund, if any, to the taxpayer. During the initial processing period, the IRS can verify that the individual is entitled to the amount of the EITC claimed only by checking items listed on the tax return. Because W-2s are initially sent to the Social Security Administration (SSA) for processing, the IRS cannot immediately identify those individuals who have received advance payments of the EITC but do not show these amounts on their tax returns. Nearly another year passes before the IRS receives the W-2s from the SSA and can match these information returns to the tax returns. (As part of its modernization program, the IRS is taking actions to reduce these lags.) If the IRS then determines that an individual received an excessive EITC payment (possibly

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[2] To the extent that a worker has income tax liabilities, they can receive some of the benefits of the EITC during the course of the year by claiming additional exemptions. They can thus potentially reduce their withholding to zero, but they could not receive the refundable portion of the credit in this manner.

Form **W-5**

Department of the Treasury
Internal Revenue Service

Earned Income Credit Advance Payment Certificate

1993

Instructions

Purpose

Use Form W-5 if you expect to be able to claim the earned income credit (EIC) for 1993 and want to get part of it in advance with your pay. If you choose not to get advance payments, you can still claim the EIC on your 1993 Form 1040A or Form 1040.

What Is the EIC?

The EIC is a tax credit for certain workers who have a qualifying child (defined later). The credit has three parts: basic credit, extra credit for child born in 1993, and health insurance credit. For 1993, the basic EIC can be as much as $1,434 ($1,511 if you have more than one qualifying child).

Who May Be Able To Claim the EIC?

To find out if you may be able to claim the EIC for 1993, answer the questions on page 2.

Note: *If you expect to file Form 2555, Foreign Earned Income, or Form 2555-EZ, Foreign Earned Income Exclusion, for 1993, you cannot claim the EIC.*

How Do I Get Advance Payment of the EIC?

If you expect to be able to claim the EIC for 1993 and you want to get up to $1,434 of the basic credit in advance with your pay, fill in the Form W-5 at the bottom of this page. Then, detach it and give it to your employer. If you get advance payments, you must file a 1993 Form 1040A or Form 1040.

You may have only **one** Form W-5 in effect with a current employer at one time. If you and your spouse are both employed, each of you should file a separate Form W-5.

This Form W-5 expires on December 31, 1993. If you expect to be able to claim the EIC for 1994, you must file a new Form W-5 next year.

Note: *You may be able to get a larger credit when you file your 1993 return. For details, see* ***Additional Credit*** *on page 2.*

Who Is a Qualifying Child?

Any child who meets all three of the following conditions is a **qualifying child:**

1. The child is your son, daughter, adopted child, stepchild, foster child, or a descendant (for example, your grandchild) of your son, daughter, or adopted child.

Note: *An adopted child includes a child placed with you by an authorized placement agency for legal adoption even if the adoption isn't final. A foster child is any child you cared for as your own child.*

2. The child is under age 19 or a full-time student under age 24 at the end of 1993, or is permanently and totally disabled.

3. The child either lives with you in the United States for more than 6 months during 1993 (for all of 1993 if a foster child) OR was born, or died, in 1993 and your home was the child's home while he or she was alive.

Note: *Temporary absences such as for school, medical care, or vacation count as time lived with you.*

Married Child.—If the child is married at the end of 1993, the child is a qualifying child only if you may claim the child as your dependent or the **Exception** below applies to you.

Exception. The child is a qualifying child if you are the custodial parent and would be able to claim the child as your dependent but the noncustodial parent claims the child as a dependent because—

- You signed Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, or a similar statement, agreeing not to claim the child for 1993, or
- You have a pre-1985 divorce decree or separation agreement that allows the noncustodial parent to claim the child and he or she gives at least $600 for the child's support in 1993.

Qualifying Child of More Than One Person.—If the child is a qualifying child of more than one person, only the person with the highest adjusted gross income for 1993 may treat that child as a qualifying child. If the other person is your spouse and you expect to file a joint return for 1993, this rule doesn't apply.

Reminder.—You must usually get a social security number for a qualifying child born before 1993.

(Continued on page 2)

Give the lower part to your employer; keep the top part for your records.

Detach along this line.

Form **W-5**

Department of the Treasury
Internal Revenue Service

Earned Income Credit Advance Payment Certificate

▶ This certificate expires on December 31, 1993.

OMB No. 1545-1342

1993

Type or print your full name	Your social security number

Note: *If you get advance payments of the earned income credit for 1993, you must file a 1993 Form 1040A or Form 1040. To get advance payments, your filing status must be any status except married filing a separate return.*

		Yes	No
1	I expect to be able to claim the earned income credit for 1993, I do not have another Form W-5 in effect with any other current employer, and I choose to get advance payment of the earned income credit		
2	Are you married?		
3	If you are married, does your spouse have a Form W-5 in effect for 1993 with any employer?		

Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.

Signature ▶ Date ▶

Cat. No. 10227P

Questions To See If You May Be Able To Claim the EIC for 1993

		Yes	No
1	Do you expect your 1993 filing status to be Single, Married filing a joint return, Head of household, or Qualifying widow(er) with dependent child?		
	Note: *If you expect your 1993 filing status to be Married filing a separate return, you cannot claim the EIC.*		
2	Do you expect that your 1993 earned income and adjusted gross income will each be less than $23,050 (including your spouse's income if you file a joint return)?		
	TIP: To find out what is included in adjusted gross income, you can look at page 1 of your 1992 Form 1040EZ, Form 1040A, or Form 1040.		
	• If you answered **No** to either of the above questions, **stop here.** You cannot claim the EIC.		
	• If you answered **Yes** to both of the above questions, first read **Who Is A Qualifying Child?** on page 1. Then, answer question 3 below.		
3	Do you have a qualifying child? If the child is married, be sure you read **Married Child** on page 1 before you answer this question		
	• *If you answered* **No, stop here.** You cannot claim the EIC.		
	• If you answered **Yes**, continue.		
	Caution: *If the child is a qualifying child for both you and another person, the child is your qualifying child only if you expect your 1993 adjusted gross income to be higher than the other person's adjusted gross income. If the other person is your spouse and you expect to file a joint return for 1993, this rule doesn't apply.*		
4	Do you expect to be a qualifying child of another person for 1993?		
	• If you answered **No**, you may be able to claim the EIC.		
	• If you answered **Yes**, you cannot claim the EIC.		

(Instructions continued)

What If My Situation Changes?

If your situation changes in 1993 after you give Form W-5 to your present employer, you usually will have to file a new Form W-5. For example, you should file a new Form W-5 if any of the following applies:

• Your situation changes so that your answer to question 1, 2, or 3 above becomes "No," or your answer to question 4 becomes "Yes." On line 1 of your new Form W-5, check the "No" box.

• You no longer want to get advance payments. On line 1 of your new Form W-5, check the "No" box.

• Your spouse files Form W-5 with his or her employer. On line 3 of your new Form W-5, check the "Yes" box.

Note: *If you get the EIC in advance with your pay and later find out that you are not eligible, you must pay it back when you file your 1993 Federal income tax return.*

Additional Information

How To Claim the EIC

Fill in and attach **Schedule EIC** to your 1993 Form 1040 or Form 1040A. In addition to other information, the social security number of your qualifying child born before 1993 must generally be shown on Schedule EIC.

Additional Credit

You may be able to claim a larger credit when you file your 1993 tax return if you have more than one qualifying child, have a qualifying child born in 1993, or pay for health insurance in 1993 that covers a qualifying child. But you cannot receive an advance payment for the additional credit. Instead, you must file a 1993 tax return to claim it.

Privacy Act and Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. Internal Revenue Code sections 3507 and 6109 and their regulations require you to provide the information requested on Form W-5 and give the form to your employer if you want advance payment of the EIC. As provided by law, we may give the information to the Department of Justice and other federal agencies. In addition, we may give it to cities, states, and the District of Columbia so they may carry out their tax laws.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 7 min.; **Learning about the law or the form,** 6 min.; and **Preparing the form,** 49 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget,** Paperwork Reduction Project (1545-1342), Washington, DC 20503. **DO NOT** send this form to either of these offices. Instead, give it to your employer.

* U.S. GPO:1992-315

because the filer received both an advance payment and full payment at the end of the year), the agency may initiate correspondence and other steps to recapture the overpayment.

To prevent taxpayers from incurring an unexpectedly large tax liability due to receipt of the EITC on an advance payment basis, OBRA '93 limits the amount of advance payment allowable in a taxable year to 60 percent of the maximum credit available to a taxpayer with one qualifying child.

By limiting the advance payment to 60 percent of the maximum credit available to a taxpayer with one qualifying child, OBRA '93 may also reduce errors. Under the provision, workers with one child, as well as those with more children, will have an incentive to file a tax return at the end of the year in order to claim the remaining amount owed on the EITC. Because they will not receive the full amount of the EITC in advance, they will also be less likely to owe the Federal government excessive payments at the end of the year.

As initially proposed, the EITC recipient with two or more children would have been able to receive up to 60 percent of the maximum credit available to a family of that size. The proposal was modified because of concern about its effects on the administrative burden on employers, who currently do not have to monitor the number of qualifying children entitling workers to the EITC. There was also concern that compliance costs would increase if employers failed to adequately monitor the number of children claimed by EITC recipients.

C. Outreach

1. On-going Efforts to Promote the EITC

In certain respects, it is easier to disseminate information about the EITC than other benefits for low-income persons. Every person who files a tax return encounters information about the EITC. Indeed, if the person does not claim the EITC but appears to be eligible for the credit based on information on his or her return, the IRS will send a letter to the person telling them about the credit. A Schedule EIC will accompany the letter.

But many low-income persons do not have to file a tax return. Individuals do not have taxable income if their adjusted gross income is less than the tax threshold (the sum of the standard deduction and personal exemptions). The Tax Reform Act of 1986 raised the tax thresholds to levels which are roughly equivalent to the poverty thresholds. Thus, the workers who might benefit most from the EITC may not have a filing requirement and, as a consequence, will not automatically receive information about the EITC.

Since the passage of Tax Reform, the IRS has taken a number of other actions to ensure that qualifying taxpayers receive the EITC intended for them. The IRS has conducted educational programs to alert taxpayers to the availability of the EITC and the advanced payment option. They have designed both traditional media releases and non-traditional promotional efforts. The IRS has also entered into cooperative ventures with outside organizations that are interested in protecting the welfare of children.

In addition to the extensive public media campaign to alert taxpayers to the EITC, the IRS places a strong emphasis on the provision in the training material that is used to train IRS tax assistors as well as volunteers in the Volunteer Income Tax Assistance (VITA) program. VITA is a program, staffed by volunteers, that is designed to help low-income, elderly, non-English speaking and other taxpayers who may have particular problems filing their returns. Both the public and internal materials emphasize the availability of the credit to those individuals who are not otherwise required to file an income tax return.

The IRS has developed a number of publicity materials for distribution to the public which include drop-in ads, posters, brochures, notices, grocery bag and milk carton display ads, and the VITA taxpayer envelope. These envelopes are specially printed to help taxpayers determine whether they are eligible to claim the EITC and provide a handy repository for their records. Most of the IRS publications, posters, and brochures are printed in English and Spanish.

Specific examples of the IRS efforts include:

Tax Packages -- The Schedule EIC is included in every Form 1040 and 1040A tax package. This ensures that all tax filers have access to the form and basic information about the credit. Any changes in the EITC are highlighted on the package covers and in the "changes" section of the instructions.

Publication 596, Earned Income Credit -- The publication has been completely revised, both in content and in format. The language has been simplified, and color graphics were added to help explain new rules enacted in OBRA '90. The publication is distributed as part of the IRS outreach efforts and is printed in both English and Spanish.

Publicity Campaign -- Public Affairs Officers and Taxpayer Education Coordinators in each of the IRS' 63 districts across the country have been given publicity materials including media and non-media kits, posters, fact sheets, brochures, a consumer video tape, and television and radio public service announcements. The IRS also coordinates with the Center for Budget and Policy Priorities, which operates an independent information campaign.

Other Outreach Activities: IRS field personnel have been and continue to conduct outreach sessions, train VITA volunteers, meet with the media, and work with local organizations to disseminate the information and materials it develops. The VITA provides return preparation assistance, at sites sponsored by community groups, to low-income, elderly, and non-English speaking taxpayers. The training provided to the volunteer assistors includes EITC and the Advance EIC. During 1992, over 1.5 million taxpayers were assisted through VITA. Participating libraries nationwide will receive EITC brochures.

These activities are supplemented by the outreach activities of other groups. Both state agencies and non-profit organizations are also involved in disseminating information about the

EITC. For example, the Center on Budget and Policy Priorities has provide information and other assistance to over 6,000 organizations conducting EITC outreach activities. The Milwaukee Campaign (conducted by the City of Milwaukee and the Congress for a Working America) and a Denver area campaign (conducted by the Piton Foundation and Mile High United Way) have become models for other groups interested in publicizing the credit. The U.S. Department of Agriculture promotes the EITC to families in rural areas through its Extension Service. These activities are further described in the appendix.

2. New Initiatives

On July 27, the President announced a new initiative by the Internal Revenue Service to more actively publicize the advance payment option. As part of this effort, the IRS will build stronger coalitions with charitable groups and trade associations to help publicize the EITC and advance payment option to their constituencies, support IRS outreach efforts at local levels, and generate new volunteer tax assistance sites. To achieve these objectives, the IRS is working with a number of organizations, including the NAACP, National Association of Social Workers, National Association of Community Action Agencies, the Bureau of Catholic Indian Missions, National Neighborhood Coalition, National Grange, National Coalition for the Homeless, National Student Campaign Against Hunger and Homelessness, National Council of La Raza, Links, Inc., and Deafpride.

The IRS has also begun an intensive effort to educate and encourage employers to help deliver advanced EITC in workers' paychecks. The IRS has contacted a number of employer organizations -- such as the Chamber of Commerce, the National Federation of Independent Businesses, and the National Association of Minority Business Owners -- to encourage them to publicize the advanced payment option among their memberships. In addition, the IRS is providing materials for seminars sponsored by the American Payroll Association and the American Society of Payroll Managers.

The IRS will also work together with other government agencies and volunteer social service organizations to better disseminate information. Participants in the IRS Volunteer Income Tax Assistance (VITA) will be trained to instruct low-income taxpayers about the advance payment option. The IRS will promote the advance payment option through public service advertising. Information about the advance payment option will be included in the Forms W-4 and W-2 and in the tax package. For the first time, the cover of the 1993 1040A and 1040 tax packages will alert filers to the advance payment option. The Schedule EIC will also include references to the advance payment option and the Form W-5.

The Omnibus Budget Reconciliation Act of 1993 (OBRA '93) also contains two provisions to increase awareness of the EITC. Under the provision, the IRS is required to provide notice to taxpayers with qualifying children who receive a refund on account of the EITC that the credit may be available on an advance payment basis. After providing these notices to taxpayers for two taxable years, the Treasury Department is required to study the effect of the notice program on utilization of the advance payment option. Based on the results of this study, the Secretary may recommend modifications to the notice program to the tax-writing committees. The report language also instructed the IRS to explore the use of outreach programs that target homeless individuals and to aim to educate these individuals of the availability of the EITC.

In combination, the new IRS initiatives will insure that most EITC recipients receive information about the advance payment system. The mandated Treasury study should also provide some much-needed data regarding the responsiveness of EITC recipients to this type of information.

Measuring Participation in the EITC

In 1978, the EITC became a permanent part of the tax code. At that time, five million families received the credit. Over the course of the next decade, the nominal income thresholds increased from $8,000 to $11,000, while the numbers of families receiving the credit grew by several million. The Tax Reform Act of 1986 significantly extended the income cut-offs for the EITC. As a consequence, families with incomes of up to $23,000 qualify for the EITC in 1993. Over 14 million families are projected to receive the EITC in 1993.

Measuring the percentage of eligible persons who receive the EITC has been a more difficult task because no data set combines information both on the eligible and recipient populations. In a recent study, John Karl Scholz derives estimates of the EITC participation rate by using a special data file which merged the Survey of Income and Program Participation (SIPP) with selected variables from tax returns.[3] Scholz estimates that between 80 to 86 percent of eligible tax filers received the credit in 1990, implying that up to 2.1 million workers, entitled to the credit, failed to receive it. By comparison, only about 59 percent of eligible individuals receive food stamps. Scholz also finds that individuals are less likely to receive the credit when the credit amounts are small or most of their earnings are derived from self-employment. Nonparticipation is also associated with residence in a state without an income tax, household service occupations, and higher levels of education.

Relatively few EITC recipients claim the credit through the advance payment option. There are also problems in measuring participation in the advance payment program. While fewer than 10,000 employees report receipt of advance payments on their tax returns, over 100,000 Form W-2s are filed indicating that an employer has made an advance payment.[4] The General Accounting Office examined data from both tax returns and the Forms W-2 from 1989, and determined that the mismatched data were due to reporting errors by both employers and employees. Based on a careful examination of the data, GAO concluded that only about 0.5 percent of EITC recipients claimed the credit in advance.

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[3] The merged data file did not include information from the tax return confirming receipt of the EITC. However, in 1990, the IRS would calculate the EITC for an individual based on information provided on the tax return. The data file contained sufficient information to allow Scholz to make a comparable determination.

[4] More recent data shows that the gap continues, although it has narrowed. For tax year 1991, about 16,000 filers reported receipt of the EITC advance payment on their tax returns, while the IRS received about 95,000 Form W-2s containing an amount for the advance payments.

TOTAL AMOUNT OF EARNED INCOME TAX CREDIT, NUMBER OF FAMILIES RECEIVING CREDIT, AND BUDGET OUTLAYS, 1975–93

Calendar year to which credit applies	Total amount of credit (millions)	Number of families who received credit (thousands)	"Refunded" portion credit (millions)	Average credit per family
1975	$1,250	6,215	$900	201
1976	1,295	6,473	890	200
1977	1,127	5,627	880	200
1978	1,048	5,192	801	202
1979	2,052	7,135	1,395	288
1980	1,986	6,954	1,370	286
1981	1,912	6,717	1,278	285
1982	1,775	6,395	1,222	278
1983	1,795	7,368	1,289	224
1984	1,638	6,376	1,162	257
1985	2,088	7,432	1,499	281
1986	2,009	7,156	1,479	281
1987	3,931	8,738	2,930	450
1988	5,896	11,148	4,257	529
1989	6,595	11,696	4,636	564
1990	7,542	12,576	5,266	600
1991(e)	11,144	13,711	8,220	813
1992(p)	13,143	14,123	9,364	931
1993(p)	14,757	14,608	10,585	1,010

Source: 1975–1990: Internal Revenue Service, Statistics of Income
1991–1993: Office of Tax Analysis

Notes: (e) is an estimate
(p) is a projection
* Under the Administration and Ways and Means Proposal

EARNED INCOME TAX CREDIT PARAMETERS, 1975–93

Calendar year	Credit rate (percent)	Minimum income for maximum credit	Maximum credit	Phaseout rate (percent)	Phaseout range: Beginning income	Phaseout range: Ending income
1975–78	10	$4,000	$400	10.00	$4,000	$8,000
1979–80	10	5,000	500	12.50	6,000	10,000
1981–84	10	5,000	500	12.50	6,000	10,000
1985–86	11	5,000	550	12.22	6,500	11,000
1987	14	6,080	851	10.00	6,920	15,432
1988	14	6,240	874	10.00	9,840	18,576
1989	14	6,500	910	10.00	10,240	19,340
1990	14	6,810	953	10.00	10,730	20,264
1991:						
One QC	16.7	7,140	1,192	11.93	11,250	21,250
Two QC	17.3	7,140	1,235	12.36	11,250	21,250
1992:						
One QC	17.6	7,520	1,324	12.57	11,840	22,370
Two QC	18.4	7,520	1,384	13.14	11,840	22,370
Supp. young child credit	5.0	7,520	376	3.57	11,840	22,370
Supp. health credit	6.0	7,520	451	4.285	11,840	22,370
1993:						
One QC	18.5	7,750	1,434	13.21	12,200	23,050
Two QC	19.5	7,750	1,511	13.93	12,200	23,050

Issues Concerning the Expansion of the Advance Payment Option of the EITC

A. Does this system best serve the needs of the credit recipients?

The EITC is based on a worker's annual earnings, income, and family status at the end of the tax year. By claiming the credit on their tax returns, workers do not receive a refund until the end of the year. The advance payment system provides workers with an opportunity to obtain credit payments throughout the year in their paycheck. For low-income workers, the advance payment system can ease the burden of meeting their ongoing and regular expenses. Providing the credit in this timely fashion may be of particular importance for persons making the transition from welfare to work. For others, the advance payment system may make it easier to budget funds during the year; this may be particularly important for those who live in neighborhoods lacking adequate banking facilities.

