

Use of Public Assistance Programs By AFDC Recipients

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February 1989

Program Evaluation Division
Office of the Legislative Auditor
State of Minnesota

Program Evaluation Division

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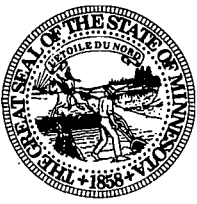


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Minnesota's welfare system is complex and decentralized. Those in need may receive benefits from a variety of federal and state programs, each having a specialized purpose and unique rules of eligibility. Effective reform of the welfare system requires a basic understanding of how these programs work, what combination of benefits people are actually receiving, and how well the benefits meet basic needs without creating disincentives to work.


In July 1987 the Legislative Audit Commission directed the Program Evaluation Division to study these questions. With assistance from the Department of Human Services and numerous other agencies, we examined a sample of AFDC households and determined the total value of welfare benefits those households received from nine different public assistance programs.

We found large variations in the total benefits received, with housing subsidies being the biggest influence on variation. We also found that long-term AFDC recipients have the least incentive to leave public assistance, largely because they more often receive a housing subsidy. While we discuss several reform options, the state's ability to address these problems is limited because eligibility for many welfare programs is set by federal rules.

We received the full cooperation of the Department of Human Services. We also received help from many other federal, state, and local agencies which administer public assistance programs.

This report was researched and written by Daniel Jacobson (project manager) and Kathleen Vanderwall, with assistance from David Chein.

Sincerely yours,


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USE OF PUBLIC ASSISTANCE PROGRAMS BY AFDC RECIPIENTS

Executive Summary

Each month, the Aid to Families with Dependent Children (AFDC) program provides cash grants to more than 54,000 low-income families in Minnesota. A variety of other federal and state programs also help Minnesota's low-income families afford medical care, housing, food, and heating expenses. In 1987, the Legislative Audit Commission asked us to examine what benefits are received by AFDC recipients from other public assistance programs. Specifically, our study addressed the following questions:

- **How many AFDC recipients benefit from each assistance program? What is the value of these benefits? How do benefits vary among AFDC families?**
- **How do these public assistance programs affect work incentives for low-income families?**

AFDC families may participate in several additional public assistance programs.

We examined a sample of 999 families who received AFDC benefits between October 1987 and March 1988 to determine what benefits each family received from other programs administered by federal, state, and local governments. In addition to AFDC, we looked at benefits received from eight programs: Medical Assistance, Food Stamps, subsidized housing, Energy Assistance, the National School Lunch Program, the Supplemental Food Program for Women, Infants, and Children, federal and state education grants, and the Child Care Fund Program.

BENEFITS PROVIDED TO AFDC FAMILIES

During fiscal year 1988, public assistance programs provided about \$674 million in benefits to AFDC families in Minnesota. Of this amount:

- **The four largest programs (AFDC, Medical Assistance, subsidized housing, and Food Stamps) provided 94 percent of the total benefits paid to AFDC families.**

Programs in which a high percentage of AFDC families participated were Medical Assistance, which automatically covers all AFDC families, and Food Stamps, which was used by 81 percent of AFDC families. The National School Lunch and Energy Assistance programs also had fairly high participation rates, but have small benefits. On the other hand, subsidized housing

| <u>Program</u> | <u>Percent of AFDC Families Receiving Benefit</u> | <u>Average Monthly Benefit</u> |
|-------------------------------|---|--|
| AFDC | 100% | \$484 |
| Medical Assistance* | 100 | 273 |
| Food Stamps | 81 | 116 |
| National School Lunch Program | 57 | 22 |
| Energy Assistance | 45 | 32 |
| W.I.C. Food Program | 34 | 56 |
| Subsidized Housing | 33 | 335 |
| Education Grants | 11 | 158 |
| Child Care Fund | 5 | 45 |

*All AFDC families are covered by Medical Assistance even though they may not receive medical care during any particular year.

Participation Rates and Average Monthly Benefits

serves just 33 percent of AFDC families, but provides a very large benefit (\$335 per month).

We found that the average total benefit size for AFDC families was \$1,027 per month, including \$1,007 in benefits designed to meet basic living expenses and \$20 in benefits designed to meet work or training expenses. However, the benefit size varies widely among AFDC families. For example, ten percent of AFDC families received total benefits of less than \$600 per month, but 13 percent received benefits exceeding \$1,400. (These figures exclude child care and education grants.)

The variation in benefits is largely attributable to:

- differences in need, such as income and family size, and
- unequal distribution of housing subsidies.

Waiting lists for housing subsidies often exceed two years. As a result, only about 38 percent of eligible AFDC families receive housing subsidies. AFDC families with housing subsidies receive from 32 to 43 percent higher average total benefits than same-size families without housing subsidies.

We found that:

- Families who have been receiving AFDC benefits for a longer period of time receive more benefits because they are more likely to participate in other programs, including housing subsidies, Food Stamps, and Energy Assistance.

Much of the variation in benefits is due to unequal distribution of housing subsidies.

CASH EQUIVALENT VALUE OF BENEFITS

Another way to value public assistance benefits is to estimate how much the recipient values the benefit rather than how much it costs. For food and energy benefits, recipients would probably value the benefits at full cost because they would have spent that much on food or energy anyway. But for Medical Assistance and housing subsidies, recipients would often value the benefit at less than its cost because they would not choose to spend an equivalent amount of cash on medical care or housing.

For housing subsidies, we estimated the cash equivalent amount by taking the difference between the subsidized rent and the rent paid by similar AFDC recipients who do not live in subsidized housing.

However, we did not include any Medical Assistance in the cash equivalent value because there is no consensus concerning how much AFDC recipients value their medical benefit. Clearly, Medical Assistance has value to the recipients, but the amount is unknown.

- **The typical AFDC family of three who lived in subsidized housing received the equivalent of \$868 per month in cash, plus free health care and higher quality housing.**
- **The typical family of three without housing subsidies received the equivalent of \$672 per month in cash, plus free health care.**

We compared average cash equivalent values of public assistance benefits with federal poverty guidelines and found that:

- **For AFDC families living in subsidized housing, the cash equivalent value of their benefits, on average, exceeded the poverty guidelines by between six and eight percent.**

| <u>Family Size</u> | <u>Poverty Guideline</u> | <u>Average Cash Value of Benefits Excluding Medical Assistance</u> | |
|--------------------|--------------------------|--|---------------------------------------|
| | | <u>Receive Housing Subsidy</u> | <u>Do Not Receive Housing Subsidy</u> |
| 2 | \$644 | \$694 | \$530 |
| 3 | 808 | 868 | 672 |
| 4 | 971 | 1,031 | 791 |

NOTE: Average values were based on AFDC families who did not share their households with non-AFDC recipients and in which the parent was not employed.

*Includes value of AFDC, Food Stamps, Energy Assistance, School Lunch, W.I.C. food program, and portion of housing subsidies equivalent to cash..

Average Cash Value of Public Assistance Benefits Compared to Federal Poverty Guidelines

This comparison does not reflect the free health care nor the higher quality housing received by these recipients. However, we also found that:

- **AFDC families without housing subsidies received, on average, cash benefits less than the poverty level. Whether the value of all benefits exceeds the poverty level depends on the value of Medical Assistance.**

WORK INCENTIVES

There are two ways in which public assistance benefits may discourage work. First, the public assistance benefits may be high enough to make a no-work lifestyle acceptable for some AFDC recipients. Second, the loss in benefits due to increased income may be too high to induce some people to work.

The "benefit reduction rate" describes the rate at which public assistance recipients lose benefits as they earn more income. For example, a benefit reduction rate of 70 percent means that for a \$100 increase in earned income, \$70 would be lost because of lower benefits or higher taxes. In general, the higher the rate, the lower the incentive to earn more income independently. Studies in other states have found that both higher benefit levels and higher benefit reduction rates reduce the average amount of work by program participants.

It is difficult to predict accurately how a given change in work incentives would affect work behavior in Minnesota because there are many reasons beyond economic incentives why a person may or may not choose to work, including family influences, cultural inducements, and self-esteem. Nevertheless, state decision makers need to know what objective incentives exist in the public assistance system, and they need to consider how those incentives can affect program outcomes.

We examined benefit reduction rates for different types of families and found:

- **The loss in benefits due to working at jobs that pay between \$4,000 and \$12,000 per year ranges from 62 to 93 percent of earned income.**
- **AFDC families that receive housing subsidies have less incentive to work than families without housing subsidies because they receive higher benefits and face higher benefit reduction rates as well.**

The state's ability to address these problems is limited because eligibility for many welfare programs is set by federal rules. There are some actions, however, that the state could take in an attempt to encourage AFDC recipients to work. They include reducing AFDC benefit levels, reducing benefit reduction rates, establishing voluntary or mandatory employment programs, funding child care programs, and funding new programs targeted at the working poor.

Each of these options has benefits and costs which will need to be considered in designing welfare reform programs.

There are few economic incentives for many people to leave public assistance.

INTRODUCTION

The Aid to Families with Dependent Children (AFDC) program provides cash grants to low-income families. Recent debates on AFDC reform have focused on how to encourage AFDC recipients to become more self-sufficient. To design programs that promote greater self-sufficiency, it is useful to know the total benefits available and how benefits change as AFDC families earn income.

In our 1987 report on AFDC, we looked at the benefits AFDC families received from Medical Assistance and Food Stamps as well as AFDC. In July 1987, the Legislative Audit Commission directed us to extend our analysis to include benefits from a variety of other public assistance programs. Specifically, our study addresses the following questions:

- **How many AFDC recipients benefit from each assistance program? What is the value of these benefits? How do benefits vary among AFDC families?**
- **How do public assistance programs affect work incentives for low-income families?**

To answer these questions, we examined a sample of 999 AFDC families selected by the Department of Human Services as part of its "Quality Control" efforts between October 1987 and March 1988. We then obtained data from a variety of federal, state, and local agencies to find out what benefits were received by each sample AFDC family. In addition to AFDC, we collected benefit data from Medical Assistance, Food Stamps, subsidized housing, Energy Assistance, the National School Lunch Program, the Supplemental Food Program for Women, Infants, and Children, federal and state education grant programs, and the Child Care Fund Program.

Chapter 1 describes public assistance programs that serve Minnesota's low-income families and discusses the data we used in our study. Chapter 2 describes the benefits received by AFDC families. Chapter 3 examines the work incentives facing low-income families and discusses the implications of our findings for state efforts to improve work incentives.



PUBLIC ASSISTANCE PROGRAMS FOR LOW-INCOME FAMILIES

Chapter 1

The Aid to Families with Dependent Children (AFDC) program provides cash grants to low-income families for such basic needs as food, housing, and clothing. When the federal government established the AFDC program in 1935, federal and state governments provided little additional assistance for low-income families. Today, however, low-income families in Minnesota may receive assistance from a variety of federal and state programs. In this chapter, we describe programs that serve low-income families and discuss how we measured usage of these programs by AFDC recipients. We asked the following questions:

- **What programs are available to help low-income families meet their needs?**
- **How many low-income families are served by these programs?**
- **What amount of benefits is provided by these programs?**

PROGRAM DESCRIPTION

Types of Programs

AFDC provides cash benefits, while other programs provide "in-kind" benefits.

Programs that assist low-income families may (1) pay cash assistance with no restrictions on how the grant is spent, (2) provide "in-kind" benefits for daily living expenses, including medical care, housing, food, and energy, or (3) provide "in-kind" benefits for extra expenses due to work or school.

The AFDC program is the only program in the first category that provides cash assistance to meet the general living expenses of low-income families. Families receiving AFDC benefits may use the cash grants in any way they choose.

