**GWIPP WORKING PAPER SERIES**

# RACING UP TO THE BOTTOM: WORK AND WELFARE IN THE U.S.

**ROBERT P. STOKER**

**LAURA A. WILSON**

Working Paper Number 1
http://www.gwu.edu/~gwipp/papers/wp001

**March 2003**

George Washington Institute of Public Policy (GWIPP)
The George Washington University
805 21st St. NW
Washington, DC 20052

Although millions of American workers do not earn enough to lift their families out of poverty, the struggles of the working poor have not been ignored. During the late 1980s and 1990s the federal government changed tax, labor, and social policies to increase the support available to low-income workers. State-level policy choices varied, but many states also created or expanded programs to assist the working poor. These programs are referred to collectively as the "work support system." Although the boundaries of the system are not precisely defined,[1] the programs that compose it benefit the working poor and serve three goals: to provide incentives to work, to provide working poor parents with sufficient income for an adequate standard of living, and to protect workers from destitution in the event of job loss (Sawhill and Haskins, 2002).

Work support programs are means-tested, but the system differs from traditional welfare programs because benefits are linked to work and supplement earned income. One linkage between work and income support programs is created when means-tested benefits are extended to those with earned income. An example of this is the mandatory extension of Medicaid benefits to children under age 19 in families with incomes below 100 percent of the federal poverty standard. Another type of link is created when earned income is required to receive benefits. The Earned Income Tax Credit is an example; taxpayers must have earned income to be eligible for the credit.

[1] The following programs are included as "work support programs" in this paper: state-level minimum wage rates, Temporary Assistance for Needy Families (TANF), food stamps, federal and state Earned Income Tax Credits (EITC), medical assistance, childcare grants, and school breakfast and lunch programs. Unemployment compensation is related to work support but is not specifically analyzed in this paper. Sawhill and Haskins (2002) include the Child Tax Credit in their description of the work support system. We omit it because it was not refundable prior to 2001 and, as Sawhill and Haskins note, it "provided few benefits to lower-income families."

Although expansion of the work support system has provided more generous income supplements to the working poor, it did not end poverty, as we know it. The resources devoted to assisting the working poor have grown significantly (CBO, 1998), but some observers suggest that additional improvements are needed for the work support system to realize its promise (Sawhill and Haskins, 2002). A variety of factors limited and constrained the benefits the working poor received; some of these constraints reflected willful decisions by policy officials while others appeared to be unintended consequences. As a result of these limitations and constraints, many poor workers continue to struggle to make ends meet.

This paper describes the work support system, estimates the income provided by work support programs in the fifty American states and the District of Columbia (D.C.), and comments about the potential and limitations of the system as a means to alleviate poverty among poor workers. The income provided by work support programs varies from place to place and according to family structure and work patterns. Of course, the extent of participation in work support programs is also a crucial consideration. Total income provided by the system is estimated as the sum of earned income for full time, minimum wage work and the estimated value of benefits provided by work support programs for a family of three with two children.

Income estimates are presented in several forms, first as nominal values and then as values transformed in two different ways to account for cost of living differences. Cost of living differences are important considerations when gauging the generosity of the work support system because high cost of living states tend to use their discretion to provide nominally more generous benefits and low cost of living states tend to do the opposite. However, the influence of state-discretionary policies is limited because the more generous benefits provided by high-cost states are insufficient to overcome cost of living differences. This implies that federal programs that feature national eligibility and benefit standards influence the work support system's generosity by raising the bottom rung of the economic ladder regardless of state policy choices.

## The Work Support System

The U.S. Department of Labor defines the working poor as "individuals who spend at least 27 weeks in the labor force (working or looking for work), but whose incomes fell below the official poverty level" (DOL, 2002). Although the number of working poor declined in the late 1990s, 6.4 million people fit this definition in the year 2000.[2] Women, young people, and members of minority groups were more likely to be among the working poor. Being among the working poor was also more likely for those with low educational achievement, those who work in the service sector, and those who have families with children. Although full time workers were less likely to be poor, full time work was not always a ticket out of poverty; three-fifths of the working poor were full time workers (DOL, 2002).

The work support system is designed to "make work pay" by providing cash and in-kind benefits to low-income workers. The federal government used several different policy mechanisms in the late 1980s and 1990s to accomplish this purpose. The minimum wage was increased several times, restoring some of its lost purchasing power; the Earned Income Tax Credit was made more generous, especially for low-income workers with children; medical assistance and childcare grants were extended to many of

---

[2] The definition of income used by the Department of Labor in this estimate does not include taxes or transfer programs that may benefit the working poor and increase family income.

the working poor, especially to families making the transition from welfare to work. These benefits were complemented by long-standing programs such as unemployment compensation, food stamps, and child nutrition programs that also contributed to the well being of many poor workers and their families.

Many state governments used their discretion to increase the nominal generosity of the work support system. Several states established minimum wage rates in excess of the federal minimum wage and a number of states created state-funded Earned Income Tax Credit programs that provided refundable tax credits to low-income workers. Some states also reduced income taxes for poor workers (Zahradnik, Johnson, and Mazerov, 2001). Welfare reform created opportunities for recipients in a number of states to make the transition from welfare to work with earned income disregards.[3] Beyond this, many states used the flexibility provided by welfare reform to establish diversion grants to help low-income workers stay in the labor market or to expand childcare funding (Adams and Rohacek, 2002).[4] Finally, many states helped low-income workers by expanding eligibility for medical assistance beyond federal requirements (Broaddus, Blaney, Dude, Guyer, Ku, and Peterson, 2002).

The development of the work support system reflects many of the influential social policy trends of the 1990s. The "devolution revolution" shaped the work support system; states were empowered to make significant policy choices, especially in the areas of cash welfare payments and medical assistance programs. As a result, significant

---

[3] Earned income disregards allow cash welfare clients to continue to receive cash assistance payments while earning income. Although standards vary, some states allow significant TANF payments to continue even one year after the client has made the transition from welfare to work.
[4] According to the Urban Institute, Assessing New Federalism project, by July 2000, 26 states and D.C. had established formal diversion programs that allowed a family to receive a lump sum payment in lieu of TANF benefits. Eligibility requirements and benefits vary from place to place.

variation exists in the nature and nominal generosity of work support programs from one place to another. Second, the development of the work support system reflects the influence of the "personal responsibility" movement. Policy officials used social program benefits as leverage to encourage people to behave responsibly. Although personal responsibility was demanded in many areas (such as education, marriage, child support, and teenage pregnancy), this concern was expressed most often as the expectation that able-bodied people will work. By linking the receipt of benefits to earned income, policy officials intended to encourage and reward work. However, they also (perhaps unintentionally) linked the well being of the working poor to the performance of the economy, especially to the employment prospects of low-wage workers. During economic downturns, poor workers may suffer job loss that is compounded by loss of work support benefits.

## Work Support System Generosity

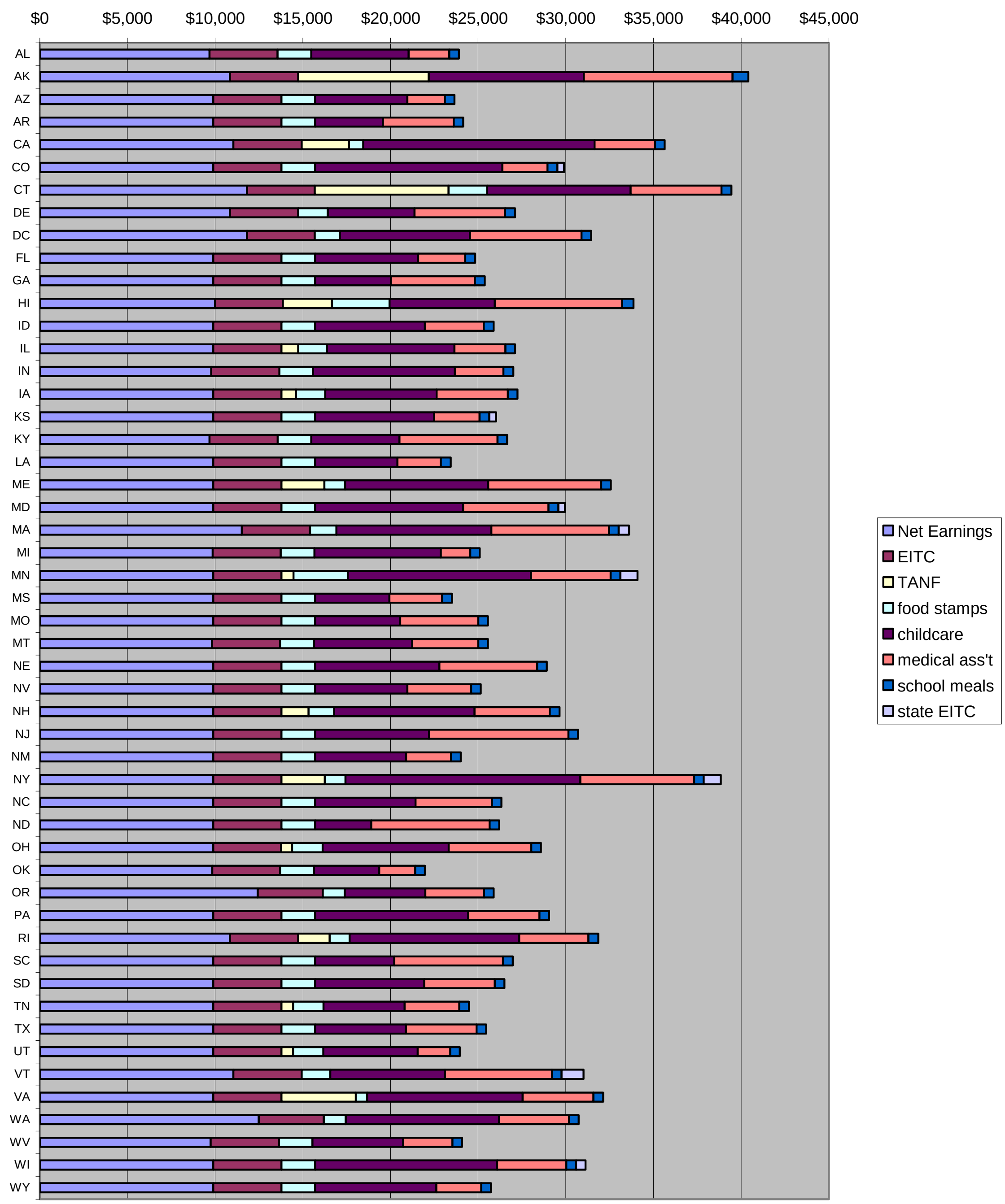
Under some circumstances, the work support system has the potential to provide significant income gains for poor workers. Graph One presents estimates of the total nominal income provided by the work support system in the fifty states and D.C. (details on the procedures used to develop the estimates are presented in Appendix A). This estimate is based on an optimistic scenario for gaining benefits from work support programs; the worker in a family of three with two dependent children moved from the cash welfare system to work one year ago and is participating in all possible work support programs and receiving the maximum benefits the state provides. Under these assumptions, the work support system provides impressive income gains. The median of estimated state incomes is $26,973 and the mean is $28,278; Alaska provides $40,403, the largest nominal income, and Oklahoma provides $21,965, the smallest; the standard deviation is $4,340.

