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

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Illinois Policy

Erik Randolph
Senior Fellow, Illinois Policy Institute
www.illinoispolicy.org

erik@erikrandolphconsulting.com
erikrandolphconsulting.com

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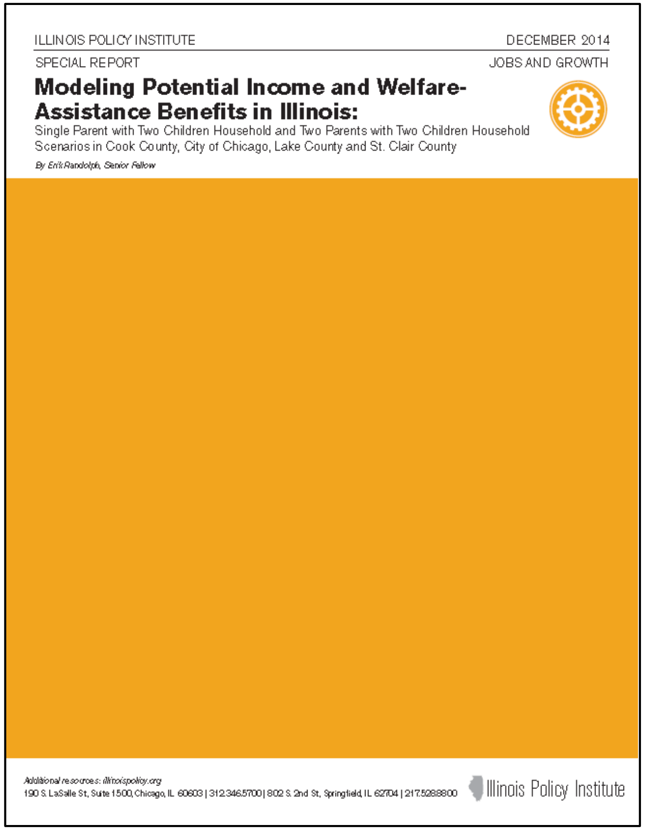
Brief background

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.


ILLINOIS POLICY INSTITUTE DECEMBER 2014

SPECIAL REPORT JOBS AND GROWTH

Modeling Potential Income and Welfare-Assistance Benefits in Illinois:

Single Parent with Two Children Household and Two Parents with Two Children Household Scenarios in Cook County, City of Chicago, Lake County and St. Clair County