In the second category are several programs designed to help low-income families meet daily living expenses by providing "in-kind" benefits for medical care, housing, food, and energy. These programs include:

- *Medical Assistance*, which provides free health care for low-income elderly, the blind, the disabled, and low-income families, including all AFDC families;
- *Food Stamp Program*, which distributes coupons that low-income individuals and families use to purchase food;
- *Subsidized housing programs*, including Low Rent Public Housing and Section 8 of the U.S. Housing Act which pay a portion of the rent to private landlords or provide low cost public housing;
- *Energy Assistance*, which pays a portion of home heating costs directly to vendors;
- *National School Lunch Program*, which provides free or reduced price lunches for school children; and
- *Special Supplemental Food Program for Women, Infants, and Children (WIC)*, which provides vouchers for specific foods and health services to people judged to be nutritionally at risk, including pregnant, postpartum, and breastfeeding women, infants, and young children who have nutritional deficiencies.

Finally, in the last category are programs which help pay for the extra costs associated with working or attending school:

- *The Child Care Fund Program*, which provides free or low-cost child care needed by low- or moderate-income families to work or attend school.
- *The federal Pell grant program and the state education grant program*, which help post-secondary students pay for tuition, fees, supplies, and other living expenses.¹

In this study, we have included only state and national programs which are targeted at low-income families. We did not include local programs that provide food, clothing, or other goods and services to needy people. We also did not include the Property Tax Refund Program, which assists renters and homeowners based on their income and property tax burden.

Program Participation and Funding

Table 1.1 summarizes the amount of subsidies provided to low-income families in Minnesota under each program. The data exclude subsidies for the elderly and non-family households. We found:

¹ AFDC recipients may also use other programs--such as the AFDC Employment Special Needs Program and the Job Training Partnership Act programs--to pay for books, supplies, transportation, and other incidental costs of schooling.

**Benefits to
low-income
families
totalled \$875
million in 1988.**

| Program | Funding (in millions) | | | | Participants ¹ |
|--|-----------------------|----------------|----------------|---------------|---------------------------|
| | Total | Federal | State | Local | |
| Unrestricted benefits: AFDC | \$286.0 | \$154.0 | \$112.0 | \$20.0 | 54,600 |
| Restricted benefits to meet living expenses: | | | | | |
| Medical Assistance ² | 243.2 | 130.0 | 102.0 | 11.2 | 78,500 |
| Subsidized Housing ³ | 140.0 | 140.0 | -- | -- | 37,000 |
| Food Stamps ⁴ | 74.2 | 74.2 | -- | -- | 54,200 |
| National School Lunch Women, Infants and Children Food Program | 27.3 | 27.3 | -- | -- | 125,000 |
| Energy Assistance ⁵ | 26.4 | 26.4 | -- | -- | 58,000 |
| Subtotal | \$538.4 | \$424.7 | \$102.5 | \$11.2 | |
| Benefits to cover work and training expenses: | | | | | |
| Education Grants ⁶ | \$36.0 | \$20.6 | \$15.4 | -- | 20,200 |
| Child Care Fund | 14.2 | 2.2 | 8.0 | 4.0 | 8,100 |
| Subtotal | \$50.2 | \$22.8 | \$23.4 | \$4.0 | |
| TOTAL | \$874.6 | \$601.5 | \$237.9 | \$35.2 | |

¹Participants include: for AFDC, Medical Assistance, and Food Stamps, the average monthly number of families served; for Subsidized Housing, the number of subsidized housing units; for the National School Lunch Program, the average daily number of students served; for the Women, Infants and Children Program, the average monthly number of people served; for Education Grants, the annual number of students served; and for the Child Care Fund, the annual number of families served.

²Includes families with children who qualify because of AFDC participation or medical need; excludes the elderly, the blind and the disabled who qualify because of SSI participation or medical need.

³Includes rent subsidy programs administered by Housing and Redevelopment authorities, the U.S. Department of Housing and Urban Development, the Farmer's Home Administration, and the Minnesota Housing Finance Agency; excludes housing projects for the elderly.

⁴Excludes elderly and single person households.

⁵Includes grants for energy assistance and repairs; excludes weatherization grants.

⁶Includes students with dependents and/or spouses.

Table 1.1: Public Assistance Programs for Low-Income Families: Funding and Participation During Fiscal Year 1988

- **In fiscal year 1988, Minnesota low-income families received a total of \$875 million in subsidies from the above nine programs.**

Thirty-three percent of this total subsidy was paid in cash assistance from AFDC, 62 percent was provided through "in-kind" benefits for medical care, housing, food, and energy, and six percent was spent for child care or education grants. AFDC provided the most annual benefits (\$286 million), followed by Medical Assistance (\$243 million), subsidized housing programs (\$140 million), and Food Stamps (\$74 million). Annual benefits provided by the other five programs ranged from \$14 million to \$36 million.

The federal government's cost for these programs was \$602 million, or 69 percent of the total cost. The state and local shares were 27 percent and 4 percent respectively. The federal government pays a fixed share of eligible costs for AFDC and Medical Assistance, but requires state or local governments to pay the remaining share. In turn, the state allocates the remaining share between state and county governments. In 1988, the state share of the non-federal portion was 90 percent and the county share was ten percent. The federal government pays the full cost of food stamps, school lunches, and almost all housing subsidies.

For some programs, there are not enough funds to serve all families or individuals who are eligible for the program. For example, subsidized housing programs have long waiting lists, often more than two years for family housing units. One reason for the long waiting lists is that housing subsidies are often large, making the program attractive to many applicants. Another reason is that the program has higher income limits than most other public assistance programs (see Table 1.2).

According to officials to whom we spoke, other programs with waiting lists are child care and the W.I.C. food program. Data are unavailable on how long the waiting lists are, but officials indicate that they are substantially shorter than subsidized housing waiting lists.

Programs which serve all eligible applicants include AFDC, Medical Assistance, Food Stamps, Energy Assistance, the National School Lunch Program, and education grant programs.

Eligibility Criteria

Table 1.2 shows the income limits by program for different family sizes. Since several programs have a deduction for child care expenses, the table includes separate income limits for families with child care expenses.² We found:

- **The income limit for AFDC is lower than the limits for the other public assistance programs, so that many working low-income families who are ineligible for AFDC can still receive benefits from other public assistance programs.**

A single mother with one child and no child care expenses is eligible for AFDC if her earned income is \$511 per month or less (\$6,132 per year). The income limit rises as the number of children increase or as child care expenses increase. For example, the corresponding limits for two and three child families are \$7,284 and \$8,352 respectively. For a two child family, the income limit would rise to \$9,204 if one child needs day care or to \$11,124 if both children need day care.

Income limits for single parent families with two children and day care expenses for one child range from a low of \$9,204 for AFDC to \$22,140 for most subsidized housing. Other income limits for the same family are \$12,241 for

² We assumed child care expenses were \$240 per month and that AFDC recipients received an income disregard of \$160 per month (the maximum for one child) and a child care subsidy of \$80 per month.

Subsidized housing programs have long waiting lists.

AFDC has the lowest income limit among public assistance programs.

| Program | Family Size | | | |
|------------------------------------|-------------|---------|---------|---------|
| | 2 | 3 | 4 | 5 |
| AFDC ¹ | | | | |
| Without daycare expenses | \$5,388 | \$6,432 | \$7,560 | \$8,568 |
| With daycare expenses ² | 7,236 | 8,508 | 9,696 | 10,704 |
| Medical Assistance | | | | |
| Without daycare expenses | 7,166 | 8,555 | 10,055 | 11,395 |
| With daycare expenses ² | 9,624 | 11,316 | 12,896 | 14,236 |
| Food Stamps ³ | 9,756 | 12,597 | 15,145 | 17,693 |
| National School Lunch Program | | | | |
| Free lunch | 10,049 | 12,597 | 15,145 | 17,693 |
| Reduced price lunch | 14,300 | 17,926 | 21,552 | 25,178 |
| Energy Assistance | 11,289 | 13,950 | 16,800 | 19,650 |
| W.I.C. Food Program | 14,300 | 17,926 | 21,552 | 25,178 |
| Section 8 Housing Subsidy | | | | |
| Without daycare expenses | 16,780 | 19,260 | 21,790 | 23,920 |
| With daycare expenses ² | 19,660 | 22,140 | 24,670 | 26,800 |
| Education Grants ⁴ | 17,278 | 19,875 | 23,052 | 26,017 |
| Child Care Fund ⁵ | 17,532 | 21,657 | 25,782 | 29,907 |

NOTE: Figures assume all income is earned. Income limits for unearned income are lower for several programs.

¹Income limits are for single-parent families. Limits for two-parent families are slightly lower.

²Daycare expenses for one child at \$240 per month.

³The income limit for a two-person family with daycare expenses is \$10,049.

⁴Income limits are estimates for students attending AVTIs. Limits are slightly higher for students attending schools with higher tuition. Limits are slightly lower for students with child care expenses because of child care tax credits.

⁵Based on proposed rules.

Table 1.2: Income Limits for Public Assistance Programs

Medical Assistance (33 percent higher than AFDC), \$12,600 for Food Stamps and the National School Lunch Program (free lunches), \$13,950 for energy assistance, and \$17,926 for the W.I.C. food program.

Some programs also have asset limits. For example, AFDC has a \$1,000 limit for cash or liquid assets, Medical Assistance has a limit of \$6,000 for a family of two (the limit increases by \$200 for each additional family member) and Energy Assistance has a \$25,000 limit.

Benefit Amounts

Public assistance benefits typically vary with income and family size. Benefits vary with income for AFDC, Food Stamps, Energy Assistance, and the most common subsidized housing programs. The AFDC and Food Stamp benefits shown in Table 1.3 are the benefits received by families with no earned income. A single parent with one child and no income receives an AFDC

| <u>Family Size</u> | <u>1988 Annual Benefit</u> | | |
|--------------------|----------------------------|--------------------|--------------------|
| | <u>AFDC</u> | | <u>Food Stamps</u> |
| | <u>Single Parent</u> | <u>Two Parents</u> | |
| 2 | \$5,244 | -- | \$1,152 |
| 3 | 6,384 | \$6,120 | 1,692 |
| 4 | 7,452 | 7,260 | 2,148 |
| 5 | 8,364 | 8,328 | 2,376 |

Table 1.3: AFDC and Food Stamp Benefit by Family Size (For Families With No Other Income)

benefit of \$437 per month and a Food Stamp benefit of \$106.³ With two children and no income, the parent would receive an AFDC benefit of \$532 and a Food Stamp benefit of \$146 per month. As income approaches the income limit, the benefit declines to zero.

For AFDC, the grant reduction equals one dollar for every dollar of income except that the program disregards the first \$75 of earned income for work expenses and up to \$160 per child in child care expenses each month. Furthermore, working recipients may be eligible for the "30 and 1/3" work incentive, meaning that the first \$30 plus one-third of additional earned income will be disregarded in calculating gross earned income and will not reduce their monthly grant. However, recipients may only use the entire disregard for the first four months in which they work, and the \$30 portion for the next 8 months.

The benefit received under the Energy Assistance program varies between 30 and 90 percent of the household's estimated heating cost, depending on income and household size. For example, during the winter of 1987-88, a three person household whose annual income, including AFDC income, was less than \$6,975 would have received a benefit of 90 percent of their estimated heating cost. The benefit drops to 75 percent of estimated heating cost for incomes between \$6,975 and \$8,370. It reaches a low of 30 percent for incomes between \$11,160 and \$12,555. The average annual energy assistance benefit for 1987-88 in Minnesota was \$378.

Under the most common subsidized housing programs, including Section 8 and Public Housing, tenants pay 30 percent of their income for rent and utility costs. The federal government pays the difference between the tenant rent payment and the actual rent. Some Section 8 program subsidies are designated for certain units in buildings constructed under federal programs. Existing Section 8 subsidies are given to tenants who find their own housing from landlords willing to participate in the program. The subsidy amount is limited by fair market rent levels set by the U.S. Department of Housing and Urban Development, but may exceed \$600 per month in some cases.