But very few EITC recipients claim the credit in advance. The reasons for the low utilization rate are not fully known. One popular explanation is that workers simply do not know that they have the option of claiming the credit in advance. A recent GAO study provided some support for this theory when investigators found widespread ignorance about the advance payment option among low-income workers. Yet, the study also found that once informed, many workers stated that they would prefer to receive the EITC in a lump-sum payment.

The GAO study did not ask workers why they might prefer lump-sum payments of the credit. Workers might not take advantage of the advance payment system for a number of reasons other than ignorance of the provision:

- Workers may not claim the EITC in advance for fear of being forced to repay a sizable overpayment at the end of the year if their income or family status changes during the course of the year.

- Workers may not want their employers to know of their eligibility for the credit. They may not want their employers to know too much about their family's financial status. Or, they may fear that their employer will reduce their wages by the amount of the credit or, at a minimum, the costs of administering the advance payment.

- The advance payment amounts may be small relative to the costs and risks involved in obtaining it.

It may also be true that workers -- like the overwhelming majority of taxpayers -- simply prefer to receive lump-sum payments at the end of the year. They may view the payment, when received at the end of the year, as a form of forced savings.

B. Does the current system impose a burden on employers?

Employers' responsibilities are generally limited under the advance payment system. To some extent, their role is reactive: the employer is not required to do anything until an employee submits a Form W-5 requesting advance payments of the EITC. By law, the employer is then required to provide the advance payment to the worker. But the employer is not required to verify eligibility for the credit. The employer's role becomes chiefly that of a bookkeeper. On a regular basis, the employer makes adjustments to the workers' paychecks to reflect payments of the advance EITC. At five points during the year, the employer fills in an additional box on forms which he must file with the IRS regardless of whether or not he makes advance payments.

The GAO found that most employers who provide advance payments felt that the current system imposed little or no burden on them. Among those who did not provide any advance payments, nearly half stated that the system would not be burdensome. Among those who claimed that the current system imposed a burden, most identified limitations in internal computer software programs.

The GAO study also found that some employers misunderstood their responsibilities under the advance payment system. GAO found that some employers are reluctant to promote the advance payment program because they mistakenly believe that they have to certify eligibility for the credit.

C. Does the current system cause compliance problems?

IRS data from the late eighties suggested that there could be compliance problems even with the relatively small advance payment system. As discussed in the previous section, there was a large gap in the amounts of advance payments reported by the recipients and the payers. Partly because of this finding, the family size adjustment and the supplements were not made available to workers as advance payments when these provisions were enacted in 1990.

In a recent study of 1989 tax returns, GAO found that many employers make mistakes when they fill out the Form W-2. Thus, the discrepancy between workers and employers' reports concerning the advance payments declines upon closer examination. (GAO did not examine whether some employers were misreporting advance payments as other items on the Form W-2.) But the discrepancy does not disappear entirely, with the total number of Form W-2s being reduced to 50,000. Using a small sample of returns, the GAO study examined the reasons for the remaining discrepancy.

GAO estimated that about 45 percent of those who, according to W-2 records, may have received the advance payment never filed a tax return. (In many cases, it is likely that individuals did not realize that they had to file a tax return because their income was below the tax filing thresholds.) GAO also estimated that about 49 percent of workers who both received advance payments and filed a tax return did not report payments of the advance credit on their final tax return. Since in 1989 the IRS still automatically calculated the credit based on information on the tax return and sent eligible workers a refund, these persons probably received excessive payments for the entire year. In many cases, these workers were not eligible for the credit at all. Given normal processing delays in matching returns and W-2s, the IRS is not able to begin to detect these problems until nearly a year after the filing of the final return (or as much as two years after the advance payments may have been made). With lags of this length, it becomes extremely difficult to recapture erroneous payments. The IRS is currently examining ways to shorten these reporting lags.

D. Summary of Issues

As the review of the issues demonstrates, the burdens (and our state of knowledge concerning the magnitude of these burdens) imposed on the three key players in the advance payment system -- the worker, the employer, and the Federal government -- are very different:

- The advance payment system should ease some of the liquidity constraints faced by low-income workers, but it is unclear whether the benefits of the current system are outweighed by its costs. Few employees take advantage of the system, but the reasons for underutilization are not known. The low utilization may or may not be a cause for concern: for example, if workers prefer to receive large lump-sum payments as a form of forced savings, there may be little or no payoff to efforts to spur participation.

- The employer role is chiefly that of bookkeeper. Most employers find the current system to be hassle-free, although some find the additional paperwork to be burdensome.

- The IRS incurs little, if any, up-front costs in administering the advance payment system. But because of the lengthy lag between payment and verification of eligibility, the IRS may incur a substantial compliance cost later on.

In summary, the current system appears to serve employers reasonably well. Depending on the cause of low utilization, it may or may not serve employees well. For the IRS, the current system may accentuate other compliance problems, but it is difficult to judge given the relatively few filers who receive advance payments.

Options for Discussion

I. Changing the Role of the Employer

A. Increasing Visibility of the Advance Payment Feature Among Employers

1. Aggressively promote advance payment feature of EITC through trade associations and labor unions

PROS

- Supplements other promotion activities by IRS.

CONS

- Employer groups may promote advance payment feature as way to reduce wages of employees.

2. Make instructions for advance payment easier and more visible in Circular E (an IRS publication for employers which discusses withholding and related matters).

PROS

- Circular E has wide circulation. Employers must use Circular E to calculate appropriate amount of withholding each pay period.

- IRS is currently assessing the need to develop a step by step instruction for employers to compute the advance payment in addition to the material currently in the Circular E.

CONS

- Circular E contains information of broader applicability to employers and their employees. Placing undue emphasis on the advance payment mechanism of the EITC may cause other valuable and needed information to be deleted from the Circular.

B. Increasing the Responsibilities of the Employer for Informing Workers about the Advance Payment Option and for Verifying Eligibility

Resolving some of the potential problems for employees and the IRS through the current system may be difficult. For example, the employer could be given more responsibility to promote the advance payment as well as to certify eligibility for the credit. These options would place a heavier burden on employers who, in turn, might make it difficult for employees to participate.

1. Require employers to provide each new employee with a Form W-5 which is effective until rescinded by employee or alternatively, consolidate the Forms W-4 and W-5. (The former provision was part of the original House-passed child care bill in 1989.)

PROS

- Provides worker with information about the advance payment option as begins employment.

- Worker does not have to ask employer for Form W-5.

CONS

- Adds complexity for all workers, who must determine if additional information is applicable to them.

- Many recipients of the Form W-5 will fill it out -- not because they want the advance payment option but because they do not understand that they have a choice not to complete the form.

- Once enrolled in the advance payment system, inertia will keep many employees in the system. Without additional guidance on the advantages and disadvantages of the advance payment system, workers may easily receive overpayments doing the year -- which they will have to repay when they file a tax return at the end of the year.

- Increases the employer-based advance payment system, without increasing safeguards to protect the Federal government from erroneous claims.

- Increases administrative burden to employers, if most employees complete the Form W-5.

2. Impose "due-diligence" requirements on employers to verify that employees are eligible for the advance payment EITC. Subject employers to penalties for failure to meet due diligence requirements.

PROS

- Imposes costs on employers for erroneous claims of the advance payment.

- Employers see workers daily and may be able to better monitor sudden changes in eligibility for the EITC. (This argument holds only for small employers, where the supervisory and personnel responsibilities may be consolidated.)

CONS

- Employers do not have access to independent information regarding their employees' family status or other sources of income. Given privacy considerations, it will be difficult to provide them with such information.

- Imposes heavy burden on employers, without providing them with the means to fulfill obligations.

3. Clarify or increase penalties for employers who do not provide advance payments to workers who request it

PROS

- Increases costs to employers for failure to provide advance payments.

CONS

- Difficult to administer. Depends on willingness of employees to identify delinquent employers.

- Existing penalties may already be sufficient deterrent.

4. Provide administrative cost subsidy for employers who provide advance payments

PROS

- Reduces costs to employers for failure to provide advance payments.

CONS

- Administrative costs, particularly at the margin, are probably not high.

- Rewards employers for complying with law.

5. Require employers to remind recipients of advance payments to file a tax return; reminder could accompany Form W-2

PROS

- GAO study found that many employees who received advance payments did not file a tax return at the end of the year. Other filed a return, but failed to report advance payments. A timely reminder by their employer may improve reporting.

CONS

- Increases administrative burden on employers.
- Unless reminders are highly visible, employees may ignore.
- It may be less burdensome to employers to simply provide them with materials which they can choose to distribute to their workers. For example, the quarterly SSA/IRS Reporter that will go out to employers can include such reminders that they can choose to give to workers who have filed a Form W-5.

6. Make the formula for calculating the advance payment more flexible (e.g., allow individuals to choose a fraction of the maximum amount available to a filer with one child)

PROS

- Increases ability of filers to determine the amount of advance payment which would be consistent with their own needs. However, still provides some inducement to file at the end of the year by restricting the total amount of the EITC available in advance.

CONS

- More burdensome for both the individual and the employer. (A simpler, less burdensome approach would be to simply increase the amount of the credit available in advance, although still restricting the advance payments to no more than the amount available to a family with one child.)

II. Increasing IRS's Responsibilities for Administering Advance Payments

One of the problems with the current system is the lag between the point at which employee receives an advance payment and the time when the IRS is notified about the payment to the individual. To close this gap, the IRS could be provided with information about advance payments in a more timely fashion. Improvements in the overall reporting of information to the IRS would also facilitate this process.

A. Modify certification process (Form W-5)

1. Further simplify (if possible) the instructions for Form W-5

2. Require employers to file Form W-5s with the IRS

PROS

- Provide the IRS with timely information about the receipt of advance payments by an individual worker.

- May increase the perception that the IRS is actively monitoring the advance payment program. (However, unless the IRS is able to effectively use the W-5s in enforcement activities, this perception may fail over time.)

CONS

- IRS would not know from the W-5 how much an individual would receive in advance payments during the year.

- It is unlikely that the IRS would be able to process this information in a speedy manner in order to use in enforcement activities.

3. Require semi-annual recertification of advance payments

PROS

- Remind workers that changes in status could result in tax liabilities at the end of the year.

- Provide workers with a regular, institutionalized opportunity to change their status.

CONS

- Increases administrative burden to employers.

- Increases administrative burden to employees. Likelihood of completing two forms during the course of the year -- instead of merely one -- may be slim.

B. Explore ways to improve reporting of advance payments on the Forms W-2 (on-going IRS effort)

C. Increase IRS responsibilities for making actual advance payments

1. Workers would be able to claim the EITC at the end of the year as either a lump-sum amount or as smaller regular payments during the course of the year (either monthly or quarterly); replaces or supplements "advance payment" system with "staggered payment" system

PROS

- Having payments made during the course of the year will provide recipients with a smoother, regular pattern of income. In a sense, this proposal provides recipients with enforced budgeting of resources. It may be particularly desirable for recipients who do not have access to banks.

- Less risky than current advance payment system for both individual and the IRS. Offers one of the advantages of the advance payment system -- regular incremental payments -- without the uncertainty of a prospective-based system.

CONS

- This is not an advance payment option. Under this option, workers would receive last year's credit in monthly or quarterly payments made during the following year.

- With a mobile low-income population, it may be difficult for the IRS to track recipients over the course of the year. IRS does not have a way to follow recipients as they move.

- Workers are effectively making an interest-free loan to the Federal government. (At additional cost, interest payments could be added to the credit amount.)

2. Require the IRS to make advance payments based on receipt of EITC in prior year to those taxpayers who indicate on tax return that they wish to participate (Alternatively, the advance payments could be limited to only those EITC recipients who have certain, measurable characteristics correlated with repeat usage of the EITC.)

PROS

- Workers receive advance payments without involvement of employers.

CONS

- Prior EITC recipiency may not be a good indicator of eligibility or the amount of the EITC for which persons are eligible.
- First-time EITC recipients will not be able to take advantage of this system.
- IRS does not have ready access to ongoing data during the year to verify that individual is actually employed and earning wages comparable to prior year.

3. Allow recipients to file a "quarterly" statement with the IRS indicating estimated EITC amount to which entitled (i.e., a reversed estimated tax payment system)

PROS

- Provides IRS with some information regarding individual's current entitlement to the EITC. (However, this information is self-reported.)
- Provides mechanism for first-time EITC recipients to file for EITC.

CONS

- Information received from the recipient is not subject to any independent information reporting. IRS is still not able to verify recipient's claim of advance payment.
- IRS does not have ready access to ongoing independent data during the year to verify that individual is actually employed and earning wages comparable to prior year.
- The burden for determining the correct amount of quarterly payments and eligibility for the credit is borne largely by the recipient.
- IRS would require additional funding to handle new tasks.

4. Develop an electronic transfer/benefit payment system for the EITC (this could be integrated into three preceding options.)

PROS

- Electronic benefit system would effectively serve as bank account for persons without access to traditional financial services.

CONS

- Individuals currently receive EITC in the form of an anonymous tax refund check from the Federal government. An electronic benefit card would alert businesses and others to the income status of the recipient -- in a way that cash, in hand, does not.

III. Shifting Responsibility for Advance Payments from the Employer to Government Agencies Other than the IRS

A. Increase role of other agencies in disseminating information about the advance payment system

Certain government agencies would be given additional responsibilities for disseminating information about the program and assisting individuals with the advance payment forms. For example, welfare offices could be required to inform recipients about to enter the workforce about the EITC and advance payment options. Case workers could assist individuals in completing the Form W-5 and provide them with information about the need to update the Form when there are changes in income or family status.

PROS

- The state welfare offices are a port of entry for a key target group: those who are making the transition from welfare to work.

- Provides individuals with assistance in completing Form W-5. Further helps them to better understand the effects of changes in status on application for W-5.

CONS

- Does not provide any assistance to working poor who do not have contact with government agencies. (Creation of new employment security office could eliminate this issue.)

B. Increasing role of other existing government agencies in certification, verification, and actual payments

The responsibility for certification, verification, and advance payments could be shifted to a Federal or state agency. Employers would no longer provide advance payments to workers. Instead, a government agency could certify workers as eligible for the credit. This responsibility could be assumed solely or shared by state welfare agencies, Social Security offices, or Employment Services offices.

The agency would have some responsibility for verification of eligibility criteria. For example, workers might be required to submit a copy of their last paycheck or their previous year's tax return. Quarterly wage information from the unemployment compensation program could also be used to verify prior earnings. Workers might have to submit other supporting documentation (e.g., birth certificate or school records) to demonstrate that a qualifying child resided in their home. Workers would be required to notify the agency whenever they experienced a change in their financial or family status. At six month intervals, workers would be required to submit an updated certification.

Workers' certificates of eligibility could be filed every six months with the IRS. Once eligibility has been certified, the worker would receive a check for the advance payment directly from the Federal government. [States could reduce their payments of Federal income and employment withholding taxes in order to fund advance payments.] [The EITC could be made available through electronic transfers, where states are experimenting with such systems to pay food stamp benefits.] At the end of the year, the certifying agency would send a Form 1099 to both the worker and the IRS showing the amounts of advance payments made during the year.

[States could be required to bear some or all of the risk for erroneous payments.]

PROS:

- Places a neutral third party between the employee (the intended beneficiary) and the employer.

- Federal and state agencies may have expertise in identifying and verifying eligibility for low-income assistance. Compliance costs may be reduced by increased monitoring before checks go out.

- Certain Federal and state agencies may have an incentive to encourage participation in the EITC, particularly if such can be used to ease the transition from welfare to work.

- Trained social workers may be able to assist workers in determining what their annual income may be, thus reducing the risks of claiming excessive EITC during the year.

- Shifts the administrative burden from the employer.

CONS:

- Workers may feel stigmatized by contact with government agency (particularly one which also administers welfare-type programs).

- Administrative costs will no longer be concealed in the employers' budget. Instead, administrative costs will be up-front, and a separate appropriation may be required. To some extent, these costs may be offset eventually by reductions in other hidden administrative costs -- such as compliance costs to the Federal government.

- Participation may decline because of additional filing requirements.

- Additional processing steps may introduce lags between certification and payment to workers.

1. State and local welfare offices

PROS:

- These offices have extensive experience with determining eligibility for a variety of low-income programs.

- Many of those eligible for the credit would have contact with welfare offices. Despite being operated at the national level by the Agriculture Department, the Food Stamp program is administered at the state and local levels by welfare offices. Food Stamps are available to families (including those with workers) with incomes of up to 130 percent of poverty.

  - Some people do not claim Food Stamp benefits because the expected benefits are too small to offset the costs of dealing with the bureaucracy. If they must go to the same office to claim the advance payments of the EITC, the net costs of dealing with the bureaucracy decline.

- The state welfare offices are a port of entry for a key target group: those who are in the process of making the transition from welfare to work.

CONS:

- Some families will feel "stigmatized" by having to go to a welfare office in order to obtain the credit (although those who now are receiving food stamps will not incur additional stigma).

- States would bear administrative costs, unless a separate Federal appropriation were established.

- Additional responsibilities may hinder processing of welfare claims.

2. Social Security Administration (SSA)

PROS:

- Individuals generally do not feel stigmatized by interactions with a social security office.

- Agents have training to discern eligibility for low-income programs, since SSI is administered at social security offices. For the elderly, the social security offices also do some limited in-take processing of applications for food stamps.

- Costs and responsibilities are fully assumed by the Federal government. Costly administrative burdens are not shifted to the states, employers, or insurers.

- The Federal government has no incentive to certify ineligible applicants.

- SSA does the initial processing of W-2s and can do early checks on payments of advance credits.

CONS:

- Additional responsibilities may hinder processing of social security benefit claims.

- Over time, stigma may attach to any government office which serves a low-income clientele.

3. Employment service offices

PROS:

- Individuals may feel less stigmatized by interactions with an employment service office than with welfare offices.

- These offices have experience in administering another transfer program (unemployment insurance). Staff are familiar with certifying employment status of applicants.

CONS:

- Employment services have some experience with job training programs, but otherwise are not familiar with determining eligibility for low-income programs.

- States will share part of additional administrative costs.

- Additional responsibilities may hinder processing of unemployment insurance claims.

C. Give new government agency (i.e., "Work Support Agency") role in certification, verification, and actual payments

The same responsibilities listed under Option B could be given to a new government agency devoted to supporting work efforts (the "Work Support Agency" or "Employment Security Agency"). Because the mission of this agency would be to support work effort, low-income persons would not be stigmatized by seeking assistance. Moreover, existing agencies may not be able to handle new tasks which may be incompatible with their current functions.

The work support agency could have additional complementary responsibilities. It could provide low-income workers with assistance in completing tax forms. Financial planning workshops could be offered, as well. Such workshops could be particularly useful in helping individuals learn to budget EITC payments, when they choose to claim the credit as a lump-sum.

[Pros and Cons contingent on specification of these offices in welfare reform proposal.]

Shift Some Responsibilities for Advance Payment System to Preparers and Non-profit Social Service Organizations

As discussed earlier, some persons may be hesitant to utilize the advance payment program because they do not wish their employer to know about their income or family status. Workers may be equally concern about the stigma effects about applying for advance payments through government agencies. Moreover, there may be significant transactions costs involved with applying for the advance credit through a government agency; long lines may cost an individual a day's wages.

A. Allow tax preparers and local volunteer social service organizations to help enroll persons in the advance payment system. Forms could go to employers, state offices, or the IRS for further processing.

PROS

- Many EITC recipients have contact with private preparers. In 1991, nearly half of EITC recipients used private preparers to complete their tax return.
- There should be no stigma associated with dealing with a private preparer. Workers may feel some discomfort from non-profit social service organizations, but this will depend largely on the nature of the organization.
- Social service organizations may have altruistic motives for promoting the advanced payment system of the EITC.

CONS

- Neither private preparers nor social service organizations have access to independent information regarding persons' eligibility for the EITC.
- Private preparers will undoubtedly charge workers for the costs of assisting them to complete the W-5. Even non-profit organizations may have to charge some nominal fee.
- Unscrupulous preparers could try to "scam" system by preparing dummy forms, using the social security numbers of unsuspecting persons. (There is some evidence of such activities with respect to electronic filings.)