By Erik Randolph, Senior Fellow

Additional resources: illinoispolicy.org

190 S. LaSalle St., Suite 1500, Chicago, IL 60603 | 312.346.5700 | 802 S. 2nd St., Springfield, IL 62704 | 217.528.8800

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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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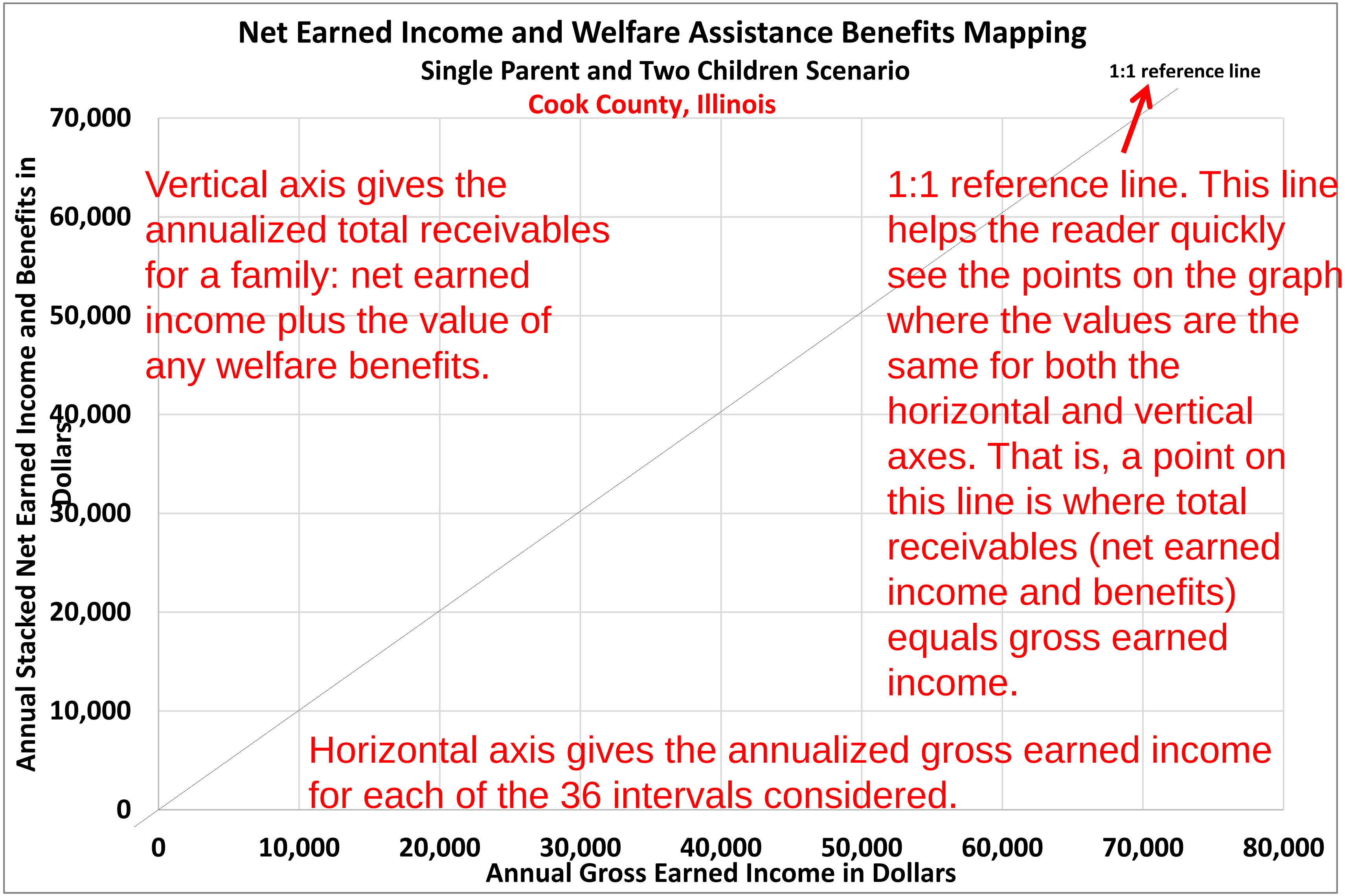
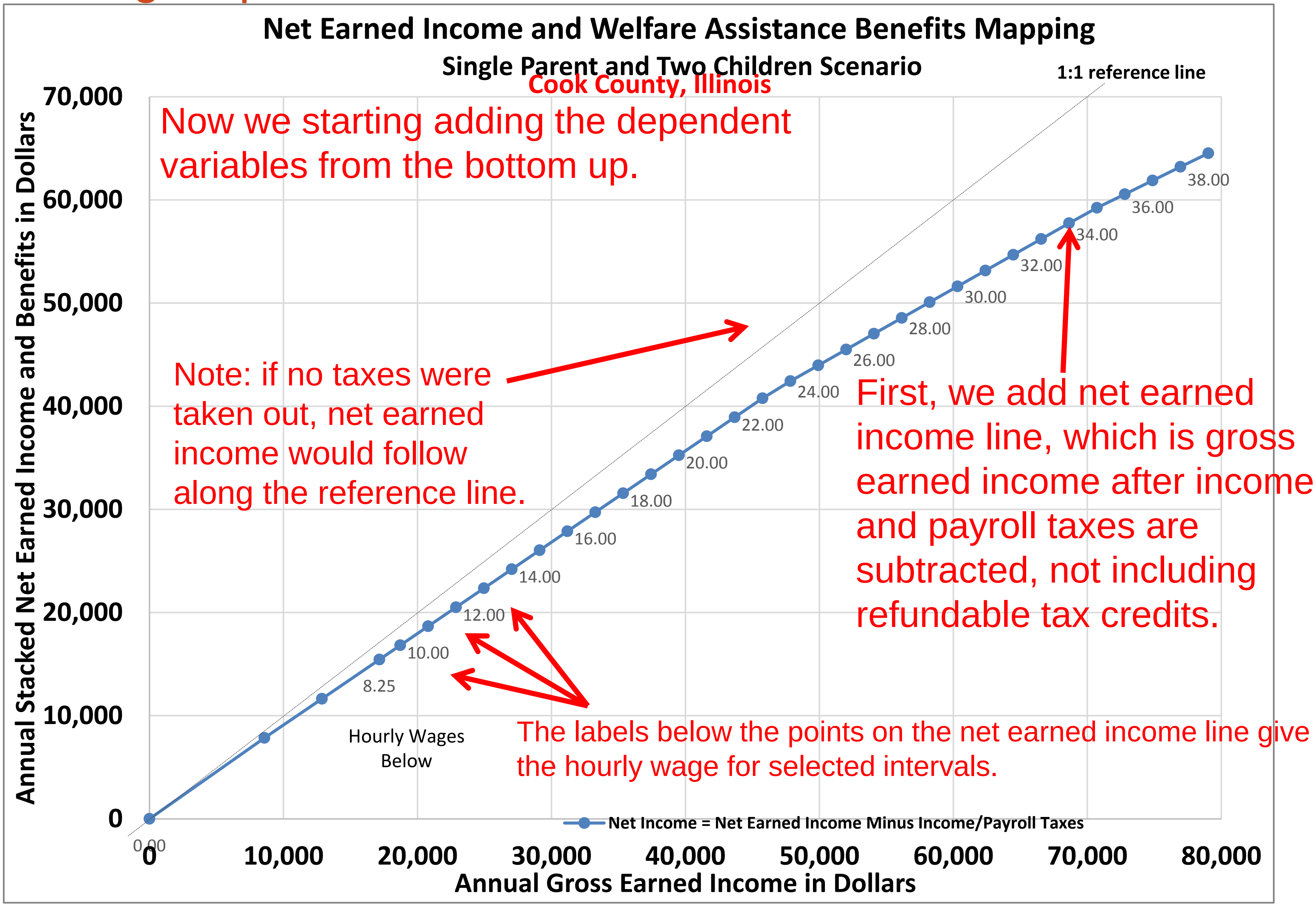
How to read the graph for each scenario