The income the work support system provides compares favorably to the federal poverty standard. In the year 2000, the poverty standard for a family of three with two children was $13,874. The median work support system income nearly doubles the federal poverty standard and the mean more than doubles it. Even in Oklahoma, the state with the lowest nominal benefits, full participation in work support programs and maximum benefit payments provide an income that exceeds the federal poverty standard by 58.3 percent.

Although the work support system provides income from a number of sources, earned income is the largest single component, comprising $10,187 in the average state (after taxes) and 36.0 percent of total income. However, in every jurisdiction the estimated value of combined work support program benefits is greater than earned income. In the average state, childcare grants are the second largest income source providing $6,808, 24.1 percent of total income. In the average state, medical assistance amounts to $4,236, 15.0 percent of total income and the federal Earned Income Tax Credit (EITC) amounts to $3,880, 13.7 percent of total income, providing significant gains.

TANF benefits compose only a small proportion of total income, even for someone emerging from the cash welfare system and receiving the maximum possible payments because of earned income disregards; benefits in the average state are $735, 2.6 percent of total income. However, the income TANF provides varies significantly from place to place. Thirty-five states and D.C. provide no TANF benefits whatsoever in the thirteenth month of full time, minimum wage employment. In Connecticut, the state with the highest TANF payments in those circumstances, benefits can total $7,632 annually, providing more than 19 percent of total income. Nine states provide TANF payments in excess of $1,500 annually in those circumstances. In short, although benefits are slight in the average state, a handful of states have TANF programs that provide significant income gains.

**Graph One: Nominal Work Support Income**



Nutrition programs provide 8.2 percent of total income in the average state. The Food Stamp Program is the most generous nutrition program, providing an average benefit of $1,762, 6.2 percent of total income. The value of food stamp benefits ranges from a high of $3,300 in Hawaii to a low of $0 in Alaska. Child nutrition programs (the school breakfast and lunch programs) contribute 2.0 percent of total income, or $561 in the average state. The value of child nutrition programs varies little from place to place; the nominal value of benefits is the same in the forty-eight contiguous states and D.C, but slightly higher in Alaska and Hawaii.

Table One presents a comparison of the nominal income provided by work support programs in the ten most and ten least generous states and summarizes state-discretionary policy decisions. The data indicate that more generous states make different policy choices than less generous ones. More generous states are likely to provide earned income disregards that allow full time, minimum wage workers to receive TANF benefits (nine of ten do); by contrast none of the less generous states has earned income disregards. More generous states are likely to provide Medicaid coverage for parents who are low-income workers (nine of ten do) more often than the less generous states (only three of ten do). More generous states are likely to provide higher childcare benefits (nine of ten provide annual payments in excess of $8,000). Payments are lower in the less generous states (none provides annual payments in excess of $6,000). Although half of the more generous states have a minimum wage that exceeds the federal minimum, none of the less generous states does. And, although four of ten more generous states have a state EITC program, none of the less generous states does.

Table One: Comparison of Work Support Policies of Generous and Non-Generous States

| **Top Ten States** | Annual Work Support Total | TANF Disregards | Parental Medicaid | Childcare GT $8,000 | Minimum Wage | State EITC |
|---|---|---|---|---|---|---|
| Alaska | $40,403 | Y | Y | Y | Y | N |
| Connecticut | $39,432 | Y | Y | Y | Y | N |
| New York | $38,836 | Y | Y | Y | N | Y |
| California | $35,636 | Y | Y | Y | Y | N |
| Minnesota | $34,081 | Y | Y | Y | N | Y |
| Hawaii | $33,856 | Y | Y | N | Y | N |
| Massachusetts | $33,601 | N | Y | Y | Y | Y |
| Maine | $32,570 | Y | Y | Y | N | Y |
| Virginia | $32,126 | Y | N | Y | N | N |
| Rhode Island | $31,846 | Y | Y | Y | N | N |
| **Bottom Ten States** | | | | | | |
| Tennessee | $24,481 | Y | Y | N | N | N |
| Arkansas | $24,150 | N | N | N | N | N |
| West Virginia | $24,085 | N | N | N | N | N |
| New Mexico | $24,014 | N | N | N | N | N |
| Utah | $23,957 | Y | Y | N | N | N |
| Alabama | $23,898 | N | N | N | N | N |
| Arizona | $23,652 | N | Y | N | N | N |
| Mississippi | $23,498 | N | N | N | N | N |
| Louisiana | $23,430 | N | N | N | N | N |
| Oklahoma | $21,965 | N | N | N | N | N |

Table Two presents a comparison of the average benefit payments among the ten most generous states, the middle thirty states and D.C., and the bottom ten states. Average earnings are highest among the top ten states, indicating that more generous states tend to have minimum wage rates above the federal minimum wage. However, earnings among the top ten states compose only 30 percent of total income, the lowest proportion of any of the groups. Despite higher wage rates, in the ten most generous states earnings are a lower proportion of total income because other work support programs provide even greater income gains. Little variation is evident in the value of federal EITC benefits because in most states, full time, minimum wage workers receive the maximum EITC payment. However, a few states have established minimum wage rates that reduce federal EITC benefits slightly for full time workers.

Benefit programs that allow state discretion are a significant source of differences between the groups of states. The value of TANF benefits from earned income disregards is the greatest source of variation. The top ten states provide much larger TANF benefits on average than the middle thirty and D.C. or the bottom ten states. TANF benefits among the ten most generous states average $3,221, 9.1 percent of total income. Among the middle thirty and D.C., TANF benefits average only $127 annually, slightly less than the average of $133 among the ten least generous states. Childcare benefits also are a significant source of differences. The most generous states pay the highest childcare benefits; the top ten states average $9,556, compared to $6,578 for the middle thirty states and D.C., and $4,772 for the least generous states. Among the most generous states, childcare subsidies provide more than one fourth of total income.

Federal individual entitlement programs are important income components regardless of state generosity. Food stamp benefits are somewhat smaller in more generous states where earned incomes and TANF benefits tend to be higher.[5] Medicaid is also an important income source and more generous Medicaid benefits are provided by the most generous states. Medicaid benefits in the top ten states average $5,657, indicating both the higher probability that the parent is eligible for benefits and a higher estimated market value of the benefits provided. Federal child nutrition programs vary little, reflecting the consistent reimbursement scheme that exists for these programs. However, the nominal value of child nutrition benefits is slightly higher in the top ten states because Alaska and Hawaii have higher reimbursement rates.

The lone remaining component of the work support system is state EITC payments. Few states provided refundable EITC payments in 2000 and, although some states were more generous than others, on average the benefits paid were quite modest. The average benefit among the most generous states was only $253, amounting to 0.7 percent of total income. However, a few states did provide significant payments: Vermont paid a state EITC benefit equal to 32 percent of the federal EITC and Minnesota and New York paid 25 percent. It does seem significant however, that none of the ten least generous states provided a state EITC payment.

[5] This reflects the design of the Food Stamp Program; benefits are inversely related to income.

Table Two: Average Nominal Benefits within Groups by Component*

| | Earnings | EITC | TANF | Food Stamps | Childcare | Medicaid | Nutrition | State EITC | Total Income |
|---|---|---|---|---|---|---|---|---|---|
| **Top Ten States** | $10,564 | $3,886 | $3,221 | $1,506 | $9,556 | $5,657 | $596 | $253 | $35,239 |
| Percent of Total Income | 30.0% | 11.0% | 9.1% | 4.3% | 27.1% | 16.0% | 1.7% | 0.7% | |
| **Middle Thirty and D.C.** | $10,174 | $3,876 | $127 | $1,807 | $6,578 | $4,295 | $553 | $95 | $27,506 |
| Percent of Total Income | 37.0% | 14.1% | 0.5% | 6.6% | 23.9% | 15.6% | 2.0% | 0.3% | |
| **Bottom Ten States** | $9,851 | $3,888 | $133 | $1,882 | $4,772 | $2,634 | $553 | $0 | $23,731 |
| Percent of Total Income | 41.5% | 16.4% | 0.6% | 7.9% | 20.1% | 11.1% | 2.3% | 0.0% | |

* The table presents un-weighted averages of the benefits provided by the states in each group, as such they do not reflect differences state population size. Percentages may not sum to 100 due to rounding error.

The analysis of nominal state benefits does not reflect differences in the costs of living in the fifty states and D.C. Many of the states that provide nominally generous benefits are also states that have high living costs (Alaska, Hawaii, California, and Connecticut are examples). To estimate differences in the purchasing power work support benefits provide, nominal state benefits must be adjusted to reflect differences in living costs. The following sections present two cost of living adjustments; the first is based on median housing values and the second on basic family budgets.

