



SYSTEMIC WELFARE REFORM IN GEORGIA

Part 1: The Case for Reform

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GEORGIA
CENTER for OPPORTUNITY

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Systemic Welfare Reform in Georgia

Part 1: The Case for Reform

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Erik Randolph Consulting



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About Georgia Center for Opportunity

Georgia Center for Opportunity (GCO) is independent, non- partisan, and solutions-focused. Our team is dedicated to creating opportunities for a quality education, fulfilling work, and a healthy family life for all Georgians. To achieve our mission, we research ways to help remove barriers to opportunity in each of these pathways, promote our solutions to policymakers and the public, and help effective and innovative social enterprises deliver results in their communities. Our ultimate goal is to see every Georgian who is willing to seize the opportunities presented to them living a life that can be characterized as truly flourishing.

Author

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Acronyms

ABAWD: Able-Bodied Adults Without Dependents, as pursuant to SNAP policies

ABD: Aged, Blind and Disabled

ACA: Patient Protection and Affordable Care Act of 2009, also known as ObamaCare.

ACF: Administration for Children and Families, HHS

ACS: American Community Survey of the U.S. Census Bureau

ACTC: Additional Child Tax Credit

AFDC: Aid to Families with Dependent Children program, the predecessor to TANF

APTC: Advance Premium Tax Credits pursuant to purchased HIX policies per the ACA

ARM: AFDC-Related Medicaid, where AFCD is Aid to Families with Dependent Children, the predecessor program to TANF.

CAPS: Child Care and Parent Services

CCDBG: Child Care and Development Block Grant

CCDF: Child Care and Development Fund

CCR&R: Child Care Resource and Referral System

CFR of C.F.R.: Code of Federal Regulations

CHIP: Children's Health Insurance Program

CMO: Care Management Organization

CMS: Center for Medicare and Medicaid Services, HHS

COMPASS: Common Point of Access to Social Services

COSTAR: County Statistical Reporting System of DFCS

DCA: Georgia Department of Community Affairs

DCH: Georgia Department of Community Health

DECAL: Georgia Department of Early Care and Learning

DFCS: Division of Family and Children Services, DHS

DHS: Georgia Department of Human Services

DOE: Georgia Department of Education

DPH: Georgia Department of Public Health

EBT: Electronic Benefits Transfer

EITC: Earned Income Tax Credit

FFY: Federal Fiscal Year

FMAP: Federal Medical Assistance Percentage (matching funds for Medicaid and SCHIP)

FNS: Food and Nutrition Service, U.S. Department of Agriculture

FPL: Federal Poverty Level

GAO: U.S. Government Accountability Office

Ga. R & R: Rules and Regulations of the State of Georgia

GCAA: Georgia Community Action Association

GCO: Georgia Center for Opportunity

HCV: Section 8 Housing Choice Vouchers

HHS: U.S. Department of Health and Human Services

HIX: Health Insurance Exchange pursuant to the Affordable Care Act

HUD: United States Department of Housing and Urban Development

IFIP: Individual financial independency plan; a plan drawn up by the coordinating agency that establishes goals to move from dependency on means-tested welfare programs to financial independence.

IRS: Internal Revenue Service

IT: Information Technology

LIHEAP: Low Income Home Energy Assistance Program

LIM: Low-Income Medicaid

LII: Legal Information Institute of the Cornell University Law School

MTW: Moving-to-Work (special designation of public housing authorities by HUD)

MFP: Money Follows the Person project

NSLP: National School Lunch Program

OCC: Office of Child Care, ACF

OCGA: Official Code of Georgia Annotated

OFA: Office of Family Assistance, ACF

OFI: Office of Family Independence, DFCS

PICS: PIH Information Center (PIC) System.

PIH: Office of Public and Indian Housing, HUD

PHA: Public housing authority

PRWORA: Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

PTC: Premium Tax Credit pursuant to purchased HIX policies per the ACA

RSM: Right from the Start Medicaid

RTC: Refundable tax credits

SBP: School Breakfast Program

SCHIP: Separate (or State) Children's Health Insurance Program

SFY: State Fiscal Year, which is July 1 through June 30th for most states, including Georgia

SOI: also known as SOI Tax Stats; Statistics of Income Division, IRS

SSA: Social Security Administration

SSI: Supplemental Security Income

SLCSP: Second Lowest Cost Silver Plan, pursuant to HIX

SNAP: Supplemental Nutrition Assistance Program, also known as food stamps.

TANF: Temporary Assistance for Needy Families

TTP: total tenant payment, as related to housing assistance

USDA: U.S. Department of Agriculture

USC or U.S.C.: United States Code

WIC: Women, Infants and Children program

WIPA: Work Incentives Planning and Assistance of SSI

Preface

This monograph presents a grand vision for modular systemic welfare assistance reform for the state of Georgia. It is a grand vision because it incorporates the entire welfare system that impacts families. It is systemic because it proposes a reconfiguration of the entire system to become one that provides an effective and cost-efficient safety net with no disincentives for work and no penalties for marriage. It relies on what we know brings success and wealth for individuals.

The reform is modular because it proposes to streamline more than fifteen major welfare programs administrated by a host of federal, state, and local agencies into five coordinated programs controlled by a single lead agency. Policymakers may pursue each of these consolidated programs as a separate reform. Pursued and accomplished together, these reforms fit together to create the grand vision.

A functional welfare system relates directly to the mission of the Georgia Center for Opportunity (GCO). It promotes the GCO goals of creating opportunities for fulfilling work and a healthy family life for those struggling in poverty or marginally above poverty. Additionally, considerable interplay exists between a functional welfare system and one of GCO's other primary goals: promoting a quality education for all Georgians.

This monograph is split into three parts. This first part reviews the case for reform. The second part explains the new system, gives guiding principles, provides a general framework for how the reformed system will function, and establishes preliminary steps to implement the vision. The third part discusses each of the program modules, giving detail on their structure, design, estimated effectiveness, and a framework on how to proceed to accomplish them.

Introduction

Welfare policies are intended to help impoverished citizens acquire essential goods and services on which they depend to live. Some programs provide money with no strings attached while others link the assistance to specific needs—such as obtaining food, healthcare, shelter, and childcare services.

The populations served are defined statutorily or by administrative rule and are most often thought to be those citizens who are vulnerable and incapable of surviving on their own. Persons with severe disabilities, the frail elderly, and neglected children are three population groups indisputably considered vulnerable. Early on, social welfare policy was focused on these groups. Over the years, however, assistance programs have extended eligibility to other groups as well, including needy families with children. As a result, single mothers have become a large beneficiary group of these programs.

For many Americans who have grown up in relative affluence, encountering poverty can be disturbing. “Why are there homeless people?” is a common question fielded by parents, and often the sight of those struggling can elicit sympathy and provoke action to help. Encountering poverty on a large scale in society can be overwhelming and triggers questions about what might drive the problem.

However, asking why poverty exists may not be the best question to ask. When analyzing any problem, it is important to formulate the right questions because asking the wrong questions can lead one astray. This fundamental truth was understood by Albert Einstein who is quoted as saying: “If I had an hour to solve a problem and my life depended on it, I would use the first 55 minutes determining the proper question to ask, for once I know the proper question, I could solve the problem in less than five minutes.”¹

Likewise, good public policy also depends on asking the right questions. We know that poverty has always been with us throughout world history. British economist and Labour Party leader Hugh Dalton wrote in 1920: “The majority of mankind have always been poor, and nearly always acquiescent in their poverty.”² More recently, economist Thomas Sowell clarified the issue in his book *Wealth, Poverty and Politics*: “Poverty occurs automatically. It is wealth that must be produced, and must be explained.”³ Thus, the more appropriate questions to ask may be, “Why is there wealth, and what can we do to promote wealth for all members of our society?”

For welfare assistance programs to constitute good public policy, they need to reflect how material wealth is created in the first place. Policies created in this way are more likely to encourage the necessary behaviors that lead to wealth creation and self-sufficiency.

In pursuit of its goals to expand opportunities for all people, GCO engaged the author to do a series of studies on the welfare system, especially its impacts the poorest Georgians. The work has thus far resulted in three reports released by GCO.

¹ As quoted by the authors in David Sturt and Todd Nordstrom, “Are You Asking the Right Question?”, *Forbes*, October 18, 2013, accessed online December 5, 2016: <http://www.forbes.com/sites/davidsturt/2013/10/18/are-you-asking-the-right-question>

² Hugh Dalton, *Some Aspects of the Inequality of Incomes in Modern Communities* (London: George Routledge & Sons, Ltd; New York: E. P. Dutton & Co., 1920), p. 5. The book is available online through the Internet Archive: <https://archive.org/details/someaspectsofine00daltuoft>

³ Thomas Sowell, *Wealth, Poverty and Politics: An International Perspective* (New York: Basic Books, 2015), p. 177.

For the first study, the author developed an interactive computer model that converted welfare program eligibility rules and benefit determinations into formulae, creating a public policy tool to study the impact of those programs. The purpose was to explore any potential disincentives from the welfare system on work and marriage. A report on this study and tool was originally released in September 2016, and the report was revised and released again in February 2017. The report confirmed that for a single mom with two children—which was demonstrated to be the statistical average of a welfare family—there are in fact welfare cliffs that can discourage the pursuit of higher paying jobs. A cliff is defined as the point where a person would lose more in welfare benefits than they would receive in additional earnings from higher pay.