Adding dependent variables—Net earned income



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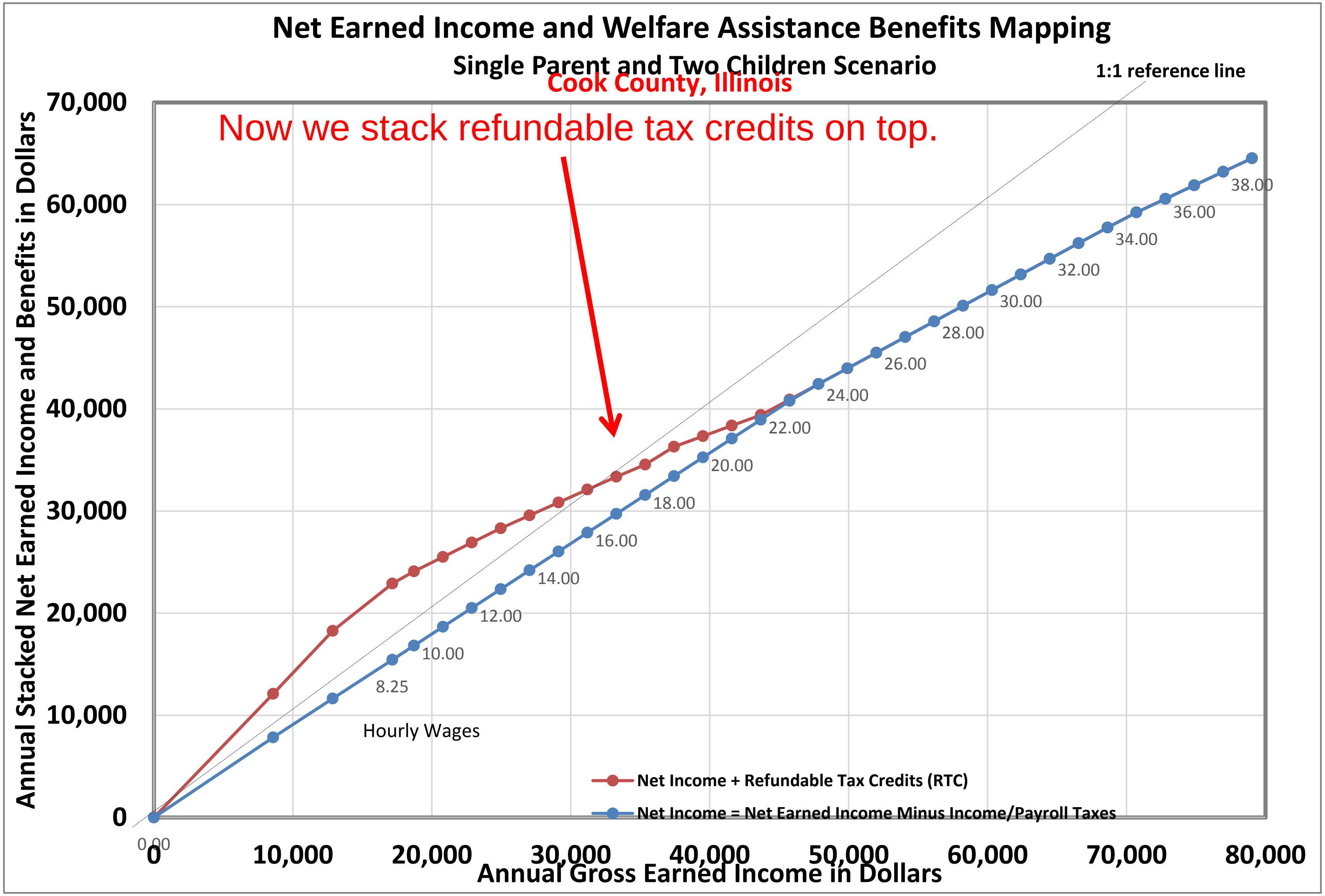
Stacking dependent variables—Refundable tax credits



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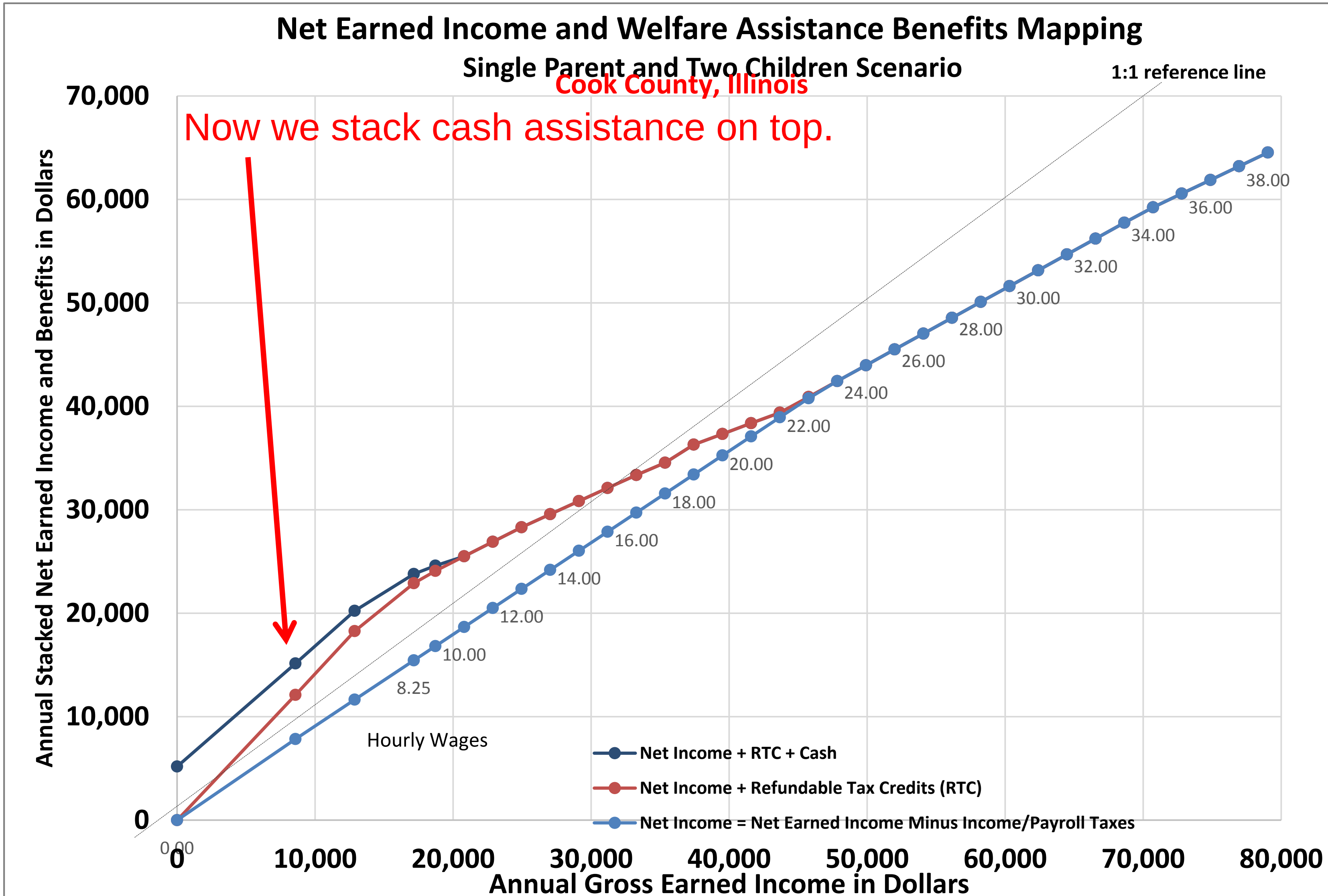
Stacking dependent variables—Cash assistance