Appendix:
Overview of EITC Outreach Activities by Non-Profit Organizations and State and Local Organizations

A. The Center on Budget and Policy Priorities

Following the enactment of the Tax Reform Act of 1986 (TRA), the Center on Budget and Policy Priorities initiated an EITC outreach effort. At that time, outreach activities became more important, because, as a consequence of TRA, fewer low-income individuals were required to file Federal returns. As a result, some low-income workers were likely to lose the refundable credit.

The Center on Budget and Policy Priorities' primary outreach efforts include issuing press releases, enlisting local groups in the outreach effort, producing information kits for distribution to these groups and seeking input from various agencies and groups on campaign improvements. The Center on Budget and Policy Priorities' campaign network currently includes over 6,000 organizations.

Single copies of the information kit and small quantities of posters and flyers are distributed free of charge; multiple orders for information kits cost $3 per kit, but are distributed free of charge to organizations that cannot pay for them. The kit includes a 27 page guide to EITC community outreach strategies. It also includes flyers, posters and envelope stuffers for inclusion with paychecks, benefit checks, Forms W-2, utility bills and other materials. Information on IRS's Volunteer Income Tax Assistance (VITA) is also in the kit. The flyers, posters and stuffers are in English and Spanish. The Center on Budget and Policy Priorities' materials have been translated by local groups into additional languages, including Vietnamese, Hmong, Cambodian, Laotian, Korean, Chinese, Polish, Italian, Tagalog, Creole and Braille.

<u>Training:</u> State and local level EITC training conferences were added to the campaign late in 1991. These brought organizations who had conducted outreach efforts together with groups interested in beginning a campaign. Working with local groups, the Center for Budget and Policy Priorities conducted training in Raleigh, Jackson, Austin, Dallas, Albany, New York City, Philadelphia, Chicago, Detroit, Seattle and Portland. Local groups used training materials provided by the Center for Budget and Policy Priorities in Atlanta, Baltimore, Trenton and Erie.

<u>Outreach to rural areas:</u> In 1992 and early 1993, kits were distributed to 1,200 media outlets serving rural areas. The Center worked with the National Conference of State Legislatures to identify and contact state legislators from rural areas in another effort to reach the rural working poor.

The Center on Budget and Policy Priorities has also worked with the Extension Service of the U.S. Department of Agriculture, which provides household economic planning and other services in counties across the country. The Extension Service has sent mailings to

180 of its family economic specialists nationwide, and has advertised the availability of the information kits over its computer network. The Extension Service has received positive response from local staffs, who predict that discussing the EITC with families may be a useful way to initiate broader discussions about money management. Fred Waddell, the family economic specialist from Alabama who first contacted the Center on Budget and Policy Priorities, has recently developed plans to expand the Extension Service's EITC outreach efforts. (See also the description of the Kentucky campaign, below.)

Other outreach: The Center reports that telephone hotlines have been established in San Antonio, Atlanta, Boston, Minnesota, the San Francisco area, Philadelphia, Washington DC, Portland, Milwaukee, Detroit, El Paso, Delaware, New Jersey, Maryland and the Athens area. Over 10,000 calls were received in New Jersey over a two month period; 8,500 calls were handled in San Antonio.

B. The Milwaukee Earned Income Campaign:

The Milwaukee Campaign was established in December 1989 to disseminate information about Federal and Wisconsin EITC programs to low-income families. The Milwaukee Campaign is conducted by the Congress for a Working America (CFWA), in partnership with the City of Milwaukee, the Greater Milwaukee Committee (a private group) and the Social Development Commission (a local community action agency).

Wisconsin is one of six states to offer its own EITC. The Wisconsin credit is currently equal to 5% of the Federal credit if the worker has one child, 25% if the worker has two children and 75% if the worker has three or more children. Like the Federal credit, the Wisconsin credit is fully refundable. Advance payments are not available, and the worker must file a Wisconsin state income tax return to receive the credit.

The Campaign has explored a variety of outreach strategies. These include:

The Milwaukee EIC Hotline: Callers are referred to VITA sites and sent information packets including a Schedule EIC and Form W-5. During the first ten months of 1992, the hotline received calls from 1,405 eligible families. In January 1992, CFWA sent mailings to 1,070 persons who had called the hotline in 1991. The mailing included reminders to file necessary forms, Schedule EIC, Form W-5, a list of VITA sites and other information.

Media Coverage and Public Advertising: Efforts have included the development of television and radio public service announcements (PSA's), press conferences and news releases, direct mail, signs on public transit vehicles and posters and fliers in public areas. In 1992, the IRS Public Affairs Office in Milwaukee assumed responsibility for producing the PSA's. The announcements included the local IRS number and the hotline number. A separate set of ads about the advance payment option was also aired.

About 100 signs in English and Spanish were placed on and inside buses on routes used heavily by low-income families. Wisconsin Gas sent 6,000 postcards to customers who were on payment plans, resulting in a large number of hotline calls in 1991 and 1992. The electric utility sent mailings to recipients of low-income energy assistance. In July 1991, the Wisconsin Department of Health and Social Services mailed EITC information to 1,600 Milwaukee County residents who had been ruled ineligible for AFDC benefits during the first three months of 1991. Over two hundred families called the hotline as a result.

Collaborative Community Outreach: The Milwaukee Campaign coordinates efforts with institutions that have contact with low-income individuals. These include: the Social Development Commission, Milwaukee Public Schools, Head Start, labor unions, health centers, food pantries, neighborhood and religious groups, Parents Anonymous, child care providers, foster parents and non-English speaking groups. Some of the activities included the distribution of leaflets and assistance in filling out forms.

C. The Piton Foundation / Mile High United Way:

The Piton Foundation's Poverty Project and Mile High United Way, in conjunction with the Center on Budget and Policy Priorities, have conducted EITC outreach in the Denver, Colorado metropolitan area since 1989. The 1991 effort included outreach to employers, outreach to community organizations and an advertising/media campaign.

Employer outreach: Letters, flyers and sample payroll stuffers to about 3,850 area restaurants generated requests for 2,000 pieces of information (e.g., payroll stuffers) from 25 restaurants. Mailings to 102 other employers resulted in requests for 18,805 pieces of information from 15 businesses. 36,000 payroll stuffers were distributed to state, Denver city and Denver County employees. Other metro area governments were also contacted. One county and one city requested payroll stuffers.

Three labor unions, chosen based on members' wages, were targeted for outreach. The United Food and Commercial Workers local displayed posters in grocery stores, included an EITC advertisement in its local publication, and mailed flyers to its 22,000 members. The Service Employees International Union local distributed posters to offices buildings where its members work, and mailed flyers to its 2,900 members. The Denver Federation of Paraprofessionals distributed flyers to the 1,600 Denver Public Schools teachers' aids that it represents.

Community Outreach: Mailing labels were purchased from the Colorado Council of Churches, and 950 letters, posters and ad slicks (for church bulletins) were mailed to area churches. 2,000 flyers were distributed through an organization of 16 inner city congregations. Posters were mailed to 105 non-profit organizations funded by Mile High United Way and to another affiliate of local non-profits. Flyers were also distributed through Head Start, Mile High Child Care Association and neighborhood health clinics. 28,100 payroll stuffers were sent to recipients of AFDC, AFDC-U, Food Stamps, LEAP (energy assistance) and transitional Medicaid/child care benefits.

All area school districts were contacted, and materials were distributed to some of them. A poster and 1,750 flyers were distributed at the seven Family Resource Schools in the Denver District, through the director of the schools. The "Baby Your Baby/Child" Health Hotline provides information on public health care programs for uninsured pregnant women and children. From mid-February through mid-April, the hotline include EITC information with information mailed to 1,500 callers.

Media Coverage and Public Advertising: Although most outreach efforts were targeted to specific groups, some broader based advertising was conducted. News releases and ad slicks were distributed to all daily and weekly newspapers in the state. Over 500,000 families were reached via this effort.

D. Kentucky's Earned Income Credit Campaign:

In January 1992, the Kentucky State University Cooperative Extension Program began efforts to publicize the EITC. The Extension offered EITC fact sheets, and disseminated a news release for inclusion in Extension newsletters and local newspapers, to its agents in 120 counties. Training sessions were also conducted.

In 1993, the Extension Program expanded its outreach efforts. Its objectives were to continue the training programs; to coordinate its efforts with the county agents, VITA staff and IRS's Taxpayer Education Consultant for Kentucky; and to encourage the involvement of EITC recipients in Extension education programs.

The Extension distributed EITC fact sheets, suggestions for conducting local campaigns, VITA information and other materials to nearly a quarter of its Home Economics agents. It notified all county agents of nearby VITA and TCE (Tax Counseling for the Elderly) sites and provided the IRS consultant with address labels for county agents, for the mailing of EITC promotional materials. News releases and other materials to county agents were provided. The Extension also worked with county agents who requested assistance in carrying out local campaigns.

Extension agents in most of the 120 counties distributed fact sheets and flyers to organizations and sites including: Food Stamp offices, food distribution sites, housing projects, Job Opportunities and Basic Skills (JOBS) sites, day care centers, GED classes and literacy programs, Head Start, family and youth service centers, courthouses, post offices, libraries and other locations. One agent arranged for information to mailed with statements from a local bank; another, for information to be distributed with paychecks at a local hospital. Several agents arranged for EITC information to be distributed at local factories.

Economy and Jobs Issue Group
Executive Summary of Findings and Recommendations

I. Introduction:

The world and the way we look at it has changed. Women, even many with young children, expect to work. One parent families are not an exception to the two parent rule. Men, in one-parent or two-parent families, are taking on more of the responsibilities for children and family nurturing. We no longer need sharp distinctions between programs for the economic security of those who work full-time in the home (Aid to Families with Dependent Children) and those who work full-time in the workplace (Unemployment Insurance). In the same way that the Family Leave Act addressed the special needs of workers with parenting and family responsibilities, we need to examine other employment problems for parents and provide supports which will ensure the well-being of children in families supported through work.

II. Overview of the labor market and the employability of the caseload:

Our findings indicate that the welfare population capable of entering the workforce is a small number relative to the number of jobs created and jobs turning over in the U.S. over the next decade. In particular, occupations typically filled by women and minorities are among the fastest growing. We believe that the parents who could end up on welfare will be able to find jobs and support their children if we compensate for the low pay, high turnover, and lack of healthcare in most low-skill jobs. (For more detail see the "Findings in Brief" section of the paper or the appendices.)

Based on our research into the demographic characteristics of the welfare population, our group decided to view the welfare population in three distinct groups:

(i) those who already work regularly,
(ii) those who are not expected to work, and
(iii) everyone else.

In contrast to other methods for dividing up this extremely heterogeneous population, this categorization does not need to rely on subjective caseworker assessments such as "job readiness." Based on some measure of work history, we can identify the individuals who are already able to find and keep a job. A recent study estimated that 39% of the women who use welfare work regularly and use AFDC to fill in for periods of unemployment or to subsidize their wages. For new cohorts of welfare recipients, the proportion who can easily work will be even higher. We can also identify a sizable population on welfare--probably another third--for whom work is clearly not an expectation. This second group may include the physically and mentally disabled, those who are caring for the disabled, individuals with substance abuse problems, orphans, and dependents of people receiving disability income. The third group, "everyone else," will be a mix of adults who need a little extra help finding a job, together with individuals with more serious problems such as skill deficiencies or personal family problems. (For more detail see the "Findings in Brief" section of the options paper or the appendices.)

III. Simple recommendations on income support for two-thirds of the caseload:

- (i) **Family Unemployment Insurance.** For those who work regularly, we should continue to support their brief periods of unemployment with some cash and some job search assistance. The assistance should resemble the current unemployment insurance system but be more responsive to shorter periods of employment and unemployment which characterize low-income employment for women.[1] In combination with the expansion of the earned income tax credit, healthcare, and universal paternity and child support enforcement, a "Family Unemployment Insurance" program should make supporting a family possible despite the low wages and high turnover in low skill jobs.

- (ii) **Dependents of the Disabled Support.** For those who are not expected to work, provisions should be made for their support outside the new, time-limited AFDC program. This could be accomplished through extending SSI to cover dependents or renaming the disability track within AFDC. We should avoid stretching the definition of disability in ways that undermine the credibility of the program.

Rough estimates indicate that the AFDC caseload could be reduced by half or even two-thirds of its current level by accommodating women and children in the standard programs for disability and unemployment. We are working with OMB to examine various cost options.

IV. Multiple Layered Employment System for the Remaining One-Third.

Since the third group, "everyone else," includes parents with a wide range of labor market problems, our recommendations are more complex (See attached chart). This program which serves only the able-bodied might be presented as a reformed, scaled down AFDC or as an entirely new program which replaces it. Based on the premise that almost everyone in this group could be expected to work, we recommend providing a series of assistance thresholds that act as filters for more expensive services. Up front assessment systems which are caseworker intensive and error prone would not be necessary since service strategies would be guided primarily by the date of their case opening. We would try to get each person into a private sector job with the minimum amount of intervention necessary. States would have a lot of flexibility to design the interventions, but successive intervention strategies would be broadly structured in the following manner:[2]

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[1] In a recent study of working mothers who averaged about 1,000 hours of work per year, only 11% qualified for unemployment insurance when becoming unemployed. (Spalter-Roth, 1993.)

[2] This approach to the two-year transition period is based solely on a private sector jobs perspective. The issue group which has focused specifically on the two-year period has more expertise with the current AFDC program and may provide a different, more human capital

Two Year Re-employment Program

- Job Search First. For those parents who have never worked or have exhausted their "Family Unemployment Insurance," the first step should be an all out effort for job search. A mandatory, supervised job search requirement will help a proportion of people who simply needed a little extra help with finding a job. If the initial inexpensive strategies like job clubs and resume prep do not work, the state should plan to escalate the job search effort. Job development, interview training, placement bounties, even out-of-town job search should be included in a ladder of services to get everyone to work. America Works provides one possible model for stepping up the job-search effort in a cost-effective, performance-based manner.

OMB indicates that such an alternative might score as deficit reduction based on substantial research indicating the efficacy of job search assistance. Dollars spent on quality job-search programs show much better results than short-term training programs. Experience with a wide range of inexpensive, employment programs indicates that 30 to 40 percent of the participants will probably find employment. Using additional approaches such as relocation and placement fees should increase the success rates. In the section of our paper on research and experimentation, we discussed many creative approaches to job search assistance which could be included in the job search phase.

- Assessment, Long-term Training, or Work Experience as a Last Resort. Rather than spend valuable resources on assessment for everyone up front, we can postpone it until after a concerted effort to find a job. After approximately six or eight months of *continuous*, intensive job search, a skills assessment or development of an in-depth employment plan may be appropriate. At this major checkpoint, counsellors may require enrollment in a training program in order to continue receiving income support. Assessment of skills and family issues may lead to a referral for social services instead. States may want to offer jobs or a service requirement to anyone who wants continued assistance in the first two years without enrolling in training. Work experience at this point in the program should only be offered on a pay per hour basis to flush out those who may have difficulties with such an arrangement.

If training is the preferred option, it should be of a certain kind. Only training programs which require a high school degree or which lead to a high school degree should be eligible in order to avoid many low quality programs. As Larry Katz at the Labor Department has recommended in other policy arenas, we should stop investing in short-term training programs for welfare mothers which show limited short-term results and zero long-term impact. Tuition for longer term training (12-18 months) should not be funded through AFDC or JOBS, but rather Pell grants, loans or other training programs. Continued income support during these programs should be contingent upon satisfactory progress toward completion--not just participation. After the two years, states may opt to continue support for parents progressing in training programs or may expect parents to support their own training through work.

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oriented option. Our group's recommendation in this area is strictly aimed at maximizing the proportion of the caseload attaining and keeping private sector jobs.

Individuals who cannot benefit from job search or stay abreast of a demanding educational or work program would not be allowed to stay in a program for re-employment. Drop-outs would receive more intensive social services as described below in the section "After the time limit."

- Job Search Last. Individuals who complete their course or reach the end of their two years on AFDC should become eligible for another period of mandatory or supervised job search up to two months.

After the Time Limit

The number of able-bodied parents who do not find a job before, during or after succeeding in a reputable training program or a pay per hour work experience, is likely to be extremely small. Few parents would reach the time-limit even if training had no effect since we eliminated about two thirds of the caseload to start, and used job search, bounties and other methods to place most of the able bodied parents left. Those who have family problems or emotional problems that prevent work would be unlikely to complete rigorous training or work programs. The number of families who actually graduate from the two year program and do not find a job is likely to be well under 5 per cent of the current caseload.

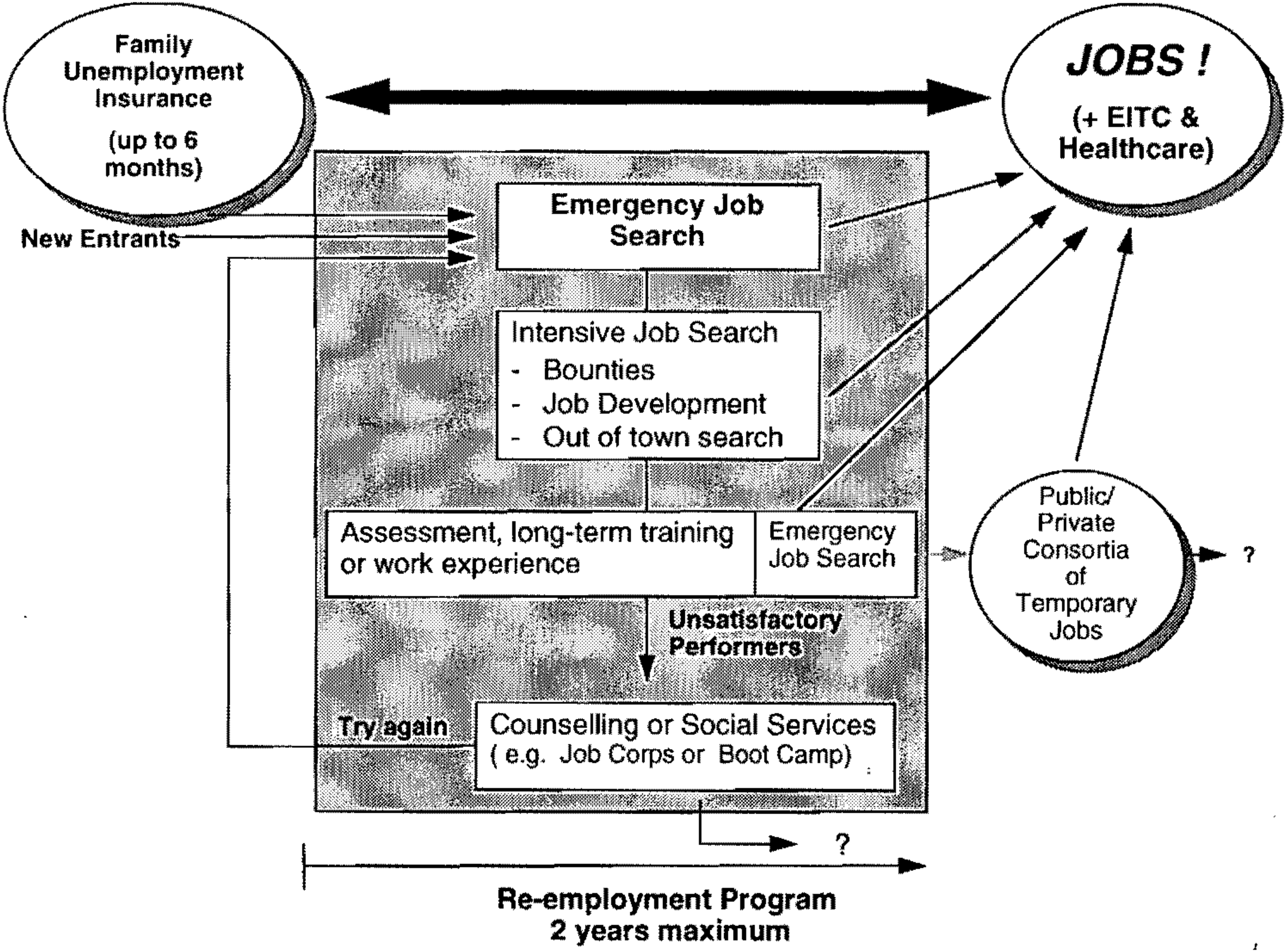
- Temporary Jobs Pool For this group, we recommend creating **small pools of temporary jobs based on public-private consortia** at the local level. Utilizing the private sector and community groups as employers as much as possible will create better job experiences and reduce overheads relative to public sector employment. Their administrative overheads can be minimized by pooling resources for hiring, screening, and providing initial orientation level training. Subsidies through grant diversion may also be used to encourage employer participation. These *temporary* jobs can be offered to create a checkpoint as to whether the individual is really willing to work. Only a very small number will be needed because most welfare recipients will have already entered the private sector and because the jobs will only be offered on a temporary basis. In addition, only individuals who have had *satisfactory performance* in demanding training or work activities should be offered these "real jobs" at the end of the time-limit: the America Works model could serve this function at the end of the time-limit in addition to being used in the initial job-search phase. Those who have dropped out, entered counselling, and possibly dropped out again, should not be sent to private sector employers without first demonstrating their ability to perform reliably in training or work experience. Income support with a work requirement may be a last resort, but real jobs are not. Private sector employers should not be asked to take those who have refused to participate in everything else. In this "real job" through the consortia, the individual will gain work experience, earn income tax credits, and accrue credits in the "Family Unemployment Insurance" program. This temporary, consortium job should provide an entry into the private workforce.

