

# **SUPPORTS FOR WORKING POOR FAMILIES**

## **A New Approach**

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With so much helpful input, it is not surprising that we incorporated some comments and chose to disregard others. However, the strong reactions we received from some of our reviewers reinforced the importance of debate around the issue of supports for working poor families. It is our sincere hope that this paper will help stimulate future debate, and in the long run, play a small part in the evolution, or perhaps revolution, of the current service system.

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## SUPPORTS FOR WORKING POOR FAMILIES: A NEW APPROACH

### I. INTRODUCTION

With welfare reform, millions of families with children have shifted from reliance on cash assistance from Aid to Families with Dependent Children (AFDC) to reliance on earnings. Increases in programs providing support to low-wage workers and their families have facilitated this shift from welfare to work. The largest increase has been in the Earned Income Tax Credit (EITC), which provides roughly \$4,000 to a family with two children earning \$10,000 per year. Other key work support programs include food stamps, medical insurance under the State Children's Health Insurance Program (SCHIP) and Medicaid, and subsidized childcare. By "making work pay," these work support programs have helped families move from welfare to work and have improved family well-being. Earnings from fulltime work generally are insufficient to lift families leaving welfare out of poverty. Participation in available work support programs does provide the resources needed to lift many low-wage families above the poverty income level.

Unfortunately, the promise of earnings plus participation in work support programs for improving family well-being is not being fully realized. The objective of this paper is to present innovative policy options for improving access to work support programs. Because access for working families appears most problematic for the Food Stamp Program (FSP), this paper focuses on food assistance benefits. We hope the program options presented will stimulate discussion about how to improve the well-being of low-income working families.

*Section II* presents background on the current programs and the rationale for why a new approach is needed. In particular, it discusses the recent problems in using the FSP and the Medicaid program, with their longstanding administrative links to cash assistance, as work

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support programs. *Section III* discusses the principles that we suggest serve as a guide in designing a new approach. In *Section IV*, we present our options for improving work support by making the benefits available under the FSP readily accessible to eligible working families. We focus on the FSP, but the principles may apply to other work supports such as medical insurance. *Section V* discusses where we go from here and lays out first steps.

## II. WHY A NEW APPROACH IS NEEDED

We argue why a new approach is needed for work support programs such as food stamps:

1. The nation's welfare strategy has shifted from cash assistance to work. As a society, we have altered fundamentally our expectations and policies toward the former welfare population, largely female-headed families with children (Ellwood 1999). Virtually all family heads are expected to work, even those having young children and substantial barriers to employment. While cash assistance policy has moved from income maintenance to work, programs such as food stamps and Medicaid have not fully adapted to this change in focus.
2. The earnings of many low-wage workers are insufficient to support their families. Welfare reform together with the strong economy has moved a large portion of the former welfare caseload into work. However, even those families with a head working fulltime do not earn enough to adequately support their families. Therefore, work support programs are critical for the well-being of children and families.
3. The promise of work support programs for improving family well-being remains unmet because of low participation rates among eligible families in some of the programs. The biggest concern is the Food Stamp Program (FSP)—fewer than half of eligible working families participate.
4. Welfare reform has exacerbated the program participation problem, while increasing the pool of working poor families in need of work supports.
5. One of the reasons for low participation is the way the programs are organized and delivered. Work supports are administered by different organizations using different rules making it difficult to understand the varying eligibility requirements and a hassle to apply for benefits. The need for simplification and integration is acute among working poor families—they simply have insufficient time to earn a living, care for their families, and navigate their way through a maze of multiple, complex program eligibility requirements.

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We discuss each of these reasons in this section but first divert briefly to explain what we mean by work supports. Work supports are programs and services that enable working families to sustain employment and provide a reasonable standard of living for their families. Work supports include federal, state, and local programs as well as the efforts of nonprofit organizations. We focus on the large federal and state programs, including the Earned Income Tax Credit (EITC), childcare subsidies, Medicaid/State Children’s Health Insurance Program (SCHIP), and food stamps. Temporary Assistance to Needy Families (TANF), unemployment insurance (UI), and a wide array of publicly supported education and training programs also provide important work supports for low-wage workers. Particularly noteworthy is the fact that many states have increased their TANF earnings disregards to make work pay for current TANF recipients. Housing assistance, as well as help with transportation, may function as critical supports for low-income families. Child support payments can also serve as an important source of additional income for custodial parents.

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## Primary Work Support Programs

- **EITC.** The Earned Income Tax Credit (EITC) is a refundable federal income tax credit for low-income working individuals and families. Congress approved the tax credit legislation in 1975 to help offset the burden of Social Security taxes and strengthen the incentive to work. Changes in the EITC legislation resulted in dramatic increases in the amount of the EITC between 1990 and 1998. Income and family size determine the amount of the EITC. For families with two qualifying children, the maximum credit for 1999 was \$3,816.