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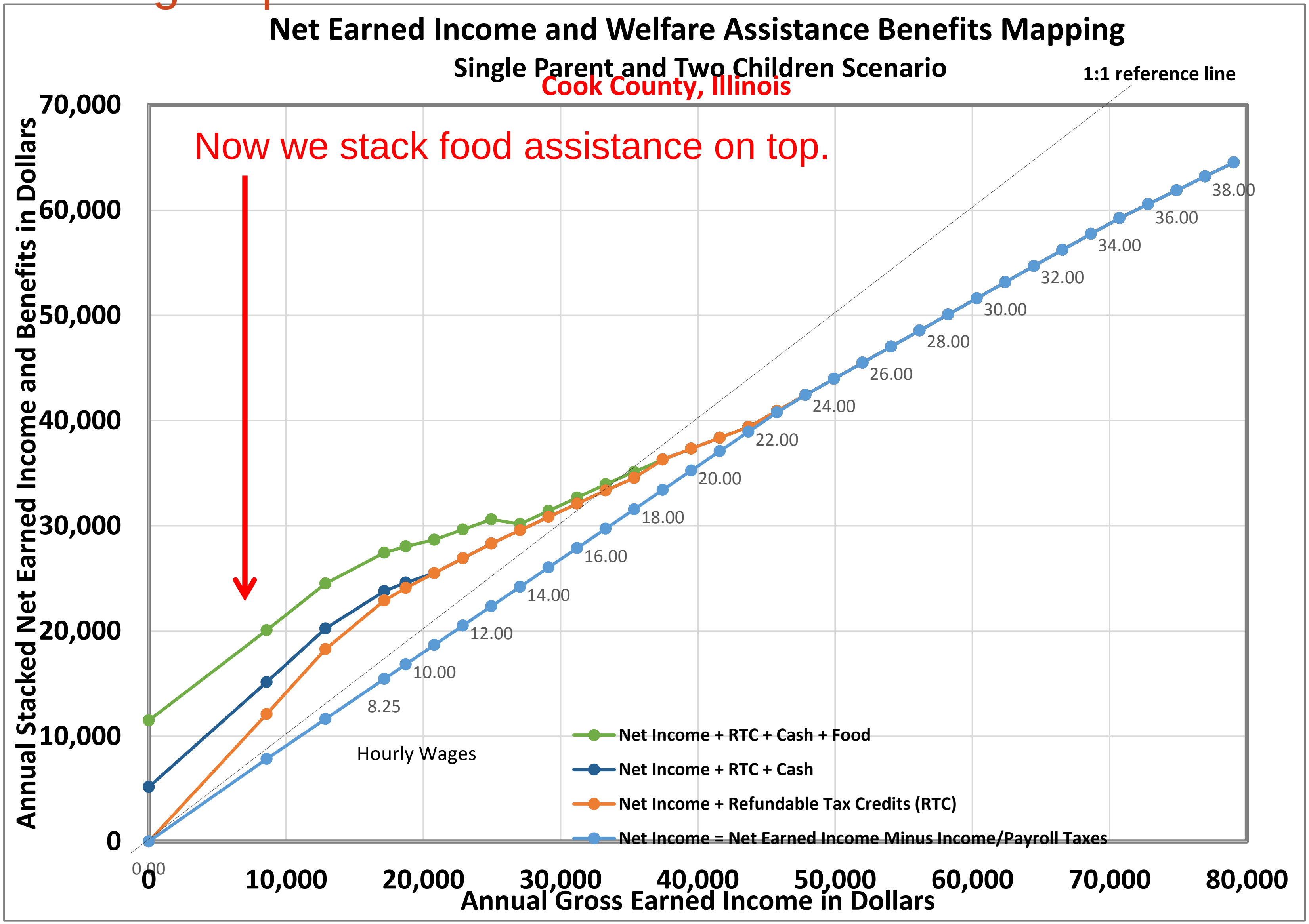