- Private Sector Jobs. After the time limit parents would be still eligible for family unemployment insurance, earned income tax credits, healthcare, and child support payments.

• <u>Intensive social services such as "Boot Camp" or "Job Corps."</u> The largest pool of workers liable to need a safety net will probably be those who drop out of job search assistance, training programs and work experience programs *before* the two year time-limit. This group is likely to have problems which are more serious than a lack of jobs or skills. Re-assessment for physical or mental disabilities, learning disabilities or other problems should be offered. Intensive social services such as comprehensive family counselling or a supervised, residential program may also be more appropriate than employment services. Projecting the costs of such a program will be doubly difficult. The per person costs will be high and the margin of error will be large. It will be difficult to know in advance whether this group is nearer to 3 percent or 15 percent of the current caseload. There will be tough decisions concerning this population: How much time and resource should be invested to help them? Should it count against the time limit? Our group did not propose a policy solution in this area. Clearly, reserving these expensive services as a last resort option will direct them to those who need them most. Rather than try to assess every person we should try to address the general problems faced by parents in the labor market before looking at the special problems individual parents might face. Those who need intensive social services will identify themselves by dropping out of the central re-employment track.

• <u>What is the last resort when parents will not cooperate?</u> Our issue group was unable to agree on what would happen to parents and children if all supports were not enough: intensive counselling, two-years of training, a temporary job, unemployment insurance, the earned income tax credit, healthcare, and a reliable child support system. Although the employment system described above should get most parents into the workforce, there will always be those who will not or cannot take advantage of the opportunity. The hardest question of all is what to do when nothing else works. We think the question will not be what to do if there is no job, but rather, what happens when parents with no obvious disability do not show up at work, training, or social services? What happens if an individual consistently refuses to cooperate? Focusing on jobs and unemployment issues avoids this core decision.

Ultimately, what is our commitment to children in the extreme case? No clear federal policy on the ultimate safety net for children currently exists: some states provide it, others do not. The welfare reform working group must decide whether to propose any federal guidelines in this area or leave the decision to the states. The section on "Dissenting views: Options and Recommendations" presents the range of views in our group on this subject. At a minimum, states which continue to provide support after the two year time limit should be obliged to require a substantial work or service commitment in order to meet the President's promise of ending welfare as we know it.



Family Unemployment Insurance
(up to 6 months)
JOBS !
(+ EITC & Healthcare)
New Entrants
Emergency Job Search
Intensive Job Search
- Bounties
- Job Development
- Out of town search
Assessment, long-term training or work experience
Emergency Job Search
Public/ Private Consortia of Temporary Jobs
?
Unsatisfactory Performers
Try again
Counselling or Social Services
(e.g. Job Corps or Boot Camp)
?
Re-employment Program
2 years maximum

September 30, 1993

Economy and Jobs Issue Group

DRAFT OPTIONS MEMO FOR ECONOMY AND JOBS ISSUE GROUP

How can we increase reliance on private sector work rather than welfare to support children?

Table of Contents

I. Labor Market Findings

The following findings are highlights from the background papers produced by the Economy and Jobs Issue group. Please refer to the background papers in the appendices for more detailed research and analysis.

a) EMPLOYMENT IS AVAILABLE, BUT LOW PAYING, AND SHORT-LIVED.

In the aggregate, the economy is able to supply jobs for those who are currently dependent on welfare. The Bureau of Labor Statistics projects the creation of 24.6 million new jobs between 1990 and 2005. Some of the largest job growth projections are in occupations that tend to hire women and minorities. In addition to new jobs, old jobs will open up due to workforce attrition. In 1991, 5.8 million women found jobs who were not working one year earlier. When job-changers are added to job-finders, the number of new job openings is even larger: approximately 15 million women found or changed jobs in 1991. Not only will there be numerous openings, but less expansion of the labor force is projected over the next decade relative to our experience over the last few decades. Labor force expansion in the last decade has included entry of one million women on average each year. In the next decade, average annual labor force expansion is expected to decline by about 500,000 to a million people. Thus, adding one to three million welfare recipients to the labor force over the next five years is not an unprecedented change.

- **Conclusion #1:** No one could claim to be job ready, willing to work, but unable to find a job for 5 or 10 years continuously. Long-term welfare receipt is not an overall unemployment problem. Jobs requiring low-skill labor are available.

However, these jobs are likely to be low-paying and short-lived. A recent study by the Institute of Women's Policy Research[1] found that over a two-year period, women who mixed welfare and work held an average of 1.7 jobs at an average hourly pay rate of $4.39 (in 1990 dollars). Their longest jobs lasted 46 weeks on average. They spent an average of 16 weeks on layoff or looking for work during a two-year period. Only 11% receive unemployment insurance, which 50% exhaust. Unemployment rates for single women who maintain families averaged 10.4% between 1980 and 1987; for women in poverty the rate is likely to be higher.[2]

- **Conclusion #2:** Although parents of welfare-dependent children (especially mothers) can get jobs, these jobs will have low pay. Without the EITC and healthcare the prospect of finding a job which will support children is much bleaker.
- **Conclusion #3:** High turnover in the jobs available to women points to a piece of

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[1] Spalter-Roth, Roberta and Beverly Burr. *Supporting Work: The Relationship Between Employment Opportunities and Financial and Other Support Programs* (testimony presented at the public forum of the Working Group on Welfare Reform, Family Support and Independence). Institute for Women's Policy Research, August 19, 1993.

[2] Statistical Abstract of the United States, 1992. Note that 10% unemployment in the general population would trigger extended benefits up to 40 or 50 weeks.

the welfare reform effort that is missing: we need a form of unemployment insurance for impoverished parents which will reduce the risks of working. So far, no serious work has been undertaken to propose extending the UI system for parents or reforming the AFDC system to provide brief periods of support based on work history.

• **Conclusion #4**: For the men who might marry welfare mothers or pay child support, prospects are also mixed. Over the last thirty years black male joblessness has been roughly double the level of white male joblessness and varied more with the business cycle.[3] Blue collar jobs with good pay which had previously been available to men without a college education are rapidly shrinking due to productivity improvements, global competition, and the use of technology with higher skill requirements. Low-skill men will therefore have to compete with women for service and administrative jobs and have to upgrade their skills significantly. A welfare policy which relies on support for children through child support payments must address the issue that many fathers also face the turbulence of low-paying, short-term jobs.

b) WELFARE RECIPIENTS FALL INTO THREE GROUPS BY EMPLOYABILITY.

From the perspective of private sector work, there are three types of welfare recipients: Those who society does not expect to work; those who already work; and everyone else. Although estimates vary considerably regarding the size of these three groups, the rough average lies at about one third of the current caseload in each group. (Incoming cohorts of welfare recipients would have a much higher proportion of parents active in the workforce.) Let's examine some estimates regarding the size of these groups.

How many welfare cases involve adults that could not be expected to take private sector jobs? For the 10% of cases in which there is no adult in the household, it seems unlikely that employment assistance is appropriate.[4] A physical disability and the need to care for a disabled household member are also obvious limitations on work capacity. Estimates range from one in nine[5] welfare households to one in three[6] welfare households having a disabled head of household or member. The presence of a disabled head of household or other disabled members does not necessarily preclude work or training participation for the head of the household. A first child under age three might also be considered a legitimate work or training exemption. If so, 51% of the incoming population may have a child under age three with a high proportion of these being first children. Substance abuse problems which impair work and may require long term or permanent treatment are most likely to involve alcohol. Among welfare mothers 12% report three or

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[3] Handbook of Labor Statistics, 1989.

[4] Ways and Means Greenbook.

[5] Child trends estimates using CPS data.

[6] Adler (1993) using self-reported data. -- (get complete ref from Steve Bartolomei-Hill)

more alcohol related problems such as loss of memory or missed work.[7] Another recent study found that 9.1% of welfare mothers report binge alcohol use.[8] Learning disabilities, which affect 25 to 40% of adults on AFDC,[9] may or may not be an acceptable reason for a work exemption. Even under the most stringent work requirement, about one third of AFDC household heads currently on welfare would probably be exempt.

How many welfare recipients already work on a regular basis? A recent study by the Institute of Women's Policy Research[10] found that over a two-year period 39% of the women who used welfare also worked approximately 2,000 hours.[11] Furthermore, many more parents work without reporting it to the welfare authorities. A small confidential study in Chicago found that more than half of the 50 mothers interviewed supplemented their incomes with unreported and sometimes illicit earnings.[12] It would be conservative to assume that 30% of the welfare caseload could go to work immediately in legal jobs if they had a full work support system: earned income tax credits, unemployment insurance, health care, child care tax credits, and child support payments.

After eliminating those who work and those who are exempt from work, who is left on welfare? One-third of the welfare caseload may be physically able to work, but has a tendency toward long-term dependency on welfare. The work experiences of other welfare recipients are not likely to be indicative of the employment possibilities for the two million mothers who tend to stay on welfare continuously for five or ten years. Chronically welfare dependent mothers are more likely to be high school dropouts with very low scores on tests of basic skills.[13] Though the jobs welfare mothers tend to get are low paying and insecure,

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[7] Child Trends.

[8] National Institute on Drug Abuse in Cooperation with the Assistant Secretary for Planning and Evaluation at the Department of Health and Human Services.

[9] 1990 Department of Labor Research and Evaluation Report.

[10] Spalter-Roth, Roberta and Beverly Burr. *Supporting Work: The Relationship Between Employment Opportunities and Financial and Other Support Programs* (testimony presented at the public forum of the Working Group on Welfare Reform, Family Support and Independence). Institute for Women's Policy Research, August 19, 1993.

[11] There is a stock versus flow measurement issue involved. The percentage of women on welfare at any one time who work 2,000 hours over two years would be smaller than 39%.

[12] Kathryn Edin in Christopher Jencks, *Rethinking Social Policy: Race, Poverty and the Underclass* (1992). Harvard University Press.

[13] See David Ellwood's tables on youth AFDC cyclers and stayers and Institute of Women's Policy Research reports on welfare and work: cyclers, combiners and dependents.

as many as half of the mothers on welfare may be significantly underqualified for similar jobs. Welfare-dependent mothers are less likely to have job experience and more likely to face discrimination in the labor market.[14] This group is likely to include those who need a little extra help and encouragement as well as those who have intensive emotional, disciplinary or social problems.

c) TAX INCENTIVES ALONE ARE NOT ENOUGH FOR EMPLOYERS.

Employer incentives to hire welfare recipients have traditionally come in the form of targeted tax incentives. We find that the value of the tax incentive is often outweighed by the amount of paperwork required and the stigma attached to hiring welfare recipients. If targeted tax incentives are to be effective, they must be accompanied by additional services such as screening, preliminary training, or a probationary work period.

The evidence clearly indicates that tax incentives alone are not enough. Lerman[15] notes that under both the WIN program and the TJTC, only a small fraction of the employers claimed credits for which they were eligible. Burtless[16] conducted an experiment with employer vouchers for hiring disadvantaged workers. Members of the control group who had no voucher payment to offer had more success in obtaining employment. Employers did not want to hire workers marked as "damaged goods" despite generous voucher payments, some of which could be redeemed as cash instead of tax credits. In addition to the stigma explanation, Bishop and Kang[17] explain the low employer participation rates in incentive programs by the high level of administrative costs for processing the incentives.

On the other hand, tax incentives can be packaged together with other employer incentives to provide an attractive overall package.[18] The stigma problem may be overcome by providing subsidized recruiting and screening as well as the initial training and support in

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[14] Institute of Women's Policy Research. Testimony cited above.

[15] Lerman, Robert. "A Comparison of Employer and Worker Wage Subsidies" in Robert Haveman and John Palmer, *Jobs for Disadvantaged Workers: The Economics of Employment Subsidies*, The Brookings Institution: Washington, D.C., 1982.

[16] Burtless, Gary. "Are Targeted Wage Subsidies Harmful? Evidence from a Wage Voucher Experiment." *Industrial and Labor Relations Review*, Volume 39, Number 1, October 1985, pp. 105-114.

[17] 1991 ***************

[18] Ernst and Young report on the value of America Works placement services. Forthcoming. The study indicates that employers may save as much as $2500 per person by hiring through America works.

a new job.[19] Some employers have suggested a one-year exemption from the health care mandate for ex-welfare hires. In addition, employers can screen applicants further if allowed to hire the workers on a temporary basis before committing to permanent employment. Any federal assistance to promote bundling tax incentives with other employer incentives must be flexible enough to allow local markets to shape services for employers.

d) TRAINING HAS MODERATE, BUT MEASURABLE EFFECTS. Although low skills are a severe problem, training programs are not a quick fix for welfare dependency.

Inexpensive programs ($100-1500 per person) provide short-term job search assistance, remedial education, vocational education or work experience. Despite variations in economic conditions and program design, the majority of the evaluations show some improvement in earnings, employment, and welfare exits in comparison to a control group.[20] However, even the most successful programs only raised employment levels from 24 percent in the control group to 35 percent in the training group. Thus, the training program only changed the outcome for about 10 percent of the group. While this improvement is worth achieving, it does not help the two-thirds of the group who would not get a job on their own or with the help of a training program. Additional caveats: 1) Exit rates from welfare tend to improve even less than employment rates. 2) The control group in the San Diego SWIM study caught up with the trained group by the fifth year after training.[21] 3) Neither the most job-ready nor the least job-ready benefit from inexpensive training as much as the middle group: the most job ready will find jobs anyway, and the least job-ready do not tend to get jobs after a quick program.[22]

More expensive, targeted training programs, such as the home health care aide demonstration, can cost from $4,300 to $8,700 per participant. Although intensive training programs tend to have less impact on rates of employment, they create larger boosts in earnings for those employed. Participants in the Home Health Care training increased their earnings by $1,200 or $2,600 per year.[23] In contrast, inexpensive job search or work experience programs tend to raise earnings on average by $400 or less.[24] Intensive programs may be able to increase actual wage levels, while inexpensive programs simply increase hours worked.

Thus, even if we could afford to put every person on welfare through a quick or an

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[19] Supportive work demonstrations from the 1970s have had strong impacts on job retention and later employment. See background papers from the Transition Issue Group for references.

[20] Friedlander and Hamilton. Gueron.

[21] Friedlander and Hamilton.

[22] Gueron and Pauley.

[23] Bell and Orr

[24] Gueron and Pauley.

intensive training program, two thirds of the eligible participants could end up unemployed at the end of the program. Getting the recipients into a job in the first place, may be a better route toward training and self-sufficiency. On the other hand, the historical training data may not be applicable in a truly time-limited system or a system with serious performance requirements. Education and training may have a much larger impact on employability in a time-limited system because participants and administrators would try harder; and employers might be more willing to participate in hiring and training more highly motivated, entry-level workers.

e) DEPENDENCY ON WELFARE INSTEAD OF SUPPORT THROUGH WORK IS HIGHLY CORRELATED WITH EARLY AND UNMARRIED CHILDBIRTHS. Marital status of mothers at the first time of welfare receipt is one the best indicators of long-term dependency. This should not be surprising since it is harder to pay for food, shelter, and daycare with one salary than two. Even if one parent does not work, he or she can contribute to family income by eliminating the cost of day care. Two earners in a low-income family also can reduce the fluctuation in income caused by bouts of unemployment. It is an obvious but often forgotten conclusion that a child with support from two parents has more resources than a child with support from only one or the other.

Early childbearing also is highly correlated with a tendency toward long-term welfare dependency. Among women who are age 25 or older at the birth of their first child, only 4% rely on welfare for more than a third of the child's first five years. The comparable statistic for welfare dependency among women 15 or younger at first birth is 47%. Even among 18 and 19 year olds, 26% will be welfare dependent for over a third of the first five years.[25] As a result of dependency created by teen childbearing, over half the total costs of AFDC go to cases in which the women entered AFDC as a teen parent.[26]

f) WE DON'T KNOW WHERE IN THE CYCLE OR HOW MUCH INTERVENTION IS APPROPRIATE. Only in the last decade or two have we begun to measure rigorously the results from our adult training programs and our early intervention programs such as head start. Although we have estimates on the returns to each of these programs, we do not have a way to compare the relative marginal investment returns. Is an extra dollar better spent in head start, high school or adult education? In the absence of a marginal investment theory, we are turning toward programs that help adults and children at the same time, such as parenting programs, WIC, family literacy classes, and head start.

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[25] Kristin Moore, (1993) Child Trends Analysis based on NLSY 1979-1988 data. Total sample with a birth in 1979 cohort (weighted percentages).

[26] Moore, Kristin A. and Martha K. Burt, *Private Crisis, Public Cost: Policy Perspectives on Teenage Childbearing*, The Urban Institute, Washington D.C.

Quint, Janet C., Denise Polit, and Cynthia Guy, *New Chance: Laying the Groundwork for a New Demonstration to Build Human Capital among Low Income Young Mothers*, MDRC, NY, NY November 1986. et.al.

II. Consensus Proposal: National Investments in a Re-employment System.

This section provides an overview of the re-employment system outlined above in more programmatic terms. Although the group agreed that all of the initiatives described above were good investments for creating a job oriented system, three of the proposals were unique to the private sector jobs mission of our group: the Jobs Consortia, the two year reemployment program, and the family unemployment insurance. These three proposals are highlighted in the list below and described in more detail in the five page executive summary. Follow-up proposals with more detail will also be developed upon request.

1) **EARNED INCOME SUPPLEMENTS**--Some of the new investments supplement earnings for parents who work:

(i) **Earned Income Tax Credit Expansion.** Under the reconciliation budget, incentives to work have been expanded through refundable tax credits. When the change is fully phased in the maximum assistance will rise approximately from $1,900 to $3,400 for a family with 2 or more children. For a full time worker the expanded EITC can add as much as $1.70 per hour.

****** (ii) **Unemployment Insurance for Low Income Families.** Making work pay involves not only raising the returns to work for parents, but also filling in the inevitable unemployment gaps. In the low-end labor market most jobs last less than one year. Wage subsidies in combination with wage insurance could create a viable self-sufficiency package at least one-third of the welfare population.

(iii) **Health Care.** Access to healthcare will remove the disincentive to work resulting from lack of health care coverage in low-wage jobs.

(iv) **Mandatory Paternity Establishment and Child Support Enforcement.** Linking support for children to two parents insofar as possible should decrease the dependency of children on welfare. Special care must be taken to ensure that enforcement policies do not create a disincentive for fathers to work.

2) **NATIONAL OPPORTUNITY INITIATIVES**--Other investments should be aimed at expanding and streamlining access to self-sufficiency opportunities:

****** (i) **Jobs Consortia.** When the time limit ends, welfare recipients who remain unemployed should be offered a temporary job. A small pool of jobs could be provided by a local consortia of public and private employers instead of launching a new, purely public-sector program. Utilizing the private sector and community groups as employers as much as possible will create better job experiences and reduce overheads. Many companies--non-profits and profit-based--have expressed an interest in forming consortia for hiring, training, and recycling funds invested in welfare recipients.

Many variations are possible. In Canada, the Human Resources Development Association formed an investment group which uses welfare funds to invest in small companies who hire and train welfare recipients. In another model, a fund is set up which pays wage subsidies during a training period and then collects money back from the successful graduates of the program. Governor Wilder has requested permission to set up a revolving trust fund which could provide a menu of rewards to employers including tax breaks, reimbursements for training, or one year of health insurance payments.