The cliffs do not exist for all welfare programs. However, when combined as a basic package, there are numerous (and often steep) cliffs. Adding subsidized child care as a benefit dramatically increases the size of the cliffs, and Section 8 housing choice vouchers not only exacerbate the problem but also introduce unfairness into the system. Only a small percentage of families that fall within the target population group can ever receive this benefit, and many public housing authorities and state agencies administering the program have resorted to using lotteries to determine who ultimately receives the benefit. Additionally, we determined that higher benefit amounts, which occur in the more urbanized counties, worsen the cliffing effect.⁴

The study also revealed that single moms and dads earning typical wages often face financial penalties if they want to marry. The penalties take the form of lost welfare benefits in amounts that exceed any financial advantage in combining household income through marriage. For this part, a new metric was developed to measure the financial strength of a family from potential earnings and welfare benefits. The sampling showed that there can be significant marriage penalties, but not always. For some of the scenarios studied, when both parents earn minimum wage, there is no marriage penalty. However, if the dad earns \$10 per hour, there can be a significant marriage penalty.⁵

The second study was a follow-up to the first study to more thoroughly explore the issue of marriage penalties. We used the same metric defining the financial strength of the family, but we added computer programming to automatically run multiple scenarios of wage combinations from both parents to explore the extent and severity of marriage penalties. A baseline analysis where no welfare benefits are received showed marriage is always financially better, provided the dad earns some income. However, when welfare benefits are layered on top of earnings, dad must earn even more money to preserve the financial advantage of marriage in the baseline scenario.

The conclusion is that the more welfare programs are layered on top of earnings, the greater the extent and severity of the marriage penalty for the typical wage combinations for low-income single parents. The more urban the county, the worse the penalty because welfare benefits are more generous in the urban counties. In fact, for cases where mom is earning wages within a low-wage range, it is highly unlikely that dad could earn enough in wages to overcome the marriage penalty.

For example, suppose a man wants to marry a single mom who earns minimum wage, has two children with no disabilities, and receives welfare benefits from all the major programs. He must earn at least

⁴ Erik Randolph, *Disincentives for Work and Marriage in Georgia's Welfare System*, Georgia Center for Opportunity, September 2016; revised March 2017.

⁵ Idem.

\$58,240 to avoid a marriage penalty. When graphed as area graphs using three axes and allowing red to signify the areas where marriage penalties exist for the various wage combinations, this and other scenarios reveal areas on the graph that appear as deep red valleys. Thus, the title of the second report, *Deep Red Valleys in Georgia*.⁶

The third report produced by the author is a reference guide on Georgia's Welfare System. This report gives the statutory and regulatory basis for the major welfare programs and explores the flexibility within each of the programs for adopting welfare reform.⁷

The purpose of this current monograph is to lay out a grand vision for Georgia to systemically reform its welfare system. The goal is to eliminate the currently embedded disincentives for work and marriage and to implement reforms that encourages everyone to practice the behaviors that we know lead to wealth creation and self-sufficiency. A well-thought-out system would not trap individuals in low wages but would provide a minimal safety net with truly essential benefits for temporary periods of time. In such a system, not only will welfare recipients benefit, but the effectiveness and efficiency of such a system would also mean lower costs to taxpayers.

The scope of this vision focuses on families with children. It addresses issues that families with disabled children have. It does not address the elderly population or adults with disabilities. That said, the number of Georgians who would be impacted are significantly large. According to the Census Bureau, 21 percent of Georgia families with children under 18 years of age, or approximately 262,000 families, have income below the federal poverty level.⁸ Additionally, Census data have shown there are more families just above the poverty line than below the poverty line who also qualify for many welfare programs.⁹

⁶ Erik Randolph, *Deep Red Valleys in Georgia: Computational Evidence of the Marriage Penalty from Welfare Benefits*, Georgia Center for Opportunity, January 2017.

⁷ Erik Randolph, *Georgia's Welfare System Reference Guide: Program Bases and Flexibility for Reform Assessment*, Georgia Center for Opportunity, January 2017.

⁸ U.S. Bureau of the Census, American Community Survey 5-Year Estimates, S1702: Poverty Status in the past 12 months of 2011-2015.

⁹ *Disincentives for Work and Marriage in Georgia's Welfare System*, p. 20.

Vision of a Natural System without Government Assistance

Natural Support Systems

Before examining the impact of welfare programs, it is important to establish a baseline that can be defined as the natural system without government assistance. Naturally, there are embedded incentives that encourage harder and smarter work leading to greater compensation. Entrepreneurship offers promises of even greater rewards but also comes with higher risks. The institution of marriage offers stability, structure, and support within a familial setting. It also allows families to pool resources and eliminate duplicate expenses for common needs like housing. The wider community, including faith-based organizations, offer further support and assistance, especially to individuals requiring help beyond what families might be able to provide. Government services are likewise needed, but for the baseline analysis they are limited and do not extend to providing welfare assistance. Collectively, these support systems are widely promoted as a vision for civil society.

The vision of a civil society rests on a functioning society and economy. Societal rules of law and order need to be enforced, including the protection of individual freedoms and property. Educators, families, and the community reinforce standards of ethics. The economy rests on principles that best provide the accumulation of wealth and promote opportunities, which is understood by many economists to be a system based on free-market economic principles.¹⁰

Individuals in society are expected to become self-sufficient, support a family, and contribute to the greater societal good through participation in community organizations. They also pay taxes to support governmental functions, defined here as limited government. An individual only achieves this status of self-sufficiency by developing his or her personal character through training, education, and daily practice. Functional familial relationships, learning from mentors and peers, and belonging to constructive community organizations all foster the growth of the well-developed and adjusted individual.

Education itself extends beyond book learning. It helps establish a well-rounded individual by promoting physical fitness, reinforcing ethical behavior, and imbuing community spirit. Beyond those attributes, the individual acquires marketable skills whereby he can earn a decent living. Importantly, he also develops essential soft skills necessary for the workplace. He knows how to commit himself to work: showing up on time, giving a full-day of work, dressing appropriately, and interacting properly with supervisors, coworkers, and clients.

Although formal education doesn't teach soft skills specifically, students still learn them as a byproduct—setting alarm clocks to be at school on time, exhibiting good behavior, working to understand and learn, studying outside of class time, and handing in assignments on time. More broadly, soft skills are learned behaviors from parents, siblings, peers, and community leaders.

An individual's parents greatly influence his character development. Siblings and extended family can be just as important in the development. Family and extended family are a natural support system that can remain with an individual for his whole life.

¹⁰ There are numerous references to support this claim that go beyond the intent and scope of this strategic plan. However, a good place to start would be the Economic Freedom of the World Reports by the Fraser Institute located in Vancouver, Canada: <http://www.freetheworld.com>.

Marriage promotes continual family formation, adds the support of a spouse to share in the duties and hardships of earning a living, and provides companionship. It also merges families together, extending the natural support network.

Support comes in many forms. It can be simply providing a good role model and encouragement to do the right thing. Or it can be substantial support by lending and giving money, providing a helping hand, and even allowing relatives to move in to share accommodations.

Beyond the family, community organizations provide additional support. Churches and other faith-based organizations reinforce and enhance family values, adding to the development of individual character. They often actively provide physical help in terms of food and other commodities, temporary shelter, needed cash, and services to help the less fortunate. Other nonprofit organization also give charitable support and often specialize in tailored services to address specific societal issues and problems.

Natural Incentives

In the natural system, economic incentives exist that encourage people to succeed through harder and smarter work. For each additional dollar earned, the individual is better off because he or she has additional money to save or spend. The additional amount is not a full dollar because income and payroll taxes reduce the take-home pay. If government remains limited and responsible, individuals generally do not mind paying taxes, knowing that society benefits from limited government when it spends money responsibly.

Under a proportional income tax system, the amount of taxes paid relative to earnings stays constant as a percentage. Everyone is treated equally because everyone supports the cost of government proportional to their income. A proportional tax system is also called a flat tax. Eight states have a proportional income tax system.¹¹ A regressive income tax system is one where the proportion of taxes paid compared to earnings decreases with further earnings. Most states and the U.S. government have a progressive income tax system—the opposite of a regressive system—where the proportion of taxes paid increases with further earnings.

Graphically, as illustrated in Chart 1, a proportional income tax results in a straight line when graphing net earnings (i.e., after-tax earnings) over a range of potential earnings. Similarly, graphing gross earnings is also a straight line when graphed over a range of potential earnings. In both cases, the lines pass through the origin, and as is true for all straight lines, the slopes are constant. In the case of gross earnings, the slope will always be equal to one.¹² The proportional tax system would have a constant slope less than one but greater than zero. The greater the difference in the slopes, the greater the proportional tax.¹³

Regressive and progressive taxes do not result in straight lines when graphed. Their slopes are not constant. In general, regressive income tax systems have slopes that increase with more potential gross

¹¹ The eight states are Colorado, Illinois, Indiana, Massachusetts, Michigan, North Carolina, Pennsylvania, and Utah. Tonya Moreno, CPA, *Which States Have a Flat Income Tax Rate?*, the balance (an online personal finance website owned by About.com), May 30, 2016, accessed December 8, 2016: <https://www.thebalance.com/which-states-have-a-flat-income-tax-rate-3193306>

¹² Mathematically, gross earnings has the equation of $y = x$, which would have a 45 degree angle provided the x and y axes use the same mathematical proportions for the plotted range.