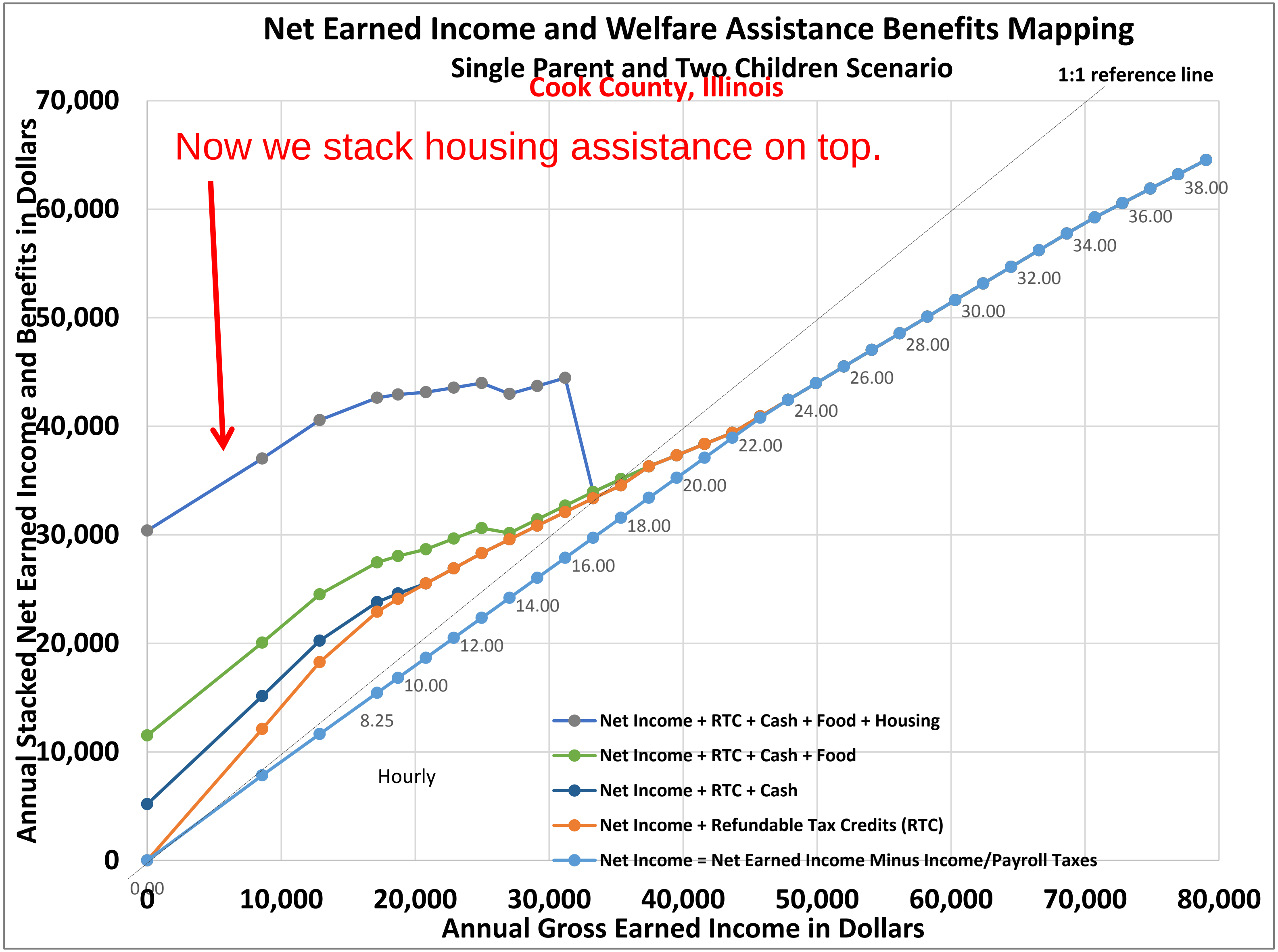
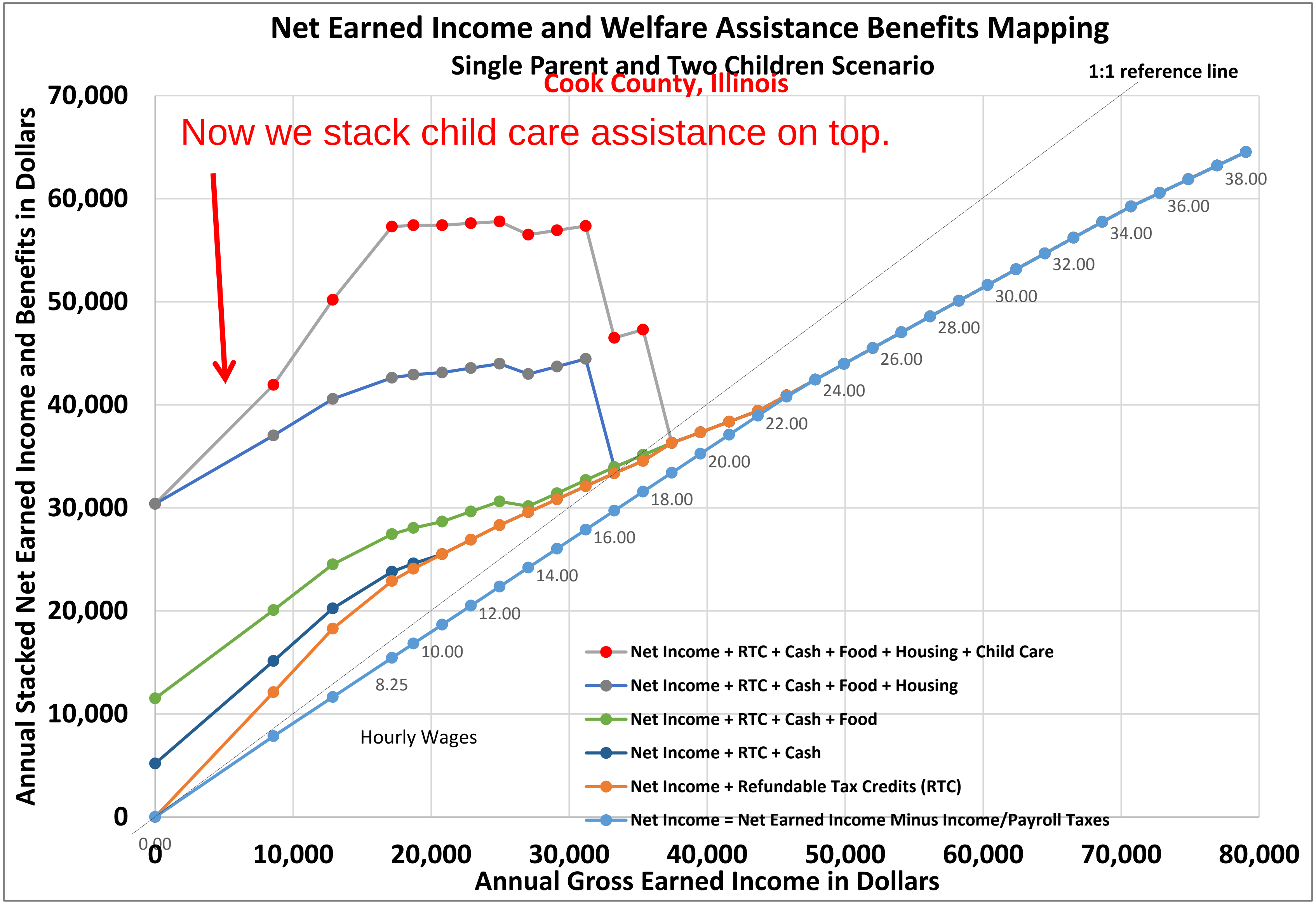
Stacking dependent variables—Food assistance