## Housing Cost Adjustments

Work support system income, adjusted for the median cost of housing in each state and D.C., is presented in Graph Two.[6] The housing adjustment factor was calculated by dividing the median housing price in each of the fifty states and D.C. by the average of all median housing prices.[7] Each component of the work support system was divided by this adjustment factor and summed to calculate the total value of housing adjusted benefits. Hawaii, California, Massachusetts, and New Jersey had the highest housing costs and Arkansas, Mississippi, Oklahoma, and West Virginia had the lowest. The housing adjusted income provided by the work support system in the median state is $30,069 and the income in the mean state is $30,137; North Dakota provides $41,590, the largest housing adjusted income and Hawaii provides $14,720, the smallest; the standard deviation is $6,678.

[6] Median housing cost at the state level and D.C. was provided by 2000 Census data, median value of owner-occupied units.
[7] The average of the state median housing values in 2000 was $118,759.

**Graph Two: Housing Cost Adjusted Work Support Income**

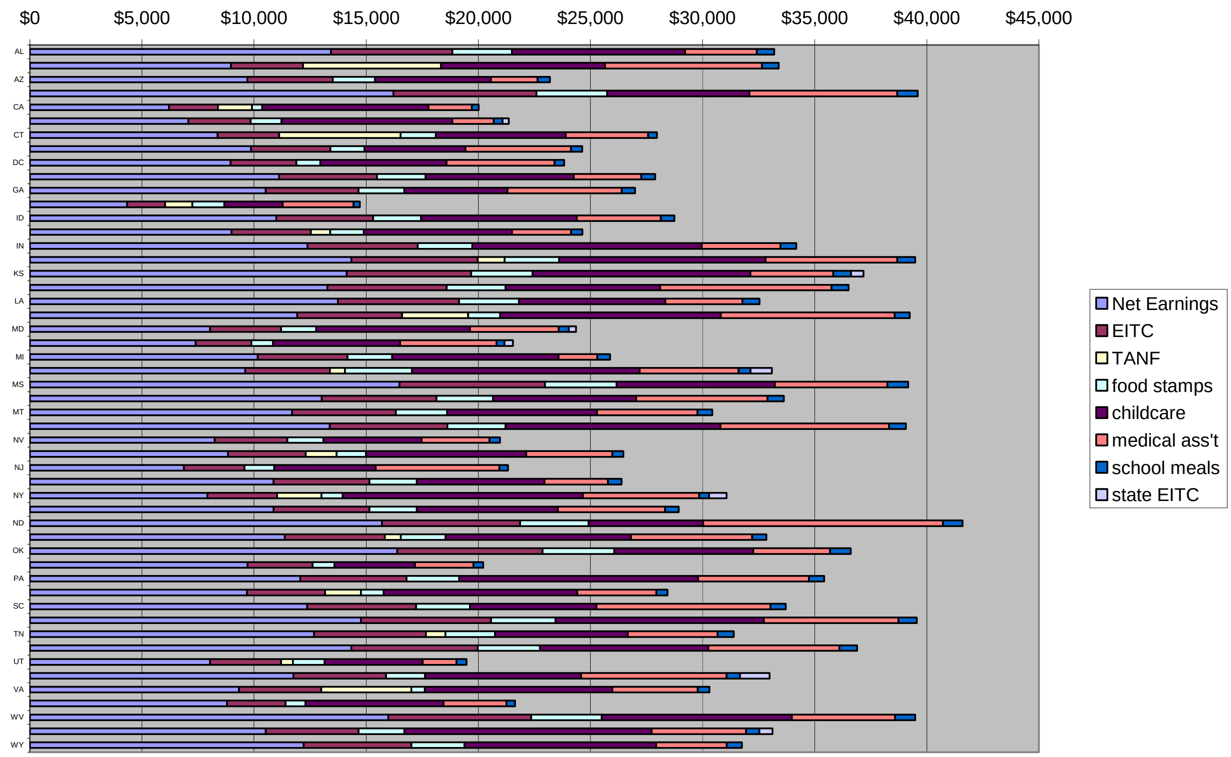


Table Three shows how cost of living differences influence the relative generosity of the states and the relationship between state generosity and state discretionary policy choices. When states are ranked in terms of generosity there is little resemblance between the list based upon housing adjusted benefits and the list based upon nominal benefits. Only Maine was among the ten most generous states for nominal and cost adjusted benefits. Only Utah was among the ten least generous states for nominal and cost adjusted benefits. However, Arkansas, Mississippi, and West Virginia were among the ten least generous states for nominal benefits, but are among the ten most generous states for cost adjusted benefits. California, Hawaii, and Massachusetts were among the ten most generous states in nominal benefits, but are among the ten least generous when benefits are cost adjusted.

When benefits are cost adjusted, state discretionary policies no longer predict the generosity of the work support system. The ten most generous states do little to increase work support benefits; only one of ten provides TANF earned income disregards, childcare grants in excess of $8,000, or a state EITC; only four of ten provide parental Medicaid eligibility; none has a minimum wage rate in excess of the federal minimum wage. Paradoxically, the ten least generous states are more likely to use their discretion to increase the generosity of work support benefits: three of ten provide TANF earned income disregards; nine of ten provide parental Medicaid assistance; four of ten provide childcare grants in excess of $8,000; five of ten have state minimum wage rates; and two of ten have state EITC programs.

Table Three: Cost of Living Adjusted Work Support Policies of Selected States

| **Top Ten States** | Amount of Work Support | TANF | Parental Medicaid | Childcare GT $8,000 | Minimum Wage | State EITC |
|---|---|---|---|---|---|---|
| North Dakota | $41,590 | N | Y | N | N | N |
| Arkansas | $39,590 | N | N | N | N | N |
| South Dakota | $39,552 | N | N | N | N | N |
| West Virginia | $39,484 | N | N | N | N | N |
| Iowa | $39,481 | Y | Y | N | N | N |
| Maine | $39,241 | Y | Y | Y | N | N |
| Mississippi | $39,163 | N | N | N | N | N |
| Nebraska | $39,073 | N | Y | N | N | N |
| Kansas | $37,178 | N | N | N | N | Y |
| Texas | $36,896 | N | N | N | N | N |
| **Bottom Ten States** | | | | | | |
| Arizona | $23,188 | N | Y | N | N | N |
| Washington | $21,640 | N | Y | Y | Y | N |
| Massachusetts | $21,539 | N | Y | Y | Y | Y |
| Colorado | $21,359 | N | N | Y | N | Y |
| New Jersey | $21,321 | N | Y | N | N | N |
| Nevada | $20,963 | N | Y | N | N | N |
| Oregon | $20,218 | N | Y | N | Y | N |
| California | $20,020 | Y | Y | Y | Y | N |
| Utah | $19,477 | Y | Y | N | N | N |
| Hawaii | $14,720 | Y | Y | N | Y | N |

Table Four compares the cost adjusted average benefits in the ten most generous states, the middle thirty states and D.C., and the ten least generous states. Earnings are the largest income component in all three groups, but average earnings are highest among the top ten states. However, none of theses states has a minimum wage higher than the federal minimum, so the higher estimated value of earnings reflects the increased purchasing power of minimum wage work in low cost of living states. The differences in the value of earnings are significant; earnings in the top ten states exceeds earnings in the middle thirty states and D.C. by 34.3 percent and the bottom ten states by 92.8 percent. The federal minimum wage provides significantly more purchasing power in low cost of living states.

The cost adjusted value of federal EITC benefits averages $5,796, 14.8 percent of income, in the ten most generous states, but only $2,757, 13.5 percent of income, in the ten least generous states. There is little variation in the nominal value of federal EITC payments; the differences that exist between the groups indicate differences in living costs; residents in the most generous states don’t receive higher benefits, but the benefits provide more purchasing power because living costs are lower.

Table Four: Average Cost Adjusted Benefits within Groups by Component*

| | Earnings | EITC | TANF | Food Stamps | Childcare | Medicaid | Nutrition | State EITC | Total Income |
|---|---|---|---|---|---|---|---|---|---|
| **Top Ten States** | $14,726 | $5,796 | $414 | $2,740 | $8,211 | $6,358 | $869 | $56 | $39,170 |
| Percent of Total Income | 37.6% | 14.8% | 1.1% | 7.0% | 21.0% | 16.2% | 2.2% | 0.1% | |
| **Middle Thirty and D.C.** | $10,967 | $4,238 | $763 | $1,940 | $7,319 | $4,398 | $612 | $127 | $30,365 |
| Percent of Total Income | 36.1% | 13.9% | 2.5% | 6.4% | 24.1% | 14.5% | 2.0% | 0.4% | |
| **Bottom Ten States** | $7,636 | $2,757 | $326 | $1,230 | $5,150 | $2,880 | $400 | $65 | $20,445 |
| Percent of Total Income | 37.3% | 13.5% | 1.6% | 6.0% | 25.2% | 14.1% | 2.0% | 0.3% | |

* The table presents un-weighted averages of the benefits provided by the states in each group; as such they do not reflect differences state population size. Percentages may not sum to 100 due to rounding error.

Living costs also influence the estimated value of income from state-discretionary programs. Bottom ten states are more likely than top ten states to provide TANF earned income disregards, to pay more generous childcare benefits, and to provide parental Medicaid coverage. However, when these benefits are cost adjusted, the benefits provided are insufficient to overcome living cost differences; the purchasing power provided by childcare grants and Medicaid benefits is greater in states that have lower nominal benefits. The only exception is TANF; the benefits provided by the ten most generous states amount to only $414 annually, even when cost adjusted. The middle thirty states and D.C. provide more generous TANF benefits totaling $763 annually because of greater earned income disregards and moderate living costs.

Although there is little variation in the nominal value of federal nutrition program benefits, the purchasing power they provide is greater in the top ten states. In the ten most generous states, food stamps are valued at $2,740, 7.0 percent of income, and child nutrition programs are valued at $869, 2.2 percent of income. By comparison, benefit amounts in dollars and as a proportion of income are less in the other groups.

State EITC payments make only a small contribution to total income when benefits are adjusted for costs of living. The highest benefit payment is $127 annually among the middle thirty states and D.C., amounting to only 0.4 percent of total annual income in that group. The slight contribution of state EITC payments to work support system generosity is apparent because only one of the ten most generous states provides a state EITC and these benefits equal only 0.1 percent of total income.