For some programs, benefits do not vary among eligible participants. For example, Medical Assistance provides free health care for all families who meet

³ The food stamp benefit is based on the assumption that the family's housing cost is \$325 or more per month, which entitles the family to the maximum shelter allowance.

the income and asset limits. However, families whose income exceeds the limit may qualify by deducting medical expenses from their income to get below the income limit. The average cost of medical assistance for AFDC families during fiscal year 1988 was \$1,653 per adult and \$740 per child.

Benefits provided by the W.I.C. food program are based on nutritional need and are not affected by income so long as the family income is under the limit of 185 percent of the poverty level for their family size. In 1988, the average benefit was \$32 per month for women, \$59 for infants, and \$22 for children.

The National School Lunch Program uses a two-tier benefit structure: school children whose family income falls below 130 percent of poverty level receive free lunches and those between 130 and 185 percent of poverty levels receive reduced price lunches (not more than 40 cents per lunch). The average free lunch subsidy was \$.85 per lunch for elementary and \$.95 for secondary students during the 1987-88 school year.

One of the issues we explore in this report is the relationship between earned income and total benefits. However, that relationship is complicated by the fact that there are several programs, each with its own definition of income, that tie benefits to income. We discuss this issue in more detail in our work-incentive discussion in Chapter 3.

Program Administration

Most of these programs are federal programs administered by state or local governments. For AFDC, the federal government defines who is eligible, how benefits vary with income, and what deductions can be made from income. But it allows states to set the basic benefit amount and to choose whether to cover certain groups, such as teen-aged parents living on their own and pregnant women without other children. Minnesota currently covers both of these groups.

Under Medical Assistance, the federal government requires participating states to provide certain services to AFDC recipients and to Supplemental Security Income recipients (the blind, the disabled, and low-income elderly). Required services are listed in Figure 1.1.

The federal government allows states to serve certain optional groups and to provide certain optional services. Optional groups and services are reimbursed at the same percentage rate as required ones by the federal government. Minnesota has chosen to serve virtually all optional groups and to provide nearly all optional services. Optional groups covered in Minnesota include non-AFDC families whose incomes are less than 133 percent of the AFDC need standard and individuals or families whose incomes exceed that limit, but fall below it when medical expenses are deducted. Optional services that Minnesota provides are also shown in Figure 1.1.

While the Food Stamp program is state-supervised and county administered, the federal government funds the program and controls its design. The state has little flexibility, except for some minor administrative options.

Federal rules limit the state's ability to adjust eligibility or benefits.

| Services Required by the Federal Government: | Optional Services Provided in Minnesota: |
|---|---|
| <ul style="list-style-type: none"> ● early periodic screening, diagnosis, and treatment for children, ● family planning and nurse midwives, ● physicians, ● inpatient and outpatient hospital services, ● laboratory services and x-rays, ● home health care, including medical supplies and equipment, ● rural health clinics, and ● skilled nursing facilities. | <ul style="list-style-type: none"> ● dentists, ● psychologists, ● clinics, ● intermediate care facilities, including care for mentally retarded persons, ● audiologists, chiropractors, and physical and speech therapy, ● home and community-based waiver services, ● medical transportation, ● pharmacies, ● prosthetics, ● personal care assistant and private duty nursing, ● public health nursing, ● rehabilitation agencies, and ● skilled nursing facilities for individuals under age 21. |

Figure 1.1: Required and Optional Health Services Under Medical Assistance

Other programs for which the federal government gives states little flexibility are subsidized housing and school lunch programs. Housing programs for low-income families are administered by several agencies, including local housing and redevelopment agencies, the Minnesota Housing Finance Agency, the Farmers Home Administration, and the regional office of the U.S. Department of Housing and Urban Development. The federal government controls the eligibility criteria and the number of subsidized units available because it provides almost all of the funding.

The National School Lunch Program is federally funded, and administered largely by local school districts. Eligibility determinations are made by school district personnel, following federal guidelines.

The state has more control over child care and education grant programs. The child care program is almost entirely controlled by the state and local governments with little federal involvement. It is also funded primarily with state and local funds. However, expected future increases in federal funding may bring increased federal oversight and restrictions.

Both the federal and state governments have education grant programs. The state provides supplemental education aid to some students who receive a federal grant and occasionally serves students who are not eligible for federal grants.

METHODS

In Chapter 2 we discuss AFDC recipients' participation in the various benefit programs, and in Chapter 3 we analyze the work incentives related to public

assistance. In the following section, we explain the data and methods we used in our analysis.

Data

To describe the public assistance benefits received by AFDC recipients, we used a sample of 999 AFDC recipients and obtained benefit data for each sample member from a variety of agencies. We had to collect information from many local, state, and federal agencies because there is no central data source for public assistance benefits.

There is no central data source for public assistance benefits.

We obtained our sample from the Minnesota Department of Human Services' Quality Control sample. This sample--about 2,000 cases per year--is randomly selected from all households receiving an AFDC cash payment at the beginning of each month. Federal regulations require states to take quality control samples in order to check on client eligibility and to ensure correct payment amounts.

The DHS expanded the data collection in 1982 to include some "supplemental data" that is not required by the federal government. The additional information, such as recipients' education and employment histories, is not otherwise available and makes the quality control sample particularly useful. For our study, DHS agreed to ask several additional questions regarding families' participation in other aid programs, and to collect additional identifying information, including social security numbers. Our sample covered the period from October 1987 through March 1988, and included 999 households.

We used the Quality Control data to obtain benefit information for AFDC and Food Stamps and to find out which AFDC recipients participated in the National School Lunch Program, the W.I.C. food program, and subsidized housing programs. For the school lunch and W.I.C. programs, we applied average subsidy values reported by the administrative agencies to each program participant. We obtained the amount of housing subsidy provided to households in our sample from housing agencies, including the U.S. Department of Housing and Urban Development, the Farmers Home Administration, the Minnesota Housing Finance Agency, and about 55 Housing and Redevelopment Agencies.

We used computer matches to find out what energy assistance benefits and education grants were received by our sample AFDC recipients. For education grants, we obtained the actual amount of the state grant and an estimate of the federal Pell grant.

We estimated child care subsidies based on aggregate data reported by counties to the Department of Human Services. We also surveyed counties to determine what child care subsidies were actually provided to our sample AFDC recipients.

Finally, for aggregate numbers and for descriptions of programs, we interviewed authorities in the relevant agencies.

Valuing In-Kind Benefits

In our report, we distinguish between the cost of a benefit and the value the recipient places on that benefit. While recipients value some benefits at their cost, they may not value some "in-kind" benefits, such as Medical Assistance and housing subsidies, at their full cost. Because they are in-kind, rather than cash, recipients are not free to spend them as they choose. Economists suggest that, generally, recipients of in-kind benefits would prefer an equivalent amount of cash, and value the in-kind benefit at less than its cost to the provider. Accordingly, when we sum the benefits received by individual families, we present the results in two ways. First, we use the total cost of benefits received. Second, we calculate a cash equivalent value (from the recipient's point of view) for benefits when it is possible to do so, and present the remaining benefits separately.

The U.S. Census Bureau has examined a number of methods for valuing in-kind benefits. There is a consensus that it is reasonable to value energy assistance and the three food benefits (food stamps, school lunches, and W.I.C. coupons) at their face values. Studies indicate that most families who receive food stamps spend all of them each month, and often spend additional cash for food. Thus, even if given cash instead of food stamps, those families would likely spend the same amount for food. It seems reasonable to extend this assumption to the other food programs, because of the finding that families often spend more than the value of their food stamps for food each month. For these food benefits, we assume that the cost to the provider equals the cash equivalent value to the recipient.

Valuing Medical Assistance benefits presents a more difficult problem. There is no consensus on how to value Medical Assistance benefits. The fact that low-income families who do not receive public assistance use much less medical service than those who receive Medical Assistance indicates that AFDC recipients do not value Medical Assistance at full cost. However, there is not sufficient data to accurately estimate how much AFDC recipients would spend on medical care in the absence of Medical Assistance, much less estimate how much they value Medical Assistance. Because of these difficulties, we did not assign a cash equivalent value to Medical Assistance. Rather, we separated this benefit from the other benefits.

Valuing subsidized housing is also quite difficult in some cases, and again we present the values in two ways. For new or existing Section 8 housing, we set the cost of the subsidy equal to the federal payment to the landlord. We made the assumption that the cost of a public housing unit was somewhat less than the cost of the same sized unit in private housing. Therefore, we set the cost of the subsidy equal to two-thirds of the HUD Fair Market Rent for a unit of the same size, less the tenant payment.

To estimate the cash equivalent value of housing subsidies for recipients, we divided the subsidy into two parts. One part represents the cash equivalent, or the extra amount of rent the recipient would pay without a subsidy. The other part represents improved housing, that is, housing which is better than the recipient would have purchased in the absence of a housing subsidy. We estimated the cash equivalent portion by subtracting the amount of rent that a subsidized tenant pays from the amount that a similar, but unsubsidized, household would pay.

It is difficult to figure the value of Medical Assistance and housing benefits.

PUBLIC ASSISTANCE BENEFITS RECEIVED BY AFDC FAMILIES

Chapter 2

Benefit levels for AFDC families are frequently debated among citizens as well as among legislators. To determine appropriate AFDC benefit levels, it is important to know what benefits AFDC families receive from other public assistance programs. However, information on the total package of benefits from other public assistance programs has been incomplete because benefits are provided by different levels of government and implemented by a variety of agencies.

In our study, we collected data on benefits received by AFDC families from a variety of public assistance programs designed to help low-income families meet basic living expenses or extra expenses due to work or training activities. Questions we address in this chapter include:

- How much does each public assistance program contribute to AFDC families?
- How many AFDC families participate in each public assistance program?
- What is the total benefit paid to individual AFDC families?
- How do participation rates and benefit values vary among AFDC families?

BENEFITS PROVIDED BY PUBLIC ASSISTANCE PROGRAMS TO AFDC FAMILIES

Public assistance programs provided about \$674 million in benefits to AFDC families in Minnesota during fiscal year 1988. Table 2.1 and Figure 2.1 show the total benefits provided to AFDC families by program. We found:

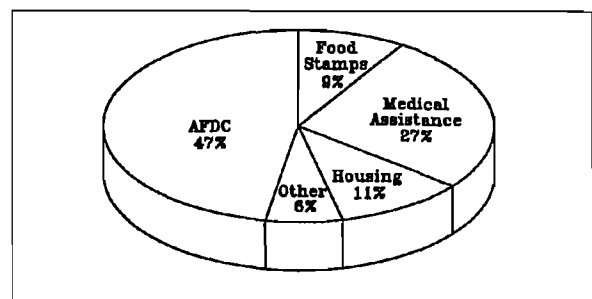


Figure 2.1: Distribution of Public Assistance Benefits Provided to Minnesota AFDC Families, Fiscal Year 1988

| <u>Program</u> | <u>Total Annual Benefits (in millions)</u> | <u>Percent</u> |
|-------------------------------|--|----------------|
| AFDC | \$317.1 | 47% |
| Medical Assistance | 178.9 | 27 |
| Subsidized Housing | 72.9 | 11 |
| Food Stamps | 61.3 | 9 |
| W.I.C. Food Program | 12.3 | 2 |
| Education Grants | 11.8 | 2 |
| Energy Assistance | 9.4 | 1 |
| National School Lunch Program | 8.2 | 1 |
| Child Care Fund | 1.9 | <1 |
| Total | \$673.8 | 100% |

Table 2.1: Total Public Assistance Benefits Paid to Minnesota AFDC Families (FY 1988)

Less than half of total benefits come from AFDC.

- **The four largest programs (AFDC, Medical Assistance, subsidized housing, and Food Stamps) provided 94 percent of the total benefits paid to AFDC families.**

As we showed in Chapter 1, these are the same four programs that paid the most benefits for all low-income families. AFDC provided the most benefits to AFDC families (47 percent), followed by Medical Assistance (27 percent), subsidized housing (11 percent), and Food Stamps (9 percent). The other five programs together provided only six percent of the benefits.