*Eligibility for the EITC is based on family earnings and other income. Application is made through one's annual tax return. It is administered through the Internal Revenue Service (IRS), based on a national set of rules. Access to the Advanced EITC depends on the cooperation of one's employer.*

- **Childcare.** Most federal assistance for childcare for low-income working families is provided through the Child Care and Development Fund (CCDF). The CCDF made available \$3.6 billion to states, territories, and tribes in fiscal year 2001. Authorized by the 1996 Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) legislation, the CCDF combines most federal childcare assistance into one integrated program. Other federal support for childcare is provided through the nonrefundable childcare tax credit, the Social Services Block Grant (SSBG) under Title XX, Head Start, and the Child Care Food Program. The Temporary Assistance to Needy Families (TANF) block grant is also a major source of childcare funding.

*Eligibility for childcare subsidies and programs is generally based on family income with eligibility and benefit levels determined at the state level. The subsidies and programs are administered through state and local social service agencies (which might or might not be the same as the welfare agency) or private agencies and contractors, or both.*

- **Food Stamps.** The Food Stamp Program (FSP) helps low-income households buy food to maintain a nutritionally adequate diet. State and local welfare offices operate the program with oversight from the federal government. The amount of benefits available to eligible households depends on the income and number of people in the household. The average monthly benefit for participating households with earnings in 2000 was \$192. About 30 percent of total program benefits go to low-income households with earnings.

*Eligibility for food stamps is based on a household unit—a group of people who purchase and prepare food together—with nationally established definitions of income and assets and generally uniform rules for determining eligibility and benefit levels. State and local welfare departments administer the FSP.*

- **Medicaid.** Jointly funded Medicaid is a federal-state health insurance program with complex coverage rules that vary from state to state. Generally, Medicaid covers families that would have qualified under the old AFDC rules, including most TANF recipients, pregnant women and children below the state's poverty threshold (which might be more than 100% of the federal poverty threshold), and families transitioning from welfare to work, as well as low-income elderly and disabled persons.
- **SCHIP.** The State Children's Health Insurance Program (SCHIP) provides federal matching funds enabling states to insure children from working families with incomes too high to qualify for Medicaid but too low to afford private health insurance. Health insurance coverage is provided through separate state programs, Medicaid expansions, or a combination of both. Most states cover children in families with income up to at least twice the poverty line. Some states are beginning to cover adult family members, as well.

*Eligibility for SCHIP is based on family income and might be limited to only the children. States establish income and resource eligibility levels for Medicaid and SCHIP, and depending on the program for which an individual qualifies, he or she might be served by a different organization with services provided through a different delivery system. Medicaid is usually, but not always, administered by the same state department that administers TANF and food stamps. SCHIP might or might not be administered by the same agency that administers Medicaid.*

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### **A. “Welfare” Strategy Has Shifted from Cash Assistance to Work**

Before welfare reform, the nation’s system for supporting poor families consisted of cash assistance for single-parent and unemployed families with children (Aid to Families with Dependent Children [AFDC]) supplemented by several programs providing in-kind support. The major in-kind programs included health insurance through Medicaid, food coupons through the FSP, and public and subsidized housing programs. Each program targeted a different, but often overlapping, group. For example, AFDC served single parents and families with children. Medicaid served families on AFDC and low-income children and pregnant women in non-AFDC families as well as elderly and disabled persons. Food stamps served a wider population of families and individuals with incomes under a specified threshold. Although the target populations for the in-kind programs varied, they substantially supplemented AFDC. According to 1995 data, the combined value of the major in-kind programs exceeded the value of the AFDC benefit for the average welfare family. The average annual AFDC benefit was \$3,935 compared with the \$2,306 value of food stamps and \$2,057 insurance value of Medicaid (U.S. House of Representatives 1998). Almost all AFDC households received benefits from both Medicaid and food stamps.

This combination of AFDC supplemented by in-kind benefits offered little incentive to leave welfare for work because most families achieved little or no net increase in disposable income by taking a low-wage job. Before the 1996 reform, fewer than one in twelve AFDC mothers worked in a typical month (U.S. House of Representative 2000).

The approach to welfare changed dramatically in the mid-1990s, first on a smaller scale through waivers and nationwide under the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA). PRWORA created the TANF program, which replaced the open-ended AFDC entitlement with a time-limited grant contingent on work. At the same



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time, Congress and the Clinton Administration increased the incentive to work by substantially raising the EITC and expanding childcare subsidies (Haskins 2001a). The effect of welfare reform focused on work together with the policy changes to make work pay and a strong economy has been dramatic. By 1999, TANF caseloads had dropped by nearly half, and nearly two-thirds of the mothers who left TANF were employed (Loprest 2001). Among the families remaining on TANF, nearly one in four were working. This trend represents an amazing transformation in work behavior.

This transformation in work behavior has been driven, in part, by TANF program changes that require aggressive job search often with severe sanctions for failure to follow through on plans for moving quickly into employment. A set of policy changes designed to “make work pay” strongly encouraged work. At the federal level, the EITC was greatly expanded, childcare funding was increased, access to public health insurance was eased through Medicaid and the new SCHIP, and other programs, such as food stamps, continued to be available to working families with incomes below the eligibility thresholds. Many states changed their TANF benefit formulas, allowing recipients to keep a significant proportion of their earnings up to an income threshold where they lose eligibility for cash assistance entirely. Researchers attribute a large portion of the increased employment of low-wage single mothers to these work support policies (Meyers and Rosenbaum 1999).