The analysis of housing adjusted benefits has turned state-level generosity on its head. Many high cost of living states used state discretionary policies to provide additional work support benefits. However, when these benefits are adjusted to reflect differences in median housing costs, states that appeared to be generous initially are now seen in a different light: state discretionary policies do not provide sufficient additional benefits to compensate for high living costs in many states. Paradoxically, states that have done nothing to provide additional work support system benefits are the most generous. However, the generosity of these states is a function of federal programs that feature national eligibility guidelines and benefit schedules, not state discretionary policy choices.

Basic Family Budgets

The second cost of living adjustment is based upon basic family budgets (Bernstein, Brocht, and Spade-Aguilar, 2000; Boushey, Brocht, Gundersen, and Bernstein, 2001). "Basic family budgets measure the income a family requires to afford basic needs for a safe and decent standard of living" (Boushey, *et al*., 2001, p.7). Budgets have been estimated for a variety of family structures in numerous locations in the fifty states and D.C. The components of the budgets are food, housing, health care, transportation, childcare, other necessities, and taxes. There are two advantages to using basic family budgets for cost of living adjustments: (1) they are estimates of the income families actually need to have a minimal, decent style of life and (2) they are constructed to reflect the costs of various localities, creating the ability to account for sub-state variation in living costs.

To adjust for estimated costs of living, two ratios were created using the nominal income provided by work support programs and financial need as measured by minimum and maximum basic family budgets in each state. The fifty states have multiple budget estimates that reflect local variation in living costs and in some states there are significant differences between localities (only one budget was estimated for D.C.). For example, in California the maximum budget is $41,196 for San Francisco and the minimum budget is $29,069 in Yuba City (Boushey *et al*., 2001). To account for this variation, the minimum and maximum basic family budgets in each state were used to construct a ratio of income to need.

Prior to the construction of the ratios, the basic family budgets and work support program benefit estimates were revised to make them compatible because several work support benefits are included as costs in basic family budgets, such as medical care and childcare (details on these revisions are presented in Appendix B). Basic family budgets do not account for whether or not states provide the services included in the estimates of basic family needs.

Graph Three presents the revised work support system income in comparison to revised basic family budgets. The results indicate that the work support system provides an adequate income to meet a family's basic needs in only a few cases. Work support income totals 100 percent or more of basic family budgets in low cost areas in only fourteen states. None of the fifty states or D.C. provides an adequate income in high cost areas. Eleven states provide less than two-thirds of basic family budgets in high cost of living areas and many of these states such as California, New Jersey, New York, and Pennsylvania have large populations. Twenty-three states provide less than 75 percent the basic family budget for high cost of living areas. Except for the low cost areas in fourteen states, working families suffer significant income shortfalls.[8]

Table Five presents the ten most generous and eleven least generous states and D.C. in terms of the proportion of work support system benefits provided in low cost areas and compares state-discretionary policy choices.[9] The most generous state is Nebraska, which provides 124 percent of the budget for low cost areas and 96 percent of the budget for high cost areas. The least generous work support system is in D.C., which provides only 54 percent of the basic family budget.

---

[8] Readers should recall that this income shortfall occurs despite the facts that scenario for receiving work support system benefits is the most optimistic possible and the family of three is assumed to fully participate and receive the maximum possible benefits. This scenario is unlikely for a variety of reasons discussed later, making the real shortfall experienced by low-income workers even greater.
[9] We include twenty-one states in this table rather than twenty because of ties based on the selection criterion.

**Graph Three: Work Support Income Compared to Basic Family Budgets**

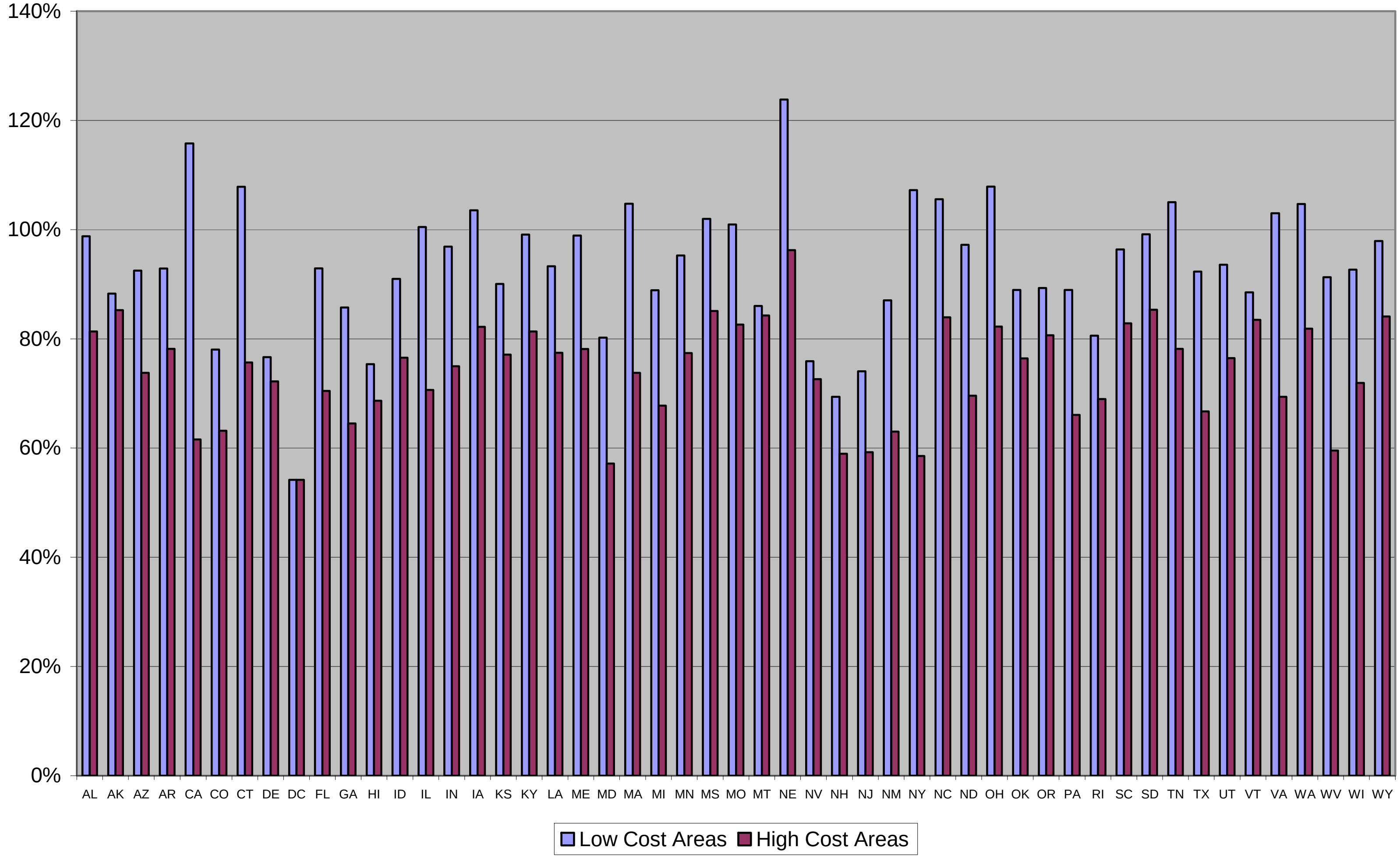


Table Five: State Policy Choices for Selected Places

| **Top Ten** | Proportion of budget | | TANF | Parental Medicaid | Childcare GT $8,000 | Minimum Wage | State EITC |
|---|---|---|---|---|---|---|---|
| | Low COL | High COL | | | | | |
| Nebraska | 124% | 96% | N | Y | N | N | N |
| California | 116% | 62% | Y | Y | Y | Y | N |
| Connecticut | 108% | 76% | Y | Y | Y | Y | N |
| Ohio | 108% | 82% | Y | Y | N | N | N |
| New York | 107% | 59% | Y | Y | Y | N | Y |
| North Carolina | 106% | 84% | N | Y | N | N | N |
| Massachusetts | 105% | 74% | N | Y | Y | Y | Y |
| Tennessee | 105% | 78% | Y | Y | N | N | N |
| Washington | 105% | 69% | N | Y | Y | Y | N |
| Iowa | 104% | 82% | Y | Y | N | N | N |
| **Bottom Eleven** | | | | | | | |
| Georgia | 86% | 65% | N | Y | N | N | N |
| Montana | 86% | 84% | N | Y | N | N | N |
| Rhode Island | 81% | 69% | Y | Y | Y | Y | N |
| Maryland | 80% | 57% | N | N | Y | N | Y |
| Colorado | 78% | 63% | N | N | Y | N | Y |
| Delaware | 77% | 72% | N | Y | N | Y | N |
| Nevada | 76% | 73% | N | Y | N | N | N |
| Hawaii | 75% | 69% | Y | Y | N | Y | N |
| New Jersey | 74% | 59% | N | Y | N | N | N |
| New Hampshire | 69% | 59% | Y | N | Y | N | N |
| D.C. | 54% | 54% | N | Y | N | Y | N |

A comparison of the state policy choices does reveal some differences: generous states are more likely to provide TANF earned income disregards, parental eligibility for medical assistance, and larger childcare grants. However, more generous states are no more likely than less generous states to have a state minimum wage or to provide state EITC payments.

The importance of intra-state variation in the cost of living is also evident in Table Five. Several of the most generous states, which were selected on the basis of their generosity in low cost areas, perform far worse in high cost areas. Although California, Connecticut, New York, Massachusetts, and Virginia provide an adequate basic family budget in low cost areas, they fall well short of that mark in high cost areas. These states have made policy choices that increased nominal work support benefits, but while these states provided an adequate income in low cost areas, the same was not true for high cost areas.[10]

The cost adjusted work support system data indicate that state discretionary policy choices do not define the upper limits of state generosity. High cost of living states tend to make discretionary policy choices that provide larger nominal incomes. But, when these incomes are compared on the basis of housing cost adjustments, the high cost states are shown to be less generous. Many low cost states, states that did nothing to make the work support system more generous, provide higher incomes, undermining the relationship between state policy choices and work support generosity. However, when variation in living costs within states is considered, many high cost of living states (California, Connecticut, New York, and Massachusetts) have polices that can provide

[10] The generosity of childcare grants is a related point. Many states provide less generous grants in areas where living costs are lower. The calculations presented here are based upon the maximum grant each state provides.

significant income gains for residents in low cost areas. But, these policies do not provide an adequate income in the high cost of living areas of these same states.