¹³ If you subtract the slope from 1, it will give you the proportional tax rate.

earnings, bowing upwards when graphed as illustrated in Chart 1. Progressive income tax systems have slopes that decrease with more gross earnings and bow downwards.

In all cases, the only way that net earnings can exceed gross earnings is if there are subsidies, and it would be shown as a line or a part of a line above the gross earnings line. Again, in all cases, if the tax system causes the loss of income due to increased gross earnings, it will be shown graphically as a negative slope.

Provided that none of the income tax systems—whether progressive, regressive, or proportional—allow net earnings to exceed gross earnings, and provided that none of the graphed net-earnings lines have a negative slope, which is only possible with an extreme progressive system, then the natural incentive to earn more money is preserved. Per the illustration in Chart 1, each additional dollar earned by a wage warner results in more money that can be saved or spent. As just indicated, the only time this might not be true is under an extreme progressive tax system that allows a marginal tax rate to exceed 100 percent, which would reveal itself graphically by a line or portion of a line with a negative slope.

Under the natural system, marriage most often has a financial advantage. As already demonstrated in our prior study—and what stands to reason—for a mother with children to benefit financially from marrying, the prospective husband needs to be earning money. Additionally, his earnings cannot be significantly less—in orders of magnitude of two to three—than mom’s earnings.

In Chart 2, we reproduce a three-dimensional area graphic from our earlier study,¹⁴ depicting the situation in Georgia for a single mom with two children for tax year 2016. Mom’s earnings are graphed horizontally from left-to-right, and the prospective husband’s—labeled as dad’s wages on the chart—are graphed front-to-back. The vertical axis plots a metric indicating whether there is a financial advantage to marry or a marriage penalty. When there is a financial advantage, it is above the plane that cuts through the origin of the vertical axis and is colored blue. If there is a marriage penalty, it is below that plane and is colored red.

¹⁴ Randolph, *Deep Red Valleys in Georgia*.

Chart 1: Illustration of Regressive, Proportional and Progressive Income Taxes

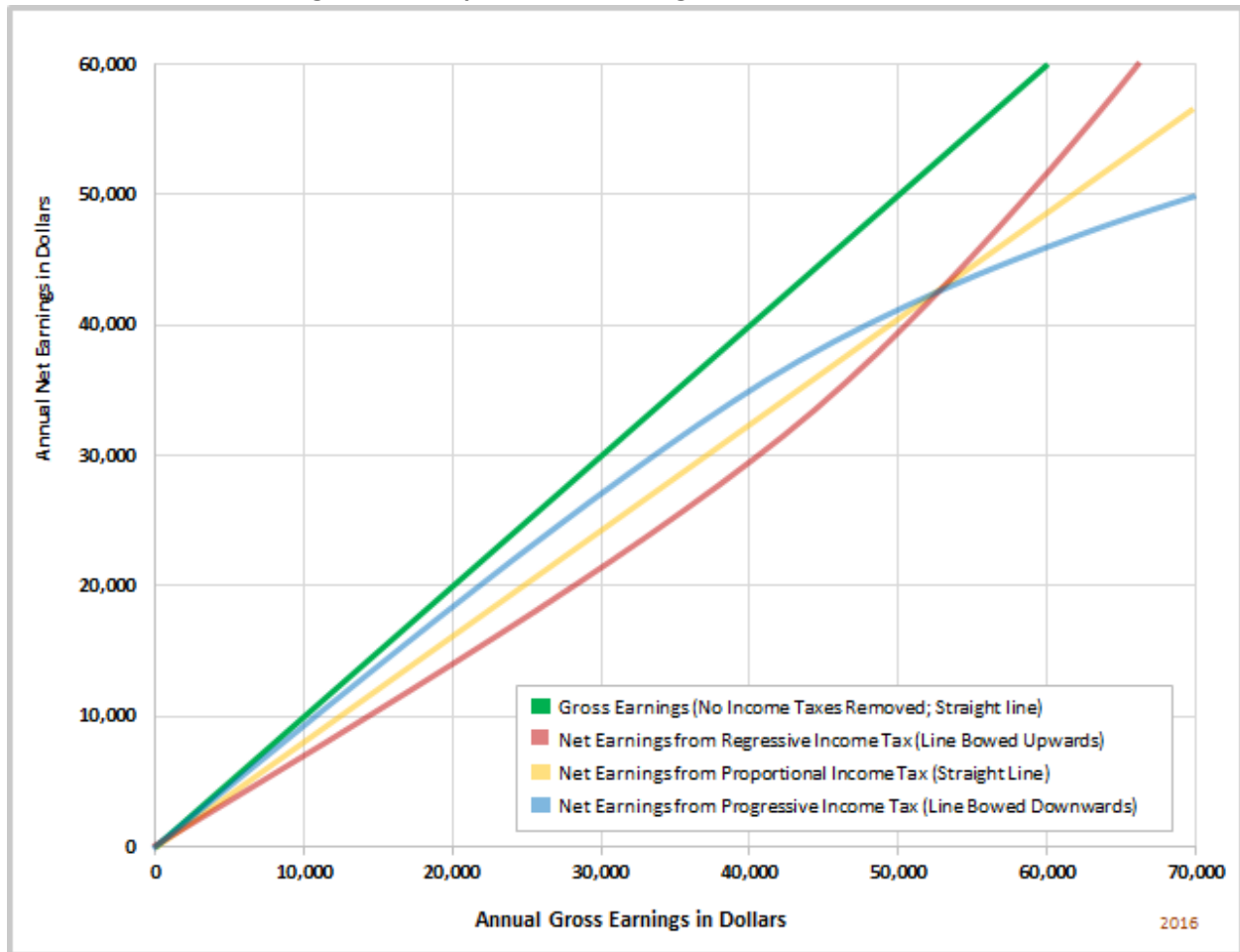
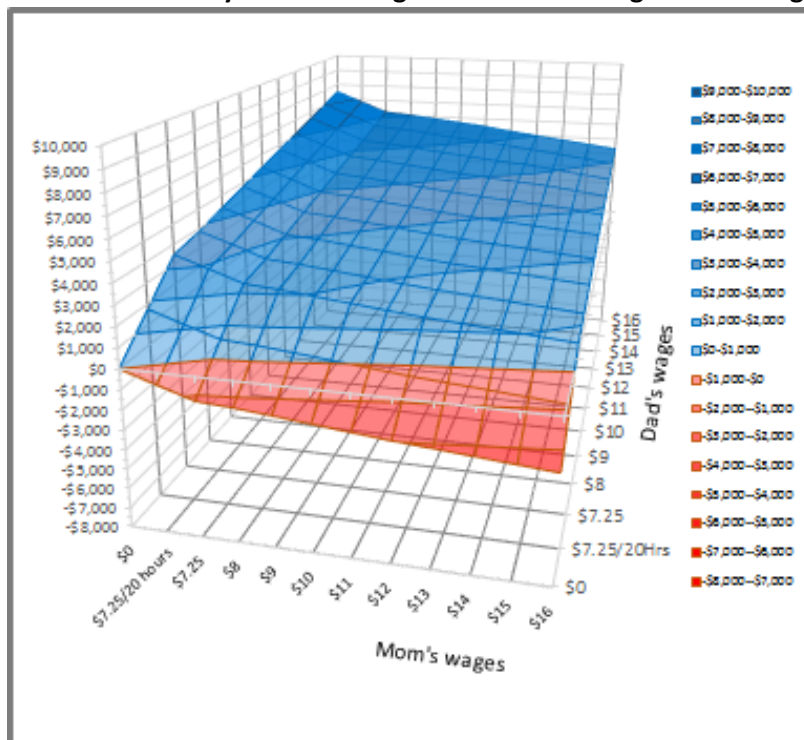


Chart 2: Natural System Showing Financial Advantage for Marriage



Disincentives and Penalties from Current Governmental Policy

With the goal to collectively address societal ills, government has enacted laws and implemented policy for the betterment of society. In particular, welfare policies are intended to ameliorate the negative effects of poverty and help individuals and families escape those conditions. However, these policies can sometimes be counterproductive, especially if they counteract incentives found in the natural system.

Chart 3 is duplicated from a prior study¹⁵ that illustrates the point. For a single mom with two children, which is the statistical average for a family receiving welfare benefits, all-natural incentives to earn more than \$9.75 per hour (\$20,280 annually) are essentially wiped out. Her total benefits in terms of net earnings and welfare benefits are basically flat between \$9.75 per hour and \$12.50 per hour (\$25,440 annually). Although she grosses \$5,720 in extra income from the higher wage, her net income increase is limited to \$357 per year. However, if she would earn \$12.75, she encounters a great disincentive and would lose \$1,300 in benefits annually. Contrasting this to the natural incentives in Chart 1, the governmental programs intended to help have the unintended consequence of discouraging recipients from earning additional income.