Even though welfare reform has proven successful in moving families from welfare to work, much evidence exists that higher participation rates in work support programs would substantially improve family well-being.

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## **B. Many Low-Wage Workers Do Not Earn Enough to Support Their Families**

Although the average mother leaving welfare for work earns more than the minimum hourly wage of \$5.15, her earnings usually are insufficient to raise the family above the federal poverty line or to support a family. According to data from the 1999 National Survey of America's Families (NSAF), the median hourly wage of former TANF recipients was \$7.15 (Loprest 2001). Median monthly earnings for those working were \$1,360 (\$16,320 annually), slightly below the 1999 poverty line for a family of four.

Furthermore, low-wage workers tend to be less well off than indicated by monthly earnings because many of them have difficulty sustaining employment. Rangarajan et al. (1998) studied the employment patterns of 800 women who found a job while on welfare or within three months of exiting and found that 75 percent lost their job within one year, although the majority found another job. At any point, about 30 percent of single-parent former TANF recipients are unemployed, according to the 1999 NSAF.

Moreover, wage progression tends to be slow among low-wage workers. Gottschalk and Danziger (1998) analyzed the Panel Study of Income Dynamics (PSID) and found little evidence of income mobility among the poorest families over the past two decades. Using three-year averages, they found that 54 percent of the individuals in the lowest quintile in 1968–1970 remained there in 1989–1991. They also found that 78 percent of those on welfare during 1968–1970 remained in the bottom income quintile twenty years later.

Given the low wages and limited opportunities for wage progression among low-income families, the long-term availability of work supports is critical to their ability to maintain a reasonable standard of living for their families. Low-wage employment, supplemented by the EITC, food stamps, childcare subsidies, and Medicaid/SCHIP, can permit families to better meet their basic needs.

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### **C. Many Working Poor Families Do Not Take Advantage of Work Supports for Which They Are Eligible**

Participation in many work support programs is low among eligible working families. Fewer than half of eligible working families participate in the FSP, and the participation rate has fallen by 14 percentage points, from 59 percent in 1994 to 43 percent in 1999, according to the United States Department of Agriculture (USDA) (2001). Former TANF families who remain eligible participate at the same low rate, according to data from the 1999 NSAF (Zedlewski 2001; Loprest 2001). Participation in Medicaid among those eligible is higher, but an estimated one in five children eligible for Medicaid coverage is medically uninsured. These Medicaid-eligible children account for up to a quarter of all uninsured children (Lewis, Ellwood, and Czajka 1997; Selden, Banthin, and Cohen 1998). They also constitute a policy concern; recent research shows high levels of unmet medical need and less use of health services among the medically uninsured (Davidoff et al. 2000).

Participation rates for the eligible target group are a key measure of how well programs meet their purpose. Every eligible family does not participate in a program because, even if its members know about the program, some decide they do not need the assistance, and others decide the benefits are not worth the hassle, especially if the benefit amount is low. The fact that fewer than half of eligible working families are participating in some of these programs strongly indicates that the current system fails to provide reasonable access for low-income working families.

### **D. Welfare Reform Has Exacerbated the Program Participation Problem**

Traditionally, food stamps and Medicaid have been administered through state and local welfare agencies. This administrative mechanism was efficient and made sense for families receiving cash assistance because the same information could be used to determine income

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eligibility and benefit amounts for both cash assistance and the in-kind programs. However, the welfare system does not appear to be providing reasonable access to food stamps for eligible working families. The number of persons receiving food stamps has fallen dramatically from 28 million in 1994 to 17 million in 2000. Recent research indicates that more than half the decline in food stamp recipients results from lower participation rates among eligible families. The reasons cited by USDA (2001) for lower participation rates are:

- The implementation of welfare reform. Studies of families leaving TANF have found a consistent pattern of declining participation in the FSP despite low monthly earnings that qualified them for food stamps.
- Confusion among families and caseworkers about program eligibility (Dion and Pavetti 2000). Results from the National Food Stamp Survey conducted between June 1996 and January 1997 indicate that 72 percent of eligible non-participants were unaware of their eligibility, the primary reason they gave for not participating (Ponza et al. 1999). As discussed next, each program has its own eligibility rules, and it is difficult for a family to determine its eligibility for benefits. There is no single place to go to find out if one is eligible, nor an easy shortcut for determining eligibility.
- Individual choices about the need for food stamp benefits. USDA reports that up to 18 percent of the decline involves individuals not obviously affected by the economy or welfare reform. These individuals might have changed their decisions about their need for benefits because of new perceptions about their economic situation or the stigma associated with using food stamps.

We think the access problems for working families are inherent in the way most states and localities administer food stamps and Medicaid. This issue is explored next.

### **E. The Way Work Supports Are Administered Makes Access Difficult for Working Families**

The current structure of the programs providing support for working families makes accessing them inherently difficult because they have different application procedures, eligibility rules, and delivery systems. In addition, the balance between accuracy in determining eligibility and paying benefits versus providing ready access for needy working families tilts too far toward accuracy. The emphasis on accuracy leads to perceived barriers to program access.