Setting up these partnerships opens up the possibility to attract private capital to invest in a tremendous latent resource: welfare recipients who want to work. Investors can reap the rewards from providing services which help businesses, help parents, and save tax dollars.

State and local creativity should be encouraged for setting up public-private partnerships to provide temporary jobs at the end of the time limit. The key is to connect local labor market employer networks voluntarily to low income job seekers.

****** (ii) **Transform JOBS+AFDC into a two-year, re-employment system with a drop out provision.** Everyone who is left on welfare and is considered able to work should only be paid for the hours which they participate in re-employment activities such as supervised job search, work experience, education or training. Parents who drop out of this highly structured program should receive intensive assessment, counselling and a much narrower set of options.

(iii) **Improve current education, employment and training portfolio.** The federal government already invests over 15 billion dollars on second chance programs: Job Training Partnership Act programs, Pell grants, Job Opportunity and Basic Skills program, Job Corps, and hundreds of other programs. The current initiatives to streamline improve and expand these programs should have more effect than any new welfare training program. Improvements suggested by our group include: (a) more emphasis on high quality, on-the-job training; (b) more emphasis on the 20 occupations projected by the Bureau of Labor Statistics to have the most job growth; (c) more emphasis on public-private partnerships to create work experience opportunities.

Of course, the best solution would be to make the programs more effective the first time around. Early interventions such as Head Start and better schooling opportunities in the inner cities are ultimately the best ways to tip the balance from welfare to work.

(iv) **Raise asset limits for means tested opportunity programs.** In the campaign the President called for an increase of asset limits to $10,000 from the current $1,000 limit which is out of date. This would prevent families from having to hit bottom before we can offer them any help. Higher asset limits also would enable welfare recipients to save money while on welfare and build up a cushion against future crises that could put them back into a desperate position.

(v) **Teach banking, budgeting, and saving skills.** Managing work, childrearing and homemaking on a tight budget is no easy trick. Experience at New Hope shows that recipients need and want to learn about using checking accounts, ATM machines, and credit cards. Basic education on financial management could be offered through Community Development Banks or other public-private partnerships.

(vi) **Increase access to networks of employment and education opportunity.** Discrimination and the isolation of minority and poor children in separate schools and housing prevent many from reaching the first rung of ladders of economic opportunity. Job networks and higher education opportunities are often too far removed from the everyday experience of poor and minority youth and families in areas of concentrated poverty. Although specific initiatives along these lines may not be specifically linked to welfare reform, it should be made clear that isolation from ladders of economic opportunity is one of the contributing factors to welfare dependency.

(vii) **Initiate a national campaign to explain the new social compact.** The public in general and young people in particular will need to be informed of the changes in the social compact. The choices faced by teens today will be tougher than those faced by their parents. Boys who father children will have a lifetime financial responsibility which cannot be dodged. Girls who have children will no longer be entitled to an 18-year salary at government expense. Raising public awareness of the new compact of responsibility and opportunity will help some youth to avoid difficulties and garner support for temporary assistance to those who make mistakes.[27]

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[27] In addition to these national programs, about half of the group was also in favor of national child support assurance and child care subsidies to encourage private sector work; others felt that statewide demonstrations were more appropriate for assurance and child care, given the high costs and unmeasured effects on the incentives for self-sufficiency.

3) DEMONSTRATION AND EVALUATION OF OTHER INVESTMENTS:

In addition to the basic elements of a re-employment system, we need to invest in creative approaches and flexible state options. We list below five areas which are high priorities for further investment and experimental research. In each area, a research plan is needed to clarify the investment objectives and our current level of understanding. Federal funds and waivers ought to be earmarked for projects in these areas proposed by partnerships including government officials, community groups, and private sector participants.

(i) JOB CREATION AND EMPLOYMENT INCENTIVES
(ii) SAVINGS AND EMPOWERMENT STRATEGIES
(iii) IMPROVING ACCESS TO JOB NETWORKS
(iv) TEAM-BASED APPROACHES
(v) INCENTIVES FOR SOCIAL WORKERS

In each of these important areas, we need more experience and evaluation of how to effectively use federal money—not just ad hoc waivers and demonstrations. Each of these topics is discussed below.

(i) JOB CREATION AND EMPLOYMENT INCENTIVES

Many employment incentives have been tried, but few have been rigorously evaluated. Only one study has ever evaluated targeted tax incentives for hiring. Successful programs that act as temp agencies for welfare recipients and charge a fee for permanent placements have not been evaluated at all. We strongly recommend that innovative new approaches be evaluated with randomly assigned control groups. Here are some of the approaches which should be evaluated:

- Package employer tax incentives with other inducements for hiring welfare recipients.
  - The America Works Corporation packages tax incentives with wage subsidies over a six-month trial period of work. America Works staff train and support the worker during the trial period. If the worker performs well, she is permanently placed in the job and America Works collects a placement fee of about $5,000 from the welfare agency.

- Provide subsidies through vehicles other than the tax code.
  - Local consortia to mix public and private funding for temporary jobs would allow wage subsidies and other employer incentives to be negotiated at the local level.

- Pay wage subsidies directly to individuals instead of employers. Many variations are possible:
  - Permit part-time work or temp work during welfare. (With time limits, the

issue of mixing welfare and work is a very different one.)
- Provide child support assurance or a refundable child care credit.
- Pay employment bonuses to welfare recipients for finding and keeping a job.

- Use targeted incentives in a new way: through government contracting.
  We could provide preferential treatment for service providers who hire a minimum percentage of welfare recipients. We can leverage government funding for child care, substance abuse treatment, home health care, maintenance of public housing, and more. Let service providers compete to serve welfare recipients by hiring and training some of their customers. Such a program could be extended to all government contracting in the same way that we currently favor minority and women owned businesses. At a minimum we should demand that new spending on day care lead to some job creation for welfare recipients.

If proven effective, these initiatives could help welfare dependent adults to get work experience in real jobs in order to increase their employability.

(ii) SAVINGS AND EMPOWERMENT INCENTIVES

During the campaign the President advocated helping welfare recipients to become self-sufficient through saving and empowerment strategies as well as through work and training. Our group recommended higher asset limits and financial education as part of the national welfare agenda. Once welfare recipients are allowed to save and encouraged to take advantage of the regular financial services and saving opportunities available to the general public, some research and evaluation could determine whether additional incentives would effectively promote self-sufficiency.

- <u>Savings Incentives</u>: New saving vehicles such as Individual Development Accounts or Community Development Bank/Certificates of Deposit could be established with matching federal money incentives. Use of these funds could be limited to training or entrepreneurship. In addition, welfare recipients could be allowed to earn extra money without losing any benefits if the money is placed in a personal development account. (HUD experiment? ask Mark Gordon or Cuomo)

- <u>Empowerment Incentives</u>: Research has shown that only a tiny fraction of the welfare population can successfully launch their own small business. However, there may be ways to expand opportunities for ownership and self-determination to a larger scale.

  - **Cooperative franchises** could provide a blueprint for success and some risk sharing in order to increase success rates. In a cooperative franchise, the workers share ownership with a regional or national entrepreneur who can provide the management and financial skills necessary to allow the hard work of the worker-owners pay off. In

day-care businesses, for example, many mothers could succeed with such support.
- **Community Investment Corporations** could allow residents to pool their money and team up with managers and entrepreneurs to revitalize the community. Since residents would have voting rights and a financial stake in the Corporation's success, they would work hard as employees and provide a loyal customer base. Returns from the venture would stay in the community.
- **Employee-Owned Companies** like the Worker Owned Sewing Company in Massachusetts are built on the sweat equity of poor people. It now handles multi-million dollar clothing contracts for K-mart and others. Why can't women on welfare use their latent work efforts to build equity instead of raking leaves for the Parks and Recreation Service?

If the future holds only long hours, low pay, and little job security, how can we expect women to get motivated and work hard? Creating opportunities for welfare dependent families to earn equity in a thriving venture may provide hope for participating in the American Dream which we take for granted. It just might motivate a family to try harder.

(iii) IMPROVING ACCESS TO GOOD-JOB NETWORKS

A major problem for the urban poor is the lack of access to networks for finding jobs. Studies of how people find work consistently conclude that the most common method for finding good jobs is a referral from friends or relatives. To provide such referrals, friends and relatives must themselves be employed and be a credible reference. The concentration of unemployment in poor neighborhoods or housing projects makes it difficult for the urban poor to make use of this highly productive method of job search. Instead, they must rely on formal methods of job search such as want ads and state employment development offices. The overrepresentation of the least advantaged among the population using these methods drives employers offering good jobs away from them. This intensifies the job-finding problem.

The research in this area does not provide us with clear insight into which policies are most effective for improving access to good-job networks. Efforts can be focused on improving access to informal networks or improving the quality of formal job networks.

- **Informal Job Networks.**

- Brokers. Welfare and youth employment practitioners emphasize the need for an intermediary broker. This broker can develop personal relationships with employers (near and far) and provide a credible recommendation for someone who would otherwise be stigmatized. Successful job developers or brokers generally have a business or sales background rather than a social work orientation. Such brokers or job developers may help youth and women with little job experience to access the informal job network.

- Gatreaux. Another method of improving access to informal networks is through moving to opportunity programs. Moving out of concentrated poverty areas can increase the probability of the mover's having friends and neighbors who work and can provide job referrals. As a group, we support national program development for moving-to-opportunity programs based on the positive results for children demonstrated in the Gatreaux project. In addition, the potential of Gatreax to impact employment over the long-term may be greater than in most welfare to work training programs.[28] is unclear, for example, whether moving nearer to jobs is as important as moving nearer to people who work. If we step up the expectation to work, it will be more important to understand the impact of housing location on the ability to find work.

- **Formal Job Networks.**

– One Stop Shop. The new One Stop Shop initiative can provide disadvantaged neighborhoods with access to a job network through small, competitive, local offices linked together by computer networks. In these offices people can find out about local or regional labor market information, get job counselling, find out about training opportunities, and receive job search assistance. The key to ensuring that One Stop is a high quality job network is getting the buy-in from employers and middle class employees through attractive, high quality, competitive service. In addition to competitive bidding for one stop franchises, the Department of Labor plans to encourage One Stop vendors to provide fee-based services to employers such as screening, recruiting and supplying labor market information. Formal networks may also be improved by the skill standards initiative which will create objective skill standards and credentials for those who do not have four year degrees.

– Job Banks. A requirement to list jobs with the employment service job bank may be worth considering despite the controversy which it would generate. Without the job listing requirement job banks tend toward a destructive equilibrium. Employers with good jobs do not use job banks so employees with good skills do not use job banks. If listings were mandatory, it would attract a better pool of workers and make the service more useful to employers. Many European countries have job listing requirements which are estimated to have compliance rates ranging from 30 to 70%. Incentives to use job banks rather than a mandatory requirement might also be a way to reach a more positive equilibrium.

– New Formal Networks. Many jobs are not pre-existing slots; they are created to fit people. Formal networks should try to 1) showcase people as well as jobs and 2) bring employers and job seekers together in social settings. Alternative networks which could receive more support include: job fairs, video resumes, television programming, and subsidized employment newspapers.

Many of these job network initiatives are already planned and could be utilized by the welfare population. For example, the new School-to-Work initiative encourages states to incorporate the role of "career counsellors" as brokers. The Department of Housing and

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[28] Rosenbaum, James. "Black Pioneers---Do their moves to the Suburbs Increase their Economic Opportunity for Mothers and Children?" Housing Policy Debate. V. 2 Issue 4.

Urban Development is planning to expand their Moving-to-Opportunity programs. The Department of Labor could also work on ensuring that disadvantaged neighborhoods have access to One-Stop centers without jeopardizing the middle class buy-in. Certainly, career offices in schools of all neighborhoods could link up to the One-Stop information networks. Skill standards, when developed, will also be accessible to the welfare population. All of these services will not only be available to mothers and potential mothers, but also to fathers and potential fathers. We recommend rigorous evaluation of these alternatives for increasing access to high quality job networks.

(iv) TEAM-BASED APPROACHES

The current welfare system isolates women and children in a desperate situation. We require that they not have husbands unless they meet the stricter Unemployed Parent test. When we offer career assistance, we examine only one case at a time. Women are assigned community work service "slots" in an assembly line fashion. As modern corporations are shifting from mass production assembly lines to flexible teams of empowered workers, welfare could also rely more on a flexible teaming approach:

- Residential College: Provide a physical setting in which women can work as part of a team. Cooking, child care, and other jobs in the community could be shared to reduce costs. Training could be offered without expensive overhead for child care and transportation. Such a community could probably be supported with the equivalent of welfare, food stamps and housing benefit. If it provides a safe place to live and good training, it would be a popular element in a two-year, "hand-up" welfare program.
- Team oriented JOBS: Emphasize job clubs, child care clubs, shared housing and other forms of mutual support as part of the existing JOBS program.
- Self-managed teams: Instead of assigning women to community work slots, teams of women could compete for pre-defined work contracts. As long as the contract specifications were met, there would be no need for expensive and demeaning supervisors. Providing more responsibility, freedom and respect would help build real world skills.
- Caseworker assistants: We frequently hear that caseworkers are overloaded and therefore cannot invest the time to help women rebuild their lives. We could recruit job-ready welfare mothers to work as case worker assistants to help other mothers solve more severe problems and become job ready.

(v) INCENTIVES FOR SOCIAL WORKERS & MANAGERS

Most of the discussions on welfare reform revolve around the incentives for welfare recipients or to a lesser extent around the incentives for employers. A key ingredient in helping welfare recipients make the transition to self-sufficiency is the incentive structure for social workers and welfare program administrators. In the testimony during the Welfare Reform hearing in Washington D.C., recipients described welfare workers, rules and systems as being hostile to women who took steps toward independence. In addition to changing the rules and the system, it is worth adding incentives for the caseworkers and JOBS personnel to help move their clients to work onto the research agenda.

Here are a few examples of ways to redesign welfare or JOBS administration to change the incentives:

– Work Support Agency. Separate the welfare administration from the administration of job assistance and subsidized jobs. This concept has been discussed as a new Work Support Agency, possibly run by the Department of Labor instead of HHS. This would allow staff on the job assistance side to spend less time worrying about income verification and eligibility and more time on getting people to support their children through work. The drawback is that it would create a new layer of bureaucracy at a time when we are trying to slim down and cut costs.

– Modernization. Use technology and process redesign to reduce dramatically the amount of time spent processing paper. This would allow current staff to spend more time helping people instead of pushing paper.

– Include private groups. Allow non–profits and private companies to augment welfare programs by becoming part of the program. Toby Herr of Project Match has outlined a system in which welfare recipients could get work or education participation "credit" in their case for working with outside groups. For example, a mother who volunteers at school, church, or head start can get work hour credits if she is on time and a good worker. This allows individuals to find a supportive niche and build their own program rather than assigning women to make–work slots.

– Performance bonuses. Pay organizations for helping recipients get off and stay off welfare. Allow non–profits, private, and even government offices to compete for the funds. Recipients could choose an organization for casework. Payments could be performance based. However, we cannot pay a fixed bonus for all placements since some people are less likely to find jobs than others. Performance bonuses would pay all programs such as Project Match, America Works, One Stop Shop and the JOBS program for getting women in jobs that last.

III. Differing views: BASIC SUPPORT FOR CHILDREN

Summary: Once we cleared away the consensus areas, this issue remained at the heart of the private sector jobs issues. In various forms, we agreed that the incentive to work for able–bodied adults would be increased by widening the gap between the minimum level of assistance for children and the rewards to work. This means raising the rewards to work or lowering the floor. We favored "Make Work Pay" strategies that increased rewards such as the EITC and health care reform. Further increases in the rewards to work could be offered through employee subsidies and AFDC–based earnings disregards. We recommend raising the rewards to work within the budget constraints.

On the other hand, lowering the floor will also "Make Work Pay." Ultimately, there must be a minimum level to which benefits fall when parents refuse to try to become employed and self-sufficient. The axis on which our views differed was according to **how low the floor could be allowed to drop** in order to provide an incentive for able-bodied parents to take private sector jobs.

Framework for options: Our group was very concerned about the impact on children of a potential reduction in security for children of single parents. The following framework serves to lay out the range of options discussed:

- As a yardstick for policy goals, we recommend an objective measure of the cost of supporting a child.

Each state should annually publish the minimum cost of supporting 1, 2, or 3 children in their state based on a common bundle of goods and services. For example, the bundle could include: food, housing, utilities, day care, night and holiday care, transportation, clothing, etc. States could publish an objective cost measure such as the average expenditure on the bundle of services in the bottom quartile of households in the state. This number (or a multiple of it) could be used as an index for child support awards in each state as well as for the welfare assistance options outlined below.

- Welfare Reform ought to introduce a new compact explaining which portion of basic child support is the public responsibility and for how long.

Require states that use federal AFDC money to ensure that first-time welfare recipients receive a bundle of cash and services equal to or greater than the basic cost of support for children. This would differ markedly from the current program in that AFDC benefits would be higher or lower depending on whether housing or other benefits were available. AFDC would serve to top up the budget to a basic, state-determined level of support rather than provide a fixed payment. Taking advantage of existing employment and training assistance would be easy if the cost of living--including child care--was really covered.

After two years, the public would no longer be expected to provide full support for the children--their parents are expected to support them through work. Once parents have used up their "hand up" assistance, the support for children includes a clear expectation that able-bodied adults will work. Any further assistance after the initial two years would be contingent upon having a child support order in place or an exemption. This new understanding of the social welfare compact could take at least four forms:

Option 1: Pay less than the full child support level after two years.

Within federal guidelines determined by the welfare reform effort, states could provide less than the full child support level. The partial payment of the basic child support would not be expected to support the family indefinitely. Assistance in this case might be used to tide the family over a crisis while they stayed with friends or in a shelter. After two years of a "hand up" the state would not be responsible for providing full support to children with one or two able bodied parents.

Any income over the welfare assistance should be disregarded up to the basic support level since the children will need the money to survive. Temporary, subsidized jobs could be provided in high unemployment areas with a higher federal match rate and incentives to relocate.

This is the only option in which long term recipients are paid less money than new entrants to the system. Federal guidelines would need to cover three aspects of the system:

1) Benefits differential: At one extreme, states could implement a program which dropped off to zero benefits. Federal guidelines might require an unemployment insurance program aimed at this population or some other supports in exchange for allowing benefit termination. Alternatively guidelines could be designed to set a minimum level to which benefits could drop; states with benefit levels below the minimum could not utilize the option to cut benefits. A variety of other federal guidelines could be imagined to regulate the difference between the maximum and minimum benefits.

2) Benefits slope: States could choose to design the system so that individuals faced a gradual reduction in benefits or an immediate change. In order to implement steeper slopes, states might have to demonstrate accelerated investment strategies such as intensive training programs, access to day care or providing jobs for those who do not find work.

3) Phase-in strategies: Federal guidelines might restrict major changes to new entrants only. Gradual benefit reductions which did not fall to zero might be phased in for the population as a whole.

Justification: This would put the responsibility for finding work on the shoulders of able-bodied parents in the same way that it falls on able-bodied, childless adults. However, it leaves a partial cushion that is not available to childless adults or two-parent families. The size of the cushion would be determined by the federal or state guidelines spelled out in the welfare reform legislation.

Option 2: Pay the full support level, but only intermittently.

After two years, single parents could be provided full child support on the same terms as two parent families. Eligibility should be temporary and based on a work history. In order to place single and dual parents on an equal footing, such a policy might involve provision of affordable child care for single parents or exemption of single parents with children under school-age and no child care.

Justification: This would put responsibility for single mothers to work on a par with our expectations for two parent families. Children in both one- and two-parent families should be afforded more protection from unemployment than we provide for adults. Although we can justify more assistance to adults with children than without children, we can no longer defend dramatically different expectations for single or dual parents. Women (or single parents) are no longer expected to stay home with their children.

Option 3: Pay the full support amount indefinitely, but require work.

After two years, states could continue to offer full child support packages with a work requirement. Some feel that work must take the form of a "real" job. Others believe that certain parenting activities should count as a valuable work contribution.

Justification: This would give significantly less responsibility to single parents to find jobs relative to two-parent families or childless adults. However, it preserves the assumption that single parents have an obligation to work.