¹⁵ *Disincentives for Work and Marriage in Georgia's Welfare System.*

Chart 3: Prior study's computer modeling demonstrating economic disincentives

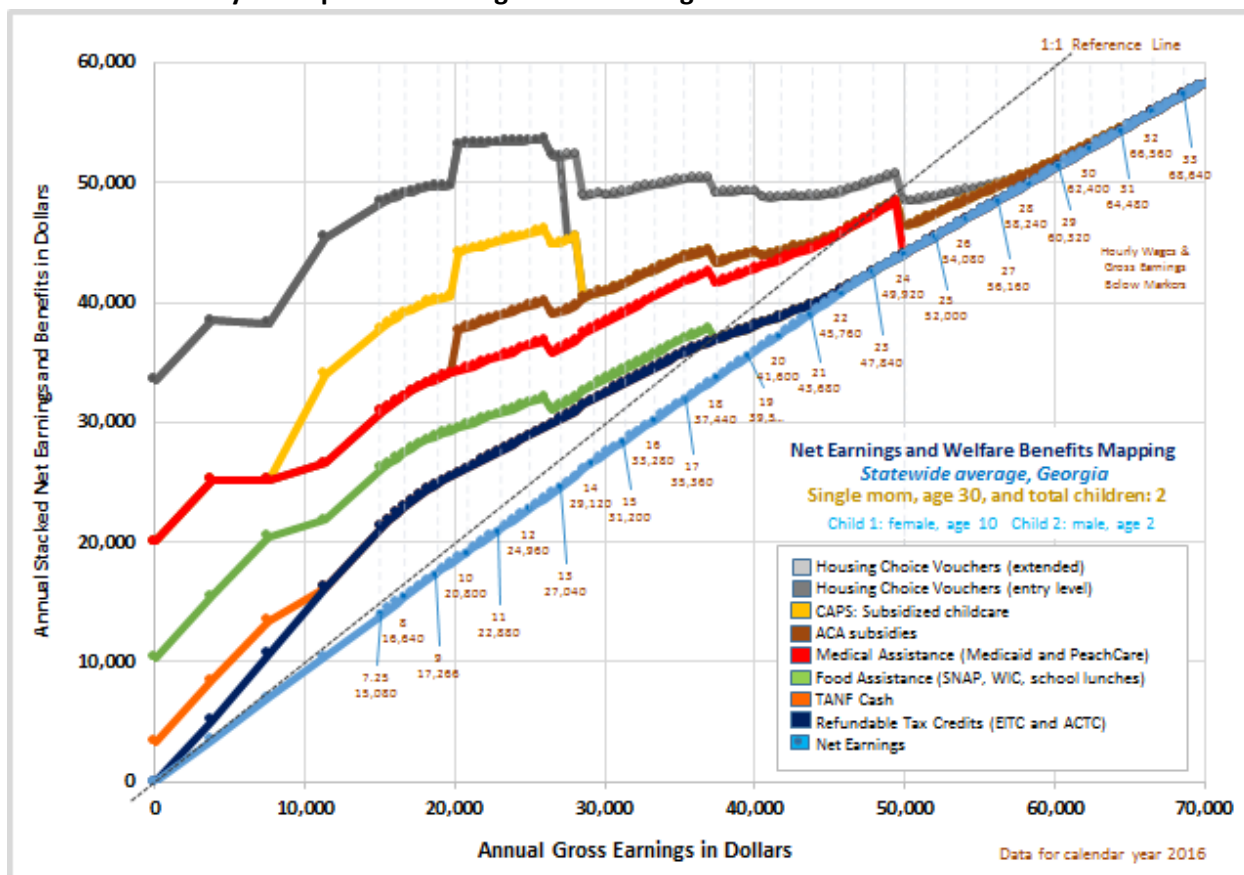
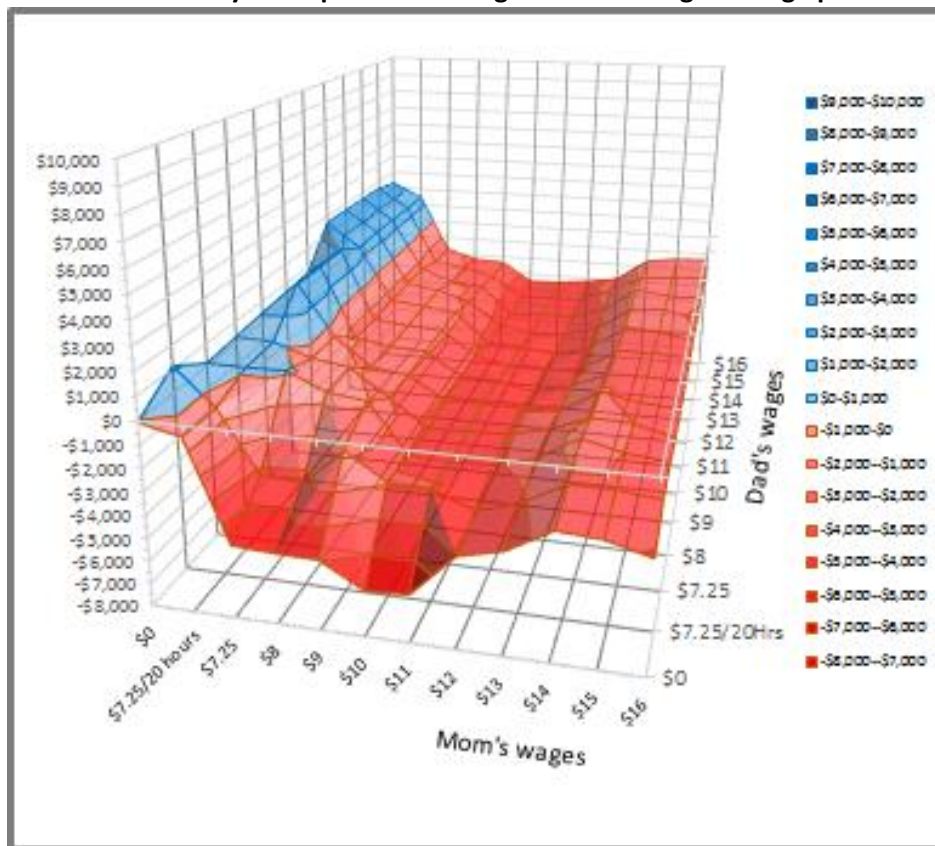


Chart 4 illustrates how these same programs impact the natural financial advantage for marriage. Recall that there is naturally a financial advantage for marriage unless the prospective husband has no earnings or earns significantly less—in orders of magnitude—than mom. Assuming that mom in this example receives the typical welfare benefits package, the financial benefit of marriage is dramatically distorted. Wage combinations that once resulted in a financial advantage for marriage now impose severe marriage penalties. Chart 4 demonstrates the impact of a full welfare benefits package on the financial picture for a mom with two children if she wishes to marry. Within the focus area of wage combinations showing wages up to the median wage from all occupations in Georgia, all combinations have penalties except when mom makes nothing or very little.

Chart 4: Prior study's computer modeling demonstrating marriage penalties



The combination of the disincentives for earning more and the marriage penalty seem to conspire against single moms. First, the system encourages mom to get a job but not to earn too much money. Incredibly, the very wage levels she is encouraged to undertake are those wage levels with the most severe marriage penalties. As shown in our study, suppose a single mom with two children is earning \$7.25 per hour, or \$8 per hour, or even \$9 per hour, and has the complete welfare package. If she wants to marry, the prospective husband must earn at least \$28 per hour (\$58,240 annually) to avoid the marriage penalty. If mom were to earn \$10 per hour, then dad must earn \$31 per hour (\$64,480 annually).

The severity and extent of the penalties depend on various factors. If mom receives just the basic welfare package—consisting of refundable tax credits plus food and medical assistance—the penalties are still present but not as severe and impact a smaller subset of wage combinations. It turns out that adding in subsidized child care and housing assistance produces the greatest penalties in the same manner that these programs exacerbate disincentives for earning more money.

From our prior studies, we made general observations on the reasons for the disincentives and penalties. They can be summarized as the following:

- Benefits, especially when combined, can be too high.
- Poor tapering of benefits for some programs or in combination.
- Too many programs stacked on top of each other.

- Fragmentation of administration with no single agency minding the store.
- Diminishing marginal benefits per family size.
- Systemic biases against marriage.

It is difficult to know which of the general observations are the most important. Arguments can be made on behalf of most of them. Perhaps the fact that the level of benefits can reach high magnitudes is the most important. Arguably, if they did not or could not reach those levels, there would be little need for discussion. If benefit amounts are relatively low in magnitude, it would be relatively easy to overcome the loss of them with earnings. Likewise, if benefit levels are low, it would be easy enough to ignore when considering the financial advantage for marriage. However, when total benefits from all welfare programs for the typical family reach \$35,000 (as demonstrated for the weighted statewide average in Georgia for a single mom with two children¹⁶), it cannot be argued that these are low levels. This magnitude in benefits is more than the current annual median wage in Georgia and more than double the earnings from working fulltime at minimum wage.

Providing benefits at such levels presents a problem when attempting to redesign welfare programs to eliminate disincentives for earning more money. The only way to avoid such disincentives is to ensure that the family can always have more in earnings and benefits as earnings increase, which requires a positive return for earning more. However, suppose we start with a peak benefit of \$35,000, using the Georgia weighted statewide example, and we guarantee by policy a return of 25 percent, meaning she would be better off by \$25 in combined income and benefits for each additional \$100 she earns. This policy would mean that single moms with two children would continue to receive welfare assistance until they gross \$82,000 in earnings.