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Currently, no single delivery system exists for providing work supports to low-wage workers. This fact is not surprising; we do not commonly think of providing a set of “work supports” to earners. The categorical nature of these programs results in policymakers and others focusing on specific groups of eligible individuals, families, or households. As a result, each program available to provide work supports has its own distinct, and often conflicting, set of eligibility rules and are often administered by a different organizations with their own delivery systems.

Local offices might vary in how they implement state policies and procedures, the extent to which they are open during evenings and weekends, and the efficiency with which they are able to serve families, reflecting, in part, variations in local agency leadership and management styles and variations in caseworkers.

For working families, the multiplicity of programs and agencies means that they often must go to a different place to apply for and receive benefits under each separate program. In many cases, the places they go for services and the program eligibility rules change when they leave welfare. For example, in Alabama a welfare recipient interacts with one welfare agency worker to qualify for TANF, food stamps, and Medicaid. Although eligibility rules differ for each program, her participation in TANF provides categorical eligibility for food stamps, and the link to Medicaid is straightforward. However, once her family leaves TANF or enters the system as a “non-assistance” household, the situation changes dramatically. A completely different unit in the welfare agency handles food stamp eligibility for households not receiving TANF, using a different application form and following a different set of eligibility rules. For Medicaid, the situation becomes even more complicated. Depending on the family’s income and previous experience on TANF (if any), it might be served by the welfare agency, a separate state Medicaid

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agency, or the SCHIP agency. Each of the three agencies is in a different location. Each agency operates its program under a different set of rules with different application and reporting requirements; none of the computer systems communicates routinely with another. It is unsurprising that in these circumstances, working families pressed for time, juggling childcare and work, with little or no margin for error in their lives, often fall through the cracks of our social safety net.<sup>1</sup>

In addition, part of the application process for many programs involves providing verification or proof of the information given in the application. This might require producing pay stubs going back a number of weeks; proof of rent, utility, or medical payments; birth certificates; etc. Applicants rarely bring all of these items with them when they apply; thus, they must return for a second visit. One of the major reasons applicants are refused food stamps is their failure to provide required information in the application process.

A strong administrative focus on eligibility and benefit accuracy compounds the difficulty in negotiating one's way through this maze of categorical programs with unique rules administered by a variety of organizations. No one can argue with the principle that only eligible families should receive benefits and that they should receive precisely the benefits for which they qualify. Still, balancing benefit accuracy with the equally important priority of helping families receive the benefits and services for which they qualify is important. Low program participation rates among working poor families, particularly for the FSP, and the current difficulties they face in applying for and maintaining eligibility for program benefits leads one to conclude that the system is currently out of balance.

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<sup>1</sup> This is one example. Each state establishes its own structures and processes for managing these programs. Some states have more integrated programs.

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One of the other difficulties in serving working families is that their income often varies from month to month. Frequently, they work in jobs where their hours are not standard. They might lose one job and find another. They might take on a second job at times to supplement their income. If they are receiving child support, the payments they get from the non-custodial parent also might vary. Finally, the composition of their household might change, and the income contributed to their household by an unrelated adult living in the household might change. For these reasons, families with earnings are often viewed as error-prone cases.

There is an extensive quality control (QC) process in both the food stamp and Medicaid programs where a sample of cases is reviewed to determine if eligibility and benefits have been accurately determined. The system for food stamps, in particular, has taken on a life of its own. QC error rates for each state are calculated annually, and states face either fiscal penalties or the opportunity for financial bonuses, depending on their performance. In addition to the fiscal penalty, states face public shame for issuing millions of dollars of benefits in error. The QC process examines whether states pay benefits accurately based on the information they have accumulated as well as on information they could have had. Thus, it counts as an error if a state requests a minimal amount of backup information on earnings and the reviewers later find that the information they had was incomplete or inaccurate. This circumstance places the onus on the state to collect as much information as possible to ensure it does not make an inaccurate payment. Ultimately transferred to the clients, this burden increases their burden in applying for or continuing benefits.

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### III. THE KEY ELEMENTS OF A NEW APPROACH

Several key elements or principles should guide the development of a new approach for providing supports to working families:

- No harm should be done.
- Applying for and maintaining access to work supports should be simple.
- Eligibility should be easily determined, with verification largely based on existing data in state automated files.
- Work supports should be divorced from welfare and associated stigma.
- Target efficiency and equity should be maintained to the greatest extent possible.

We describe each of these elements below.

#### **A. No Harm Should Be Done**

Millions of working families currently take advantage of food stamps, Medicaid, childcare services, and the Earned Income Tax Credit (EITC) under current program structures. It is essential that efforts to reform these work supports and increase access by employed persons and families do not inadvertently decrease the effectiveness of the programs they are intended to improve. Food stamps and Medicaid currently are entitlement programs at the individual level, meaning that any individual or family who applies for benefits and meets eligibility criteria will receive benefits. It also means that as the need for the programs expands or contracts with a state's economy, federal financial resources will be available to pay for benefits. Shifting the Food Stamp Program (FSP) to a state block grant, as some have advocated, could cause irreparable harm by destroying the program's ability to expand as unemployment increases. During economic downturns, participation can increase significantly in response to greater family needs. The entitlement nature of the program ensures that it is there to help people who need it.