Stacking dependent variables—Housing assistance



Stacking dependent variables—Child care assistance



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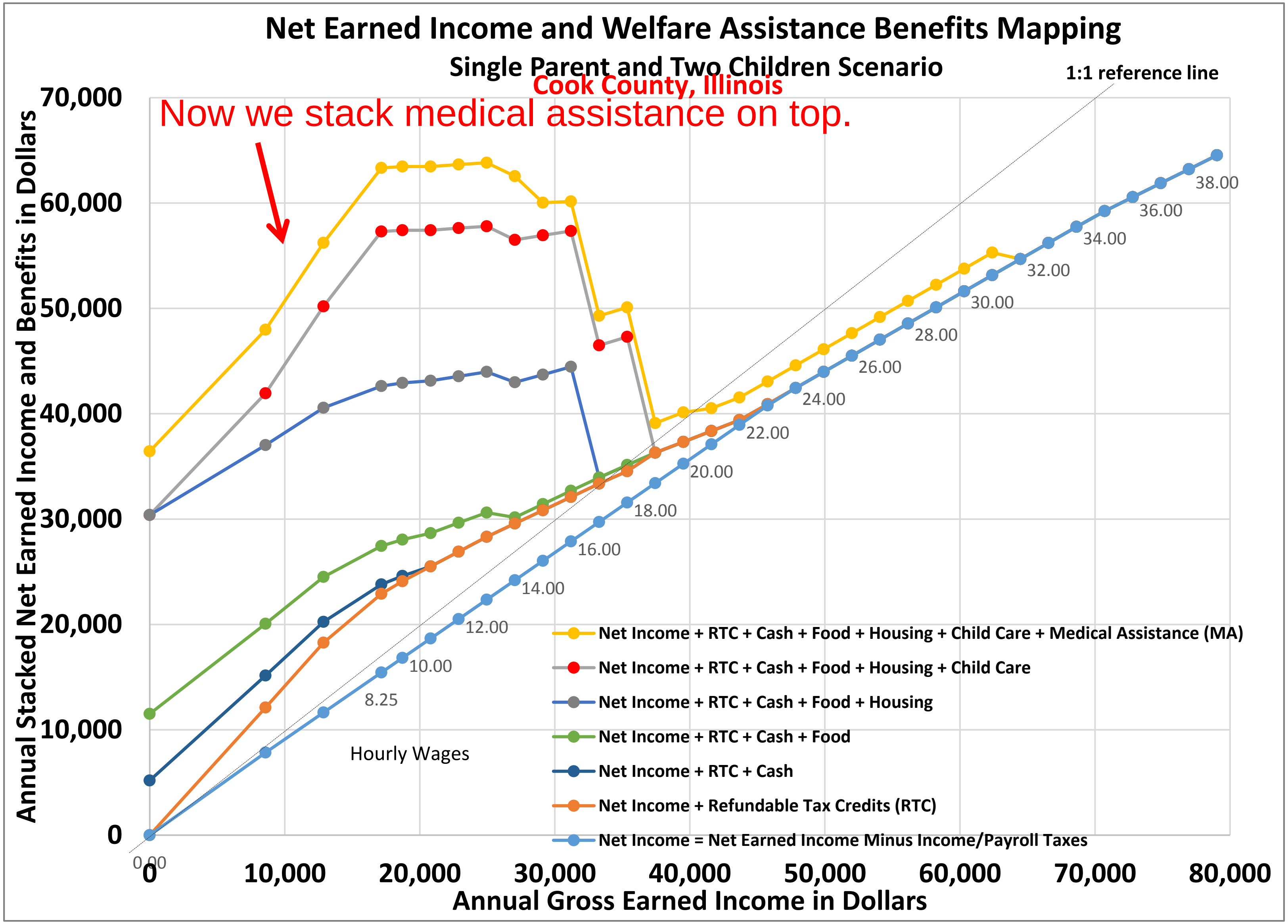
Stacking dependent variables—Medical assistance