By allowing benefits to continue until \$82,000 in earnings presents an unsolvable fiscal challenge to find sufficient tax revenue to fund all families within the income parameters. There are only two options to reduce the fiscal challenge while avoiding earnings and marriage disincentives. The peak benefit level of \$35,000 must be reduced or the return must be lower than 25 percent, keeping in mind that lowering the return also diminishes the natural incentive to earn more.

Some welfare programs do not taper off benefits or do so very poorly, creating welfare cliffs. School meals, for example, have two levels: free meals and reduced-cost meals. Once a family crosses the income limit of 130 percent of the federal poverty limit (FPL), it immediately drops to reduced-cost meals, reducing the subsidy from \$517 per student to \$451 per student. The \$66 loss in benefits is not significant if the parent has just one child in school and received a 25 cent-per-hour raise that brings home about \$468 annually after taxes. However, losing the reduced-meal cost at 185 percent of FPL would completely wipe out the \$432 after-tax earnings at that level,¹⁷ leaving the family in a hole by \$20. Having two or more children in school completely changes the equation, causing a significant loss in benefits from higher earnings.

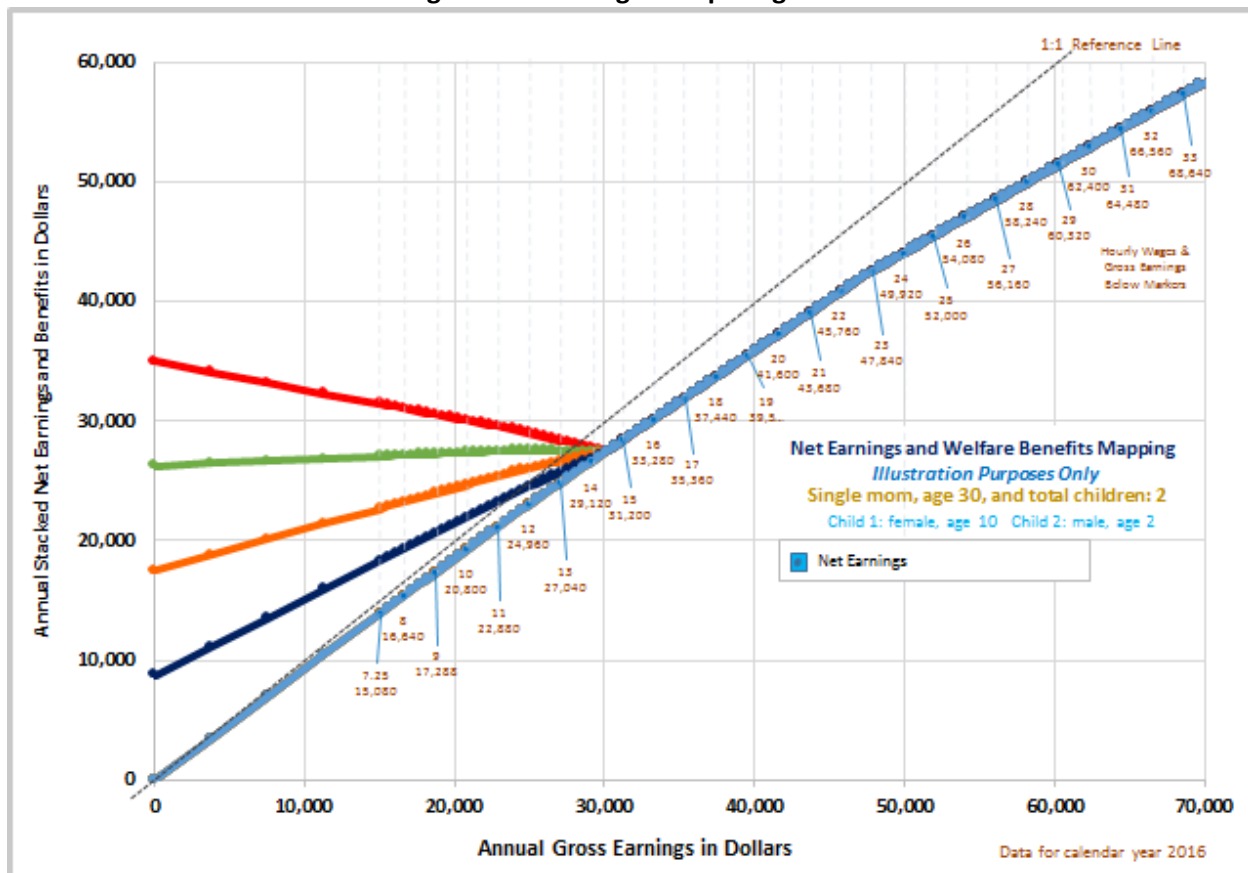
¹⁶ Randolph, *Disincentives for Work and Marriage in Georgia's Welfare System*

¹⁷ Net earnings are less at 185 percent of FPL than 130 percent of FPL because of the progressiveness of the tax code. Welfare programs administered through the tax system are not included in the estimates for after-tax earnings.

Subsidized child care provides an example with even worse cliffs. It can mean a loss exceeding \$2,000 for a single mom with one child if she earned just 25¢ more per hour.

Even if every welfare program tapered benefits optimally without individually having welfare cliffs, too many programs can, in combination, create disincentives. Chart 5 illustrates how this can happen. It shows four hypothetical welfare programs with the same peak benefit of \$8,750. Each program tapers benefits optimally in an identical manner to avoid welfare cliffs. The dark blue line shows the approximate impact of each program individually. As clearly seen in the chart, the program starts with a benefit of approximately \$9,000 and allows a positive return on each additional dollar earned, as indicated by its positive slope, showing no disincentives along the path to self-sufficiency. It intersects the light blue line, indicating net earnings, at \$30,000 in gross earnings where the benefit disappears altogether. The top red line shows the disincentivizing impact from all four welfare programs, sloping downwards before it intersects the light blue net earnings line. Just to recover from the loss in benefits from grossing \$30,000, the single mom will need to earn \$39,000.

Chart 5: Illustration of how stacking benefits with good tapering can still create disincentives



Is the Current System a System?

Calling the collection of U.S. welfare programs a “system” may be misleading. Merriam Webster defines a “system” as “a regularly interacting or interdependent group of items forming a unified whole.”¹⁸ The various welfare programs are poorly coordinated, at best, among the various agencies implementing the programs. If it is a system at all, it is a loosely connected and uncoordinated system that was put together in a hodge-podge, incremental manner. As described in the Concise Encyclopedia of Economics:

The U.S. welfare system would be an unlikely model for anyone designing a welfare system from scratch. The dozens of programs that make up the “system” have different (sometimes competing) goals, inconsistent rules, and over-lapping groups of beneficiaries. Responsibility for administering the various programs is spread throughout the executive branch of the federal government and across many committees of the U.S. Congress. Responsibilities are also shared with state, county, and city governments, which actually deliver the services and contribute to funding.¹⁹

For the major welfare programs, there are five federal departments that administer the programs: Internal Revenue Service (IRS), Social Security Administration (SSA), Food and Nutrition Service (FNS) of the Department of Agriculture (USDA), Office of Public and Indian Housing (PIH) of the Department of Housing and Urban Affairs (HUD), and the Department of Health and Human Services (HHS). Program responsibility is further broken down in HHS with the Office of Family Assistance, Division of Energy Assistance, Office of Child Care, and the Center for Medicare and Medicaid Services (CMS).

The fragmentation continues at the state and local levels. Georgia agencies administering programs include the Department of Human Services (DHS), Department of Early Care and Learning (DECAL), Department of Community Health (DCH), Disability Adjudication Services of the Georgia Vocation Rehabilitation Agency, Department of Education (DOE), Department of Public Health (DPH), and Department of Community Affairs (DCA). Responsibilities are further broken down locally among the schools and public housing authorities.

The major programs considered here are the Earned Income Tax Credit (EITC), the Additional Child Tax Credit (ACTC), the Premium Tax Credit (PTC) and out-of-pocket subsidies to insurers of the Affordable Care Act (ACA), Temporary Assistance for Needy Families (TANF) program, food stamps (also known as the Supplemental Nutrition Assistance Program, or SNAP), Low Income Home Energy Assistance Program (LIHEAP), the Child Care and Parent Services (CAPS) program, Medicaid, PeachCare, Supplemental Security Income (SSI), National School Lunch and Breakfast programs (NSLP and SBP), Women, Infants and Children (WIC) program, Section 8 Housing Choice Vouchers (HCV), and public housing. Out of the 83 welfare programs identified by the U.S. Government Accountability Office (GAO), the major ones enumerated above represent 80 percent of federal welfare spending or 95 percent of

¹⁸ First denotation 1 from online edition of Merriam Webster dictionary, which is based on the Merriam-Webster's Collegiate® Dictionary, Eleventh Edition, accessed January 3, 2017: <https://www.merriam-webster.com/dictionary/system>.