State Policy Choices and Work Support Generosity

A more comprehensive examination of the role that state policy decisions play in the generosity of the work support system was conducted by regressing several measures of total work support income on a set of five dummy variables indicating state-discretionary policy choices. States received a score of one if they had a state minimum wage in excess of the federal minimum, TANF earned income disregards that provide benefits in month thirteen of employment, parental Medicaid eligibility more than one year after transitioning from welfare to work, childcare grants in excess of $8,000 annually, or a state EITC program. Otherwise, states were scored zero. Nominal work support benefits were regressed on the five dummy variables. In addition, three different factors were used to adjust total work support income for state-level cost of living differences; median housing prices (source, 2000 Census), median income (source, 2000 Census), and an index developed by Berry, Fording, and Hanson (2000).[11] The benefit totals are for full time minimum wage workers.

The results, presented in Table Six, show that the relationship between state policy choices and work support system generosity depends upon whether or not the income the system provides is adjusted for cost of living differences. Table Six A shows a clear relationship between state policy choices and nominal work support generosity; each of the dummy variables has a positive, statistically significant relationship with the nominal estimate of total work support income. However, Table Six B, C, and D, which

[11] The most recent year for the index is 1995 and the index has missing values for Alaska, D.C., and Hawaii.

present the regressions for cost adjusted benefits, tell a different story. Six B and C clearly contradict the relationship presented in Six A. When income gained from minimum wage work and work support benefits are housing adjusted (see Six B), only state level minimum wages have a statistically significant relationship and the relationship is the wrong direction. The regression indicates that states with higher minimum wage rates provide lower total work support benefits. Of course, higher minimum wage rates increase nominal benefits; what the regression analysis really indicates is that the wage increases provided by higher state minimum wage rates are not sufficient to overcome cost of living differences. When total work support income is adjusted for state-level median income, none of the state discretionary policy choices is associated with work support system generosity (see Table Six C). Finally, when the Berry, Fording, and Hanson (2000) index is used to adjust the value of total work support benefits, the outcome is ambiguous. Higher childcare grants are associated with work support system generosity and state minimum wage rates and TANF earned income disregards are marginally significant (see Table Six D). However, Medicaid eligibility for parents and state EITC benefits are not. Overall, the equation is statistically significant.

The relationship that exists between nominal work support income and state discretionary policy choices follows a clear, simple logic. States that decide to provide additional work support benefits provide a higher total income. However, when these benefits are cost adjusted this simple logic is strained. By several measures, the additional work support benefits states provide are insufficient to overcome their higher living costs.

Table Six: Regression Results

A: Dependent variable: nominal total work support system income

| Independent Variables | coefficient | t-statistic | significance |
|---|---|---|---|
| Constant | 24,272.61 | 46.48 | 0.0000 |
| Childcare | 4,346.81 | 5.14 | 0.0000 |
| Medicaid | 1,537.87 | 2.08 | 0.0429 |
| Minimum Wage | 3,162.73 | 3.74 | 0.0005 |
| State EITC | 1,916.71 | 2.03 | 0.0479 |
| TANF Disregards | 2,462.88 | 3.07 | 0.0037 |

Adjusted R-squared = .78 Standard Error = 2,144 F Statistic = 31.98 (0.0000)

B. Dependent variable: housing adjusted total work support system income

| Independent Variables | coefficient | t-statistic | significance |
|---|---|---|---|
| Constant | 32,479.49 | 21.32 | 0.0000 |
| Childcare | 19.52 | 0.01 | 0.9937 |
| Medicaid | -1,206.52 | -0.56 | 0.5780 |
| Minimum Wage | -6,511.81 | -2.64 | 0.0114 |
| State EITC | -689.37 | -0.25 | 0.8032 |
| TANF Disregards | -347.44 | -0.15 | 0.8828 |

Adjusted R-squared = .21 Standard Error = 6,256 F Statistic = 2.40 (0.0521)

C. Dependent variable: median income adjusted total work support system income

| Independent Variables | coefficient | t-statistic | significance |
|---|---|---|---|
| Constant | 27,547.86 | 32.98 | 0.0000 |
| Childcare | 1,286.58 | 0.95 | 0.3464 |
| Medicaid | 540.74 | 0.46 | 0.6491 |
| Minimum Wage | 260.07 | 0.19 | 0.8485 |
| State EITC | -126.12 | -0.08 | 0.9337 |
| TANF Disregards | 488.88 | 0.38 | 0.7054 |

Adjusted R-squared = .06 Standard Error = 3,429 F Statistic = 0.5957 (0.7033)

D. Dependent variable: total work support system income adjusted by the Berry index

| Independent Variables | coefficient | t-statistic | significance |
|---|---|---|---|
| Constant | 26,105.83 | 62.08 | 0.0000 |
| Childcare | 1,644.72 | 2.30 | 0.0267 |
| Medicaid | 711.70 | 1.19 | 0.2396 |
| Minimum Wage | 1,379.81 | 1.79 | 0.0811 |
| State EITC | 1,085.97 | 1.43 | 0.1613 |
| TANF Disregards | 1,165.56 | 1.71 | 0.0947 |

Adjusted R-squared = .50 Standard Error = 1,715 F Statistic = 8.41 (0.0000)

Limitations and Constraints

Although in some circumstances the work support system provides significant income gains, a variety of factors limit and constrain the system's generosity. The budgetary status of some work support programs is an important constraint. Programs that are individual entitlements (Medicaid, child nutrition programs, and food stamps) or refundable tax credits (federal and state EITC programs) allow widespread participation because they are not budget-constrained. Other work support programs (TANF and state childcare grants) are budget-constrained.

The practical consequence of budget constraints is that work support benefits are rationed. An important rationing device is the preference given to cash welfare clients making the transition from welfare to work; these low-income workers are more likely than others to benefit from work support programs. As noted above, some states provide TANF earned income disregards. These benefits are not available to poor workers outside the cash welfare system, creating the real possibility that people making the transition from welfare to work have higher net incomes than other low-income workers. Acs, Coe, Watson, and Lerman (1998), illustrated the resulting inequity in one state:

> "…in Massachusetts, a single mother with two children earning $655 a month would not be eligible for TANF; however, if she had been receiving TANF benefits and then began working and earned $655 a month, she would receive $297 in TANF benefits" (p. 4).

Eligibility or priority to receive some other work support benefits is also linked to cash welfare participation. The federal government has mandated that those making the transition from welfare to work are eligible for an extension of Medicaid benefits. For working poor adults outside the cash welfare system Medicaid assistance depends upon state policy choices. Those making the transition from welfare to work also receive preference for childcare grants and the preference is significant. According to the Department of Health and Human Services (HHS), only about 15 percent of children eligible under state guidelines received childcare assistance in fiscal year 1998. The unmet need is even greater under federal eligibility guidelines. Under federal law, children in families with incomes at or below 85 percent of the state median income are eligible for childcare assistance, but only nine states have adopted this standard. Using the federal standard, 14.7 million children were eligible for assistance in 1998 and only about 10 percent of them were served (HHS, 1999).

The waiting list is another device used to ration work support benefits (Adams and Rohacek, 2002). An HHS report to Congress on the status of welfare reform stated that there are “extensive waiting lists” for childcare services and that of the 50 to 70 percent of former welfare recipients who have left the roles and are now working only about 30 percent are receiving childcare assistance (HHS, 2000). Although the lion’s share of childcare benefits are reserved for families making the transition from welfare to work, even among this favored group resources are insufficient to meet the need.

Although cash welfare clients in many states receive more generous work support benefits than other poor workers do, the advantage they enjoy is temporary. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) limits to five the number of years TANF benefits can be received, even if one is in compliance with work participation requirements. When TANF eligibility expires, former welfare clients lose

TANF earned income disregards and preferential treatment for Medicaid and childcare grants, changes that can amount to significant income loss.

Another limitation of the work support system is created by the implementation of individual entitlement programs in conjunction with welfare reform. Although receipt of individual entitlements is a legally enforceable right, many eligible poor workers fail to receive benefits (Schott, Dean, and Guyer, 2001; Weil and Holahan, 2001; Lerman and Wiseman, 2002; Lyter, Sills, and Oh, 2002). This may be an unintended consequence of policies that prioritize reducing cash welfare caseloads in local social service departments that implement many work support programs (GAO, 1999; Kornfeld, 2002; Moffitt, 2002). Welfare caseworkers may fail to advise poor workers of their eligibility for food stamps and Medicaid or may discourage people seeking such benefits.

Finally, the linkage that has been forged between receiving benefits and workforce participation limits the generosity of the work support system. Policy officials intended to reform the welfare system by linking receipt of a variety of means-tested benefits to work requirements in order to enforce standards of personal responsibility. They also intended to enhance the rewards low-income workers receive. Whatever are the merits of their decisions, these actions had the unintended consequence of linking receipt of many means-tested benefits to economic conditions, specifically the employment prospects of low-wage workers. As economic conditions change, the opportunity to comply with demands to work become more or less feasible. As the scope and significance of the work support system grows, so does the possibility that many well-intentioned poor workers and their families will suffer doubly as job loss during economic downturns also results in loss of work support benefits.

To consider the implications of these limitations and constraints, Table Seven presents information about work support system generosity in the average state based upon six different scenarios about work hours and program participation. Work hours are divided into two categories, full time and half time. Program participation is divided into three categories: participation in all work support programs, participation in tax and individual entitlements only, and participation in programs not administered by local social service departments.