Option 4: Allow consolidation of means-tested funding before and after time-limit.[29]

Preventing hunger and homelessness among children--providing them with basic support--is not a question of how much AFDC can be cut after two years. In the current budget environment, basic support for children will require shifting funds from numerous means-tested programs, including education and training programs. In-kind assistance programs force destitute families to overinvest in housing, healthcare, food or education. If the resources from these programs could be pooled, jobless families could be offered a decent income with incentives for various behaviors. By focusing only on AFDC aid, we will do little more than place more hardship on families. In the initial two years, not enough funds will be available in the AFDC program alone to provide a true second chance. Reducing assistance or requiring work is just less after too little basic support.

We are focusing on a program that spends about $20 billion each year. Of that total, we may believe that only 25% of the families have an adult who could work instead of accepting welfare. Since getting that population to work will probably cost at least as much as AFDC, we are pouring our energy into a budgetary differential of about $1 or 2 billion either way. While AFDC recipients receive over $100 billion each year in assistance, AFDC reform will likely affect the spending of only $1 or 2 billion annually. Although one or two billion is a small budget slice, a billion dollar conversion from clothing to social work could significantly harm the well being of families.

Option 5: Allow states to apply for Options 1, 2, 3, or 4 and receive approval for an implementation plan. States could choose to shape the individual's transition from full child-support to partial support as a gradual or immediate change. States may choose to shift some resources out of housing or food stamps into wage supplements or income support. States would outline funding levels and strategies for employment,

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[29] It is interesting to note that this option brought together the most liberal and the most conservative members of our issue group. In addition, the unofficial Republican welfare reform proposal also touts a "block grant" concept as an option for states to increase flexibility.

income support. States would outline funding levels and strategies for employment, training and public jobs. Phase-in strategies from the current system may vary as well.

Justification: Differing strategies may be appropriate in different states or even different communities. Option 1 may be suited to large, highly populated states with turbulent job markets, whereas Options 2 or 3 might be more appropriate in rural states with highly seasonal work or less employment turnover. Option 4 may be helpful for very poor states in which the other options would have little effect.

Recommendation: The goals, not just the rules, should be clear and based on the cost of supporting a child. State-by-state, empirically based cost estimates would be more useful for calibrating an appropriate assistance policy than a national poverty level. The fate of children would not depend on winning a lottery for housing or other benefits. Clarifying the difference between our expectations for self-sufficient parents (the poverty line) and the basic cost of supporting kids (the basic child support level) would increase the incentive for parents to move into a private sector job.

As already mentioned, our group did not reach consensus regarding which option is appropriate. Currently, some states allow benefits to fall far below any reasonable measure of basic support for children. The working group will have to decide whether to formulate an official policy or to leave the status quo alone.

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IV. Appendices: Available upon request.

A. Background Papers
1) Job Outlook for Welfare Recipients (Lucas and Deane)
2) Welfare Recipients as Employees (Lucas and Deane)
3) Wage Subsidies (Gillingham)
4) Job Training and Job Development (Nicholson and Lah)
5) Savings, Assets and Empowerment (Stiglitz) (Not completed)
6) Economics of Early and Single Parenting (Deane and Bavier) (Not completed)

B. Options Presented to the Group
1) Jobs Consortia
2) Family Unemployment Insurance
3) Individual Development Accounts
4) Community Development CDs
5) Education, employment and training model
6) New Foundation
7) America Works & TEE demo
8) 3 Tier System for 2 yr re-employment
9) The "Hill"
10) Residential College Opportunity
11) Guaranteed student loan Mentors
12) Disregards
13) Sub-minimum wage

National Child Support Collections Potential: Implications for Welfare Reform

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Preliminary estimates for the Welfare Reform Working Group. The enclosed estimates are based on preliminary estimates using a weighting scheme that will be changed following suggestions of a panel that reviewed the methodology for the working group. Therefore, estimates should be regarded as orders of magnitude only. Exact estimates will change indicating a lower national collections potential.

Better child support enforcement could substantially improve the well-being of children in mother-only families. The amount of improvement will, of course, depend on the incomes of noncustodial parents, many of whom pay little in child support. While better child support enforcement is important in its own right, such enforcement could also be a critical building block in welfare reform. With an expanded EITC-- and possible increases in the minimum wage and health care to follow--more single mothers will be able to substitute earnings for AFDC. However, those with fewer skills or experience will be unable to leave AFDC without some additional income. In principle, higher child support payments could provide the supplemental income these single mothers need to leave AFDC. Again, the income of noncustodial parents, especially the partners of low-skilled custodial parents, will determine the amount of the supplement and the number of AFDC families who become self sufficient.

Unfortunately, little is known about the incomes of noncustodial parents, and much of what is known comes from studies that rely on IV-D case records. However, the effects of child support enforcement on the AFDC population will depend upon the universe of noncustodial parents, including those who never marry the mothers of their children, establish paternity, or establish a child support obligation by voluntary agreement or a court order. Therefore, income estimates drawn from a nationally representative sample of the universe of noncustodial parents, are critically needed.

DATA AND METHODOLOGY

This memorandum uses the 1990 SIPP data to provide such estimates. The SIPP is the only nationally representative survey that meets minimal requirements for estimating national collections potential. The SIPP includes data on fertility, household composition, income, child support orders and child support payments. Using these data, we define noncustodial fathers as men who report financial contributions to their own children living elsewhere, or men who report no such payments, but who are living with fewer children than their fertility histories show they have sired. We then estimate current and potential child support payments, using reported income, child support orders, and payments.

To estimate potential payments, we assume that child support guidelines from the state of Wisconsin prevail nationally. We use the Wisconsin guidelines because they are familiar and simple to calculate. Further, our data do not permit simulations of guidelines that use both parents' income to determine child support orders.[1] However, child support payments under the Wisconsin guidelines are higher than payments under the guidelines used by most other states, whether or not these guidelines rely on one or both parents' income. Therefore, our estimate of national collections potential is an upper bound.

[1] Under the Wisconsin guidelines a noncustodial parent order is 17 percent with one child pays 17 percent of his gross income for one child, 25 percent for two children, 29 percent for three children, and 24 percent for four or more children.

RESULTS

According to the SIPP data, there were almost 11 million noncustodial fathers in 1990 (Table 1). The mean income of noncustodial fathers ($23,362) was similar to the mean income of all men ($25, 064).[2] Noncustodial fathers who paid child support with an order were better off than the other two groups of fathers in Table 1. On average fathers who paid with orders made $28,424 during the year, followed by those who paid without an order ($22,945), and those who did not pay ($20,470). Though the aggregate income of all noncustodial fathers was about $232 billion, as a group they paid a total of $15.6 billion in child support payments, roughly 7 percent of total income. This low figure suggests that noncustodial fathers could pay much more in child support. This is certainly true of the large number of noncustodial fathers (56 percent) who pay nothing now. Nevertheless, payments were nontrivial proportions of the incomes of noncustodial fathers who paid child support. Those who paid with an order spent about 16 percent of their income on child support payments. Those who paid without an order spent about 19 percent of their income on child support payments.

National Collections Potential

If child support orders were established for all children with a living noncustodial father and these orders were fully enforced, according to the

[2] In this analysis, noncustodial fathers are limited to those between the ages of 18 and 54. For comparitive purposes, mens's income was also calculated for this group.

Wisconsin guidelines, aggregate child support payments would have been $55 billion dollars in 1990. This estimate represents 3.5 times the amount noncustodial fathers paid in child support in 1990. To collect the full $55 billion, noncustodial fathers would have to pay, on average, 22 percent of personal income in child support, a consiserably higher prortion of income for noncustodial fathers who pay now. Further, about half of the increase in child support payments would come from noncustodial fathers who now pay nothing (Figure 1). Noncustodial fathers would, no doubt, resist such a dramatic reductions in their disposable income. Therefore, radical improvements in paternity establishment, substantial increases in child support orders, and strenuous enforcement orders would be needed to collect the full amount.

Poor Fathers and Young Fathers

If the Wisconsin guidelines were used to set child support orders, as these estimates assume, average child support payments by noncustodial fathers who now pay with orders would rise to $6,389, an 80 percent increase (Table 2) Payments by fathers who now pay without orders would rise to $5131, double their current payments. These increased payments would undoubtedly improve the well-being of children in mother-only families. However, some of the resulting increases in the well-being of these children would be offset by reductions in the well-being of children living with noncustodial fathers.

Though such substitution is inevitable, it becomes a concern for policy if child support payments push noncustodial fathers and their children into poverty. For example, ... families included dual fathers, men with father with financial responsibilities to children living with him and children living elsewhere. The 12-month average income of 8.9 percent of these families fell below the poverty line in 1990. This proportion would rise to 11 percent, if the full $55 billion in potential child support payments were collected (Table 3). Increased child support payments would have a greater impact on families with dual fathers under 30 years old. Currently 13 percent of these families have 12-month average incomes below the poverty line. If the full collections potential were paid, this proportion would increase to 16 percent.

Strategies for protecting noncustodial fathers and children from the poverty-inducing effects of fully effective child support system may need consideration. Even fathers who live with none of their children must have food, shelter, and transportation to work. One strategy is to provide employment services to noncustodial fathers with low skills, so that they can earn the equivalent of a full-time, full-year worker paid the minimum wage. Currently, 16 percent of noncustodial fathers have annual incomes below this level (Table 3). Among young noncustodial fathers, this proportion rises to 27 percent. Another strategy is to set zero child support orders during the period in which noncustodial fathers are poor. Increasingly states are adopting self-support thresholds that have this effect. If our Wisconsin-based guidelines were modified to include poverty protection, the national collections potential would decline by about $1 billion.

This lower national collections potential has an implication for effects of increased child support payments on welfare reform. The partners of many long-term welfare recipients are likely to be noncustodial fathers with 12-month average incomes that fall below the poverty line. If setting zero orders for these noncustodial fathers has such a small effect on the national collections potential, then increased child support collections will have little impact on the incomes long-term welfare recipients.

In sum, there is great potential for increased child support payments, which would substantially improve the well-being of children in mother-only households. However, radical improvements in systems for establishing paternity and child support orders and for the enforcement of those orders would be needed to collect the full amount. Further, increased child support collections would probably not result in substantial supplements to the earnings of the welfare recipients who need such supplements most to become self sufficient.

Table 1
Noncustodial Fathers
Number, Income and Child Support Payments

		Paid Child Support		
	All	With Order	Without Order	Did Not Pay
Number	10,629,068	3,636,483	1,045,527	5,947,058
Mean Personal Income	23362	28424	22945	20470
Mean CS payment	1471	3559	2574	--
Total child support paid ($Billion	15.6	12.9	2.7	0.0

Source: Urban Institute Calculations, based on the 1990 SIPP

Table 2
Noncustodial Fathers
Income and Child Support Payments
Assuming the Wisconsin Guidelines

		Paid Child Support		
	All	With Order	Without Order	Did Not Pay
Mean CS Payment	5138	6389	5131	4408
Mean Personal Income After Child Supp	18224	22035	17815	16062
Total child support paid ($ Billion)	54.6	23.2	5.4	26.2

Source: Calculations by the Urban Institute, based on the 1990 SIPP

Table 3
Percent of Dual Father Families in Poverty
and Percent of Low Wage Noncustodial Fathers
Assuming Current and Potential Child Support Payments

	Noncustodial Fathers			
	All		Under 30	
	Payments			
Type of Noncustodial Father or Family	Current	Potential	Current	Potential
Poor Families With Dual Fathers	6.20	8.90	12.60	15.90
Low Wage Fathers a	15.82	--	27.33	--

a Noncustodial Fathers with average incomes over 12 months less than $8840.

Source: Calculations by the U

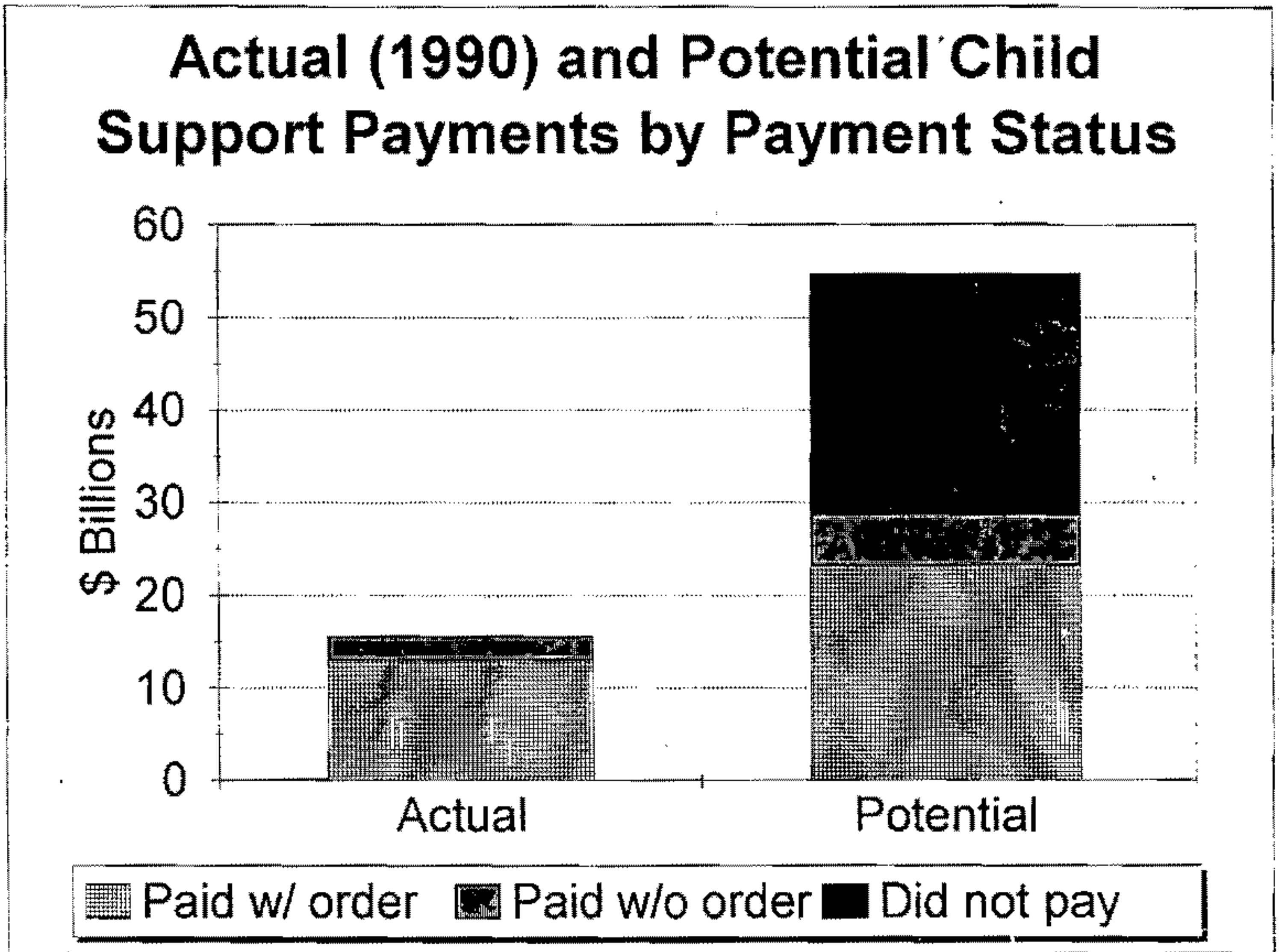
Actual (1990) and Potential Child Support Payments by Payment Status
$ Billions
60
50
40
30
20
10
0
Actual
Potential
Paid w/ order
Paid w/o order
Did not pay

Table 1

Potential Eligible for Various Eligibility Criteria.

	All families	Single Parent	Single parent & poor	Re-married	Re-married & poor
Total Families					
Families with Awards					
Families Without an award who cooperate					

Numbers derived from output TRIM2 child support simulations using March 1990 CPS

Table 2

CHILD SUPPORT ASSURANCE
DESIGN ISSUES
SUMMARY TABLE

	IMPACTS				
Restriction	Admin. Burden	Admin. Cost	AFDC Part.	Poverty	Benefit Cost
Universal	Minimal	Minimal	High	High	Expensive
Require Award	Simple	Cheap	Limited	Limited	Reduced
Require Cooperation:					
a. Initial	Difficult	Expensive	High	High	Increased
b. Ongoing	Difficult	Expensive	?	?	Reduced
Income Test	Moderate-Difficult	Expensive	Limited	Limited	Reduced
Single Parent	Simple	Cheap	High	High	Reduced

September 29, 1993
Child Care Working Group

Training Welfare Recipients to be Child Care Workers

As part of the President's welfare reform proposal it is likely that all able-bodied welfare recipients will be required to obtain employment. In thinking about the implementation of such a proposal, two dilemmas immediately arise: 1) Where will these people, mostly women, find employment that pays a living wage, offers benefits, and provides a career ladder? and 2) How can the supply of quality child care be expanded to accomodate their child care needs? One solution is to train these women to provide quality child care services. Although such a solution would seem to effectively "kill two birds with one stone", there are serious concerns about its viability ranging from the quality of the care provided to the limited career advancement opportunities in the child care field.

To evaluate those concerns and explore options to address them, we reviewed the literature and spoke with over 60 experts in training, child care, child development, and related research. The consensus was that a program to train AFDC recipients as child care workers could provide a partial solution for both of these problems, but that for the program to succeed it would have to be carefully designed and participants would have to be screened. First, training programs that provide the components necessary for self-sufficiency already exist. Rather than creating a new training system, the Federal government could support the development of programs throughout the country that build on these existing successes. Second, by supporting a high quality training program, we would be expanding the availability of well-trained providers and therefore the supply of quality child care.

Head Start is one program that accomplishes the goals we are trying to achieve through welfare reform. Head Start has been a successful training program for parents who want to be aides and teachers in the classroom. The success of Head Start's training is reflected in the fact that one-third of current Head Start staff are former parents. Although parents may start as volunteers, they often move up to become teachers or teachers aides and then component coordinators and program directors.

<u>Can Welfare Recipients Be Trained For Careers in the Child Care Profession?</u>

Training welfare recipients to be child care workers could provide a partial solution to one part of a complicated problem, and there are several models which illustrate how successful programs can be operated. The components of these programs tend to be very similar. For example, they often include community needs assessments. Also, these programs are developed on the assumption that not every person is interested or qualified to be child care providers. Finally, training and job placement prepares trainees for roles as child care providers and other child care related jobs in centers, family day care, and schools.

Existing Programs

The following are three examples of programs that provide training for AFDC recipients and other low-income individuals who would like to become child care workers. Each of these successful programs has taken a different approach which illustrates the fact that there is not one model for child care training programs.

Massachusetts - The Child Care Careers Program is a nine-month program. Potential program participants must have a high school diploma, have no loans in default, and must demonstrate, through both telephone and personal interviews, motivation and a desire to be a child care teacher. The program includes five courses on curriculum concerning infants and toddlers, preschoolers, and multicultural issues and two field experiences with infants and toddler and preschoolers. The courses are taken at Wheelock College, and all courses and field experiences are worth three credits each and can be applied toward an AS degree. In addition, trainees can participate in a weekly support group, an adult literacy component, and can receive tutoring. Participants also receive assistance with job preparation, job search, and job placement. Twenty-two people are enrolled in the program at any one time. Upon completion of the program, trainees receive a certificate stating that they have met the requirements for child care teacher certification in the State of Massachusetts. At that point, they need only apply for the certification. The average hourly wage upon placement is $8 to $9, and 89 percent of trainees were placed in 1992-1993.

Connecticut - The Family Education and Training Project is a demonstration project for curriculum development funded jointly by HHS and the Department of Education. The program, located at a Head Start Center, is a 720-hour, nine-month program. To qualify, potential trainees must be 18 years of age or older, have a high school diploma or GED, and be on public assistance or below income according to Head Start guidelines. Also, because of the research design for evaluating this program, trainees can not have been trained as a child care worker or employed in child care. To reduce "creaming", trainees will not undergo an attitudinal screen.

The training aims to accomplish three goals: train women to be effective child care providers and parents, focus on the family rather than just the adult, and treat the training as a means for entry into the world of work rather than solely as training to be child care workers. Twenty women are enrolled at one time; their training includes 206 hours of classroom-based training in child care (120 hours), parenting (32 hours), job readiness and job search (54 hours). The remaining time is spent in field experience (496 hours) and biweekly, trainee-led support group meetings (18 hours). The program is responsive to individual needs and cultural backgrounds and focuses on empowerment rather than pedagogy. The end result is a Child Development Associate certificate, and trainees are assisted in job placement. Training takes place during the regular school day; therefore, the child care needs can easily be met; school-aged children will be in school, and Head Start eligible children can attend classes at the center.

