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STAFF DATA WITH RESPECT TO

DISREGARDING A PORTION OF INCOME

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

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DISREGARDING A PORTION OF INCOME

A. Effect of State Differential Between Payment Level and Needs Standard

The Committee has already decided to require, once the employment program becomes effective in January 1974, a flat disregard of $20 of any kind of income for AFDC recipients, compared to the current law earnings disregard of $30 per month plus one-third of earnings above $30 (plus work expenses). The Committee made this decision because if the current law type of disregard had been continued, a family could have enjoyed higher income by staying on welfare and working (either part-time or full-time) than by participating in the work program on a full-time basis. This is illustrated by the following examples, which assume that a State provides assistance at a level of $250 per month.

TABLE 1.—COMPARISON OF FLAT $20 DISREGARD WITH CURRENT LAW FORMULA

	Earnings	Welfare	Total income
Workfare family	$200	[1] $100	$300
Welfare family with no earnings	0	250	250
Welfare family with part-time earnings ($30 plus ⅓ disregard)	100	203	303
Welfare family with part-time earnings (flat $20 disregard)	100	170	270

[1] Based on committee decision that a working family must receive at least $50 more total income than a comparable family on welfare.

The Committee has decided that States will be required to supplement a family participating in the employment program so that it will get $50 more than a comparable family gets on AFDC. In a State which provides assistance equal to the full difference between a family's countable income and its need, under the State's needs standard, the method of applying this decision is clear and is illustrated by Table 1 above.

A number of States, however, have structured their current AFDC programs in such a way that the needs standard applicable to a family is higher than the amount which is actually payable to a family with no other income. This, in effect, amounts to an additional income disregard. For example, a State may have a needs standard of $350, but impose a maximum payment limitation of $250. A family with no countable income, $50 of countable income, or $100 of countable income gets a monthly grant of $250. A family with $150 of countable income gets a grant of $200. In effect, the State disregards the first $100 of income.

If the Committee's decision were interpreted as requiring States to supplement families participating in the employment program so that they get $50 more than a welfare family *with no other income*, then this additional disregard in some States could enable a welfare family which does work, even part-time, to have more total income than a family headed by a mother who is working full-time as a Government employee. For example, in a State with a $350 standard, but a $250 payment maximum, a welfare family with no other income would have total income of $250 while a welfare family with $100 from earnings would have total income of $350. If the State provides a $100 supplement to a comparable family participating in the work program, that family will have total income of $300 which is $50 more than a family with no income gets on welfare but which is $50 less than the total income of a welfare family with part-time earnings of $100.

Staff suggestion

To avoid having a situation in which families with even part-time earnings could enjoy higher incomes under welfare than comparable families in which the family head is working full-time as a government employee, it is recommended that, except for the $20 disregard of any income, States be required to reduce payments to welfare recipients by $1 for each dollar of other income. The following table illustrates how this would work in a State paying $250 to a welfare family with no other income.

TABLE 2.—EFFECT OF PROPOSAL TO LIMIT INCOME DISREGARD TO FLAT $20 AMOUNT

	Earnings	Welfare	Total income
Workfare family	$200	[1] $100	$300
Welfare family with no earnings	0	250	250
Welfare family with part-time earnings	100	170	270

[1] Based on committee decision that a working family must receive at least $50 more total income than a comparable family on welfare.

B. Work Incentives Under Higher Minimum Wage

The Committee has decided that a family participating in the employment program (that is, working for $200 per month or more) will have to get at least $50 more total income than a family of the same type on welfare. (In making this determination, a workfare family will be assumed to have earnings of $200 per month until its earnings reach $300 per month.)

Thus in a State with a $250 payment level, a workfare participant earning $200 would be entitled to a $100 supplement, $50 to bring her up to the AFDC level and $50 as a bonus for working. The Committee has also decided that, in order to protect the economic incentive to move from Government employment to private jobs paying three-fourths of the minimum wage and to jobs at the minimum wage, the State in computing its supplement must disregard all earnings between $200 and $300 per month. This means that participants in Government employment would have no reduction in their supplement if they take jobs paying at on below the minimum wage, and thus the incentive to move to private employment is preserved.