The program participation categories represent different assumptions about the implications of budget constraints and program administration for access to work support system benefits. The first program participation category is consistent with the analysis presented thus far and shows the maximum possible income; implicitly, this scenario downplays the significance of budget constraints and administrative practices that restrict participation. However, as previously noted, budget constraints are serious when programs are not individual entitlements or refundable tax credits and it is likely that many low-income workers will be unable to participate fully in work support programs. The second program participation category assumes that low-income workers benefit only from individual entitlements and tax programs because these programs are not budget-constrained. This scenario downplays the significance of program administration and the barriers it may create to gaining program benefits. The third program participation category assumes no benefits are received from the local department of social services; the low-income worker has not approached the department or has done so and been rebuffed. This is a plausible scenario given that participation in programs administered by these departments went down as emphasis was placed on moving welfare recipients into the workforce.[12]

Table Seven: Work Support Income for Work and Program Participation Scenarios

| | Earnings | EITC | TANF | Food stamps | Child care | Medicaid | Child nutrition | State EITC | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Full Time Worker** | | | | | | | | | |
| Full Participation | $10,187 | $3,880 | $735 | $1,762 | $6,808 | $4,236 | $561 | $107 | $28,278 |
| Tax and Entitlements | $10,187 | $3,880 | $0 | $1,983 | $0 | $4,236 | $561 | $107 | $20,954 |
| No welfare office contact | $10,187 | $3,880 | $0 | $0 | $0 | $0 | $561 | $107 | $14,736 |
| **Half time Worker** | | | | | | | | | |
| Full Participation | $5,104 | $2,210 | $2,462 | $2,555 | $3,247 | $4,236 | $561 | $62 | $20,437 |
| Tax and Entitlements | $5,104 | $2,210 | $0 | $3,294 | $0 | $4,236 | $561 | $62 | $15,467 |
| No welfare office contact | $5,104 | $2,210 | $0 | $0 | $0 | $0 | $561 | $62 | $7,938 |

The data show that full time work in conjunction with work support benefits provides an income in excess of the federal poverty standard regardless of the level of program participation. Full participation in the work support system and full time employment yields an estimated income of $28,278, 204 percent of the poverty standard ($13,874 in 2000). Full time work and participation in entitlement and tax programs only yields an estimated income of $20,954, 151 percent of the poverty standard.[13] Full time work and participation in programs that require no contact with local social service

[12] This scenario allows participation in child nutrition and tax programs. This is not necessarily the most limited work support system participation scenario. Although school lunch service is almost universal in the U.S., the same is not true for school breakfast service. Fewer schools offer this service and if breakfast is not available, this will reduce the income estimate. Beyond this, some studies contend that potential EITC beneficiaries fail to receive benefits because they do not file tax returns. On this point see Dickert-Conlin and Holtz-Eakin, 2000; Hoffman and Seidman, 1990.

[13] The data in Table Seven show an increase in food stamp benefits as TANF income is lost that equals 30 percent of the lost TANF income. However, this may underestimate the increase in food stamp benefits that will be provided because loss of childcare support can increase out-of-pocket childcare costs, reducing net income and further increasing food stamp benefit payments. Given the complexity of various state childcare programs, this possibility was not included in the benefit adjustment presented in Table Seven.

departments yields an estimated income of $14,736, 106 percent of the poverty standard. In the average state, full time workers enjoy an income above the federal poverty standard, even with limited participation in the work support system.

Participation in individual entitlement and tax programs and full time employment provides an income that exceeds the poverty standard by 50 percent, suggesting that local social service departments are important links in improving the material well being of the working poor. These programs are not budget constrained and so, resource limitations are not an issue. However, administrative processes that discourage cash welfare participation must not also discourage participation in Medicaid and food stamps because these programs can provide a significant boost to low-income working families.

A comparison of the estimated income the work support system provides to basic family budget standards is less encouraging. It is necessary to gain the maximum possible benefits from the work support system to have an income sufficient to supply a basic family budget in the average state. Full time employment and full work support program participation yields an estimated income that is 143 percent of the low basic family budget average and 114 percent of the high basic family budget average.[14] However, when work support participation is limited to entitlement and tax programs, the income provided is sufficient to supply only a low basic family budget. Full time employment and participation in tax and entitlement programs yields 106 percent of the low budget, but only 84 percent of the high budget. When participation is limited to programs that do not require contact with the local social services department, the work support system yields an estimated income that is only 74 percent of the low budget and only 59 percent of the high budget.

[14] These are unweighted averages of the high and low basic family budgets for the fifty states and D.C.

Work hours also influence the income provided by the work support system. Half time work can provide an income in excess of the federal poverty standard, depending upon program participation. Half time workers that fully participate in the work support system receive an estimated income of $20,437 in the average state, 147 percent of the federal poverty standard. Even participation in entitlement and tax programs only provides an income above the poverty standard for half time workers, an estimated $15,467 in the average state, 111 percent of the poverty standard. However, half time workers must gain access to entitlements to escape poverty because failure to participate in those programs results in an estimated income of only $7,938 in the average state, 57 percent of the poverty standard.

The work support income gained by half time workers in the average state compares less favorably to basic family budgets. Half time work provides an adequate income only for low cost areas when the worker fully participates in work support programs. In those circumstances, the work support system provides 103 percent of the basic family budget. However, even full work support participation is insufficient for half time workers in high cost areas of the average state, providing only 82 percent of the basic family budget. When work support participation is limited, the income provided by half time work is far below basic family budget standards. Half time workers that participate only in tax and entitlement programs gain 78 percent of low and 62 percent of high basic family budgets in the average state. Half time workers that fail to gain entitlement benefits have incomes that provide only 40 percent of low and 32 percent of high basic family budgets in the average state.

Table Seven also shows how some work support programs compensate for earned income loss while others compound it. Half time workers that fully participate in the work support system have an estimated income that is 72 percent of that for full time workers because earned income and tax losses are offset by gains in TANF and food stamps in the average state. Federal and state EITC payments are positively related to earned income for minimum wage workers and so the loss of earned income is compounded by a loss of tax benefits. Childcare grants are also reduced, but this loss reflects lower need for childcare due to fewer hours worked. On balance, the system more than compensates for tax losses; the income gained from TANF and food stamps is greater than the income lost due to EITC. (If childcare grants are also considered "income lost", the losses outweigh the gains, but that tortures the meaning of the term.) This highlights the importance of access to TANF benefits and the significance of the inequality that exists between cash welfare recipients and other low-income workers.

Rethinking the Race to the Bottom

Recent policy changes have strengthened the link between welfare and work. PRWORA linked receipt of a variety of means-tested benefits to work requirements and devolved to the states new authority to influence social policy. These changes were widely perceived to have made the welfare system less generous (Primus, Rawlings, Larin, and Porter, 1999; Edleman, 1997). However, as welfare reform was being developed and implemented the work support system expanded income supports for the working poor. Although the welfare system is now undoubtedly less generous for recipients who do not work, the work support system provides benefits to recipients who do work. The opportunity to combine work support program benefits and earned income can result in significant income gains.

These observations provide a useful basis to reconsider the race to the bottom. Fear that states will race to the bottom is rooted in concerns about the resource constraints and incentives they must confront when making social policy. The race to the bottom is supposed to be run in a specific direction and according to a particular set of rules. States are expected to use their discretion to reduce benefits in order to save money and avoid the possibility of becoming welfare magnets—state discretion is thus associated with a tendency to reduce benefits. This research suggests that this tendency was not realized in the development of the work support system. There has been a race to the bottom, but it has not been run in the predicted direction or according to the expected rules. The real race to the bottom was run in high cost of living states that used their discretion and resources to increase benefits but failed to reach the bottom, as defined by states that did nothing. High cost of living states have been *racing up to the bottom* and falling short.

## Appendix A:  Estimating Work Support System Income

This appendix explains the methods used to estimate the "income" full time, minimum wage workers can receive in the fifty states and the District of Columbia including the estimated dollar value of work support benefits.  The value of work support benefits varies with family size and structure.  The estimates are based upon a family of three, with one working adult and two dependent children (one child is pre-school aged, the other is school aged).  Benefits also vary according to work effort and how long the worker has been employed.  We estimate benefits in month thirteen of employment for full and half time workers.  Finally, policy changes over time affect the value of work support system benefits; to the extent possible, we have estimated the value of benefits in the year 2000.

Total income is the sum of earnings from a minimum wage job, federal EITC benefits, TANF benefits, the face value of food stamps, the maximum value of state childcare grants, the estimated market value of Medicaid benefits, the estimated value of means-tested components of child nutrition programs, and refundable state EITC benefits less federal and state income taxes and FICA taxes.  These estimates are based on the assumption that low-income workers are able to fully participate and receive benefits from all work support system programs.  As such, they represent *the maximum possible income the work support system may provide but do not necessarily indicate how the system performs*.

The estimate begins with tables presented in the *Green Book* (2000)[15] that provide state-level estimates for a single parent with two children for several components of the work support system, including federal EITC payments, TANF benefits (in month 13 of

[15] See the *Green Book* (2000), Tables 7-11 and 7-12, pp. 391-396.

employment), and food stamps. We complemented that analysis by estimating the value of earned income from minimum wage work, federal and state income taxes, FICA taxes, state EITC benefits, medical assistance, childcare grants, and school lunch and breakfast programs. The sections below explain the estimation methods.

Earned Income Less Taxes

We calculated earned income by multiplying the minimum wage rate for each state times 2080, representing forty hours per week of year-round employment. Based upon specific assumptions about family structure, we estimated that none of the minimum wage workers has a federal Personal Income Tax liability. The highest gross incomes were $13,520 in Oregon and Washington states. We assumed that our workers were heads of households and qualified for the $6,450 standard deduction and $2,800 for each of three exemptions, totaling $14,850 in income adjustments and leaving no income to tax. (This assumption is also important to the estimated Earned Income Tax Credit reported in the *Green Book*.) We estimated FICA taxes by multiplying gross earned income times .0765, representing the employee's share of these taxes.