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## **B. It Should Be Simple to Apply for and Maintain Access to Work Supports**

Application for work supports and ongoing access to benefits and services should be as simple as possible. So families can determine if they likely will qualify for services, eligibility and benefit rules should be easy to understand. The application process should facilitate the participation of working families by offering flexible office hours and telephone and online applications. Ideally, a one-stop process should be implemented that avoids the need for multiple encounters. Where possible, the application process should provide access to all work supports for which the family qualifies. Simplifications introduced into the application processes should be carried over into the redetermination process, as well.

## **C. Eligibility Should Be Easily Determined, Largely from Existing Automated Data Files.**

Program staff should employ links with automated sources of data as the primary method for verifying initial and ongoing eligibility. Substantial data on income and earnings is available in the quarterly earnings records maintained by the unemployment insurance (UI) system, income tax records, and the new-hire database. Tapping into these data sources rather than requiring families to provide detailed income verification holds the potential to significantly simplify the initial application process as well as ongoing eligibility determinations.

## **D. Work Supports Should Be Divorced from Welfare and the Associated Stigma**

It is imperative that work supports not be perceived as welfare programs. Working families are meeting society's expectations by working to support themselves. Providing supports that enable them to maintain steady employment, advance, and provide a reasonable standard of living for their families has broad public support. To the greatest extent possible, the application processes for work supports should be outside the welfare system to encourage families to

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participate. The public image of the work support programs should be actively reformed to convey the message that the programs exist to support working Americans.

**E. Target Efficiency and Equity Should Be Maintained to the Greatest Extent Possible**

One of the reasons that eligibility requirements and application procedures are so complex is that existing programs seek to ensure that resources go only to those in need, that those in greatest need get the most support, and that families in similar circumstances receive similar treatment. The move toward improving access through simplicity necessarily requires some sacrifice in this area. One way to reconcile these competing goals is to offer families a choice between receiving supports closely matched to their particular circumstances and a simplified benefit that might be more or less generous than they would otherwise receive.

**IV. THE OPTIONS FOR A NEW APPROACH**

How can the principles just discussed be implemented in reforms that make work support programs more effective for low-income working families? The key problem identified with many of the current work support programs is that they were not designed primarily for working families and have not been fully adapted to meet their needs. Although all eligible individuals and families share a need for access to programs with simple eligibility rules and processes, with as much integration across programs as possible, working families struggling to balance the demands of work and raising a family have particularly acute needs in this respect.

Our objective is improving access to benefits for working families currently deemed eligible for support by Congress under existing legislation. Our objective is not to advocate material changes in benefit amounts or eligibility, although minor changes might be the byproduct of simplifying the programs. To simplify the exposition, the discussion in this section will focus on the Food Stamp Program (FSP), though the concepts are applicable to other programs, including

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Medicaid and perhaps childcare. One might argue for an approach that serves to better integrate all of the work support programs. Although we would support such an approach in principle, jurisdictional issues in both Congress and the executive branch have proven major barriers to such integration in the past.

This section discusses several options for improving access to nutrition benefits. We begin with two options for improving access by completely changing the mechanism for determining initial and ongoing eligibility for working families. The final two options focus on improving access by working within or fixing the current system. All the options would deliver monthly food benefits through the existing electronic benefit transfer (EBT) system.

#### **A. Offer a Nutrition Tax Credit in Conjunction with EITC for Working Families**

The basic idea is to allow low-income working families to apply for a Nutrition Tax Credit by checking a box when they file the Earned Income Tax Credit (EITC) portion of their tax return. If eligible, they would receive a monthly benefit for the next twelve months. The benefit amount would be approximately the same as they would receive under the current FSP, would be delivered through the existing EBT system, and could be used only to purchase food. This option would be available to only working families eligible for an EITC.

##### **1. Advantages**

Tying a food benefit to the EITC presents a number of distinct advantages. The application is simple and readily available to families when filing the EITC portion of their tax return. The most critical information needed to maintain the targeting of FSP benefits on low-income families is already collected to compute the EITC. Annual family earned and unearned income as well as the number of dependents is available as part of the tax return. The income and family

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size information could be forwarded from the Internal Revenue Service (IRS) to the state and local FSP agencies (or their contractors) who would compute and deliver the FSP benefits.

Another advantage is that structuring the benefit as if it were a refundable tax credit would eliminate much of the stigma and hassle associated with the current FSP. Of course, any stigma of using an EBT card to pay for eligible groceries would remain. Shifting working families to the Nutrition Tax Credit should also reduce state administrative costs and relieve pressure on payment accuracy.

Finally, continuing to provide a food assistance benefit through EBT rather than cash maintains the direct connection of the Nutrition Tax Credit to the purchase of food. Experimental research has supported the benefits of a food-linked benefit (rather than cash). Food-linked benefits also enjoy broad-based, bipartisan support from farmers, food retailers, and food security advocates.