TABLE 3.—INCENTIVE FOR HIGHER EARNINGS UNDER COMMITTEE PROPOSAL WITH $1.60 MINIMUM WAGE (STATE WITH $250 PAYMENT LEVEL)

	Income for a family head employed by—		
	Government at $1.20 per hour	Private employer at $1.20 per hour	Private employer at $1.60 per hour
Monthly earnings	$200	$275	$300
Supplement[1]	100	100	100
Total income	300	375	400

[1] Based on committee decision that a working family must receive at least $50 more total income than a comparable family on welfare.

However, if the minimum wage is raised to $2.00 the mandatory disregard would no longer protect the incentive. Table 4 shows the effect in a State with a $200 payment level and table 5 in a State with a $250 payment level.

TABLE 4.—INCENTIVE FOR HIGHER EARNINGS WITH $2 PER HOUR MINIMUM WAGE (STATE WITH $200 PAYMENT LEVEL)

	Income for a family head employed by—		
	Government at $1.50 per hour (32 hrs.)	Private employer at $1.50 per hour (40 hrs.)	Private employer at $2 per hour (40 hrs.)
Monthly earnings	$200	$350	$375
Supplement[1]	50	0	0
Total income	250	350	375

[1] Based on committee decision that a working family must receive at least $50 more total income than a comparable family on welfare.

TABLE 5.—INCENTIVE FOR HIGHER EARNINGS WITH $2 PER HOUR MINIMUM WAGE (STATE WITH $250 PAYMENT LEVEL)

	Income for a family head employed by—		
	Government at $1.50 per hour (32 hrs.)	Private employer at $1.50 per hour (40 hrs.)	Private employer at $2 per hour (40 hrs.)
Monthly earnings	$200	$350	$375
Supplement [1]	100	50	25
Total income	300	400	400

[1] Based on committee decision that a working family must receive at least $50 more total income than a comparable family on welfare.

It is important that the incentive to move into private jobs be maintained and this can only be done by increasing the mandatory disregard requirement. To maintain completely that incentive, the mandatory disregard would have to extend to earnings between $200 and $375 per month. This would require States with high payment levels to keep participants on the rolls up to a higher level than may be desirable. The effect of such a proposal in raising the level at which States keep participants on the rolls can be reduced in the $50 bonus is converted from a regular monthly payment to a bonus that is paid on entering the program with a second $50 bonus payable after remaining in employment for 6 months.

Staff Recommendation.—If the minimum wage is increased to $2.00 (or more), it is suggested that the States be required to disregard earnings of workfare participants between $200 and $375 per month but be relieved from the obligation of paying the $50 per month bonus to workfare participants. Instead of the monthly bonus, the States should be required to pay $50 to any AFDC mother when she first participates in workfare and another $50 after she has remained in employment, whether government or private, for 6 months. The effects of the staff suggestion are illustrated in table 6 below.

TABLE 6.—INCENTIVE FOR HIGHER EARNINGS UNDER PROPOSAL WITH $2 PER HOUR MINIMUM WAGE

	Income for family head employed by—		
	Government at $1.50 per hour (32 hours)	Private employer at $1.50 per hour (40 hours)	Private employer at $2 per hour (40 hours)
A. *State with $200 payment level:*			
Monthly earnings.....	$200	$350	$375
Supplement [1].........	0	0	0
Total income........	200	350	375
B. *State with $250 payment level:*			
Monthly earnings.....	200	350	375
Supplement [1].........	50	50	50
Total income........	250	400	425

[1] An additional $50 would be payable in the first month an AFDC mother participates in full-time work (whether for the Government or for a private employer) and a second $50 bonus would be paid after she completes 6 months of such full-time work.