¹⁹ Thomas McCurdy and Jeffrey M. Jones, “Welfare,” The Concise Encyclopedia of Economics, Library of Economics and Liberty, accessed online on January 3, 2017: <http://econlib.org/library/Enc/Welfare.html>

federal spending in the welfare areas of health, cash grants, food assistance, housing assistance, and subsidized child care services. (The category not considered is education.)²⁰

From the recipients' perspective, it can be confusing to know exactly where to apply for what programs, let alone what assistance might be available. For the refundable tax credits, they apply through the IRS. For the Premium Tax Credit, they must enroll through HIX, which is overseen by CMS, and they must file tax forms with the IRS. In addition, CMS gives insurers subsidies to lower out-of-pocket deductions. These subsidies are hidden from the consumer. There is no case management for any of these programs because the IRS lacks the structure and personnel to effectively work with recipients to help them better themselves through employment, marriage, child support, and healthy lifestyles. Additionally, the IRS's efforts in program integrity fall short of those found in many welfare agencies.

The Georgia Department of Human Services has the most unified application system. It provides case management, especially for TANF. Recipients can apply through a unified application system (known as COMPASS) for food stamps, LIHEAP, CAPS, Medicaid, and PeachCare. The Department of Early Care and Learning and the Department of Community Health administer three of these programs.

The Social Security Administration funds disability income, including SSI. The Disability Adjudication Services of the Georgia Vocation Rehabilitation Agency tests and evaluates disabilities necessary to qualify for SSI, but SSA controls the application process and all other administrative functions.

Recipients apply through their local schools to qualify for the National School Lunch Program and the School Breakfast Program. However, the Georgia Department of Education provides overall guidance and support to the schools to follow FNS regulations and rules.

The Department of Public Health runs the WIC program through clinics who can help recipients apply for the supplemental nutritional packages using a system unique to Georgia's program. In addition, the clinics provide other health-related services.

Housing assistance is administered by 188 public housing authorities (PHAs) and the Department of Community Affairs (DCA). PHAs are local authorities enabled by state law but report directly to HUD and follow federal regulations and guidelines. PHAs exclusively provide public housing. Ten PHAs run the Section 8 HCV program within their areas while DCA administers the Section 8 program in 149 counties.

No matter how we look at the system—from the perspective of the recipient, taxpayer, or administrator—it is complex. Although Georgia successfully coordinates a subset of the programs by streamlining the application process and working with other state agencies, there are other programs outside that purview. None of the programs administered through the tax system, schools, the Department of Public Health, and the housing programs through the PHAs or DCA are included in the streamlined process.

Fragmentation of the system makes it impossible to pinpoint the number of individuals and families who participate in the various programs. We can know subsets of participation from Census data²¹ or can run

²⁰ U.S. Government Accountability Office, Federal Low-Income Programs: Multiple Programs Target Diverse Populations and Needs (GAO-15-516), July 30, 2015, publicly released August 31, 2015 (<http://www.gao.gov/products/GAO-15-516>), and author's calculations.

²¹ Shelley K. Irving and Tracy A. Loveless, U.S. Census Bureau, Household Economic Studies, P70-141, Dynamics of Economic Well-Being: Participation in Government Programs, 2009–2012: Who Gets Assistance?, 2014, U.S.

queries off state IT systems or get characteristics of beneficiaries of HUD rental assistance programs through HUD interactive databases, but no source has a complete picture because no unified system exists across all programs.

Because no single agency is minding the store, recipients cannot go to a single agency and have their needs fully assessed and addressed. Assistance comes to them in pieces. Not even DHS case workers have a complete picture. An analogy is the practice of administering medications. A person can go to a medical specialist and receive a prescription for a pharmaceutical drug, and then go to another doctor and get another prescription for a different ailment. However, these medicines may counteract each other and may even be dangerous taken together. Pharmacists can act as a last line of defense to catch incompatible or dangerous combinations of medication.

In the world of welfare administration, there is no pharmacist as a last line of defense. No one is double checking a recipient's combination of welfare benefits. There is no case worker managing the complete package of welfare benefits to make sure there are no disincentives for work or marriage. There is no coordination among all agencies dispensing benefits. Recipient needs are dealt with in a piecemeal manner, and no one is looking at the recipient holistically.

Marriage penalties exist in part because the rules for benefit determination operate on a principle of diminishing returns that disregard marriage. For example, as revealed in our prior study, benefit amounts for food stamps diminish with family size. From this principle alone, a family will always get more if it were split instead of intact because the benefit for the first member of the family is always more than the last member added to the family.²² Because Federal Poverty Levels (FPL) issued by HHS operate on this same principle and are crucial in benefit determinations for most programs, they are a top suspect for embedding biases against marriage.

Other than TANF, which explicitly lists family formation as one of its goals, most programs are not managed in ways that encourage marriage. This is part of programmatic and systemic bias against marriage. For example, the Earned Income Tax Credit changes little if the couple is married. Other than TANF, a single mom can access welfare benefits without pursuing child support from absentee dads. For these programs, which include subsidized child care services, the government is signaling to the welfare recipient that it is assuming the financial responsibilities of the other parent.

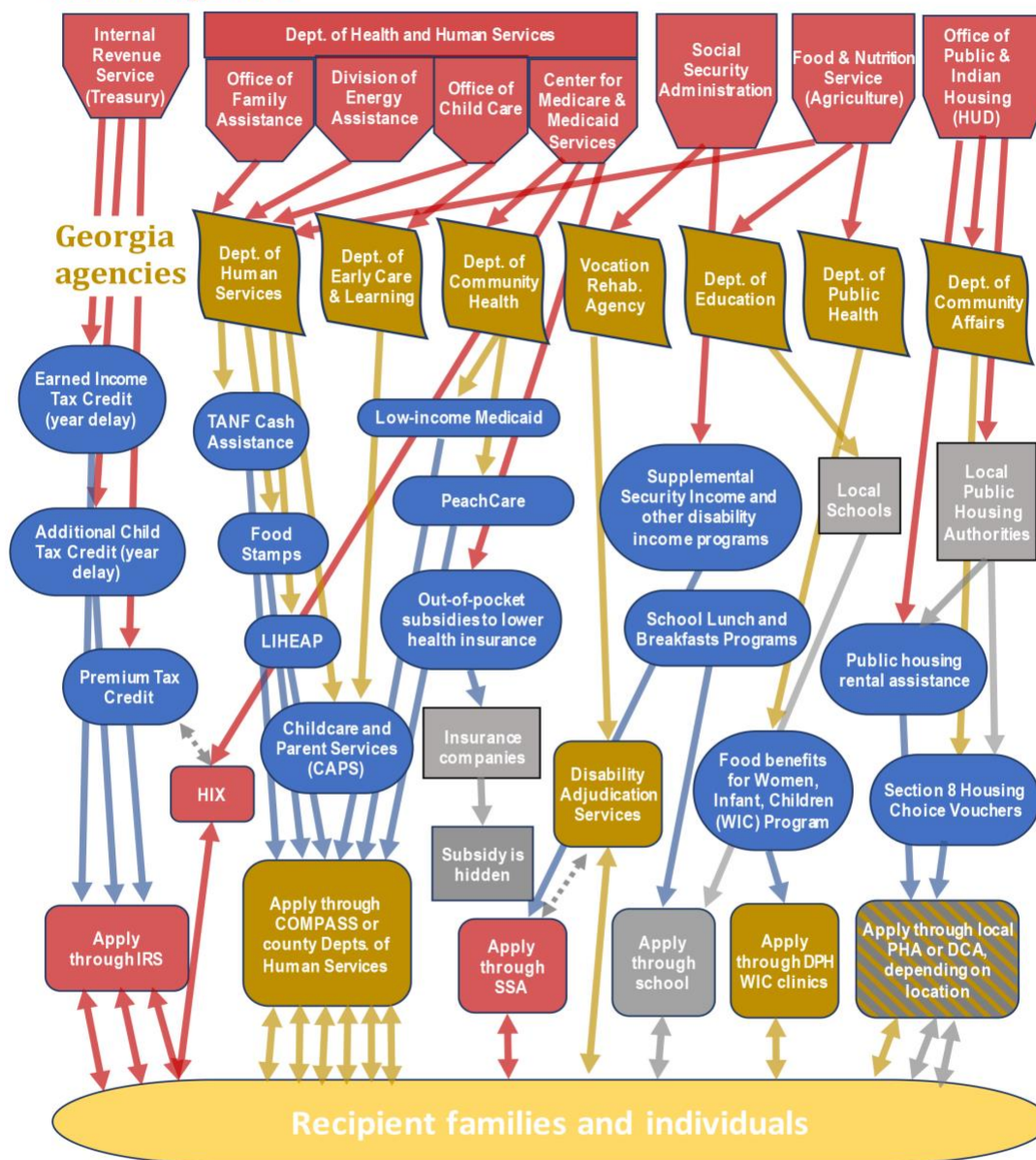
Government Printing Office, Washington, DC, May 2015, pp. 9 and 10.

<http://www.census.gov/content/dam/Census/library/publications/2015/demo/p70-141.pdf>.

²² Randolph, *Disincentives for Work and Marriage in Georgia's Welfare System*.

Diagram 1: Current realignment of welfare system of major means-tested programs

Federal agencies



Strengths and Weaknesses of Major Welfare Programs by Category²³

Refundable tax credits: EITC and ACTC

The refundable tax credits, consisting of EITC and ACTC, are entitlements that cannot be denied provided an individual qualifies under the tax code. This ensures equal treatment. The credits are also designed to encourage work. There is no benefit without earnings. The benefits phase in before first leveling out and then phasing out. The phase-in feature incentivizes work, and the design of the programs by themselves have no disincentives for earning more.