## **2. Disadvantages**

A major disadvantage of the Nutrition Tax Credit option is the lack of responsiveness to changes in family circumstances. The circumstances of many low-income working families change frequently as jobs are lost and regained, babies are born, and family members leave the household. A change in income or the number of family members would be unknown from the IRS information for up to eighteen months after it occurred.<sup>2</sup> One way to address the responsiveness issue is to allow families that experience changes in their circumstances to re-

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<sup>2</sup> Although some potential might exist for making the nutrition credit associated with the EITC more responsive, nothing looks promising. The EITC does offer workers a more responsive alternative to the standard approach of the annual EITC benefit. Eligible workers may apply to receive a portion of their EITC benefit monthly through their employer. However, few workers take advantage of the monthly option. If the monthly EITC option were more widely used, it might provide more timely data for determining food credit eligibility and updating benefit amounts.

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apply to the existing FSP. Their Nutrition Tax Credit would cease as soon as their standard FSP benefit started. Eliminating duplicate benefits might require some attention; however, efforts to do so should be facilitated by the fact that the same agency or contractor is delivering both benefits through the same EBT system.

A second possible disadvantage is that some factors currently used to refine eligibility and benefit amounts would be inoperable under this approach. These factors help insure that only the most needy families are eligible for benefits and that benefit amounts are sensitive to household circumstances such as high shelter cost. Specifically, this proposal would use what amounts to “average deductions” to account for the dependent care, high shelter, or medical costs. Benefits to specific households would not be adjusted based on their individual expenses.

The Nutrition Tax Credit also would eliminate the current vehicle asset test when determining eligibility for working families while continuing some form of the current general asset test. Estimating the effects of the changes in eligibility and benefits resulting from these changes would be important in further developing this option. Allowing families to have a choice between the Nutrition Tax Credit and the regular FSP could help address the responsiveness concern. Each family could choose between the current, more tailored benefit structure offered through the welfare system and the simplified benefit offered through the tax system. This option would maintain the basic congressional intent of focusing benefits on low-income families and tying the benefit to the purchase of food, and access for eligible working families would dramatically improve.

A final practical hurdle to consideration of this option is the committee structure of the Congress. The food stamp program is under the jurisdiction of the Agriculture Committees in

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both the House and Senate while tax legislation is under the jurisdiction of Ways and Means in the House and Finance in the Senate.

### **B. Offer Express Food Stamps for Workers<sup>3</sup>**

A second approach for improving access for working families is to create a state-level “Express Food Stamps for Workers” unit with a toll-free phone number. Modeled after the approach currently used for administering applications for unemployment insurance (UI), this phone access option represents a less dramatic departure from the current FSP. Any household with a member working more than thirty hours per week could use the toll-free phone number application. In most cases, all information required for a food stamp application would be provided over the phone.<sup>4</sup> The people staffing the state-level toll-free number would have the authority to take an application, do the verification deemed necessary, approve the case, authorize benefits, maintain the case through changes and recertifications, and handle benefit issuance problems. The benefits would continue to be delivered through the states’ EBT system as they are now in most states. Locating the toll-free unit at the state level eliminates the need to train staff and supervisors to handle this specialized function in each local welfare office and should substantially reduce administrative cost per case.

In general, verification could be accomplished through accessing other electronic information available on household members, including UI quarterly earnings data for household members, the new-hire registry<sup>5</sup>, and EITC/IRS data or providing for verification to be mailed in.

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<sup>3</sup> We extend special thanks to Jim Ohls for suggesting and helping develop this option.

<sup>4</sup> The critical information that would have to be obtained over the phone to maintain effective targeting of benefits on low-income families are the names and associated Social Security numbers (SSNs) of all household members (or at least earners) along with annual unearned income and assets.

<sup>5</sup> The use of data from the new-hire registry is restricted, and new legislation might be required to use the information for verification purposes.

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To make setting up the case over the phone feasible, the rules might have to be simplified along the lines suggested for the Nutrition Tax Credit option. However, collecting information on deductions over the phone might be possible. If the program rules were simplified, benefits would be adjusted to compensate for the lack of explicit deductions. One might also want to consider locking benefit levels in for six to twelve months, unless a significant change in the family's circumstances occurs (such as loss of employment). Reporting on earnings changes would continue to be handled through automated systems, but families would have the option of visiting the welfare office should they have special needs or circumstances.

### **1. Advantages**

The simple phone application would greatly improve access to food stamps for working families by eliminating most of the cost and hassle of going to the local welfare office for the initial application and periodic recertifications. This option might eliminate deductions and the vehicle asset tests and might rely on available electronic data for most verification. Thus, it should reduce the bother of providing many verification documents, and allow needed documents to be mailed in. As a side benefit, to the extent that program rules are simplified, a large portion of the sources of error in determining benefits would be eliminated. In addition, this proposal could be tested in one or two states or sub-state areas to determine its feasibility and iron out wrinkles before broad implementation.

### **2. Disadvantages**

The simplification of eligibility and benefit rules does come at some cost in tailoring each household's benefits to its disposable income after paying housing and medical costs. This disadvantage for households with high housing or medical costs could be offset by allowing households the choice of applying to the regular FSP through the welfare office as described

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above for the Nutrition Tax Credit option. Program cost would increase as a result of eliminating the vehicle asset test, which would expand the number of eligible households.