California - The California Child Care Resource and Referral Network has provided funds to resource and referral agencies in over 40 communities to recruit and train family day care providers through the California Child Care Initiative. The main purpose of the program is to increase the supply of licensed, quality child care. The initiative does not have one specific training program; instead, they focus on individual training needs. The training has included one-time workshops, individual technical assistance (home visits), and multi-session courses. The end result varies depending on the scope of the training; trainees may obtain their CDA, a state license, or some new skills.

Since 1985, 3700 new licensed family day care homes have been established with 14,000 slots. Over 22,000 providers have learned business skills and how to provide safe, high quality child care. In 1992, the Network began a new initiative to train Spanish speaking providers. They have trained 3300 providers and recruited 200 new providers. The Network has found that providers who were trained through the Initiative have higher retention rates and a greater sense of professionalism than other providers.

Components of Successful Child Care Training Programs

These three programs have several similarities which should be replicated in future training programs to ensure success. They attempt to address the needs of the community, they screen potential candidates, and they provide a range of job opportunities.

Community Needs - The needs of the community must be taken into account when developing a training program. A community needs assessment is a first step and should not be limited to the training needs for child care. Rather, the community should consider training as part of its overall early childhood needs including the demand for and supply of various types of care, the availability of qualified child care workers, and potential Federal, State, Local, or other funding sources.

Screening - A second factor to consider is screening of potential trainees. Trainees need to have both the desire and the aptitude to care for children. The program should be voluntary rather than mandatory. Trainees might be enrolled in a short pre-service training to help them determine if they would enjoy working with children, if they show an aptitude for it, and if they can make the committment of time and energy to training. Candidates might also be temporarily placed so that they can be observed interacting with children and families. Screening of candidates is important and might include the following: health screening including physicals; VD and TB tests; food handler's certification; educational background such as a high school diploma or GED; criminal and civil background checks; record checks for child abuse convictions or charges; safe driving records; phone and in-person interviews; and home visits.

Jobs - A third factor to consider is the type of jobs for which the training will be provided. The training does not have to be limited to specific child care settings such as centers, family day care, or schools or to educational staff. AFDC recipients could be trained to be teachers or assistant teachers in center programs or to provide care in their own homes. They could also be trained for other jobs in child care settings such as drivers or as food service, maintenance, or clerical workers.

How Might a Training Program Be Designed?

Because communities have vastly differing needs, a rigid national training system would probably not be the best approach for the highest rate of success. Nonetheless, the training should consistently teach participants to become both effective child care providers and more knowledgeable parents. The training should be holistic and focus not only on adults and trainee empowerment, but also on children and families. Our research showed that there are also certain components that should be included in training programs related to course work, field experiences, supervision, mentoring, and employee benefits.

Coursework

Coursework for AFDC recipients being trained to work in the child care field should provide a recognizable credential, certificate, or associate degree such as the Child Development Associate (CDA) and ideally would provide credits which can be applied toward an Associates or Bachelor's Degree. Classes should be small (12 to 20 students) and should cover the following course areas:

- Child Development - Courses should focus on principles of child development for infants, toddlers, and preschool-age children. Additionally, there could be courses and on-site training for those who have skills and interest in working with 5-8 year olds in before and after school programs.

- Curriculum - The curriculum courses should focus not only on children, but also on preparing the environment and experiences for children. Curriculum training should focus on developmentally appropriate practices, planning, health and safety issues, issues of culture and language, children with disabilities, and child abuse and neglect detection and referral.

- Building Self-Esteem - In addition to classes, trainees should receive supportive counseling or have the opportunity to join peer support groups to help them as they grapple with the tough issues associated with transitioning into the working world. Building self-esteem will also occur through mentoring, peer teaching and other informal education experiences.

- Basic Literacy and Communication Skills - This training could be provided either before the specialized child care courses or concurrently, depending on the skill level of the trainees. The focus of this training should be to help trainees move beyond the skills required for entry level work and beyond the skills they currently have in order to assume greater upward career movement.

- Business Skills - Trainees who would like to perform clerical or other managerial duties or provide child care in their own homes could benefit from business training such as bookkeeping or word processing.

- Parenting - All trainees can benefit from parenting skills classes even if they move on to other fields. Credit towards the CDA or college credit for parenting courses could be awarded.

Practicum/Field Placement Experience

Coursework alone is insufficient to prepare trainees for work in the child care field. In addition, they need experience working with children in appropriate, high quality settings where they can observe other teachers and learn by practicing what they have learned in their coursework. The sites selected for field experience need to have demonstrated success, meet health and safety standards, have staff who are experienced in mentoring or coaching and provide participatory supervision. Also to be considered are the many variations available in vocational child care preparation programs which are free.

Supervision

As part of their field placement experiences, trainees need supervision that is regular and frequent. They need written and verbal feedback on their performance and advice on how to improve.

Mentoring

Trainees need mentoring both during the training phase and continuing into and throughout their employment. Mentoring may be provided by an experienced role model or through peer support groups.

Job Placement

Toward the end of the training, participants should be assisted in the search for employment. Specifically, trainees should receive help finding jobs that offer a career ladder with a living wage rather than just offering a dead-end entry-level job.

Employee Benefits

Trainees need assistance with child care, health care, and transportation. Once they are placed in jobs, these worries will not dissipate unless they are paid living wages and can be guaranteed health benefits. Many State JOBS programs as well as JTPA have been hesitant to support child care training programs because the lack of benefits and low wages did not make the work a viable alternative for self-sufficiency.

How Much Would a Training Program Cost?

The cost of training programs varies depending on the duration of the training, the type and location of the training, the number and type of supportive services that are offered, and the number of trainees in the program. Per person costs range from $325 for a self-initiated, direct assessment CDA which has prerequisites of a high school diploma and 480 hours of supervised experience with young children to $6,000 per year in the Massachusetts program and Child Care, Inc.'s program in New York City. The Child Care Inc. program leads to an AA degree and the cost includes all stipends, support services, and mentors.

The total cost of $6,000 in the Massachusetts program includes administration, part-time faculty and field supervision, credit hours at the college, overhead to the college, books and training materials, local travel/mileage, adult literacy training, first-aid training, educational support (honoraria, field trips, videos, and instructional materials), and the application fee for teacher certification. Funding for the program comes from Pell Grants, the Massachusetts Department of Education, and the JOBS program. Pell grants cover $1,800 of the costs.

Most programs, however, are at the low end of the cost scale. California Child Care Initiative's statewide training program, costs $1,000 per trainee. This cost includes recruitment and training expenses such as trainers' fees, training materials, staff at local R&R's to recruit trainees and manage the project, and monitoring of local projects by a lead agency in the State or region. Additional costs not included in the California estimates include the expense of making a home licensable, equipment and supplies, or fees for licensing applications.

The cost for Connecticut's Family Education and Training Project is $2,700 per trainee which includes the salaries of a teacher/advisor and a program coordinator, consultant fees for occasional guest speakers, books and supplies for both staff and trainees, and office operation costs. Costs covered by other sources include $325 per candidate for the CDA assessment, child care costs for non-Head Start children, transportation, and the research and evaluation component of the program.

How Should the Training Be Delivered?

As indicated earlier, a new training delivery system is not necessary for training AFDC recipients. Rather, we should build upon already existing training systems. To facilitate the expansion of current training opportunities, we could fund pilot programs, provide grants to States or other providers of training, provide incentives to encourage training, increase the amount of funding set aside for training and other quality activities, or collaborate with training efforts in other Departments.

Pilot Programs

One method for delivering training is to fund pilot programs. This incremental approach would allow States, communities, or other providers of training the chance to test training programs at the local level before implementing them on a larger scale. They could build upon existing research and adapt programs to their own community needs.

Training Grants to States

Another method would be to provide grants to States for planning for the provision of training. The grantees would be given freedom in designing the program as long as they followed certain stipulations such as basing the program on a community needs assessment, screening candidates, providing adequate course work, and providing other components such as mentoring and benefits and services necessary for self-sufficiency.

Training Grants to Existing Providers of Training

In addition to, or as an alternative to providing training grants to States, existing training systems such as Head Start's Training and Technical Assistance System, NACCRRA, NAEYC, or colleges and universities could be allocated funds to provide training to AFDC recipients.

Incentives to Providers

Rather than providing funding directly for training, we might provide incentives to current providers of training to expand their training efforts. We could provide funds to States or give them the authority to use their funds to encourage child care providers through higher reimbursement rates, for example, to obtain training and/or accreditation for themselves or their staff.

Increased Set-Asides

Another method for encouraging training is to increase the amount of funding set aside for training in Federal programs. We could create a set-aside within the IV-A Child Care Programs. We could also add money to the Child Care and Development Block Grant quality set-aside. A certain proportion of these quality funds could be targeted for training AFDC recipients. Finally, we could work within the Head Start Training and Technical Assistance system. Because Head Start has funds set aside for these activities, we could take advantage of open training slots or use child care funds to pay for these slots, as described above.

Inter-Agency Collaboration and Funding

Both the Department of Labor, through JTPA, and the Department of Education have invested money in training for child care workers. JTPA is particularly effective because they it is committed to funding only those programs that guarantee a living wage to trainees. We should foster collaboration between HHS-funded programs and these existing programs to build upon the base of knowledge rather than duplicating efforts.

Conclusion

From our research on training AFDC recipients to be gainfully employed in the child care profession, it is clear that we can have a positive effect on the twin dilemmas of the need for jobs for AFDC parents and the need for child care. In order to make this a reality, however, we must create flexibility in our programs through enabling legislation and regulations, provide funding that is earmarked for training, build partnerships with existing providers of training, ensure that the appropriate components are offered, and provide effective placement for trainees. The effectiveness of such a program will in no small part be limited by the resources we devote to the process.

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CHILD CARE AND WELFARE REFORM
CHALLENGES AND CHOICES

Introduction

In many ways, the issues for Federal policy makers regarding child care are similar to the challenges faced by a low-income parent entering the work force. We must make choices regarding a number of important variables, including quality, convenience, availability and affordability of care, while considering the extent of subsidy funds in a confusing array of programs. How does one balance the desire for quality with the need to stretch limited dollars to meet other needs? Is flexibility in choosing a provider, with the inherent confusion such flexibility creates, better than a more limited, but less confusing set of choices dictated by others? How do we pay for care, and when is it necessary to do so?

In the short-term, child care policy will likely be expected to support components of welfare reform (i.e., making work pay, easing the burden of the working poor, facilitating plans to introduce time limits to welfare/AFDC) and to serve primarily welfare recipients and the working poor. The purpose of this paper is to highlight the major issues confronting policy makers as we consider child care in the broader context of welfare reform. First, we provide a brief description of current Federal child care and related programs and the child care "system". Then we discuss major issues, such as supply, demand (needs and preferences), quality and coordination. Within each issue section we describe the challenges for decision makers. Each issue is described only briefly, for the sake of providing a broad overview. Further development will be necessary as initial decisions are made regarding the scope and direction of Federal efforts in child care or welfare reform.

CURRENT CHILD CARE AND RELATED PROGRAMS

According to a December, 1992 report of the Select Committee on Children, Youth and Families, at least 14 Federal programs provide assistance for child care services, training for providers, or related child care activities. The majority of these programs support child care as only one component of a larger programmatic goal such as employment, job training, education, housing, nutrition, etc. The following is a brief summary of the major sources of federal funding for child care services:

Current HHS Programs

Child Care

The Administration for Children and Families (ACF) administers the major Federally-subsidized child care programs under Titles IV-A (AFDC) and XX (Social Services) of the Social Security Act, and the Child Care and Development Block Grant. Under Title IV-A, there are three distinct programs - child care for AFDC recipients, Transitional Child Care and At-Risk Child Care. Total funding for child care and related activities under ACF programs is expected to exceed $2.3 billion dollars for FY 1993. These programs focus on providing funding to States to subsidize child care for low-income families in employment, training and education. Attachment 1 describes these programs in more detail.

Head Start

Head Start is a national program administered by ACF which provides comprehensive developmental services for preschool children, primarily ages 3 to 5, and their low-income families. These services focus on education, health (including medical, dental, mental and nutritional health), social services and parent involvement and usually provide part-day, part-year services.

Head Start began in 1965 in the Office of Economic Opportunity as an innovative way in which to serve children and their low-income families. For FY 1993, the Head Start budget is nearly $2.8 billion. Approximately 721,000 children are expected to be enrolled in over 31,000 Head Start classrooms and home-based programs. Approximately 1,355 community-based, non-profit organizations and school systems develop programs to meet their specific local needs.

Other Agencies

Chapter 1 - Department of Education

The Chapter 1 program provides compensatory education services to low-achieving students in poor neighborhoods. Services are focused on the primary grades, although funding can be used to support programs serving 3 to 5 year olds.

In 1990-91, Chapter 1 provided support for the education of about 87,000 pre-K and 393,000 kindergartners. This is less than 10% of the 5.2 million public school students served under Chapter I. About 14% of all kindergarten children are enrolled in programs that receive Chapter 1 assistance.

Chapter 1 Migrant Education - Department of Education

The Chapter 1 Migrant Education program provides compensatory education services to migrant children ages 3 to 21. The quality and scope of preschool program services vary significantly by geographic location, migrant children's needs and program philosophy.

In 1990-91, the program served 19,312 preschool children during the regular school year and 15,736 during the summer months.

Even Start - Department of Education

The Even Start program provides adult education, parent training, and early childhood education services to disadvantaged families with limited education and at least one child below age 7. The approach reflects the philosophy that in order to achieve lasting effects on the achievement of young children, the needs of the entire family must be served. The program tries to enroll children in existing early childhood education projects. For example, 65% of Even Start projects enroll some of their children in Head Start and 41% enroll some children in Chapter 1 preschools. Even Start projects also coordinate services with public schools and other social agencies. The program was funded at $70 million in FY 1992. In 1989-90, Even Start projects served an estimated 2,800 families comprised of 4,500 adults and 4,800 children.

Special Education - Department of Education

Four programs provide grants to states for the education and developmental needs of infants and young children with disabilities[1]. These are: 1) the Grants to States program, Part B of the Individuals with Disabilities Education Act (IDEA) funded at $2.1 billion in FY 1993; 2) the Chapter 1 Handicapped program, $126.4 million in FY 1993; 3) the Preschool Grants Program (sec. 619 of IDEA) funded at $325.8 million in FY 1993; and 4) the Grants for Infants and Families Program (part H of IDEA) funded at $213.3 million in FY 1993. The Preschool Grant Program helps states serving disabled 3 to 5 year olds expand and improve special education and related services.

Tax Credits - Internal Revenue Service

The Earned Income Tax Credit and the Dependent Care Tax Credit serve to increase the level of income available to families with children. Only the dependent care tax credit, however, is specifically targeted to help reduce child care costs.

- The Earned Income Tax Credit (EITC) provides tax credits to low-income families with children; the credit is based on a percentage of earned income and varies according to whether a family has one child or two or more. Families receive the maximum credit for incomes between $7,750 and $12,200 (1993 Green Book). In 1993, the percentage of earned income for which families received tax credit was 18.5 percent for one child and 19.5 percent for two or more.

  Families eligible to receive the EITC often do not owe federal taxes (i.e. their earned income is below the poverty level); the credit thus becomes a cash grant and can be paid to families in advance. When a family's gross income reaches $12,200 (FY

[1] These programs are not means tested. We still need to determine the percentage of these funds which goes to low-income recipients.

1993), it is no longer eligible to receive the maximum tax credit; however, a family remains eligible to receive EITC at a reduced rate up until its income reaches $23,050.

The Supplemental Young Child Credit provides a 5 percent tax credit to families earning up to $7,750 (FY 1993) who have a child younger than one year of age. Like the EITC, this package offers tax credits at a reduced rate to families who incomes exceed $7,750; the maximum tax credit is $388 (FY 1993).

- Dependent Care Tax Credit (DCTC) provides a tax credit on "allowable" child care costs for families who have children under 13 years of age or whose children are mentally or physically disabled[2]. In 1993, the maximum allowable child care costs for one child was $2,400 and $4,800 for two; families receive a maximum tax credit of $720 for one child and $1,400 for two. The maximum rate of 30 percent is reduced by one percent for every $2,000 a family earns in excess of $10,000. The DCTC stabilizes at 20 percent for incomes above $28,000. The amount of credit, however, cannot exceed the taxes a family owes nor can credit be obtained for child care costs paid for or subsidized by federal, state, or local governments. Only after the dependent care tax credit has been applied can families obtain the EITC.

BARRIERS TO THE DELIVERY OF "SEAMLESS" CHILD CARE

At the State level, child care agencies are responsible for implementing a myriad of distinct Federal child care programs to meet the needs of economically disadvantaged families. The charge to the States has been to deliver a network of "seamless" programs whose funding streams are transparent to the parents. In theory, the low-income family should be able to transition from one Federal program to the next as it's circumstances change. This notion of seamlessness should be applied both to a family's part-time child care needs during a single day, and over the years as the family works toward self-sufficiency, accessing different programs on the way.

The typical State agency will be responsible for coordinating and accessing funds from AFDC/JOBS Child Care, Transitional Child Care, At-Risk Child Care, the Child Care and Development Block Grant (CCDBG), the Social Services Block Grant and perhaps the Food Stamp Employment and Training programs. A number of State agencies, under an ACF demonstration project, are also working to coordinate child care services so that child care programs may "wrap-around" existing Head Start services. However, because Head Start grants go directly to the localities, such coordination is particularly difficult. The legislative and regulatory structures of all of these programs were developed independently of each

[2] This tax credit program is not refundable, therefore the benefit to low-income families is limited.

other, with little coordination. The result is a myriad of complicated, sometimes conflicting statutory and regulatory requirements that the State must meet in order to retain funding.

The State agency charged with coordinating the programs is often forced to examine each funding stream independently to ensure all the program requirements are met, before combining the programs to provide the goal of seamless service. In accessing the different funding streams, the State agency is subject to distinct financial accountability standards. Each program involves different program and fiscal reporting requirements as well as application forms, State Plan requirements, and cost allocation plans. It is especially difficult for States when funding restrictions apply to some programs, but not others. For example, IV-A regulations restrict the use of funds to States for training or otherwise increasing the supply of providers, yet under CCDBG regulations, States are encouraged to use funds to increase availability of care. With responsibility for providing care to as many individuals as possible, the multiple restrictions on funding often inhibit State efforts to expand or coordinate the programs.

Regulations on the form of payments and allowable payment rates vary dramatically across programs. Under the Child Care and Development Block Grant (CCDBG), for example, States are required to offer certificates or vouchers whereby the parents can directly hire the child care provider of their choice. In other HHS child care programs where vouchers are not required, a significant portion of the care is center-based. Some of the programs require parental co-pays, others do not. Under the CCDBG, payment rates are set so that the reimbursement is "sufficient to ensure equal access for eligible children to comparable child care services in the State." Under the IV-A child care programs, however, rates are set at the 75th percentile of the local market rates. This limit on the reimbursement rate has presented a problem in States attempting to coordinate the IV-A programs with Head Start, where costs are higher in part because care providers are paid at a higher reimbursement level.

Aside from differences in the financial structure, varying program requirements further complicate the goal of seamless service. Beyond obvious differences in income eligibility standards, are varying regulations relative to health and safety and licensing; allowable categories of care; parent access; Federal reporting requirements, etc. States complain that because of distinct reporting requirements it is difficult to build one software system that meets all the regulatory specifications.

States are looking for regulatory relief that will facilitate coordination among these programs and help them achieve the goal of seamless service. Many of the differences in the programs, however, come from distinct legislative agendas and philosophical goals for the programs. Some of the differences in program requirements could be addressed through regulatory and information collection changes within the purview of HHS. Other, more fundamental, differences will require legislation. States argue that with increased flexibility they could deliver more child care to families in need. <u>The challenge is to simplify the confusing list of varying program requirements</u>.

UNDERSTANDING THE CHILD CARE "SYSTEM"

The differences in these major programs, as well as the multiplicity of programs which address child care in some way, point to an inescapable conclusion about the current Federal role in child care. At the Federal level child care programs are organizationally dispersed, frequently lack information (or uniform information) about the families served, and may be duplicative. There is no Federal child care "system."

The same is true at the State and local level. The extent of child care subsidies varies from State to State. Some States invest substantially while others invest little. Furthermore, responsibility for regulating providers sometimes rests with the States, sometimes with localities, and often a combination of the two. There are substantial differences in the extent of regulation, the types and definitions of providers subject to licensing and regulation, the extent of monitoring, etc. There is no single system, but rather an inter-connected set of systems that vary substantially from State to State, as well as within States.