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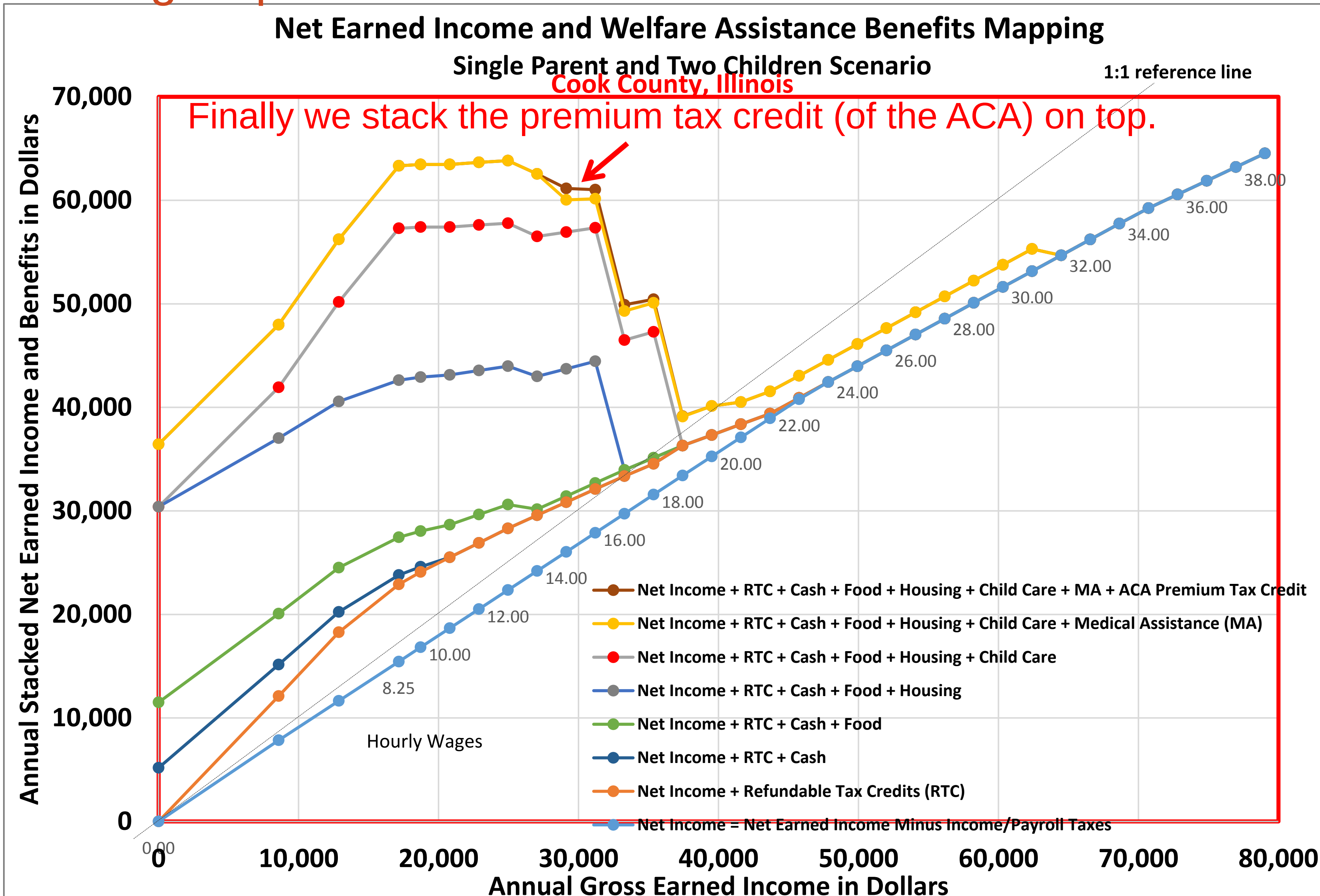
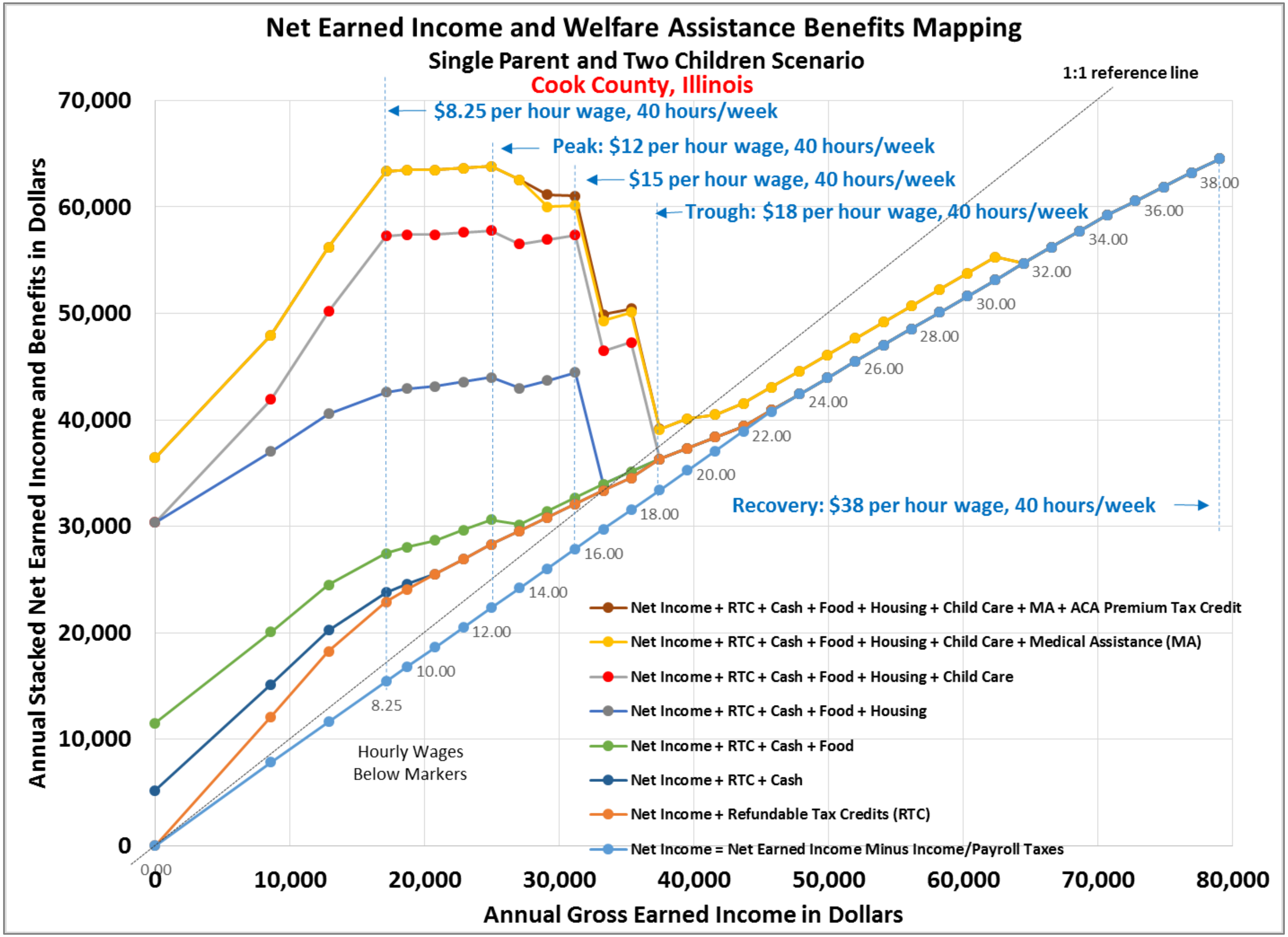
Stacking dependent variables—Premium tax credit