PARTICIPATION RATES AND AVERAGE BENEFITS

Table 2.2 presents participation rates and average benefits provided to AFDC families for each public assistance program. We found:

- **The programs with the highest participation rates among AFDC families were Medical Assistance (100 percent) and Food Stamps (81 percent), followed by the National School Lunch Program (57 percent) and Energy Assistance (45 percent).¹**

AFDC families participated in an average of four programs in addition to AFDC. Twenty-nine percent of AFDC families received benefits from each of the four largest programs: AFDC, Medical Assistance, Food Stamps, and subsidized housing.

¹ The participation rate for the Energy Assistance Program is a conservative estimate because some AFDC families in our sample who may have received energy assistance could not be matched with energy assistance data because of missing or incorrect social security numbers.

Participation rates in other programs vary widely.

| Program | Percent of AFDC Families Receiving Benefit | Average Monthly Benefit |
|-------------------------------|---|--------------------------------|
| AFDC | 100% | \$484 |
| Medical Assistance* | 100 | 273 |
| Food Stamps | 81 | 116 |
| National School Lunch Program | 57 | 22 |
| Energy Assistance | 45 | 32 |
| W.I.C. Food Program | 34 | 56 |
| Subsidized Housing | 33 | 335 |
| Education Grants | 11 | 158 |
| Child Care Fund | 5 | 45 |

*All AFDC families are covered by Medical Assistance even though they may not receive medical care during any particular year.

Table 2.2: Participation Rates and Average Monthly Benefits

The Child Care Fund had the lowest participation rate (5 percent). One reason that this rate is so low is that working AFDC parents can deduct up to \$160 per child in day care expenses from monthly income when determining the AFDC benefit. Only when child care expenses exceed this threshold do working AFDC families receive benefits from the Child Care Fund. AFDC parents who use child care to attend school or other training activities may use the Child Care Fund benefits for their full child care cost because the AFDC child care deduction cannot be used for training activities. Including this income deduction for child care expenses, about ten percent of AFDC families received a child care benefit.

- **AFDC provides the largest average benefit (\$484 per month), followed by subsidized housing (\$335) and medical assistance (\$273).²**

Average education grants and food stamp benefits also exceed \$100 per month. However, education grants provide relatively few benefits for AFDC families. Only 11 percent received an education grant during the 1987-88 school year.

Participation Rates by Household Type

Table 2.3 shows participation rates and average benefits for two household types: (1) "pure AFDC households," those consisting of AFDC recipients only, and (2) "shared households," those containing both AFDC recipients and non-recipients. Examples of shared households include single mothers living with their parents, AFDC families with a step parent who is not eligible for AFDC, and AFDC families who share a household with unrelated persons. If these non-AFDC recipients have significant income, the AFDC family may be ineligible for public assistance programs, such as Food Stamps,

² \$273 represents the average amount paid to medical vendors on behalf of AFDC families. The cost of medical services actually received varies considerably among AFDC families.

| | Percent Receiving Benefit | | Average Monthly Benefit | |
|-------------------------------|---------------------------|-------------------|-------------------------|-------------------|
| | Pure AFDC Households | Shared Households | Pure AFDC Households | Shared Households |
| AFDC | 100% | 100% | \$501 | \$435 |
| Medical Assistance | 100 | 100 | 291 | 221 |
| Food Stamps | 90 | 55 | 120 | 100 |
| National School Lunch Program | 57 | 56 | 23 | 21 |
| Energy Assistance | 49 | 33 | 34 | 22 |
| W.I.C. Food Program | 35 | 29 | 58 | 52 |
| Subsidized Housing | 38 | 20 | 355 | 227 |
| Education Grants | 12 | 9 | 161 | 146 |

Table 2.3: Participation Rates and Average Monthly Benefits by Household Type

Energy Assistance, and subsidized housing, that use total household income to determine benefits. We found:

- **Pure AFDC households were much more likely to participate in Food Stamps, Energy Assistance, and subsidized housing programs than shared households. Pure AFDC households also tended to have higher benefits from these programs.**

Ninety percent of pure AFDC households received food stamps, compared with only 55 percent of shared households. Pure AFDC households received housing subsidies almost twice as often as shared households.

TOTAL BENEFIT SIZE

What is the total benefit paid to the average AFDC household? By "total benefit" we mean the sum of public assistance benefits received by an AFDC family. For example, it includes the face value of food stamps, the amount paid to medical providers on behalf of Medical Assistance recipients, and the amount of rent paid by the federal government to private landlords under the Section 8 housing program.

The average total monthly benefit size for AFDC families was \$1,027.

The average total benefit size for AFDC families was \$1,027 per month, including \$1,007 in benefits designed to meet basic living expenses and \$20 in benefits designed to meet work or training expenses. In the remainder of this section, we focus on benefits designed to meet basic living expenses.

As we discussed in Chapter 1, Medical Assistance and subsidized housing may not be valued by recipients at full cost. That is, recipients probably would prefer cash equal to the benefit cost rather than the benefit itself. In the remainder of this chapter, we first discuss the distribution of total benefits based on cost, and then how much of the benefit is equivalent to spendable income.

Figures 2.2 through 2.4 show the distribution of total benefit size among AFDC families. We found:

- Forty five percent of AFDC families received a total benefit of over \$1,000 per month.
- The total public assistance benefit size varies considerably among AFDC families.

For example, ten percent of AFDC families received total benefits of less than \$600 per month, but 13 percent received benefits exceeding \$1,400.

EXPLANATIONS FOR BENEFIT VARIATION

Benefits vary with family size.

There are several factors that may explain variation in benefits. Some of these factors directly affect need for benefits, such as income and family size. One income factor is whether the AFDC family shares its household with non-AFDC recipients. The income earned by the non-AFDC members may make the household ineligible for other programs or reduce the benefit. As we showed in Table 2.2, households containing non-AFDC recipients were less likely to receive benefits from Food Stamps, Energy Assistance, and subsidized housing. Another income factor is the employment status of the AFDC parent.

Most public assistance programs increase benefits as family size increases. The ages of children also affect benefits from the school lunch program and the W.I.C. food program.

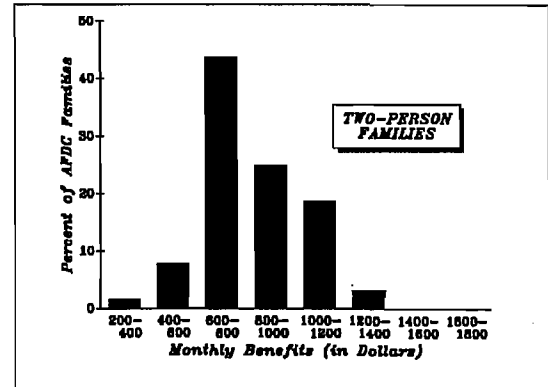


Figure 2.2: Distribution of Total Benefit Size Among Two-Person AFDC Families

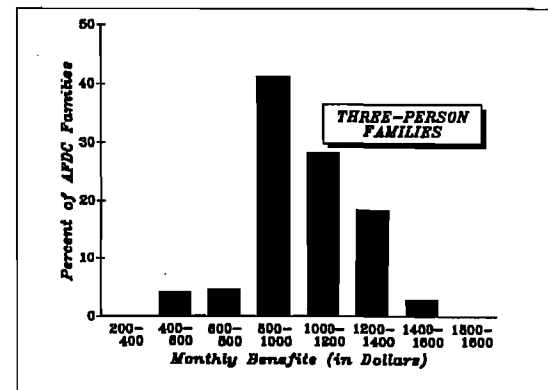


Figure 2.3: Distribution of Total Benefit Size Among Three-Person AFDC Families

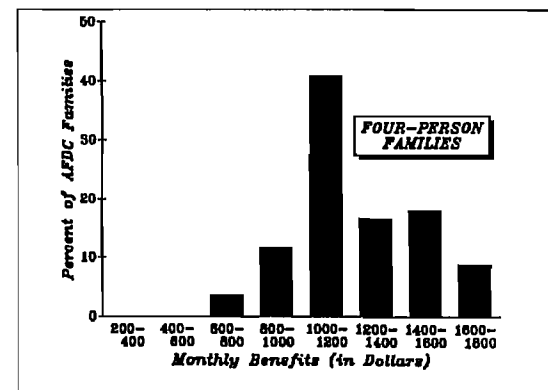


Figure 2.4: Distribution of Total Benefit Size Among Four-Person AFDC Families (Figures 2.2 through 2.4 exclude AFDC families who share households with non-AFDC recipients; benefit amounts exclude education grants and Child Care Fund benefits)

The availability of benefits may help to explain differences in total benefit size. For example, because housing subsidies are limited, many families who are otherwise eligible do not receive one. Families' awareness of programs and willingness to participate in them may also limit the size of their total benefit. Finally, the length of time a family has been in the public assistance system affects their total benefit size. Families who have been on AFDC longer may be more aware of other benefit programs. Families also have a better chance of eventually receiving a housing subsidy or other limited benefit the longer they are in the system.

We analyzed how much of the benefit variation was explained by each of the above factors. However, we cannot directly measure such factors as program awareness and willingness to participate. We found:

- **Much of the benefit variation is explained by differences in need. AFDC families living by themselves, larger families, and families in which parents do not work tend to receive larger benefits from public assistance programs.**
- **However, much of the variation occurs because housing subsidies are not available to many eligible low-income families.**

Variation Due to Household Type, Family Size, and Employment Status

Table 2.4 shows how benefits vary by household type, family size, and employment status. AFDC families living by themselves received an average total benefit of \$1,083 per month, 37 percent higher than the average benefit received by AFDC families living in shared households (\$791).

| | (n) | Average Total Benefit Size |
|---------------------------|-------|-------------------------------|
| Household Type: | | |
| AFDC Family Only | (740) | \$1,083 |
| Shared Households | (259) | 791 |
| Family Size: | | |
| 2 | (245) | 835 |
| 3 | (240) | 1,032 |
| 4 | (137) | 1,240 |
| 5 or more | (110) | 1,596 |
| Employment Status: | | |
| Not Employed | (604) | 1,110 |
| Employed | (136) | 968 |

NOTE: Figures for family size and employment status are based on AFDC families who do not share their household with non-AFDC recipients. Benefit amounts exclude education grants and Child Care Fund benefits.

Table 2.4: Variation in Total Benefit Size by Household Type, Family Size, and Employment Status

The average total benefit steadily increased from \$835 for households with two AFDC recipients to \$1,596 for households with five or more AFDC recipients. AFDC families in which parents did not work received an average benefit of \$1,110, compared with \$968 for working AFDC families.³

Collectively, these factors explain much, but not all, of the variation in total benefits. Some additional variation is explained by the ages of children. Families with school-age children are eligible for free school lunches. Families with infants or pregnant women are likely recipients of the W.I.C. food program. However, these programs are small and have only a minor effect on the total benefit.

Variation Due to Housing Subsidies

Most of the remaining variation results because housing subsidies are not available to all eligible families. About 60 percent of our sample AFDC families were pure AFDC households in which the parent was not employed. All of these families would be eligible for housing subsidies, yet only 38 percent lived in subsidized housing. Table 2.5 and Figures 2.5 and 2.6 compare benefits between AFDC families with and without housing subsidies. As the table shows, the average total benefit for an AFDC family of three living in subsidized housing was \$1,248 per month, compared with \$949 if they did not live in subsidized housing. For families of four, the averages were \$1,517 for families living in subsidized housing and \$1,143 for families without housing subsidies.⁴

Only 38 percent of eligible AFDC families receive housing subsidies.