### **C. Market Work Supports to Low-Wage Workers through One Stops and Employers**

As noted earlier, one reason for low participation is that many families and individuals are unaware that they qualify for food stamps and other work supports. Program staff could increase outreach by working with one-stop career centers and employers. The Workforce Investment Act of 1998 (WIA) mandated the establishment of “One Stops” to create a seamless system of service delivery and improve long-term employment outcomes for individuals. Fourteen different employment and training programs are required to be accessible through the one-stop centers. The work support programs discussed in this paper are not required partners in the one-stop center, but the legislation allows work support programs to be offered at the discretion of the Local Workforce Investment Boards (which oversee centers) and chief elected officials.

One-stop centers provide the opportunity to reach a large number of potentially eligible individuals because employment-related programs that target diverse populations are now housed under one roof. At a minimum, centers could offer information on food stamps, Medicaid/State Children’s Health Insurance Program (SCHIP), childcare, and the EITC. For example, an easy-to-use computer terminal could provide information on a family’s likely eligibility for each work support program along with printouts containing contact information and instructions for making applications.

Depending on their mission and staffing, local One Stops could also serve as the intake point for workers applying for support program benefits. One-stop center staff could forward applications to state and local welfare agencies for the actual determination of eligibility and delivery of benefits. Or, childcare, food stamp, and Medicaid eligibility staff could be co-located



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at the centers. States could also establish a means to apply, report, and recertify for benefits via the Internet.

All One Stops have resource rooms containing many PCs with Internet access available to all customers. One-stop center staff could be trained to help their customers use the computer system and could forward required documentation to program eligibility staff who periodically visit the One Stop.

Employers could also serve as a resource for information about work supports. The Advanced EITC program already requires employer support. States could make efforts to educate employers about other work support programs (e.g., distributing pamphlets to give to workers during orientation, working through chambers of commerce). They could also visit employers with large numbers of low-wage workers and take applications onsite. In working with employers, it would be important to hold a “service orientation” focusing on helping employers rather than creating additional work or burdens for them. Employers would benefit because their workers would have more supports that enable them to maintain stable employment.

### **1. Advantages**

Use of one-stop career centers to promote work supports offers several advantages. Housing multiple programs under one roof makes the career center truly a *one-stop* location for different services. The center would reach a broad population (e.g., welfare-to-work program participants, profiled UI claimants, jobseekers generally, and hard-to-employ persons who are receiving intensive services), too. And, targeting potential work support recipients within a larger population of workers (e.g., all employees at a firm or all clients at a one-stop) might lessen the stigma.

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## 2. Disadvantages

Relying on one-stop center workers to promote or encourage use of work supports could be problematic. If they fail to fully understand the program, misinformation might result. If dealing with work support program applications or other services falls outside the scope of their usual duties, they might put less priority on it. Eligibility workers located onsite at One Stops might prove less efficient than in a regular food stamp office because their case flow would be less regular and because they would not have the backup infrastructure available in their home office.

### D. Fix the Current System

One option to improve access to the FSP for low-income working families is to fix the barriers to access associated with the current program administered through state and local welfare offices. The objective would be to improve access by simplifying the program and reducing the aggravation for working families while maintaining key aspects of target efficiency.

Our suggestions focus on reducing the burden low-income working families face in their initial application for program benefits and periodic recertification of eligibility. These suggestions involve simplifying the program, improving outreach to better inform families about eligibility, and making welfare offices more welcoming to working applicants. The suggested simplification changes for working families are as follows:

- Eliminate the vehicle asset test, or make it much less restrictive. Knowledgeable observers have noted that the current FSP limit on the value of vehicles is so low that it restricts the choices for a reliable car to drive to work (Haskins 2001b). This change would result in a modest increase in the number of eligible families and program cost.
- Simplify the initial application, and reduce the information required from families. Ideally, the information requested would be limited to family size and composition, including the names and Social Security numbers (SSNs) of household members, and income. Rules could also be simplified to streamline current program deductions.
- Rely on UI earnings records, new-hire data, or both to adjust future income and benefit amounts. This adjustment would occur with a few months' delay, but recipients losing their job would retain the option of participating under the rules of

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the standard FSP program. By giving them this option, the program could respond to sudden drops in family income.

- Institute an annual mail-out form to update information on family size and composition. This action together with ongoing updating of earnings information from UI earnings records would replace the current recertification process for working families.
- Provide states with the option to grant families leaving welfare for work with a food stamp benefit which would remain fixed for at least six months and be based on their starting salary, as proposed by Ron Haskins. Subsequently, the state would assume responsibility for verifying income only at six-month intervals. The quality control program would hold states accountable for obtaining the correct earnings at the beginning of each six-month period and for computing the food stamp benefit correctly based on earnings and other characteristics of each case only at that time. States would be allowed to develop their own methods of obtaining earnings information. If a recipient's income changes during the six month hold-harmless intervals, states would not be held accountable for recalculating the benefit amount based on these income variations. States would, however, be held accountable for verifying income every six months and for making accurate benefit adjustments based on the new income information or other change in circumstances. The recipient would have the right to apply for benefit recalculation at any time.<sup>6</sup>

In addition to simplification, we urge Congress, the United States Department of Agriculture (USDA), and the states to consider other changes to promote access to work supports:

- Redefine what is measured in the quality control (QC) system. Program simplifications in calculating eligibility and benefit amounts can greatly reduce the potential for errors. Simplified reporting together with reliance on automated earnings data should be incorporated into error measurement tolerances so states are not penalized for using data sources that might be less accurate or less timely than current income reporting requirements. Focus on program integrity and fraud detection. The intent is to maintain program integrity while easing the reporting burden on families.
- Encourage state agencies to provide incentives to maintain high rates of participation among eligible families. The incentive might take the form of high performance bonuses for states with participation rates for working families above a threshold.
- Increase outreach efforts to inform low-income working families about their potential eligibility for benefits and how to apply for them. Studies of nonparticipation consistently indicate that many eligible but nonparticipating families think they are ineligible (Ponza et al. 1999). Increased outreach might be accomplished through

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<sup>6</sup> This option is similar to the six-month reporting option states currently have except that states would not face quality control (QC) liabilities if family income exceeds 130% of poverty during the reporting period.

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community-based organizations, employers, or other entities such as One Stops. Employers are natural allies in educating their low-wage employees about work support programs that enable workers to live more adequately on their earnings.

- Reduce barriers to participation by working families by addressing issues such as office hours and treating families with respect. For example, require welfare offices serving working families to remain open outside of regular business hours for some period each week.

## **V. WHERE WE GO FROM HERE**

We offer suggestions for next steps as the policy community considers how to improve access to work supports. Virtually all of the proposals outlined above will require legislative action. The upcoming reauthorization of both Temporary Assistance to Needy Families (TANF) and the Food Stamp Program (FSP) provides an ideal opportunity for better aligning our policies for supporting working families.

### **A. Debate the Merits of a New Approach**

We intend this paper to stimulate new thinking about access to work supports. Broad agreement exists across the policy community that the nation must do a better job in helping low-income working families access work support programs for which they are eligible. We have offered a range of policy options for increasing access to food assistance that span the continuum—from the creation of a new Nutrition Tax Credit for working families modeled after the Earned Income Tax Credit (EITC), to an approach to eligibility that relies on using existing information on earnings, to alternatives that look for ways to improve access within the bounds of the current FSP. There are clear trade-offs among these alternative approaches.

To increase access among eligibles, it will be necessary to relax the current focus on tailoring benefits to each family's current circumstances, to simplify the initial application and ongoing reporting and recertification processes, and to directly, or indirectly, refocus the current quality control (QC) system. We hope this paper will help spur a broad debate across the full

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range of options to find solutions that will help low-income families within what is acceptable in the current political context. Hearing the views of state administrators as well as those of client advocates will be vital.

### **B. Work Out the Details**

As part of the process of developing the details in the options, a key issue is estimating their respective costs. Each option can cost more or less, depending on how it is developed. In estimating costs, it will be important to distinguish between the costs associated with increased participation of currently eligible but nonparticipating families and the costs associated with higher benefit levels or increased numbers of eligible families. Many low-wage workers move in and out of work and work intermittent hours; one must consider how best to respond to this fact while substantially increasing program access. Last years' wages might or might not be the best predictor of this year's need; carrying out some empirical work would help one better understand these dynamics to guide the development and refinement of reform options.

If one were to proceed with a Nutrition Tax Credit, how should one set benefit levels? Should benefits be provided to working adults without children as well as to those with children? Is it feasible to deliver benefits through the existing state electronic benefit transfer (EBT) systems? How would the new tax credit interact with the current FSP?

Under our second option, we propose using earnings information collected by the unemployment insurance (UI) system as the basis for determining initial and ongoing food stamp benefits. What proportion of workers currently are not covered by the UI system? Are there ways to close the gap in the reporting period on earnings? How would the program deal with reporting of unearned income or earned income outside the UI system?

Current modeling capability would allow one to develop reasonably accurate answers to many of the important questions these options pose. What are the numbers and characteristics of

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families that gain or lose benefits under different formulations? How many eligible families not currently receiving food stamps would now start participating? States might be able to help supply information on administrative costs or savings that might accrue from the options.

### **C. Explore Opportunities for Change**

The upcoming reauthorization of the Food Stamp Act represents one major opportunity for change. In addition to making sweeping or incremental changes in the FSP, reauthorization provides an opportunity for Congress to permit and encourage demonstrations of new approaches. Waiver authority together with resources for evaluations of new approaches could permit states and the federal government to test a range of new options for expanding access to work supports and to learn what works best for whom.

One way to move the debate forward is to begin working out the details on some of the proposed options. We encourage the federal government (both Congress and the executive branch), states, and foundations to vigorously pursue options for serious reform of the FSP. One approach would be to engage in a three-stage process. First, bring federal and state program and policy officials together with advocates to surface and explore a range of options. In addition to the options suggested in this paper, the group or groups would consider options recently proposed by the American Public Human Services Association (APHSA), the Food Research and Action Center (FRAC), and Second Harvest, as well as other worthy ideas. Next, analytic work would focus on fleshing out the details of promising options, including estimating the costs of different approaches. Finally, bringing people back together again to discuss the options in their more developed form would be helpful. The FSP has a long history of broad-based, bipartisan support. The time is right to build on that support to make reforms in the program that will improve access to working poor families.

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