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.

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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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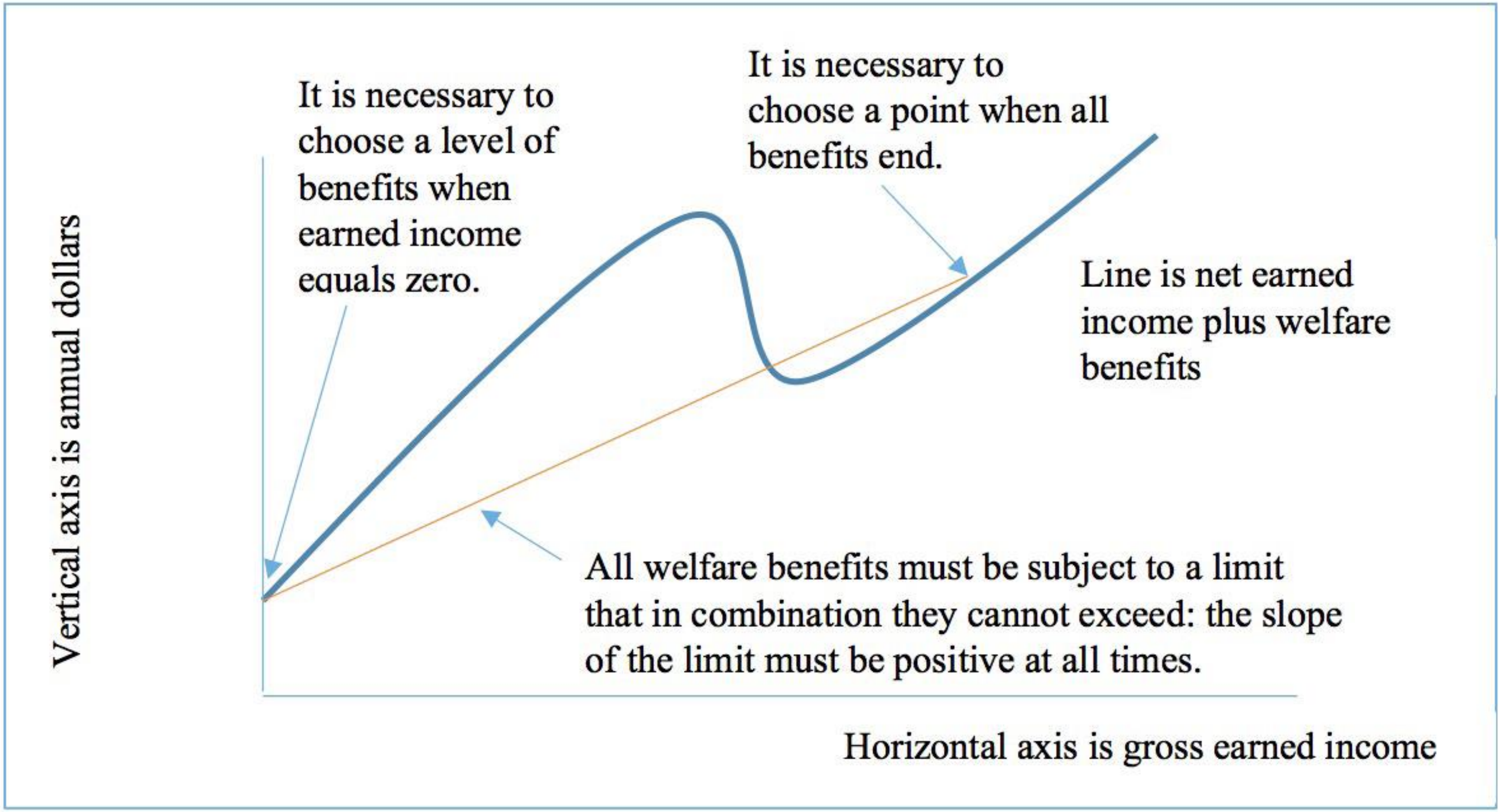
The solution must be derived systemically

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



Contact information

Erik Randolph, Senior Fellow
erik@erikrandolphconsulting.com
erikrandolphconsulting.com

Kristina Rasmussen, Executive Vice President
krasmussen@illinoispolicy.org
217.801.5516

Illinois Policy Institute
Illinoispolicy.org

Report link: https://d2dv7hze646xr.cloudfront.net/wp-content/uploads/2014/12/Welfare_Report_finalfinal.pdf