For the most part, child care is a market-driven system. In general, provider rates, quality of services and availability of care are driven by economic factors. We tend to think about child care within the context of our programs, but the fact is that most care is not subsidized.

The challenge is to understand the limitations on changing this "system" from the national level. The Federal government does not have responsibility for any one area of child care delivery. We are an important player, but only one of a number of players in each locality.

THE UNMET NEED FOR CHILD CARE

Over the last 5 years, the Federal government has increased its commitment to providing child care for low-income families. Four new child care programs have been implemented with the goal of helping low-income families with a parent who is working or in training or education to meet their child care needs (see attachment 1).

Of the approximately 7.8 million children under age 13 in families which receive AFDC, less than 1.5 million are in a child care program subsidized through the new ACF child care programs. Quantifying the demand and unmet need for child care is a continuing challenge, and will be defined, in part, by the overall formulation of the revised welfare program. Suffice it to say that we will need substantial additional child care resources. It will be a major challenge to meet this unmet need.

An additional concern is Federal supplantation of preexisting state and local funds. Supplantation can occur, for example, when child care services provided through a State-matched entitlement program are replaced with services funded through a block grant or other program which requires no State match. This action frequently is the result of State budgetary constraints. The net effect is that an increase in Federal funding does not "buy" any additional services --it only pays for services that the State had heretofore purchased with State funds (either in toto, or as match). The challenge is to assure that additional funding buys additional child care services.

USAGE PATTERNS AND PREFERENCES OF Low-income FAMILIES

Initial impact evaluations of various JOBS demonstration projects and anecdotal data show that parents increase their use of non-parental child care and of formal care arrangements after beginning welfare-to-work programs (Presser and Baldwin, 1980, Kisker et al., 1989). Therefore, as more low-income parents begin the transition off of welfare under a new welfare program, we expect a significant increase in demand for child care services. In designing a program to effectively meet that demand as well as existing unmet need, it will be useful to assess the needs and preferences of low-income families. The following discussion reviews the current constraints, usage patterns, preferences, and costs for low-income child care services.

Constraints

A look at the constraints low-income families face sets the stage for any discussion of usage patterns. A 1992 report from the National Center for Children in Poverty points out that low-income parents display virtually the same set of child care preferences as other parents do. But they may be unable to choose the best type of care, or the types they prefer. Attempts to explain the differential between child care preferences and usage patterns among low-income families show that a number of factors strongly influence parents' selection of care. These factors include accessibility and cost of care, lack of information and limited choices based on economic necessity.

Organized child care continues to be directed toward a restricted range of daytime and weekday hours. Low-income parents are more likely than their upper-income counterparts to have unstable jobs with non-standard hours. Often they have to start work right away or lose a job opportunity to someone who can. Part-day programs fail to meet the needs of many low-income mothers who must work full time or combine educational and work activities. These mothers are either forced to use informal arrangements or to enroll their children in a patchwork of arrangements that will cover their work hours (Phillips, 1993). In addition, lack of reliable transportation and/or flexible work hours may force a parent to choose child care based on location and convenience rather than quality.

Finally, the child care "choices" poor families make are necessarily limited by economic necessity. For example, a family that prefers formal child care may "choose" to pay relatives for informal child care because keeping that money in the family is the only way to makes ends meet.

Primary arrangements

Figure 1, from the low-income substudy of the 1990 National Child Care Survey (NCCS), shows the primary child care arrangements for low-income children. For 48 percent of preschool and school-age children alike, parents provide the main source of care. Preschool children, however, are more likely than school-age children to be in a day-care center or in family day care (23 percent of preschool children, versus 10 percent of school-age children). Older children on the other hand, are more likely to have lessons (i.e., sports, music), care for themselves or have some other arrangement than are preschoolers (19 versus six percent).

Figure 2 shows the main supplementary child care arrangements for all children in the NCCS study. There are a few notable differences between this general group and the low-income subgroup.

- Low-income families are slightly more likely to use relatives than the general group. This tendency applies to preschool and school-age children alike (22 and 20 percent for low-income families, versus 15 and 14 percent of the general group).
- In the general NCCS study, families with school-age children were more likely to use other arrangements such as self-care or lessons than were low-income families (26 versus 19 percent).
- Preschool children in the overall study were more likely to be in day-care centers than were low-income children (20 versus 15 percent).

A second source of information on child care use is the 1991 Survey of Income and Program Participation (SIPP)[3]. The SIPP provides information on child care use by employed mothers. According to this data, there appears to have been a shift in the child care

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Child Care Arrangements of Employed Mothers of Children under Five by Poverty Status and Type of Care, Fall 1988 and Fall, 1991.

Income Status	In Child's Home	In Another Home	In a Center or School	With Mother At Work
1988				
Poor	.33	.34	.22	.11
Not Poor	.28	.37	.28	.07
1991				
Poor	.45	.24	.21	.11
Not Poor	.35	.32	.25	.08

Source: U.S. Census Bureau, SIPP Child Care Modules, Fall 1988 and 1991.

arrangements of working mothers between 1988 and 1991. A larger proportion of both poor and non-poor children of working mothers were being cared for at home by a relative in 1991 than in 1988. Care outside of the child's home declined for all children from 72% in 1988 to 64% in 1991. For poor children, the decline in care outside the home was from 67% in 1988 to 55% in 1991. Fathers were the largest single source of care in 1991. In 1991 they cared for 26% of the young children of working mothers in poor families, up from 15% in 1988. Fewer poor children were being cared for by grandparents, whether in the child's home or in the grandparent's home, in 1991 (159,000) than in 1988 (162,000).

Usage patterns

Although there is limited data regarding the types of care used by low-income families as compared to other families, it is clear that a number of family circumstances (e.g., the mother's employment status and age of child) influence each low-income family's use of child care services. Figure 3 (from the NCCS low-income substudy), for example, underscores the fact that children of employed mothers -- whether or not the mothers are married -- are much more likely to be in non-relative care than children of unemployed mothers.

In particular, children of employed, single mothers:

- Spend the most time on average in non-parental care compared to children in two-parent families and/or families where one or both parents are not employed.
- Are more likely than children from other family structures to be cared for by a relative. Teen mothers in particular are likely to use relatives for child care. Grandparents can play a significant role in caring for children[4].
- Are more likely to be in more than one kind of care on a regular, weekly basis.

These patterns generally hold for children whose mothers are in education or training programs. In fact, preschool children of mothers in education or training are even more likely to be in some kind of preschool program than children of employed or unemployed mothers. Many of these children are in Head Start.

Although family income, poverty status and receipt of AFDC don't generally suggest different child care arrangements, children on AFDC are more likely to be in center-based preschool programs (like Head Start). Also, children in families below the poverty line are less likely than other low-income children to be in any kind of non-relative care at all.

Preference

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[4] It should be noted here the the supply of relative care is shrinking due to greater entry into the labor force.

While child care usage patterns may reflect parental preferences, they also might be a reflection of what's available, given parents' income, employment status and community circumstances. It is clear that for low-income families in which the mother is employed or in training, center-based care is an important resource. Like non-poor mothers, low-income mothers seek child care that is both convenient and good for their children. They are particularly concerned that their infants and toddlers receive ample individual attention and adequate supervision, and that their preschoolers be afforded opportunities to learn (Mitchell, Cooperstein, & Larner, 1992; Porter, 1991; Siegel & Loman, 1991; Sonenstein & Wolf, 1991). It isn't clear, however, how such concerns impact the actual child care usage patterns of low-income families.

Surveys of low-income families have tried to gauge preferences by asking not only whether parents were satisfied with their arrangements, but also whether they wanted to change them. When asked if they had used their preferred form of care, a substantial majority (86%) indicated that they had; but when questioned about preferences for other forms of care (regardless of availability or cost), only 58% considered their actual care to have been their preferred choice (Martinson and Riccio, 1989).

The NCCS low-income substudy showed that single, employed mothers were the most likely to want to change their arrangements, and all families who wanted different arrangements preferred center-based care. Non-employed mothers in education and training were the least likely to want to change their arrangements. The most commonly cited reasons to change arrangements were quality characteristics. In fact, of all parents surveyed in the NCCS main study, 60 percent of those who wanted to change arrangements gave quality as their reason. Parents mentioned school preparation and child development most frequently as important aspects of quality.

Among low-income parents, cost did not motivate families significantly to want to change arrangements. However, the distribution of types of child care selected by parents participating in child care subsidy programs (as opposed to non-participants), more closely resembles the general distribution of child care preferences (Phillips, 1993). This seems to indicate that the subsidy programs mitigated cost constraints.

Cost and payment

Poor families spend a disproportionate amount of their monthly income on child care -- on average 27% of their monthly family income as compared with 7% for non-poor families (SIPP, Fall, 1991, also Hofferth, et al., 1991). According to Kisker (1991) the price of child care has not changed at all in real terms since 1976 although government subsidies have increased and the demand for child care has increased.

In the Fall of 1991 60% of all working women with children under 5 years paid for child care. They paid an average of $72.30 per week with a range of $85.70 in the Northeast to

$54.20 in the South. The average cost in metropolitan central cities is $71.60 as compared with an average of $49.90 per week in non-metropolitan areas.

Conclusion

Low-income families value and seek safe, attentive, and educational child care settings. Yet due to high cost and inaccessibility, they are frequently unable to obtain the care they need or prefer. If welfare reform will move more parents into employment, child care provisions of some kind - guided by information regarding the tradeoffs which low-income parents make among accessibility, cost, availability and quality - must come hand in hand with such reform. The challenge is to assure that a supply of care that meets the needs, and to the extent possible the preferences, of our target population is available.

THE SUPPLY OF CHILD CARE

In 1990, there were about 80,000 child care centers with an average enrollment of 62 children each. Estimates of the total capacity in centers vary between 3.2 million and 5.7 million slots (Mdn = 4.5). In 1990 another 4 million children were cared for by between 668,000 and 1.2 million licensed and unlicensed family day care homes. Together these estimates amount to a total of 7 to 9 million home and center slots in 1990.

These estimates are based on the National Child Care Survey (NCCS) and the Profile of Child Care Settings (PCS). They were conducted in late 1989 before the JOBS welfare reform initiative. As a result, we don't know the effects of the additional federal funds available through Title IV-A and the CCDBG on the supply of care. The variance in the capacity estimates also raises some concern over the reliability of this information. Nonetheless, we do know that a welfare reform initiative that sends parents (particularly mothers) to work will require additional child care slots.

The total number of children served in 1992 through HHS child care programs is estimated to be approximately 1.5 million children. This number consists of AFDC/JOBS, At-risk, Transitional, Block Grant and Head Start programs and likely includes duplication.

Elasticity of supply

In general, experts agree that the child care market has been very elastic. The availability of care has increased across the country as more women have entered the labor force. However there are widespread reports of shortages of care for infants, and for children whose parents do not work traditional daytime schedules.

There is also some concern that the poorest inner-city neighborhoods lack an adequate supply of care. A study of child care in Illinois (Siegal, 1991) showed that areas with the highest concentrations of low-income families were likely to have far fewer child care centers and licensed family day care providers than other areas when measured by the number of slots per 1,000 children.

Care for Infants and Toddlers

The PCS found that family day care homes are more likely than centers to accept infants and toddlers. Only about one half of all centers admit any very young children at all and most of these limit their enrollment. As a result, infants and toddlers constitute only 7% of the children in centers. Because of the amount of attention that younger children demand and the potential for accidental injury if unsupervised, higher staffing ratios are required which makes this form of care more expensive. The development of a more formalized and efficient infrastructure to support family day care home operators is needed. The development of networks of family day care home operators closely linked with resource and referral agencies may increase the utilization of the existing capacity, improve quality and also increase the supply in under-served areas.

Child Care during Nonstandard Hours

Also of key importance is the growing diversity of work schedules. Employment is extending more into the evenings, nights and weekends, particularly for women. Projections of job growth for the period 1986-2000 have predicted that the largest absolute increases will be not only for service-sector occupations but for those that are especially likely to require employment during nonstandard hours (Presser, 1987).

Yet organized child care continues to be directed toward a restricted range of daytime and weekday hours. The mothers of over 4 million children under five work a non-daytime shift. This represents 42% of all the children under five years of working mothers and 27% of the young children of mothers working full time.

Before- and After- School Programs

The National Study of Before- and After-School Programs indicates that in 1991 about 1.7 million children in kindergarten to grade 8 were enrolled in 49,500 formal before- and/or after-school programs in the U.S. Income from parental fees constitutes the largest source of income for such programs (83%). Most of the remaining income comes from local, state and/or Federal government funds (10%), although only one-third of all programs receive government funds.

The Department of Education provides states with some funding for before- and after-school care. Better coordination of programs at the Federal level could help states streamline and simplify the services they offer for this segment of the child care population.

Conclusion

While the data on the supply of child care are imprecise, the cumulative anecdotal and quantitative indicators point to a significant need to provide additional child care services. If welfare reform expands the population of working mothers, our information on usage tells us we need to find ways to provide more child care slots.

Any such expansion strategy will need to keep in sight the special needs of a population for which the traditional child care market falls short. Parents will need to find care for infants and toddlers, and/or for the hours they work before and after school. Parents who work shifts and non-standard hours will need care beyond the traditional work day. And families living in rural or impoverished urban areas will have to seek child care services beyond the current limited supply in those areas.

Coordination efforts among government agencies at all levels and local communities will be essential. Such efforts can increase the efficiency of states' use of Federal funding for child care. They also can help Federal and State agencies target funds more effectively to meet community and family needs.

QUALITY OF CHILD CARE

The need to provide enough child care in a welfare reform setting must be balanced with attention to the quality of care. Care that is inconvenient, unsafe, unreliable or unaffordable may interfere with AFDC recipients' progress as they prepare for work. Low-quality care could compromise children's well-being, increase adjustment difficulties for children and their parents and increase the likelihood that parents will quit jobs or withdraw from employment preparation activities that are important to their long-term economic success (Meyers, 1992).

Quality definitions and indices

In "Education Before School: Investing in Quality Child Care" (March 1993), Galinsky and Friedman define quality care as care that provides "a nurturing, safe, and stimulating environment for children that promotes the positive development of their minds and their bodies." Many variations on this definition exist, and the child care community is coming closer to consensus on the definition of high-quality care for young children.

Both the National Association for the Education of Young Children (NAEYC) and the National Academy of Science (NAS) have identified and disseminated criteria that define components of high-quality center care. Several researchers and practitioners have joined with them to confirm the importance of and promote such criteria[5]. Head Start has been

[5] These criteria include: child-staff ratio; group size; care giver-child interaction; care giver-parent interaction; health and safety; nutrition; developmentally appropriate activities; staff training in

successful in putting these quality indicators to use. It offers promise not only as a model, but also as a tool to upgrade existing programs cost effectively.

Licensing and Monitoring

The Federal government twice tried and failed to regulate the quality of child care between 1972 and 1980 with Federal Interagency Day Care Requirements (FIDCR) and Health and Human Services Child Care Requirements (HHSCR). Since 1981, the Federal government has largely abdicated any regulatory responsibility for licensing and standards. In an attempt to assure quality in child care, states and local governments have established licensing and regulatory requirements for the care of children in centers, family day care homes, parents' homes, and school settings.

States have drawn upon literature and research and the proposed Federal regulations to develop their child-staff ratios, group size and other standards. They have used funds from the Title IV-A Licensing, Monitoring and Training grants; the Child Care and Development Block Grant; and their own funds to improve licensing codes, including those for health and safety; before- and after-school care; infant and toddler care; child care resource and referral agencies and monitoring systems.

Despite State efforts to create and monitor a supply of quality child care, there are concerns that the care available to low-income families remains inadequate. Recent analyses combining data from the National Child Care Staffing Study and the Profiles of Child Care Settings Survey (Phillips, Voran, Kisker, Howes & Whitebook, in press) revealed that the quality of care in centers that served predominantly low-income children was highly variable and often poorly rated. Seventy percent of the classrooms for all ages of children, failed to meet a threshold of "good" quality care (Phillips, 1993). Furthermore, reliance on state and local governments to establish licensing and regulatory requirements for child care runs the risk that state licensing responsibilities and activities could be weakened or jeopardized by budget crises.

Comprehensive services and Head Start

Head Start centers comprise a large network of high-quality early childhood programs. The keys to Head Start quality include:

- Comprehensive services in early childhood development, health and social services for low-income children;
- Parent involvement;

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child development and early childhood education; administration and curriculum; leadership, i.e., commitment to good care, good hiring practices, familiarity with community resources, written procedures and compliance with licensing requirements; salaries; space and equipment; assessment and evaluation.

- Performance standards that ensure quality programs are provided; and
- A training and technical assistance network that helps grantees to provide quality programs.

Individual Head Start grantees are already working to expand these services to more children and to make the programs more flexible to meet the needs of families. Various models for extending the hours per day and days per year of existing Head Start programs, as well as models for upgrading child care programs to Head Start quality and adding comprehensive services, have been started across the country in the past few years.

Parent Education and Involvement

Parent involvement is an essential ingredient in child care quality because parents are the ones who have the most day-to-day contact with child care centers and providers. Head Start has involved parents successfully, and with many mutual benefits. In other settings, parents are the best monitors and enforcers of quality.

Training

On-going training and technical assistance are an integral part of quality early childhood development programs. The quality of child care is linked to the qualifications and stability of the care givers. Care givers who have had training in child development and basic health and safety practices are better able to meet children's fundamental physical and developmental needs.

Like the Head Start model, training -- both initial and ongoing -- offers a short-term and cost-effective means of improving the quality of child care programs. In fact, Head Start has an extensive training and technical assistance network already in place. In addition, Resource and Referral (R&R) agencies around the country provide training and technical assistance to providers in both child care centers and family day care homes.

Conclusion

The importance of quality in child care is clear. Debate may continue over what the Federal role should be to ensure minimum levels of quality care for AFDC recipients and other low-income families. But there is much on which we can build.

Existing programs and structures -- such as Head Start and R&R agencies -- provide more than a springboard. They can form the centerpiece of an overall child care strategy to provide access and ensure quality. Through model standards we could provide incentives for states to encourage or enforce levels of quality in child care programs. Creative approaches to using existing programs, structures and resources can guide us as we develop a strategy to ensure that Federally funded care is of sufficient quality that parents feel comfortable with their provider, and children have a healthy developmental start.

CONCLUSION - THE FEDERAL ROLE

As we consider all of the challenges described above, it seems clear that we will not resolve all of these issues immediately. Each deserves attention, each can be viewed as a barrier to a successful child care system. Like an individual parent confronted with the dilemma of finding and paying for child care, we must make choices, balancing factors to create a workable solution.

The greatest challenge for policy makers is to decide what the Federal role in all of this should be. Should the Federal government attempt to create a more uniform system for providing child care? Should we permit States to use the lack of resources to pay for child care as a reason to avoid full implementation of a welfare reform strategy, or should we expect them, like many working parents, to initiate unique and thoughtful solutions to the challenge of making child care arrangements? How should we distribute responsibility for all of these issues? Should the Federal government establish strict requirements or should we allow States and localities flexibility to resolve those issues based on their particular needs and priorities?

There are no simple answers to most of the questions above. In fact, because resources are limited, one issue may well exacerbate other problems. Thus, an important role for the Federal government may well be to identify current and emerging issues, to recommend possible options, and to broker reasonable solutions. The Federal government should serve as the clearinghouse for information on effective programs, standards for providers, and on the general state of child care in this country. Because we have the potential to focus national attention on child care issues, we could exert leadership on those areas which present the most immediate barriers to family self-sufficiency.

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

October 22, 1993

MEMORANDUM FOR PREVENTION ISSUE GROUP MEMBERS

FROM: Richard Bavier

SUBJECT: Latest options paper draft

Attached is the version of the draft that went forward to the welfare reform policy group last week. The vigorous discussion at our last meeting and subsequent comments I received improved it quite a lot. However, it is not too late to provide additional suggestions and comments.

As always, this draft is an internal, preliminary document, and should not be shared outside the issue group.

At present, there are no plans for the group to meet again, although we may convene from time to time to hear presentations from outside groups, as we have on two occasions. If any meetings are scheduled in the future, I will try to keep them in our regular Wednesday afternoon time-slot and give you ample warning.

Thank you all for your effort in working through this extremely difficult subject over the last several months.

Attachment