Despite these strengths, the refundable tax credits have significant drawbacks. Because of their design, they reduce the financial advantage for marriage and extend the range of wage combinations subject to a marriage penalty. For a single mom with two children, the marriage penalty increases by 35 percent within a focus area of wage combinations using the median wage in Georgia as the upper parameter of the range.

A major weakness of the refundable tax credits is that recipients must wait until after they file their tax returns to receive the subsidies. In 1978, the EITC was amended to allow for advance payments, but this provision was repealed in 2009 because of poor participation and perceived difficulties in administering the advance payment program.²⁴ Rather than provide cash flow throughout the year, these programs leave recipients with a form of help that will not positively change behavior. Instead, the program is more like a forced savings program that provides little in the way of positive incentives and could, in fact, encourage recipients to seek high interest loans as they wait for tax credit funds to arrive.

The inability of the IRS to properly manage the advance payment program highlights a third weakness with the EITC program: The IRS is not set up to administer welfare programs. There is no case management. No case worker encourages recipients to better manage their finances, to apply for child support, and to practice good behavior. The benefits are processed the same as any other tax credit. The significant cheating with the program to maximize benefit payments has not been investigated by the IRS, and program integrity initiatives commonly found in other welfare programs are absent.²⁵

²³ More information and sources under this section can be found in Erik Randolph, *Georgia's Welfare System Reference Guide: Program Bases and Flexibility for Reform Assessment*, Georgia Center for Opportunity, February 2017: <http://georgiaopportunity.org/wp-content/uploads/2017/02/WEB-PDF-Georgia-Welfare-System-Reference-Guide.pdf>.

²⁴ Internal Revenue Service, "Advance Payments of EITC Eliminated, Archived notice: <https://www.etc.irs.gov/EITC-Central/hot/archive>; Press Briefing by OMB Director Peter Orszag and CEA Chair Christina Romer, The White House, February 26, 2009: <https://www.whitehouse.gov/the-press-office/press-briefing-omb-director-peter-orszag-and-cea-chair-christina-romer>; Mark Robyn, "Obama Proposes Elimination of Advance Earned Income Tax Credit," Tax Foundation Blog, March 8, 2009: <http://taxfoundation.org/blog/obama-proposes-elimination-advance-earned-income-tax-credit>.

²⁵ Robert Rector, "Reforming the Earned Income Tax Credit and Additional Child Tax Credit to End Waste, Fraud, and Abuse and Strengthen Marriage," Background, The Heritage Foundation, No. 3162, November 16, 2016. <http://www.heritage.org/research/reports/2016/11/reforming-the-earned-income-tax-credit-and-additional-child-tax-credit-to-end-waste-fraud-and-abuse-and-strengthen-marriage>, and Kyle Pomerleau, Earned Income Tax Credit Still Plagued with High Error Rate, Tax Foundation, May 14, 2014. <http://taxfoundation.org/blog/earned-income-tax-credit-still-plagued-high-error-rate>.

Temporary Assistance for Needy Families

TANF is often heralded as a successful reform of the former Aid to Families with Dependent Children (AFDC, which is believed to have created dependency on government subsidies. Several factors have contributed to TANF's success in reducing rolls by moving the poorest-of-the-poor families off welfare. Under TANF, states are given broad goals and provided flexibility to achieve those goals. The TANF program has perhaps the highest degree of case management to assure success. It requires that single parents seek child support. It sets time limits to receive assistance. It encourages work and job training. The cliff model has shown no disincentives from TANF cash grants.

Although widely accepted as successful, TANF has not been without its problems and limitations. First, there is no credible evidence that TANF has strengthened marriage and reduced out-of-wedlock births despite being statutory program goals. Definitions of work participation and training have been stretched by the states and undermined by federal directives, and time limits are frequently circumvented.

TANF also serves only a small subset of low-income families. For example, 844,800 federal tax returns were filed by Georgians in 2014 that received the ACTC, impacting an estimated 2.6 million people.²⁶ However, there were only 32,343 TANF recipients in 2014.²⁷ The disparity in the numbers illustrates that TANF's impact, while important to those families in the program, is modest when compared to the other major welfare programs.

Supplemental Security Income

Congress enacted SSI in 1972 to bring uniformity to how disabled persons receive income assistance. Prior to the enactment, the standards for defining disability and determining assistance levels varied greatly among the states. Provided an individual is diagnosed as disabled from an approved medical practitioner, an individual can receive the benefits if he or she is also income eligible. In Georgia, the Disability Adjudication Services of the Georgia Vocation Rehabilitation Agency is responsible for making disability determinations based on federal criteria.

Children can receive SSI as well. In these cases, their parents' incomes are deemed to them to determine eligibility. Theoretically, SSI income is to be used for the benefit of the disabled child and can help with extraordinary costs due to the disability. Often, at least anecdotally, the income is also used to support the family beyond expenses of the child, leading the family to count on the income for survival.²⁸

SSI for disabled children exacerbates disincentives for earning more, making cliffs higher and more severe. Additionally, SSI increases marriage penalties both in severity and by increasing the range of wage combinations that result in penalties.

²⁶ Statistics of Income Division, IRS, Individual Income Tax Return (Form 1040) Statistics, State Data, SOI Tax Stats-Historic Table 2 for 2014: <https://www.irs.gov/uac/soi-tax-stats-historic-table-2>. Number of persons based on authors calculation

²⁷ Division of Family and Children Services, Georgia Department of Human Services, Descriptive Data by County for SFYs 2014 and 2015: <http://dfcs.dhs.georgia.gov/dfcs-descriptive-data-reports-year>.

²⁸ Patricia Wen, "The Other Welfare", a three-part series: "A Legacy of Unintended Side Effects," "A Coveted Benefit, A Failure to Follow Up," and "A Cruel Dilemma for Those on the Cusp of Adult Life," The Boston Globe, December 12, 13, and 14, 2010.

SSI income payments are not linked to the severity of the disability, and they are not based on extraordinary expenses due to disabilities. Thus, a person with the mildest qualifying disability receives the same income as a person with the severest disability. While simplifying benefit calculations, it does little to account for the differences between disabilities that come in myriad forms.

Food assistance: SNAP, WIC, NSLP, and SBP

Food assistance programs undeniably fight hunger and provide taxpayers with the satisfaction of knowing that resources are available to help supplement basic nutritional needs among the poor. The National School Lunch Program and School Breakfast Program further help ensure that children at least can eat a decent meal at school, providing a safety valve against irresponsible parents who fail to manage their food stamps, i.e., SNAP benefits, and other resources to adequately feed their children.

Food assistance programs are treated as entitlements. An eligible person cannot be denied the benefits, making the programs universally available. The extensiveness of the availability is evident by the large participation numbers. Georgia averaged 1.7 million food stamp recipients each month in FFY 2016.²⁹ Schools in Georgia daily served more than 800,000 free lunches and nearly 64,000 reduced-cost school lunches in SFY 2016.³⁰ WIC averaged more than 253,000 participants each month in FFY 2016.³¹

Unlike SNAP, WIC controls the kinds of foods that may be purchased to help ensure nutritional needs are met. Georgia's Department of Education works with schools to help them meet nutritional standards.

Welfare cliffs exist for both school meals and WIC supplemental nutrition packages, but SNAP is more complicated. When there is a disabled person in a family, there is no cliff associated with SNAP. When there are no or little deductions for child care or shelter costs, SNAP does not have welfare cliffs. However, when no family member is disabled and the family has deductions for child care or shelter costs, there can be significant welfare cliffs associated with SNAP.

SNAP rules encourage work for childless adults by limiting the length of time these adults may receive benefits, but these rules are often unenforced. No food assistance program encourages work for adults with children. All food assistance programs contribute to marriage penalties but not as significantly as other major welfare programs.

There is no collaboration and coordination among the food assistance programs. A different state agency administers each one.

Healthcare Assistance: Medicaid, PeachCare, and HIX subsidies

Medical assistance programs are complex. The governmental health programs being considered for our purposes include Medicaid, PeachCare and HIX subsidies.³² Medicaid is a state-federal program

²⁹ Food and Nutrition Service, U.S. Department of Agriculture, Supplemental Nutrition Assistance Program Data Tables, available online: <https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap>, accessed April 4, 2017.

³⁰ Georgia Department of Education, *Facts and Figures for SFY 2016* [School Nutrition Program: <http://snp.wpagadoe.org/wp-content/uploads/Facts-and-Figures-for-SFY2016Final.pdf>], accessed April 4, 2017.

³¹ Food and Nutrition Service, U.S. Department of Agriculture, WIC Data Tables, available online: <https://www.fns.usda.gov/pd/wic-program>.

³² There are other governmental programs for health care not discussed in this paper. Medicare is the system for retirees who paid into Medicare throughout their career, and veterans can receive care at medical facilities owned by the Veteran Administration.

originally designed for persons with disabilities and other vulnerable populations. States operate the program based on federal regulations and parameters that allow some degree of flexibility. PeachCare is Georgia's Children's Health Insurance Program that provides health coverage to children who have too much family income for Medicaid but still fall under income eligibility limits. HIX subsidies consist of the premium tax credit and subsidies to insurers for individuals who obtain insurance through HIX pursuant to the ACA.