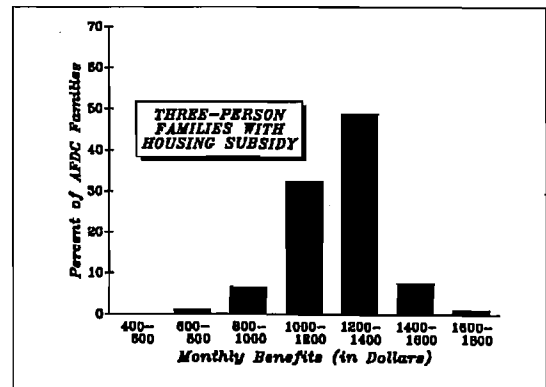


Figure 2.5: Distribution of Total Benefit Size Among Three-Person AFDC Families With Housing Subsidy

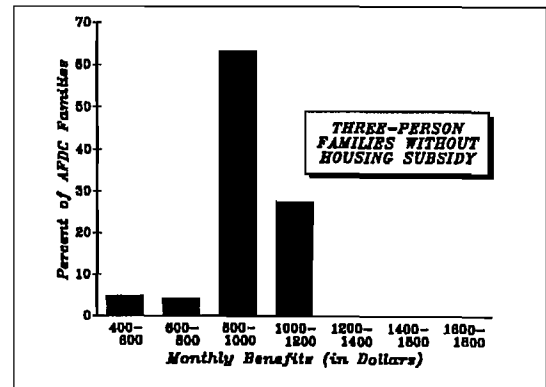


Figure 2.6: Distribution of Total Benefit Size Among Three-Person AFDC Families Without Housing Subsidy (Figures 2.5 and 2.6 exclude AFDC families who share households with non-AFDC recipients; benefit amounts exclude education grants and Child Care Fund benefits)

³ These figures are averages for pure AFDC households.

⁴ These figures are based on AFDC families who do not share their households with non-AFDC recipients and in which the parent was not employed.

| Family Size | Lives In Non-subsidized Housing | Lives In Subsidized Housing | | |
|-------------|---------------------------------------|--------------------------------|--------------------|-------------------|
| | Total Benefit Size | Total Benefit Size | Housing Benefit | Other Benefits |
| 2 | \$729 | \$1,045 | \$337 | \$714 |
| 3 | 949 | 1,248 | 339 | 909 |
| 4 | 1,143 | 1,517 | 386 | 1,131 |
| 5 or More | 1,459 | 1,870 | 424 | 1,446 |

NOTE: Benefit amounts exclude education grants and Child Care Fund benefits. Figures are based on AFDC families who do not share their households with non-AFDC recipients and in which the parent is not employed.

Table 2.5: Variation in Total Benefit Size by Whether AFDC Family Lives in Subsidized Housing

Variation by Length of Time on AFDC

Table 2.6 shows how benefits vary by the length of time the family has been on AFDC. We found:

- Families who have been receiving AFDC benefits for a longer period of time receive more benefits because they are more likely to participate in other benefit programs.

| (N) | Percent Receiving Benefit | | | | | Average Benefit* | | | | |
|----------------------------------|---------------------------|--------------|--------------|--------------|-----------------------|---------------------|--------------|--------------|--------------|-----------------------|
| | Less Than 1 Year | 1-2 Years | 2-3 Years | 3-6 Years | 6 or More Years | Less Than 1 Year | 1-2 Years | 2-3 Years | 3-6 Years | 6 or More Years |
| | (106) | (96) | (73) | (147) | (182) | | | | | |
| Medical Assistance | 100% | 100% | 100% | 100% | 100% | \$261 | \$288 | \$285 | \$300 | \$303 |
| Food Stamps | 84 | 88 | 90 | 92 | 92 | 114 | 119 | 114 | 119 | 127 |
| Energy Assistance | 43 | 39 | 45 | 60 | 51 | 39 | 34 | 34 | 36 | 34 |
| Subsidized Housing | 18 | 34 | 45 | 43 | 44 | 321 | 337 | 334 | 347 | 387 |
| National School Lunch Program | 37 | 42 | 40 | 57 | 84 | 17 | 23 | 21 | 24 | 24 |
| W.I.C. Food Program | 42 | 46 | 42 | 36 | 22 | 67 | 57 | 57 | 53 | 55 |
| Education Grants | 12 | 18 | 13 | 13 | 8 | 167 | 170 | 184 | 154 | 139 |

NOTE: Figures are based on AFDC families who do not share their households with non-AFDC recipients and in which the parent is not employed.

* Average for AFDC families receiving benefits

Table 2.6: Participation Rate and Average Benefit for Public Assistance Programs by Years on AFDC

Some of the variations are expected and easily explained. For example, families who have been participating longer are more likely to receive a housing subsidy because of the long waiting lists for subsidized housing. A family who had been receiving public assistance for less than a year could not generally have moved to the top of the waiting list in that length of time.

Participation in the School Lunch Program and the W.I.C. food program vary because of the relationship between age and length of time on AFDC. That is, families which have participated longer are likely to have older parents, and therefore older children. Thus, they are more likely to be receiving school lunches. Conversely, younger parents are likely to have participated for a shorter period of time, and to have younger children. They are therefore more likely to receive W.I.C. benefits.

Long-term recipients receive more benefits.

Families who have received AFDC for longer periods are also more likely to receive food stamps and energy assistance. This may simply be because families learn about more programs over the years. But we have no way to test this hypothesis.

Variation by Region

Table 2.7 compares benefits received by families living in the Twin Cities metropolitan area with families from the rest of the state. We found:

- **AFDC families who are eligible for housing subsidies or food stamps are somewhat more likely to receive them if they live in the Twin Cities metropolitan area rather than other areas of the state.**

| Program (N) | Percent Receiving Benefit | | Average Benefit* | |
|-------------------------------|--|-----------------------------------|-------------------------------|--------------------------|
| | Twin Cities Metropolitan Area (318) | Outside Twin Cities Area (286) | Twin Cities Metropolitan Area | Outside Twin Cities Area |
| Medical Assistance | 100% | 100% | \$287 | \$294 |
| Food Stamps | 94 | 85 | 124 | 115 |
| Energy Assistance | 46 | 52 | 31 | 37 |
| Subsidized Housing | 42 | 34 | 398 | 302 |
| National School Lunch Program | 58 | 56 | 23 | 22 |
| W.I.C. Food Program | 33 | 38 | 63 | 53 |
| Education Grants | 9 | 16 | 161 | 161 |

NOTE: Figures are based on AFDC families who do not share their households with non-AFDC recipients and in which the parent is not employed.

*Average for AFDC families receiving benefits.

Table 2.7: Participation Rate and Average Benefit for Public Assistance Programs by Region

About 94 percent of pure AFDC households who live in the metropolitan area received food stamps, compared to only 85 percent of out-state AFDC households. Since food stamps are available to all who meet the financial requirements, as do all pure AFDC households, we conclude that outstate recipients more often choose not to use the food stamp program.

About 42 percent of metro-area AFDC recipients live in subsidized housing, compared to 34 percent outstate. The average value of the subsidy is lower outstate, though this is expected since housing prices in general are lower outside the metro area.

CASH EQUIVALENT VALUE OF PUBLIC ASSISTANCE BENEFITS

Table 2.8 summarizes the cash value of public assistance benefits received by AFDC families. As we explained in Chapter 1, we used the benefit cost as a measure of the recipient's cash value for AFDC, Food Stamps, Energy Assistance, the National School Lunch Program, and the W.I.C. food program. When we totaled cash benefits, we also included the portion of the housing subsidy that reduces housing costs below what similar AFDC families paid for non-subsidized housing. Because there is not a reliable way to estimate the cash value of medical benefits, we listed this benefit separately. Similarly, we

| AFDC Families Living in Subsidized Housing | | | | |
|---|---|--|-----------------------------------|----------------------|
| <u>Family Size</u> | <u>Cash Value of AFDC, Food, Energy, and Housing Benefits</u> | <u>Improved Housing Component of Housing Subsidies</u> | <u>Medical Assistance Benefit</u> | <u>Total Benefit</u> |
| 2 | \$ 694 | \$152 | \$199 | \$1,045 |
| 3 | 868 | 114 | 266 | 1,248 |
| 4 | 1,031 | 153 | 333 | 1,517 |
| 5+ | 1,215 | 198 | 457 | 1,870 |
| AFDC Families Not Living in Subsidized Housing | | | | |
| <u>Family Size</u> | <u>Cash Value of AFDC, Food, Energy, and Housing Benefits</u> | <u>Improved Housing Component of Housing Subsidies</u> | <u>Medical Assistance Benefit</u> | <u>Total Benefit</u> |
| 2 | \$530 | \$ 0 | \$199 | \$ 729 |
| 3 | 672 | 0 | 277 | 949 |
| 4 | 791 | 0 | 352 | 1,143 |
| 5+ | 995 | 0 | 464 | 1,459 |

NOTE: Figures are based on AFDC families who do not share their households with non-AFDC recipients and in which the parent is not employed.

Table 2.8: Cash Value of Public Assistance Benefits

listed separately the portion of housing subsidies that could be considered the cost of higher quality housing. The average benefits shown are based on pure AFDC families who were not employed.⁵ We found:

- **The average AFDC family of three living in subsidized housing received the equivalent of \$868 per month in cash plus free health care and higher quality housing.**
- **The average AFDC family of three who did not live in subsidized housing received the equivalent of \$672 per month in cash plus free health care.**

Average benefits for different family sizes are shown in Table 2.8. We compare average cash values of benefits with the federal poverty guidelines in Table 2.9. Federal poverty guidelines were designed to reflect the cost of a minimally adequate standard of living for a low-income family. We found:

- **On average, families which live in subsidized housing receive cash benefits which exceed poverty guidelines for their household size.**

Families with housing subsidies get cash benefits above the poverty level; those without housing subsidies get cash benefits below the poverty level.

| Family Size | Poverty Guideline | Average Cash Value of Benefits Excluding Medical Assistance | |
|-------------|-------------------|---|--------------------------------|
| | | Receive Housing Subsidy | Do Not Receive Housing Subsidy |
| 2 | \$644 | \$694 | \$530 |
| 3 | 808 | 868 | 672 |
| 4 | 971 | 1,031 | 791 |

NOTE: Average values were based on AFDC families who did not share their households with non-AFDC recipients and in which the parent was not employed.

*Includes value of AFDC, Food Stamps, Energy Assistance, School Lunch, W.I.C. food program, and portion of housing subsidies equivalent to cash..

Table 2.9: Average Cash Value of Public Assistance Benefits Compared to Federal Poverty Guidelines

For each family size, the average cash equivalent value exceeds the poverty level by between six and eight percent. This comparison does not reflect the higher quality housing nor the free health care received by these recipients.

However, we found a different situation for AFDC families who do not live in subsidized housing:

- **Families who do not receive a housing subsidy receive, on average, cash benefits less than the poverty level. Whether the value of all of their benefits exceeds the poverty level depends on how much value is placed on Medical Assistance benefits.**

⁵ These families account for 60 percent of all AFDC families.

Federal poverty guidelines may be inadequate because of the way they are computed. The guidelines are based on a food standard, the U. S. Department of Agriculture's Thrifty Food Plan, which was originally intended only as a temporary or emergency plan. The poverty guidelines assume that this food plan should comprise one-third of a poor household's budget. The originator of the guidelines has since suggested using a one-to-four, rather than the current one-to-three, ratio of food to total household expenditures to give a more realistic picture of the needs of low-income households. Because of these problems, our results should be interpreted as only a rough estimate of the adequacy of public assistance benefits.

WORK INCENTIVES

Chapter 3

Debates over AFDC reform often refer to the effect that public assistance programs have on work incentives. Critics contend that public assistance programs discourage people from working if benefits are high and if most of the income earned from working is lost because of reduced benefits. In this chapter, we analyze the overall effect of public assistance programs on economic incentives to work in Minnesota. Specifically, we asked:

- **What is the impact of increased earnings on benefits received from public assistance programs?**
- **What are the economic incentives for working or attending school for AFDC families?**
- **How do the incentives vary for participants in different combinations of programs?**

In our 1987 report on AFDC, we analyzed how increased earnings affected benefits from three programs: AFDC, food stamps, and Medical Assistance.¹ In this report, we extend our analysis to include housing subsidies, energy assistance, school lunch subsidies, child care subsidies, and education grants.