We relied upon Zahradnik, Johnson, and Mazerov (2001), who reported state income tax burdens for minimum wage workers, as the basis for estimating state income taxes; we used the estimates presented in their report for full time minimum wage worker with two dependent children. For states that do not have a state income tax, a value of zero was entered. To estimate the state income tax burden of half time workers, we checked the tax thresholds of the states that taxed full time workers and discovered that no states tax the income of a half time, minimum wage worker with two children.

School Lunch and School Breakfast

The estimates for the value of child nutrition programs were applied only to family income totals for the one child that was assumed to be school aged. To estimate the value of these programs, we determined whether or not full time workers at state level minimum wages are eligible to receive free or reduced price lunches. Recipients of TANF and food stamp benefits are categorically eligible for a free lunch. For others, eligibility is based upon income guidelines.[16]

The school lunch and breakfast programs have income eligibility guidelines for the forty-eight contiguous states and D.C. and special eligibility guidelines in Alaska and Hawaii. The income eligibility guidelines that were in effect from 7/1/2000 to 6/30/2001 and presented in Table A.1 and show the income cutoff points for benefit eligibility. For the purposes of determining eligibility among those who are not TANF or food stamp participants, income is defined to include earnings from work; welfare payments, child support, and alimony; pensions or retirement, including social security payments, supplemental security income, and veteran's pensions; any other income from rents royalties, annuities, interest or dividends. Eligibility is to be determined monthly (USDA, 2001). We calculated the income of our hypothetical state-level workers outside the welfare system by examining income earned from work only. We assumed that other income sources did not apply and that income was earned regularly over the span of the year so that monthly variation in income totals was irrelevant. We compared these income totals to the eligibility guidelines presented in Table A.1 to determine whether or not hypothetical participants were eligible for benefits.

[16] The initial scenario presented in the analysis assumes TANF participation; consequently, the child is categorically eligible for a free lunch. However, later scenarios make different assumptions about program participation and so, income eligibility guidelines are relevant.

Table A.1: Income Eligibility for School Nutrition Programs for a Family of Three

| Location | Reduced Price Meals | | Free Meals | |
|---|---|---|---|---|
| 48 States and D.C. | $26,178/year | $2,182/month | $18,395/year | $1,533/month |
| Alaska | $26,011/year | $2,168/month | $18,278/year | $1,524/month |
| Hawaii | $30,100/year | $2,509/month | $21,151/year | $1,763/month |

Once eligibility was determined, the value of benefits was estimated. We estimated the value of the benefits per meal by applying reimbursement rates paid to the states by the federal government for free lunches and breakfasts. We excluded the value of the basic lunch subsidy and commodity donations because these benefits are not means-tested (they are provided to all participants, regardless of income) and so are not considered work support system benefits. The reimbursement rates are published in the *Federal Register* and are uniform for the forty-eight states and D.C., but higher in Alaska and Hawaii. Between July 1, 1999 and June 30, 2000, the reimbursement rates for free lunches were $1.98 in the forty-eight contiguous states and D.C., $3.21 in Alaska, and $2.32 in Hawaii. For free breakfasts, the rates were $1.09 in the forty-eight contiguous states and D.C., $1.74 in Alaska, and $1.27 in Hawaii.[17] Having estimated the per day value for a free and reduced price breakfast and lunch, we multiplied this times 180 to establish a total annual value of nutrition benefits per child. Our family/work scenario assumes that one child in our family of three is school aged and so the value of benefits paid annually for one child was included in the income estimate.

[17] See the *Federal Register*, Vol. 64, No. 131, Friday, July 9, 1999, page 37091. These totals include reimbursement for both Section 4 and Section 11.

Childcare grants

To estimate the amount of childcare funding provided through the work support system, we relied on a report by the Children's Defense Fund (CDF, 2001). The report reviewed state policies regarding eligibility and benefit payments. The minimum wage worker in our scenario is eligible in every state according to the income eligibility guidelines contained in the report. However, in addition to income eligibility, some states required more than 20 hours work per week in order to qualify for benefits; Georgia and Pennsylvania (25 hours), Iowa (28 hours), New Jersey (30 hours), Arkansas (35 hours), and Tennessee (40 hours). All of these states were scored zero for childcare benefits for half time workers.

Eligibility among families in transition from welfare to work is a complicating factor in one state. In Tennessee, families making the transition from welfare to work are required to work only 20 hours per week for the eighteen-month transition period in order to qualify for childcare benefits. Our estimates are for income in the work support system for month thirteen, and so, transition families in Tennessee are qualified for childcare benefits that other low-income working families are not able to receive.

To estimate the value of benefits received by our hypothetical family of three state-level reimbursement rates and required co-payments were considered. In addition benefit payments were adjusted according to the amount of time worked by the parent. School-aged children do not require day care for so long a period as pre-school children. To estimate the amount of childcare that would be eligible for reimbursement, we made an assumption about the costs of wrap-around care for school-aged children. We stipulated that wrap-around care required 33% of the time and hence the cost of full time childcare (three of nine hours in a typical day). Thus, disregarding required co-payments, our family of three was expected to receive income equivalent to 133% of the maximum state benefit if the parent was a full time worker and 67% of the maximum state benefit if the parent was a half time worker.

To estimate the co-payments, data presented in the Children's Defense Fund report were used to establish a linear model of state-co-payment rates. The report provides required co-payments by state for parents who earn $7,075 per year and $14,150 per year. A linear model was created with these two data points and used to calculate the estimated co-payment for the income levels in our scenarios. For example, in Alabama, parental co-payments are $22 at $7,075 earned and $65 at $14,150. Our model estimates that the co-payment increases about $6.08 cents per $1000 income gained. A full time, minimum wage worker in Alabama earns $9,893 and has an estimated monthly co-payment of $39.13 (.00608 * ($9,893 – $7,075) + $22). The required co-payment was subtracted from the benefit estimate to arrive at the estimated value of childcare grants.

State Earned Income Tax Credits

Although the Johnson (2001) identified seventeen states that have state tax credits for low-income workers, only those states that were identified in footnotes contained in Tables 7-11 and 7-12 of the 2000 *Green Book* were considered in order to maintain the consistency of the timing of our estimation of the generosity of the work support system. According to the *Green Book*, eleven states had EITC programs in the year 2000: Colorado, Iowa, Kansas, Maryland, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, Wisconsin. Of these states, only Colorado, Kansas, Maryland, Massachusetts, Minnesota, New York, Vermont, and Wisconsin offered a refundable credit. All other states were scored zero on this component of the work support system, including states that have a non-refundable program.

With three exceptions, states express EITC benefits as a fraction of federal EITC payments and follow federal eligibility rules. Colorado's EITC payments are contingent on a trigger based on state revenue levels. It is possible that payments in Colorado are not a generous as our estimate implies when the state is under fiscal stress. Minnesota has devised a more complicated benefit payment scheme because officials there discovered that some of the intended beneficiaries experienced "no net gain" in income because state EITC benefit payments were off-set by the loss of other social program benefits (such as food stamps). Although Minnesota has made its state EITC more generous as a result, the change in benefit levels occurs at earned income levels above those for minimum wage workers. Consequently, benefits in Minnesota are calculated as a straight percentage of the federal benefit. In Wisconsin, more adjustments are made to benefits according to family size than is true for the federal EITC program. The benefit rate for a two-child family in Wisconsin was applied to the estimate (Johnson, 2001). In Table A.2 below, the benefit proportions by state are given.

Table A.2: Selected State EITC benefits

| |
|---|
| Colorado, 10% of federal EITC |
| Kansas, 10% of federal EITC |
| Maryland, 10% of federal EITC |
| Massachusetts, 15% of federal EITC |
| Minnesota, 25% of federal EITC |
| New York, 25% of federal EITC |
| Vermont, 32% of federal EITC |
| Wisconsin, 14% of federal EITC |

These benefit proportions were multiplied by the estimated federal EITC payments provided in the 2000 *Green Book* to arrive at estimated payments for state-level earned income tax credits.

Medical Assistance

The value of the medical assistance varies according to two factors, eligibility to receive medical assistance in the thirteenth month of employment and the dollar value of the assistance provided. The children in our family of three are entitled to medical benefits regardless of their state of residence under the mandatory Medicaid expansion to cover all children under age 19, born after 9/30/83 with family income below 100 percent of the federal poverty standard (*Green Book*, 2000). All children in families of our minimum wage workers qualify by this standard. Although some states serve these children through separate SCHIPS programs that technically are not Medicaid extensions, we did not make this distinction in estimating the value of benefits provided. The variation between the states is based on the issues of parental eligibility and the value of benefits provided.

All states provide transitional medical assistance to those emerging from the cash welfare system to go to work. However, in most states, this benefit extension is for twelve months only. In month thirteen of employment, the parent in our family of three may have exhausted eligibility for transitional medical assistance depending upon state of residence. According to a report from the Center on Budget and Policy Priorities (Broaddus, Blaney, Dude, Guyer, Ku, and Peterson, 2002), as of July 2000, fourteen states extended coverage beyond twelve months. The states and the total length of their respective transitional medical assistance programs are: Rhode Island and Tennessee, 18 months; Arizona, California, Connecticut, Delaware, Georgia, Nebraska, New Jersey, North Carolina, South Carolina, Utah, 24 months; and Missouri and Vermont, 36 months. In these states, the estimated value of medical assistance includes coverage for the parent and both children.

Another route to parental eligibility for medical assistance is by liberalization of income eligibility standards. As of July 2000, twenty-two states and the District of Columbia had income eligibility standards that allowed the parent in our hypothetical family to qualify for medical assistance (some of these are the same states that extended the period for transitional medical assistance). The states are Alaska, California, Delaware, D.C., Hawaii, Illinois, Iowa, Kentucky, Maine, Massachusetts, Minnesota, Missouri, Montana, Nevada, New York, North Dakota, Ohio, Oregon, Rhode Island, Tennessee, Vermont, Washington, and Wisconsin (Broaddus *et al*, 2002).[18] In these

---

[18] The list of states was constructed by comparing the earned income for our hypothetical family to "income eligibility thresholds" presented in Broaddus, *et al* (2002). The thresholds are the sum of state

states, the estimated value of medical assistance includes coverage for the parent and the children.