The population covered by Medicaid varies throughout the nation. Georgia is one of the states that chose not to expand eligibility to all adults at 138 percent³³ of FPL or below. Parents of minor children are eligible up to 35 percent of FPL, pregnant women are eligible up to 220 percent of FPL, and childless adults are not eligible at all unless disabled. Eligibility for children changes based on the age of the child—205 percent of FPL for up to one year of age, 149 percent for up to age five, and 133 percent for up to age 18—but they are all eligible for PeachCare up to 247 percent of FPL. The parents are eligible for HIX subsidies at 100 percent of the FPL up to 400 percent of FPL.

The system is also predicated on employers providing health insurance. However, there are exceptions based on employer size by number of employees, and some may opt to pay a penalty instead. Even if an employer provides coverage, the premium share and copayment obligations can be costly. One major drawback with an employer-based system is that coverage does not follow the person and depends on the employer.

Although persons eligible for the various medical assistance programs cannot be denied benefits if they qualify, the system itself is disjointed and leaves gaps in coverage. Under the current arrangement, it is possible that a family of four has one child on Medicaid, another child on PeachCare, one parent with employer-based coverage, and the remaining parent with no coverage or coverage through the HIX.

Medicaid in Georgia is a managed care system, called Care Management Organizations (CMOs), as opposed to a fee-for-service. Under this system, the state contracts with CMOs to act as healthcare insurers, and the CMOs contract with healthcare providers as a private insurer would, except the rules of reimbursements are regulated by the Medicaid program. Alternatively, some states implement Medicaid under a fee-for-service arrangement where the state agency acts as a health insurer by paying healthcare providers directly.

PeachCare includes a premium share with six levels. At the highest income level, the monthly share was \$36 per child in 2016 up to two children, which is 18 percent of the average program cost per each nondisabled child. If the family has more than two children, the premium share is the same as it would be for two children, thus reducing the share of costs. PeachCare has a welfare cliff when the family is no longer income eligible for the program.

For the most part, medical assistance programs impose marriage penalties because they use FPL for income eligibility. The exceptions are when a single mom is no longer eligible for Medicaid but does not have enough income to qualify for HIX subsidies. The exceptions occur for a narrow range in income when mom does not have Medicaid—35 percent of FPL until 100 percent of FPL.

³³ Actually, 133 percent plus a 5 percent income disregard.

Moving off government assistance programs into the marketplace can be clumsy. It is not unusual for low-income persons to have incomes that fluctuate within a short period of time, which can oscillate the person between being eligible and ineligible.

Child Care and Parent Services program

Child care remains one of the more perplexing issues for welfare programs. Subsidized child care services enable single parents to work as well as married couples where both parents work. However, the cost of child care services can be substantial, and states often are looking for ways to reduce those costs. Also, subsidized child care services significantly add to welfare cliffs and marriage penalties.

CAPS is Georgia's child care subsidy program. The program requires cost sharing (i.e., family fees) that vary based on income and number of children in care. The subsidy is the difference between the cost of the child care service up to a maximum based on market-rate costs and the family fee. The program preserves the ability of the parent to choose the child care setting.

In 2016, DFCS imposed a new standard where entrance into the program is limited to categorical groups. The subsidies are no longer universally available, meaning that families outside those categorical groups cannot receive the subsidies even if they are income eligible. This restriction is consistent with the program nationwide where many states have waiting lists or have found other ways to reduce participation in order to control costs.

From the point of view of the parent, the costs are the same whether the parent chooses a low-cost informal setting or a higher-cost center, provided the rate is not above the CAPS published market rates for the zone. This encourages families to choose the higher-cost setting. In addition, emphases on quality and increasing educational requirements of child care providers have raised costs generally.

Unlike the TANF program, there is no requirement that single parents seek child support from noncustodial parents, which would not only help many single moms but also would help reduce program costs.

The substantial program costs are driven by chosen settings, number of children, and ages of the children. If a single mom of three works fulltime at minimum wage, the cost of the child care subsidy can exceed her net earnings if her children are not in school yet.

Although family fees increase with income providing some tapering of benefits, the subsidies can still be large enough at the highest income levels to have steep welfare cliffs, providing a major disincentive for earning anything more than the top income bracket. Likewise, computer analysis has shown that adding CAPS to the basic welfare package drastically increases the severity and scope of marriage penalties.

Housing: HCVs and public housing

It has been argued that shelter assistance helps to stabilize individuals and families and ought to be the first entitlement considered. Public housing and Section 8 HCVs provide rental assistance to families, enabling them to afford a place to stay. Depending on the rental market, the programs' rental subsidies can reach significant levels far beyond typical rental costs for low-income families.

The drawbacks to the program are serious. Public housing has suffered significant problems, including crime, neglect, and (perhaps deservedly) poor publicity. In 1998, Congress understandably capped the number of public housing units nationwide and shifted emphasis to Section 8 HCVs.

A chronic problem with both public housing and HCVs is that the demand far outstrips funding. There is practically no prospect this will improve. Consequently, public housing authorities often stop accepting new applications for substantial periods of time, opening them only to allow applicants to get on a waiting list. Once on the waiting list, a family can wait years to get placed in public housing or receive a voucher.

The housing programs operate differently from county to county and do not treat all citizens alike, even if family characteristics are identical. Some PHAs use a lottery to award vouchers to people on the waiting list. Those fortunate few who receive the vouchers benefit greatly, and they may continue to have the voucher beyond entrance eligibility thresholds if their income grows. This practice creates an inequitable situation where one family gets a subsidy while another family with the exact same characteristics is unable to even apply for those benefits.

Consequently, the program encourages migration across counties and state borders in efforts to obtain those desirable vouchers. It is common for individuals to apply for Section 8 programs far away in other states when programs open briefly for applications.

Housing assistance has some of the largest marriage penalties among all welfare programs. Computer analyses show significant increases in the severity of those penalties and the extent of wage combinations subject to them.

Although Section 8 vouchers taper with income, they still exacerbate the welfare cliff problem because of the phenomenon of stacking programs already discussed.

Conclusion

This first part of the series on systemic welfare reform makes the case for reform.

Evident throughout history, poverty is not a recent phenomenon and occurs automatically. It is wealth that needs to be explained, and governmental policies would benefit by applying more what we know about behaviors and circumstances that enable families to elude poverty. These include sacrificing for education, working, and relying on natural support systems, especially marriage, families, and communities.

Absent government welfare programs, natural incentives exist that encourage individuals to work harder and smarter to earn more money for themselves and their families. The institution of marriage plays a crucial role by improving the financial situation of families, enabling parents to provide a better environment for their children to thrive.

However, welfare programs can and do interfere with these natural incentives. Previously published reports using computer modeling substantially demonstrated the impact of them. Although some programs have no disincentives for earning more money, others demonstrably do. More importantly, the impact on individuals is cumulative based on the mix of programs that they receive. Therefore, it is the combination of programs that determines the impact. Unfortunately, the more programs an individual or family receives, the greater the potential for disincentives to earn more money and worse, the financial advantages for marriage are completely reversed.

The root of the problem lies with the system itself and the rules that govern it. First, there is technically no systemic approach to welfare programs. Administration is split among multiple governmental agencies at the federal level, state level, and local agencies. There is no single agency that oversees the entire system, allowing for inconsistent rules and often contradictory results. People are not viewed holistically where all their needs are evaluated in a single shop. Providers have incomplete information, and confusion abounds among recipients.

There are far too many programs. Although not all programs apply to all individuals, the U.S. Government Accountability Office lists 83 federal programs. The entire “system” is too large, complex, and spread-out to be managed effectively.

Program rules themselves introduce problems. While several major programs taper off benefits to avoid discouraging work, other programs do not. Some benefits counterproductively provide more for non-married couples living separately than for married couples.

These problems are just the tip of the iceberg. Specific welfare programs can have their own problems. For example, the Earned Income Tax Credit—one of the largest but often forgotten welfare program—is poorly managed by the Internal Revenue Service that fails to implement standard program integrity tools commonly found in welfare agencies. Perhaps worse, the program provides no cash flow when needed, making recipients to wait to get their annual benefits in one lump sum when they get their tax refunds, aggravating their financial difficulties by making them rely on borrowing money and subjecting them to subprime interest rates and fees.

The drawbacks to public housing and vouchers are different but just as serious. While eligible persons for the Earned Income Tax Credit cannot be denied benefits, eligible persons for housing benefits are regularly denied benefits because only a small percentage can at any one time receive them. Despite efforts to make the selection process fair and nonbiased, citizens in equivalent circumstances are not treated equally.

Part 1 laid the foundation for the subsequent parts of the series. Part 2 provides a basic framework to reform the entire welfare system. It gives thirteen principles that must be met, provides an organization structure describing agency responsibilities, and recommends consolidation of the programs into five basic modules that represent basic needs. It provides information on the role of the governor, the need for designating a lead agency, the operational components, and a process for transitioning to the new system that can be adopted over time.

Part 3 delves deeper into each of the modules: food assistance, cash assistance, shelter assistance, child care assistance, and health insurance assistance. Additionally, it provides detailed information on deficiencies with the current health insurance system with recommendations on how to reform the health insurance industry in conjunction with reforming medical assistance programs for disabled and low-income families to best serve the citizens of Georgia.



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