Modeling potential income and welfare assistance benefits in Illinois: Findings and recommendations

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Brief background

On December 29, 2014, the Illinois Policy Institute released the results of a computational microeconomic model on the impact of welfare programs on two family types for three counties in Illinois.

The Illinois Policy Institute is an independent research and education organization generating public policy solutions aimed at promoting personal freedom and prosperity in Illinois.

Erik Randolph is the primary author, and staff at the Institute provided analytical review and also edited and published the report.
Data and rules were pulled from the following agencies

Federal agencies
- Internal Revenue Service
- Social Security Administration
- Administration for Children and Families
- Food and Nutrition Services
- Department of Housing and Urban Development
- Center for Medicare & Medicaid Services
- Health Resources and Services Administration.

Illinois state agencies
- Department of Revenue
- Department of Human Services
- Board of Education
- Department of Healthcare and Family Services

Housing authorities
- Housing Authority of Cook County
- Chicago Housing Authority
- Lake County Housing Authority
- St. Clair County Housing Authority
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How to read the graph for each scenario

**Vertical axis**
Vertical axis gives the annualized total receivables for a family: net earned income plus the value of any welfare benefits.

**Horizontal axis**
Horizontal axis gives the annualized gross earned income for each of the 36 intervals considered.

**1:1 reference line**
1:1 reference line. This line helps the reader quickly see the points on the graph where the values are the same for both the horizontal and vertical axes. That is, a point on this line is where total receivables (net earned income and benefits) equals gross earned income.
Adding dependent variables—Net earned income

Now we starting adding the dependent variables from the bottom up.

Note: if no taxes were taken out, net earned income would follow along the reference line.

First, we add net earned income line, which is gross earned income after income and payroll taxes are subtracted, not including refundable tax credits.

The labels below the points on the net earned income line give the hourly wage for selected intervals.
Stacking dependent variables—Refundable tax credits

Now we stack refundable tax credits on top.
Stacking dependent variables—Cash assistance

Now we stack cash assistance on top.
Stacking dependent variables—Food assistance

Now we stack food assistance on top.
Stacking dependent variables—Housing assistance

Now we stack housing assistance on top.
Stacking dependent variables—Child care assistance

Now we stack child care assistance on top.
Stacking dependent variables—Medical assistance

Now we stack medical assistance on top.
Stacking dependent variables—Premium tax credit

Finally we stack the premium tax credit (of the ACA) on top.
Final graph: Cook County 1 parent 2 children scenario
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First general conclusion from computations

Potential welfare benefits are large in magnitude and wide is scope.

For example, the Cook-County-with-2-children-household scenario showed:

- Single parent can gain $47,894 in benefits.
- Two parents can gain $41,237.
Second general conclusion from computations

Welfare cliffs are significant and it is difficult to recover from a loss of benefits.

For example, the Cook-County-single-parent-with-2-children-household showed:

- There is no point in earning more than $12 per hour.
- At $18 per hour the loss in benefits can be a staggering $35,742.
- This single parent would have to earn $38 per hour to recover the value of the lost benefits.
Third general conclusion from computations

Economic disincentives are major and trap families.

Consider these points using the Cook County scenario:

- Why would any rational single parent aspire to earn more than $12 if that parent stands to lose as much as $35,000 in benefits?

- It is unlikely that this single parent could jump from $12 per hour to $38 per hour to preserve her standard of living.
Fourth general conclusion from computations

The welfare system is inequitable.

Consider again the Cook County scenario:

- Similarly situated single parents earning $18 would be worse off than a single parent earning between $8.25 and $12 per hour.
Fifth general conclusion from computations

The greatest problem areas are those programs that do not taper off benefits.

- The Earned Income Tax Credit provides a model on how to taper benefits.

- Assistance programs for housing, child care, and healthcare benefits have the steepest cut-offs, significantly aggravating the welfare cliff effect.

- Food assistance programs are mixed. WIC and National School Lunch programs have hard cut-offs. SNAP benefits do taper off.
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The solution must be derived systemically

It is highly unlikely that any attempts to reform the welfare system in a piecemeal, fragmented, and haphazard manner without a vision and plan will work.

Therefore, the solution must be derived from a systemic approach.
Overriding mathematical principle

- It is necessary to choose a level of benefits when earned income equals zero.
- It is necessary to choose a point when all benefits end.
- Line is net earned income plus welfare benefits.
- All welfare benefits must be subject to a limit that in combination they cannot exceed: the slope of the limit must be positive at all times.

Vertical axis is annual dollars
Horizontal axis is gross earned income
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