METHODS

To measure work incentives, we use the concept of "benefit reduction rate," which describes the rate at which public assistance recipients lose benefits when their earnings increase. For example, a benefit reduction rate of 70 percent would mean that, for every \$100 increase in earnings, \$70 would be given up in taxes and reduced benefits. Figure 3.1 illustrates the calculation of benefit reduction rates. Appendix A contains detailed tables illustrating changes in benefits for various types of families at different earning levels.

¹ Office of the Legislative Auditor, *Aid To Families With Dependent Children*, (St. Paul, January 1987) 91-111.

| <u>Benefits and Costs</u> | <u>With no Earned Income</u> | <u>With \$4,164 Earned Income</u> |
|---------------------------|----------------------------------|---------------------------------------|
| After Tax Earned Income | \$ 0 | \$4,885 |
| AFDC | + 5,244 | + 2,897 |
| Food Stamps | + 702 | + 788 |
| Energy Assistance | + 300 | + 300 |
| Child Care Cost | - 0 | -1,500 |
| Housing Cost | -1,429 | -1,524 |
| Spendable Income | \$4,817 | \$5,846 |

Benefit Reduction Rate =
 $1 - [(\text{change in spendable income})/(\text{change in earned income})]$
 $= 1 - [(\$5,846 - \$4,817)/(\$4,164 - \$0)] = .753$

75.3 percent of the increase in earned income is lost to reduced benefits.

In this example, after tax income is higher than pre-tax income because of the Earned Income Tax Credit and Minnesota's refundable child care credit. For higher earnings, the benefit reduction rate may be a combination of increased taxes and decreased benefits.

Other changes include decreased AFDC benefits because of increased earned income and increased food stamps due to decreased AFDC benefit. Child care costs increase because the parent is employed. Housing costs increase because the housing subsidy is tied to income.

Figure 3.1: Derivation of Benefit Reduction Rates for a One Parent-One Child Family With Subsidized Housing

In our analysis we chose to study three types of AFDC households: one parent-one child, one parent-two child, and two parent-two child households. About two-thirds of our sample of AFDC households fell into one of these three categories. As we explained in Chapter 2, AFDC households most commonly receive AFDC, food stamps, energy assistance, and school lunch benefits. Table 3.1 shows the benefits each type of family would receive from these programs if the family had no earned income.

| | <u>AFDC</u> | <u>Food Stamps</u> | <u>Energy Assistance</u> | <u>School Lunch</u> | <u>Shelter Cost</u> | <u>Spendable Income</u> |
|-----------------------------------|-------------|------------------------|------------------------------|-------------------------|-------------------------|-----------------------------|
| Without Subsidized Housing | | | | | | |
| One parent, one child | \$5,244 | \$1,154 | \$360 | \$144 | (\$3,516) | \$3,386 |
| One parent, two children | 6,384 | 1,696 | 405 | 288 | (4,272) | 4,501 |
| Two parents, two children | 7,260 | 2,229 | 450 | 288 | (4,884) | 5,343 |
| With Subsidized Housing | | | | | | |
| One parent, one child | \$5,244 | \$ 703 | \$360 | \$144 | (\$1,429) | \$5,022 |
| One parent, two children | 6,384 | 1,188 | 405 | 288 | (1,627) | 6,638 |
| Two parents, two children | 7,260 | 1,669 | 450 | 288 | (1,890) | 7,777 |

Table 3.1: Spendable Income (Benefits Minus Shelter Costs) Available to Families With No Earnings

We compared families' "spendable" income in different situations. By spendable income we mean earned income plus public assistance benefits, less those household expenses which vary because a family is receiving public assistance. These expenses include housing costs, child care, and education expenses.

Among other things, calculating income this way illustrates how much better off a family is having a housing subsidy than not having one. As we showed in Chapter 2, a housing subsidy can be a very important benefit. For families without subsidies, we assumed that shelter costs were the same as those reported by similar sample families who receive no subsidies. In most of our examples, families are considerably better off when they receive a housing subsidy.

We calculated income for most families both with and without child care costs. For families with child care costs, we assumed that, if they were receiving AFDC, their child care costs were equal to the amount of their AFDC "child care disregard." The child care disregard is deducted from earned income when computing the AFDC benefit. It is equal to the actual costs of child care, up to a maximum of \$160 per child per month. Deducting child care costs results in an increase in the AFDC benefit equal to the amount of the disregard. Families in our examples who had too much income to be eligible for AFDC would still be eligible for the sliding-fee day care program, and we assumed that their child care costs were equal to the amount of the co-payment required under that program. Finally, we assumed that two-parent families in our examples would not require daycare. If both parents were working, even at minimum wage jobs, their family income would be high enough to make them ineligible for AFDC.

Additional earned income barely covers the value of lost benefits for many recipients.

RESULTS

Table 3.2 presents the benefit reduction rates for different types of families at different income levels. They show that:

- **The loss in benefits due to working at jobs paying between \$4,000 and \$12,000 per year ranges from 62 to 93 percent of earned income.**

| Change in Earnings | One Adult, One Child Without Daycare | One Adult, One Child With Daycare | One Adult, Two Children Without Daycare | One Adult, Two Children Daycare for One | One Adult, Two Children Daycare for Two | Two Adults, Two Children Without Daycare |
|--------------------------------|---|--------------------------------------|--|--|--|---|
| Without Housing Subsidy | | | | | | |
| \$0 to 4,164 | 0.803 | 0.709 | 0.803 | 0.711 | 0.619 | 0.803 |
| \$4,164 to 8,844 | 0.702 | 0.785 | 0.751 | 0.833 | 0.921 | 0.820 |
| \$0 to 8,844 | 0.750 | 0.749 | 0.776 | 0.775 | 0.779 | 0.812 |
| \$0 to 12,480 | 0.683 | 0.690 | 0.769 | 0.771 | 0.771 | 0.757 |
| With Subsidized Housing | | | | | | |
| \$0 to 4,164 | 0.830 | 0.753 | 0.828 | 0.736 | 0.688 | 0.844 |
| \$4,164 to 8,844 | 0.838 | 0.902 | 0.850 | 0.930 | 0.917 | 0.891 |
| \$0 to 8,844 | 0.834 | 0.832 | 0.840 | 0.839 | 0.809 | 0.869 |
| \$0 to 12,480 | 0.815 | 0.818 | 0.881 | 0.879 | 0.879 | 0.874 |

Table 3.2: Benefit Reduction Rates: Proportion of Additional Earned Income Given Up Under Selected Conditions

In other words, for every \$100 increase in earnings, these families would actually realize an increase in spendable income of only \$7 to \$38. It is useful to think of benefit reduction rates as if they were rates of marginal taxation which influence the individual's willingness to earn additional income. The benefit reduction rates we found are high compared to tax rates for middle and upper income families, who normally face marginal tax rates of less than 50 percent. AFDC families give up a much larger percentage of increased earnings than do families with higher earned income.

We compared the benefit reduction rates for AFDC families living in subsidized housing units with families living in non-subsidized housing. We found:

- **AFDC families living in subsidized housing lose more benefits by working than families living in non-subsidized housing.**

For example, the benefit reduction rates range from 68 to 80 percent for a single mother with one child living in non-subsidized housing, but they range from 75 to 90 percent for the same family living in subsidized housing.

Because of the assumptions we made for this analysis, we found very little difference in the benefit reduction rates between families which need child care and those which do not. The most important factor influencing this finding is the availability of child care subsidies for families which are ineligible for AFDC.

The benefit reduction rates faced by families as they earn more income are high, even with child care subsidies. Without such subsidies, families earning just enough income to leave the AFDC program would face benefit reduction rates well over 100 percent. That is, the cost of daycare would be more than the additional income they earned, so they would actually lose spendable income as they earned more. For families deciding whether to take a job which would result in the loss of AFDC benefits, the availability of affordable child care may be a crucial factor. Equally important, affordable daycare may help people who are not receiving AFDC, but whose incomes are low, to remain self-sufficient.

Effects of Part-Time Employment

We considered some likely scenarios for households beginning to earn some income. We analyzed what would happen to these families if the caretaker took a part-time job paying \$4.00 per hour. At that level of earned income, just over \$4,100 per year, all of the families would still be eligible for AFDC and for all of the other benefit programs. For each of our example families, part-time work increased spendable income by a moderate amount.

Benefit reduction rates for these families range from 62 percent to 84 percent, with families in subsidized housing facing higher rates. Those in subsidized housing face higher rates because their cost of housing increases as their incomes increase.

Long-term recipients who live in subsidized housing have less economic incentive to work.

Effects of Full-Time Employment

We next considered the effects on the same families if the caretaker took a full-time job at the slightly higher wage of \$4.25 per hour. At earnings of almost \$9,000 per year, one parent-one child families would be ineligible for AFDC. Single parent families with no daycare costs would also be ineligible for Medical Assistance. One parent-two child families would be ineligible for AFDC, unless both children required daycare. Finally, two parent-two child families which did not require daycare would also be ineligible for AFDC.

As with part-time income, net income increases for all households going from part-time to full-time work. However, benefit reduction rates range from 70 percent to 93 percent. Thus, the increase in spendable income is far below the increase in earnings. All families in subsidized housing gain less than similar families in unsubsidized housing, although their spendable income remains higher. Generally, two and three person families face slightly higher benefit reduction rates going from part-time to full time work, than they would going from no work to part-time work.

Effects of Attending School or Training

One route that some people may take to get off AFDC is to acquire some further education, in hopes of receiving a better-paying job later. We considered what might happen to such families while the caretaker was receiving the education, and what might happen when she finished and found a job.

Most AFDC recipients would be financially eligible for a federal Pell grant, and possibly a state grant as well. The actual effect on the family depends, in part, on the type of school attended. In our examples, we assumed that the individual was attending a vocational school or community college, the most common case for AFDC recipients who are attending school. For students at an ATVI or community college, the combination of Pell grant and state grant will generally cover tuition and other school expenses, with some additional funds for living costs. We also assumed that the family would receive a child care subsidy if needed.

Given these assumptions, the families in our examples would all be slightly better off while attending school than they were when they were neither working nor attending school. If the student chose to work part-time while in school, the family would have about \$100 more per month in spendable income, and the benefit reduction rates would be close to 70 percent.

On the other hand, students at the University of Minnesota or a private college would find it necessary to locate other sources of funding (such as private scholarships, student loans, or work-study) to cover these expenses. If the family also had to pay for child care expenses out-of-pocket, then it would be considerably worse off during the time the caretaker is attending school than it would have been otherwise. While the long run pay-off in terms of a better paying job might be attractive, many families would not be able to live for four or more years at the reduced level of income.

If the caretaker finished school and found a full-time job paying \$6.00 per hour (over \$12,000 per year), all of the example families would be ineligible for AFDC and Medical Assistance, but would still be eligible to receive subsidized housing and WIC coupons. Two person households would also be ineligible for food stamps, energy assistance, and free school lunches, although their children could still receive reduced-price school lunches.

While spendable income would increase for all cases, the benefit reduction rates are over 90 percent in some cases, producing little economic incentive for working. As in our other examples, benefit reduction rates are considerably higher for those with housing subsidies.

CONCLUSIONS

The debate over welfare reform has often focused on how to make AFDC families self-sufficient, particularly families who have been or are at risk of being on AFDC for a long time. Recent reform efforts have generally been guided by the principle that work or training by AFDC recipients will help both the individual AFDC family and society as a whole. Even work by AFDC mothers with young children is thought by some to be desirable because these recipients need work experience to become self-sufficient later. In this section we discuss the implications of our findings for efforts to return AFDC recipients to work.

There are two ways in which public assistance benefits may discourage work. First, the economic incentive to work may be too small to induce some people to work. Second, the public assistance benefits may be high enough to make a no-work lifestyle acceptable for some AFDC recipients.

In this report we have dealt only with the economic incentives for working that AFDC recipients face. It should be kept in mind that people consider a variety of factors when deciding whether to work, including family and cultural influence and self-esteem. Furthermore, people may overlook the lack of short-term economic incentives because they view work as a long-term investment in their economic future. Also, the public assistance system is highly complex, so the consequences of working or not working may not be clearly understood by many AFDC recipients.