When both eligibility paths are considered, a total of thirty states and D.C. provide a means for parents and children to receive medical assistance in month thirteen of employment. However, distinctions between these eligibility paths are important because transitional medical assistance is only available to those emerging from the cash welfare system. If workers are outside the cash welfare system, only twenty-two states provide medical assistance for the parent.

The value of medical assistance benefits provided is estimated on the basis of data from the 2002 Current Population Survey, March Supplement. The Census estimates the market value of Medicaid services provided at the individual level. Medicaid beneficiaries were selected from the CPS sample pool and the average value of individual state-level benefits was calculated.[19] For states in which parents and children were eligible for Medicaid benefits, this estimate was multiplied times three to determine the value of benefits provided to the family. The individual benefit estimate was multiplied times two in states where only children are eligible for Medicaid benefits.

---

income eligibility guidelines and earnings disregards. This standard does not account for other disregards and families that have expenses for childcare or child support may qualify for medical assistance at higher income levels. After July 2000, several additional states made policy changes to open this route to eligibility. See Broaddus *et al* (2002) for additional details.

[19] A limitation of this technique is the limited sample size of some of the smaller states, which creates the possibility of unreliable estimates due to the limited number of observations. Concern about this matter is the reason we used data from the 2002 survey rather than the 2001 survey. The Census has been improving the reliability of estimates in the CPS March Supplement for several years and fully implemented adjustments in its sample technique to improve reliability in the 2002 sample. Although this violates our attempt to estimate the value of work support benefits in the year 2000, we considered the reliability of estimates at the state level to be a more significant concern.

Appendix B: Adjustments to Work Support Income Estimates and Basic Family Budgets

The initial step taken to make basic family budgets compatible with estimates of work support system income was to subtract the estimated annual costs for health care and childcare from the total basic family budget. Depending upon circumstances that vary from place to place, some of these costs were later added back in. Childcare and health care are not always out-of-pocket expenses for the hypothetical family considered in this analysis because some family members receive Medicaid and the family receives a childcare grant.

Further adjustments were required to estimate health care expenses depending upon state Medicaid eligibility policies. For states in which the parent in the hypothetical family of three was eligible for Medicaid, medical costs were excluded from basic family budgets. However, in states that did not extend Medicaid eligibility to the parent, the estimated cost of health insurance was added back in to the basic family budget. This cost was estimated by using quotes for health insurance coverage obtained from www.ehealthinsurance.com for a 35-year-old female, non-smoker.[20] The cost of health insurance was estimated in the highest cost of living area in each state (selected on the basis of basic family budget information); when that was not possible, state capitals were used as the basis for the estimate. Following this procedure, estimates were available in all required states except New Hampshire and West Virginia. To estimate the cost of health insurance in those states, the insurance quotes from the other states were divided by the estimated market value of medical assistance provided in those states (these data

[20] The lowest cost plan that offered a $500 deductible was selected (this was the minimum deductible available). Except for the deductible, the features of the plan were not considered. Quotes are provided as monthly costs and these cost estimates were multiplied times twelve to form annual cost estimates (no allowance was made for inflation). The prices were current in January 2003.

were part of the work support system database that came from the U.S. Census, Current Population Survey, 2002 March Supplement). These proportions were averaged and the average proportion was multiplied times the estimated market value of medical assistance in New Hampshire and West Virginia to estimate the costs of health insurance in those states.

Basic family budgets were also adjusted for childcare expenses depending upon state-level policies. In a few states, the basic family budget cost estimate was less than the maximum state childcare grant. In such cases, the state co-pay requirement was added back in to the basic family budget as the estimated childcare cost. However, in most states and D.C., the maximum childcare grant was less than the estimated cost of purchasing childcare. In such cases, the net cost (the difference between the estimated market price for childcare and the maximum childcare grant) was compared to the state co-pay requirement. If the co-pay requirement was less than the net cost, the net cost was added back in to the basic family budget as the estimated cost of childcare. If the required co-pay was greater than the net cost, the cost of the co-pay was added back in to the basic family budget as the estimated cost of childcare.

Finally, the basic family budget estimates include the funds required to pay a variety of taxes, some of which we had already subtracted from earned income. Consequently, we added back in the tax payments we had subtracted for federal and state income taxes and FICA taxes.

References

Acs, Gregory, Norma Coe, Keith Watson, and Robert Lerman, 1998. *Does Work Pay? An Analysis of the Work Incentives under TANF*. Assessing the New Federalism Project, occasional paper number 9. Urban Institute: Washington, D.C.

Adams, Gina and Monica Rohacek, 2002. "Child Care and Welfare Reform," Policy Brief No. 14, February 2002. The Brookings Institution: Washington, D.C.

Bernstein, Jared, Chauna Brocht, and Maggie Spade-Aguilar, 2000. *How Much is Enough? Basic Family Budgets for Working Families*. Economic Policy Institute: Washington, D.C.

Berry, William D., Richard Fording, and Russell Hanson, 2000. "An Annual Cost of Living Index for the American States, 1960-1995". *Journal of Politics*, 62, (May 2000): 550-567.

Boushey, Heather, Chauna Brocht, Bethney Gundersen, and Jared Bernstein, 2001. *Hardships in America: The Real Story of Working Families*. Economic Policy Institute: Washington, D.C.

Broaddus, Matthew, Shannon Blaney, Annie Dude, Jocelyn Guyer, Leighton Ku, Jaia Peterson, 2002. "Expanding Family Coverage: States' Medicaid Eligibility Policies for Working Families in the Year 2000." Center on Budget and Policy Priorities: Washington, D.C., February 13, 2002.

CBO, 1998. Congressional Budget Office, September 1998. "Policy Changes Affecting Mandatory Spending for Low-Income Families Not Receiving Cash Welfare." http://www.cbo.gov/showdoc.cfm?index=849&sequence=0

CDF, 2001. Children's Defense Fund, 2001. "A Fragile Foundation: State Child Care Assistance Policies." http://www.childrensdefense.org/pdf/cc_statecc_main.pdf

Dickert-Conlin, Stacy and Douglas Holtz-Eakin, 2000. "Employee-Based Versus Employer-Based Subsidies to Low-Wage Workers: A Public Finance Perspective" in Rebecca Blank and David Card, eds., *Finding Jobs: Work and Welfare Reform*. Russell Sage Foundation: New York.

DOL, 2002. U.S. Department of Labor, March 2002. "A Profile of the Working Poor." Bureau of Labor Statistics, Report 957. http://www.bls.gov

Edelman, Peter, 1997. "The Worst Thing Bill Clinton Has Done." *The Atlantic Monthly*, March 1997. http://www.theatlantic.com/issues/97mar/edelman/edelman.htm

GAO, 1999. U.S. General Accounting Office, July 1999. "Food Stamp Program: Various Factors Have Led to Declining Participation." GAO Report, GAO/RCED-99-185.

Green Book, 2000. U.S. House Committee on Ways and Means, *The Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*. October 6, 2000. Government Printing Office: Washington, D.C.

HHS, 2000. Health and Human Services, U.S. Department of. "Temporary Assistance for Needy Families: Third Annual Report to Congress, August 2000." www.acf.dhhs.gov/programs/opre/annual3.pdf

HHS, 1999. Health and Human Services, U.S. Department of. "Access to Child Care for Low-Income Working Families." www.acf.dhhs.gov/programs/ccb.old/research/ccreport/ccreport.htm

Hoffman, Saul and Laurence Seidman, 1990. *The Earned Income Tax Credit: Antipoverty Effectiveness and Labor Market Effects*. W.E. Upjohn Institute: Kalamazoo, Michigan.

Johnson, Nicholas, 2001. "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2001." Center on Budget and Policy Priorities: Washington, D.C.

Kornfeld, Robert, 2002. "Explaining Recent Trends in Food Stamp Program Caseloads: Final Report." The report is available through the Economic Research Service of the U.S. Department of Agriculture. http://ers.usda.gov/publications/

Lerman, Robert I. and Michael Wiseman, 2002. "Restructuring Food Stamps for Working Families," The report is available through the Economic Research Service of the U.S. Department of Agriculture. http://ers.usda.gov/publications/

Lyter, Deanna M., Melissa Sills, and Gi-Taik Oh, 2002. "Children in Single-Parent Families Living in Poverty Have Fewer Supports after Welfare Reform." IWPR, Publication #D451, September 2002. Institute for Women's Policy Research: Washington, D.C.

Moffitt, Robert A., 2002. "From Welfare to Work: What the Evidence Shows," Policy Brief No. 13, January 2002. The Brookings Institution: Washington, D.C.

Primus, Wendell, Lynette Rawlings, Kathy Larin, and Kathryn Porter, 1999. "The Initial Impacts of Welfare Reform on the Incomes of Single-Mother Families." Center for Budget and policy Priorities: Washington, D.C. http://www.cbpp.org/8-22-99wel.pdf

Sawhill, Isabel and Ron Haskins, 2002. "Welfare Reform and the Work Support System" in Isabel Sawhill, R.Kent Weaver, Ron Haskins, and Andrea Kane, eds., *Welfare Reform and Beyond: The Future of the Safety Net*. The Brookings Institution: Washington, D.C.

Schott, Liz, Stacy Dean, and Jocelyn Guyer, 2001. "Coordinating Medicaid and Food Stamps: How New Food Stamp Policies Can Reduce Barriers to Health Care Coverage for Low-Income Working Families." Center on Budget and Policy Priorities: Washington, D.C., September 2001.

USDA, 2001. U.S. Department of Agriculture, August 2001. "Eligibility Guidance for School Meals Manual." www.fns.usda.gov/cnd/Guidance/Eligibility%20Guidance%20 Final%20version.pdf

Weil, Alan and John Holahan, 2001. "Health Insurance, Welfare, and Work," Policy Brief No. 11, December 2001. The Brookings Institution: Washington, D.C.

Zahradnik, Bob, Nichloas Johnson, and Michael Mazerov, 2001. "State Income Tax Burdens on Low-Income Families in 2000: Assessing the Burden and Opportunities for Relief." Center on Budget and Policy Priorities: Washington, D.C.