Most AFDC recipients go off of AFDC in a relatively short time. In our 1987 study, we found that during an 86-month interval 56 percent of AFDC recipients spent less than two years on AFDC. However, those who remain on AFDC for long periods of time account for most of the program's cost and are the primary concern of most reform efforts.

Several empirical studies, including so-called "negative income tax experiments," examined how benefit reduction rates and grant levels affect work behavior.² The studies we examined concluded that:

² The negative income tax studies and other studies on AFDC are summarized in our 1987 report, *Aid To Families with Dependent Children*.

Economic incentives, family and cultural influences, and self-esteem all can affect work decisions by AFDC recipients.

- Higher benefits decrease the average amount of work by program participants. Two studies estimated that a \$1,000 annual increase in grant levels would cause eligible recipients to decrease their work effort by 90 to 120 hours per year.³
- The studies also found that higher benefit reduction rates reduce work by program participants.

Our findings on benefit reduction rates and on total benefits received, combined with results from other studies, indicate that public assistance benefits in Minnesota may reduce work effort, particularly for AFDC recipients living in subsidized housing. AFDC families face benefit reduction rates ranging from 62 percent to 93 percent. Families living in subsidized housing tend to have less incentive to work because they receive higher benefits in addition to facing higher benefit reduction rates. An average AFDC family of three who lives in subsidized housing and has no earned income receives benefits equivalent to \$868 per month in cash, plus free health care and higher quality housing. The cash equivalent benefit alone exceeds the poverty level set by the U.S. government (\$808 per month for a family of three).

Public assistance benefits in Minnesota may reduce work effort, especially for recipients in subsidized housing.

State Options for Improving Work Incentives

As we pointed out in Chapter 1, federal control of many of the public assistance programs in which AFDC recipients participate limits state options for improving work incentives. For example, we found that housing subsidies have a strong effect on work incentives. Tying federal housing subsidies to work effort would increase work incentives, but the state could not take that action on its own.

There are some actions, each with benefits and costs, that the state could take in an attempt to encourage AFDC recipients to work. They include:

- reducing AFDC benefit levels,
- reducing benefit reduction rates,
- funding employment programs to help AFDC recipients obtain jobs,
- funding child care programs to enable low-income parents to work or train for work,
- establishing work requirements for certain AFDC recipients, and
- funding new programs targeted at the working poor.

³ Summarized in Sheldon Danziger, Robert Haveman, and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review," *Journal of Economic Literature* (September 1981) 993-995.

Reducing AFDC benefits would save money for the state and probably would induce some people to go to work. However, benefits are presumably set at levels that provide families with basic necessities, and reducing them would impose hardship on families that are unable to work. Also, considering AFDC apart from other programs, benefits have not changed since 1986 and have declined significantly in real terms since the mid-1970s.

A second way to increase work incentives is to lower benefit reduction rates by changing the benefit schedules to provide a more gradual reduction in benefits as income increases. This option has the advantage of encouraging current AFDC recipients to work, while not harming those who are unable to work. However, if benefit reduction rates are reduced by extending AFDC benefits to families with higher levels of earned income, families who currently have incomes just over the AFDC limit may be discouraged from working. In effect, this option would raise benefit reduction rates for these families. In addition, this option would be expensive since benefits must be extended to persons with higher earnings.

Third, employment programs may help reduce AFDC caseloads. In our 1987 report on AFDC we examined a variety of employment programs designed to get families off of AFDC, including voluntary or mandatory programs. Voluntary programs range from basic job information services to intensive job training or education programs. They may also include child care programs. The PATHS program, which began in 1988 to provide case management and employment and training services to some AFDC parents, is one such program. Voluntary programs are best suited to motivated AFDC recipients who want to work. Many AFDC recipients need only minimal job seeking assistance or child care assistance. Some recipients may lack work skills but be willing to obtain training to find a suitable job. These are the families that voluntary programs can help.

**Reform options
are limited.**

The main limitation of voluntary programs is that they do not reach the AFDC recipients who choose not to work. Some AFDC recipients may choose not to work because they prefer to stay home with their children or because they dislike the jobs that are available. Public assistance benefits in Minnesota are at a level that may enable long term AFDC recipients to choose not to participate in voluntary employment programs.

A fourth possible way to increase work incentives is a mandatory work or training requirement. A mandatory program would be the most direct way of increasing work by potential long-term AFDC recipients. To be fair, it would have to distinguish between those able to work and those who are not able to work. Opponents of mandatory programs argue that such programs deny AFDC recipients the right to choose whether to work or stay at home to take care of their children. Welfare critics counter that just as society has an obligation to help the poor, all individuals have an obligation to contribute to society and their own economic independence by working or training for work. Recent federal changes will give states increased latitude in designing mandatory work programs beginning in July 1989.

There are a number of practical considerations involved in designing employment programs, whether they are voluntary or mandatory. For voluntary programs, they include such questions as what type of services should be available, and whether they should be targeted at specific groups. For mandatory programs, they include such questions as how much work should be required,

which AFDC recipients should be required to work, and how jobs will be provided if recipients cannot find work on their own. We discussed many of these issues in our 1987 report.

Fifth, as we discussed in our 1987 report, low-income families often consider child care expenses to be an important barrier to work or training. In some situations, benefit reduction rates can exceed 100 percent without child care assistance. Our study found that providing child care subsidies to AFDC recipients and to those just above the AFDC income limits removes one of the disincentives to work or receive training. But child care programs by themselves do not solve the problem of low work incentives. We found that the benefit reduction rates were high even when child care programs were available for AFDC and other low-income families. Furthermore, child care programs do not counter the effect that benefits have on work behavior. That is, if an AFDC mother does not work because she prefers to stay at home and can get by with the existing benefits, child care programs would probably not induce her to work.

Finally, work incentives might be improved by targeting public assistance to the working poor. One barrier to work is the potential loss of Medical Assistance for families whose incomes surpass the Medical Assistance income limit. This occurs because many low-wage jobs do not provide health insurance at all or do not provide the broad coverage that Medical Assistance does. The magnitude of this disincentive has been reduced by recent changes, including higher income limits for Medical Assistance and the implementation of the Children's Health Plan, which make health care increasingly available to low-income working families. The disincentive could be further decreased by either providing fewer optional services under Medical Assistance, or extending medical coverage to even more low-income working families.

We do not know how much a given change in work incentives would change work behavior.

While there is empirical evidence that work incentives influence work behavior, we do not know how much a given change in work incentives would change work behavior by Minnesota AFDC recipients. It is difficult to predict such outcomes because there are many reasons beyond economic incentives that explain why a person chooses to work or not.

Many of the options we discuss involve issues that go beyond work incentives. Nevertheless, state decision makers need to know what objective incentives exist in the public assistance system, and how those incentives may affect program outcomes.

CHANGES IN SPENDABLE INCOME AS EARNED INCOME INCREASES

Appendix A

For Families Without Subsidized Housing

| | Earned Income | After Tax Income | AFDC | Food Stamps | Energy Assistance | Shelter Cost | Child Care Cost | Spendable Income | Benefit Reduction Rates |
|--|---------------|------------------|---------|-------------|-------------------|--------------|-----------------|------------------|-------------------------|
| One Parent, One Child Without Daycare | \$ 0 | \$ 0 | \$5,244 | \$1,154 | \$360 | \$3,516 | \$ 0 | \$3,242 | |
| | 4,164 | 4,435 | 1,397 | 1,386 | 360 | 3,516 | 0 | 4,062 | 0.803* |
| | 8,844 | 8,461 | 0 | 330 | 180 | 3,516 | 0 | 5,455 | 0.702 |
| | 12,480 | 10,720 | 0 | 0 | 0 | 3,516 | 0 | 7,204 | 0.519 |
| One Parent, One Child With Daycare | 0 | 0 | 5,244 | 1,154 | 360 | 3,516 | 0 | 3,242 | |
| | 4,164 | 4,885 | 2,897 | 1,386 | 300 | 3,516 | 1,500 | 4,452 | 0.709 |
| | 8,844 | 8,525 | 0 | 378 | 180 | 3,516 | 108 | 5,459 | 0.785 |
| | 12,480 | 10,840 | 0 | 0 | 0 | 3,516 | 216 | 7,108 | 0.546 |
| One Parent, Two Children Without Daycare | 0 | 0 | 6,384 | 1,696 | 405 | 4,272 | 0 | 4,213 | |
| | 4,164 | 4,435 | 2,537 | 1,928 | 405 | 4,272 | 0 | 5,033 | 0.803 |
| | 8,844 | 8,747 | 0 | 1,385 | 338 | 4,272 | 0 | 6,198 | 0.751 |
| | 12,480 | 11,119 | 0 | 108 | 135 | 4,272 | 0 | 7,090 | 0.755 |
| One Parent, Two Children Daycare for One | 0 | 0 | 6,384 | 1,696 | 405 | 4,272 | 0 | 4,213 | |
| | 4,164 | 4,885 | 4,037 | 1,928 | 338 | 4,272 | 1,500 | 5,416 | 0.711 |
| | 8,844 | 8,775 | 0 | 1,406 | 338 | 4,272 | 48 | 6,199 | 0.833 |
| | 12,480 | 11,187 | 0 | 144 | 135 | 4,272 | 120 | 7,074 | 0.759 |
| One Parent, Two Children Daycare for Two | 0 | 0 | 6,384 | 1,696 | 405 | 4,272 | 0 | 4,213 | |
| | 4,164 | 5,335 | 5,537 | 1,928 | 270 | 4,272 | 3,000 | 5,798 | 0.619 |
| | 8,844 | 10,006 | 1,621 | 2,383 | 270 | 4,272 | 3,840 | 6,168 | 0.921 |
| | 12,480 | 11,187 | 0 | 144 | 135 | 4,272 | 120 | 7,074 | 0.751 |
| Two Parents, Two Children Without Daycare | 0 | 0 | 7,260 | 2,229 | 450 | 4,884 | 0 | 5,055 | |
| | 4,164 | 4,435 | 3,413 | 2,461 | 450 | 4,884 | 0 | 5,875 | 0.803 |
| | 8,844 | 8,840 | 0 | 2,312 | 450 | 4,884 | 0 | 6,718 | 0.820 |
| | 12,480 | 11,670 | 0 | 1,003 | 300 | 4,884 | 0 | 8,089 | 0.623 |

*This table shows the changes in benefit and cost amounts that result in high benefit reduction rates. For example, the shaded section shows that, for a one parent-one child family with no daycare costs, when earned income increases from \$0 to \$4,164, after tax income increases to \$4,435, AFDC decreases to \$1,397, food stamps increase to \$1,386, energy assistance, shelter costs, and child care costs do not change, and spendable income increases to \$4,062. Thus, the benefit reduction rate = $1 - [(\$4,062 - \$3,242) / (\$4,164 - \$0)] = .803$.

For Families With Subsidized Housing

| | <u>Earned Income</u> | <u>After Tax Income</u> | <u>AFDC</u> | <u>Food Stamps</u> | <u>Energy Assistance</u> | <u>Shelter Cost</u> | <u>Child Care Cost</u> | <u>Spendable Income</u> | <u>Benefit Reduction Rates</u> |
|--|--------------------------|-----------------------------|-------------|------------------------|------------------------------|-------------------------|----------------------------|-----------------------------|--|
| One Parent, One Child Without Daycare | \$ 0 | \$ 0 | \$5,244 | \$702 | \$300 | \$1,429 | \$ 0 | \$4,817 | |
| | 4,164 | 4,435 | 1,397 | 857 | 360 | 1,524 | 0 | 5,525 | 0.830 |
| | 8,844 | 8,461 | 0 | 153 | 180 | 2,509 | 0 | 6,285 | 0.838 |
| | 12,480 | 10,720 | 0 | 0 | 0 | 3,600 | 0 | 7,120 | 0.770 |
| One Parent, One Child With Daycare | 0 | 0 | 5,244 | 702 | 300 | 1,429 | 0 | 4,817 | |
| | 4,164 | 4,885 | 2,897 | 788 | 300 | 1,524 | 1,500 | 5,846 | 0.753 |
| | 8,844 | 8,525 | 0 | 185 | 180 | 2,477 | 108 | 6,305 | 0.902 |
| | 12,480 | 10,840 | 0 | 0 | 0 | 3,535 | 216 | 7,089 | 0.784 |
| One Parent, Two Children Without Daycare | 0 | 0 | 6,384 | 1,188 | 338 | 1,627 | 0 | 6,283 | |
| | 4,164 | 4,435 | 2,537 | 1,343 | 405 | 1,722 | 0 | 6,998 | 0.828 |
| | 8,844 | 8,747 | 0 | 981 | 338 | 2,365 | 0 | 7,701 | 0.850 |
| | 12,480 | 11,119 | 0 | 108 | 0 | 3,456 | 0 | 7,771 | 0.981 |
| One Parent, Two Children Daycare for One | 0 | 0 | 6,384 | 1,188 | 338 | 1,627 | 0 | 6,283 | |
| | 4,164 | 4,885 | 4,037 | 1,343 | 338 | 1,722 | 1,500 | 7,381 | 0.736 |
| | 8,844 | 8,775 | 0 | 995 | 338 | 2,351 | 48 | 7,709 | 0.930 |
| | 12,480 | 11,187 | 0 | 144 | 0 | 3,420 | 120 | 7,791 | 0.977 |
| One Parent, Two Children Daycare for Two | 0 | 0 | 6,384 | 1,188 | 338 | 1,627 | 0 | 6,283 | |
| | 4,164 | 5,335 | 5,537 | 1,163 | 270 | 1,722 | 3,000 | 7,583 | 0.688 |
| | 8,844 | 10,006 | 1,621 | 1,611 | 270 | 1,700 | 3,840 | 7,968 | 0.918 |
| | 12,480 | 11,187 | 0 | 144 | 0 | 3,420 | 120 | 7,791 | 1.049 |
| Two Parents, Two Children Without Daycare | 0 | 0 | 7,260 | 1,669 | 450 | 1,890 | 0 | 7,489 | |
| | 4,164 | 4,435 | 3,413 | 1,824 | 450 | 1,985 | 0 | 8,137 | 0.844 |
| | 8,844 | 8,840 | 0 | 1,725 | 450 | 2,365 | 0 | 8,650 | 0.890 |
| | 12,480 | 11,670 | 0 | 852 | 0 | 3,456 | 0 | 9,066 | 0.886 |

BENEFIT REDUCTION RATES BY INCOME LEVEL

Appendix B

| No Housing Subsidy | | | | | | |
|--------------------|-----------------|--------------------|---------------------|-----------------|--------------------|--------------------|
| Earned Income | No Daycare | | | With Daycare | | |
| | 1 Adult-1 Child | 1 Adult-2 Children | 2 Adults-2 Children | 1 Adult-1 Child | 1 Adult-2 Children | 1 Adult-2 Children |
| \$1,000 | 0.486 | 0.494 | 0.426 | 0.386 | 0.394 | 0.294 |
| 2,000 | 0.922 | 0.855 | 0.922 | 0.822 | 0.822 | 0.722 |
| 3,000 | 0.862 | 0.922 | 0.922 | 0.822 | 0.822 | 0.791 |
| 4,000 | 0.922 | 0.922 | 0.922 | 0.822 | 0.822 | 0.722 |
| 5,000 | 0.923 | 0.923 | 0.923 | 0.873 | 0.873 | 0.723 |
| 6,000 | 0.538 | 0.922 | 0.922 | 0.872 | 0.872 | 0.769 |
| 7,000 | 0.596 | 0.680 | 0.987 | 1.036 | 0.911 | 0.809 |
| 8,000 | 0.743 | 0.601 | 0.708 | -0.098 | 1.028 | 1.206 |
| 9,000 | 0.719 | 0.649 | 0.535 | 1.204 | 0.436 | 1.030 |
| 10,000 | 0.644 | 0.685 | 0.610 | 0.700 | 0.758 | 1.030 |
| 11,000 | 0.445 | 0.830 | 0.535 | 0.473 | 0.770 | 0.383 |
| 12,000 | 0.505 | 0.732 | 0.706 | 0.510 | 0.738 | 0.731 |

| Subsidized Housing | | | | | | |
|--------------------|-----------------|--------------------|---------------------|-----------------|--------------------|--------------------|
| Earned Income | No Daycare | | | With Daycare | | |
| | 1 Adult-1 Child | 1 Adult-2 Children | 2 Adults-2 Children | 1 Adult-1 Child | 1 Adult-2 Children | 1 Adult-2 Children |
| \$1,000 | 0.570 | 0.502 | 0.570 | 0.470 | 0.470 | 0.370 |
| 2,000 | 0.871 | 0.931 | 0.931 | 0.831 | 0.831 | 0.799 |
| 3,000 | 0.931 | 0.931 | 0.931 | 0.831 | 0.831 | 0.732 |
| 4,000 | 0.931 | 0.931 | 0.931 | 0.906 | 0.831 | 0.917 |
| 5,000 | 0.932 | 0.932 | 0.932 | 0.844 | 1.030 | 0.694 |
| 6,000 | 0.712 | 0.931 | 0.931 | 0.843 | 0.843 | 0.740 |
| 7,000 | 0.776 | 0.861 | 1.017 | 1.096 | 0.911 | 0.809 |
| 8,000 | 0.923 | 0.713 | 0.840 | 0.354 | 1.049 | 1.227 |
| 9,000 | 0.871 | 0.829 | 0.790 | 1.322 | 0.839 | 1.051 |
| 10,000 | 0.845 | 1.000 | 0.715 | 0.878 | 0.934 | 1.119 |
| 11,000 | 0.805 | 0.875 | 0.790 | 0.815 | 0.879 | 0.963 |
| 12,000 | 0.685 | 0.980 | 0.811 | 0.686 | 0.982 | 0.975 |



SELECTED PROGRAM EVALUATIONS

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|---|-------|
| <i>Board of Electricity, January 1980</i> | 80-01 |
| <i>Twin Cities Metropolitan Transit Commission, February 1980</i> | 80-02 |
| <i>Information Services Bureau, February 1980</i> | 80-03 |
| <i>Department of Economic Security, February 1980</i> | 80-04 |
| <i>Statewide Bicycle Registration Program, November 1980</i> | 80-05 |
| <i>State Arts Board: Individual Artists Grants Program, November 1980</i> | 80-06 |
| <i>Department of Human Rights, January 1981</i> | 81-01 |
| <i>Hospital Regulation, February 1981</i> | 81-02 |
| <i>Department of Public Welfare's Regulation of Residential Facilities for the Mentally Ill, February 1981</i> | 81-03 |
| <i>State Designer Selection Board, February 1981</i> | 81-04 |
| <i>Corporate Income Tax Processing, March 1981</i> | 81-05 |
| <i>Computer Support for Tax Processing, April 1981</i> | 81-06 |
| <i>State-sponsored Chemical Dependency Programs: Follow-up Study, April 1981</i> | 81-07 |
| <i>Construction Cost Overrun at the Minnesota Correctional Facility - Oak Park Heights, April 1981</i> | 81-08 |
| <i>Individual Income Tax Processing and Auditing, July 1981</i> | 81-09 |
| <i>State Office Space Management and Leasing, November 1981</i> | 81-10 |
| <i>Procurement Set-Asides, February 1982</i> | 82-01 |
| <i>State Timber Sales, February 1982</i> | 82-02 |
| <i>Department of Education Information System,* March 1982</i> | 82-03 |
| <i>State Purchasing, April 1982</i> | 82-04 |
| <i>Fire Safety in Residential Facilities for Disabled Persons, June 1982</i> | 82-05 |
| <i>State Mineral Leasing, June 1982</i> | 82-06 |
| <i>Direct Property Tax Relief Programs, February 1983</i> | 83-01 |
| <i>Post-Secondary Vocational Education at Minnesota's Area Vocational- Technical Institutes,* February 1983</i> | 83-02 |
| <i>Community Residential Programs for Mentally Retarded Persons,* February 1983</i> | 83-03 |
| <i>State Land Acquisition and Disposal, March 1983</i> | 83-04 |
| <i>The State Land Exchange Program, July 1983</i> | 83-05 |
| <i>Department of Human Rights: Follow-up Study, August 1983</i> | 83-06 |
| <i>Minnesota Braille and Sight-Saving School and Minnesota School for the Deaf,* January 1984</i> | 84-01 |
| <i>The Administration of Minnesota's Medical Assistance Program, March 1984</i> | 84-02 |
| <i>Special Education,* February 1984</i> | 84-03 |
| <i>Sheltered Employment Programs,* February 1984</i> | 84-04 |
| <i>State Human Service Block Grants, June 1984</i> | 84-05 |
| <i>Energy Assistance and Weatherization, January 1985</i> | 85-01 |
| <i>Highway Maintenance, January 1985</i> | 85-02 |
| <i>Metropolitan Council, January 1985</i> | 85-03 |
| <i>Economic Development, March 1985</i> | 85-04 |
| <i>Post Secondary Vocational Education: Follow-Up Study, March 1985</i> | 85-05 |
| <i>County State Aid Highway System, April 1985</i> | 85-06 |
| <i>Procurement Set-Asides: Follow-Up Study, April 1985</i> | 85-07 |

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|---|-------|
| <i>Insurance Regulation, January 1986</i> | 86-01 |
| <i>Tax Increment Financing, January 1986</i> | 86-02 |
| <i>Fish Management, February 1986</i> | 86-03 |
| <i>Deinstitutionalization of Mentally Ill People, February 1986</i> | 86-04 |
| <i>Deinstitutionalization of Mentally Retarded People, February 1986</i> | 86-05 |
| <i>Management of Public Employee Pension Funds, May 1986</i> | 86-06 |
| <i>Aid to Families with Dependent Children, January 1987</i> | 87-01 |
| <i>Water Quality Monitoring, February 1987</i> | 87-02 |
| <i>Financing County Human Services, February 1987</i> | 87-03 |
| <i>Employment and Training Programs, March 1987</i> | 87-04 |
| <i>County State Aid Highway System: Follow-Up, July 1987</i> | 87-05 |
| <i>Minnesota State High School League,* December 1987</i> | 87-06 |
| <i>Metropolitan Transit Planning, January 1988</i> | 88-01 |
| <i>Farm Interest Buydown Program, January 1988</i> | 88-02 |
| <i>Workers' Compensation, February 1988</i> | 88-03 |
| <i>Health Plan Regulation, February 1988</i> | 88-04 |
| <i>Trends in Education Expenditures,* March 1988</i> | 88-05 |
| <i>Remodeling of University of Minnesota President's House and Office, March 1988</i> | 88-06 |
| <i>University of Minnesota Physical Plant, August 1988</i> | 88-07 |
| <i>Medicaid: Prepayment and Postpayment Review - Follow-Up, August 1988</i> | 88-08 |
| <i>High School Education,* December 1988</i> | 88-09 |
| <i>High School Education: Report Summary, December 1988</i> | 88-10 |
| <i>Statewide Cost of Living Differences, January 1989</i> | 89-01 |
| <i>Access to Medicaid Services, February 1989</i> | 89-02 |
| <i>Use of Public Assistance Programs by AFDC Recipients, February 1989</i> | 89-03 |
| <i>Minnesota Housing Finance Agency, Forthcoming</i> | |
| <i>Community Residences for the Mentally Ill, Forthcoming</i> | |

Evaluation reports can be obtained free of charge from the Program Evaluation Division, 122 Veterans Service Building, Saint Paul, Minnesota 55155, 612/296-4708.

*These reports are also available through the U.S. Department of Education ERIC Clearinghouse.