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IMPROVE WORK-SUPPORT POLICIES

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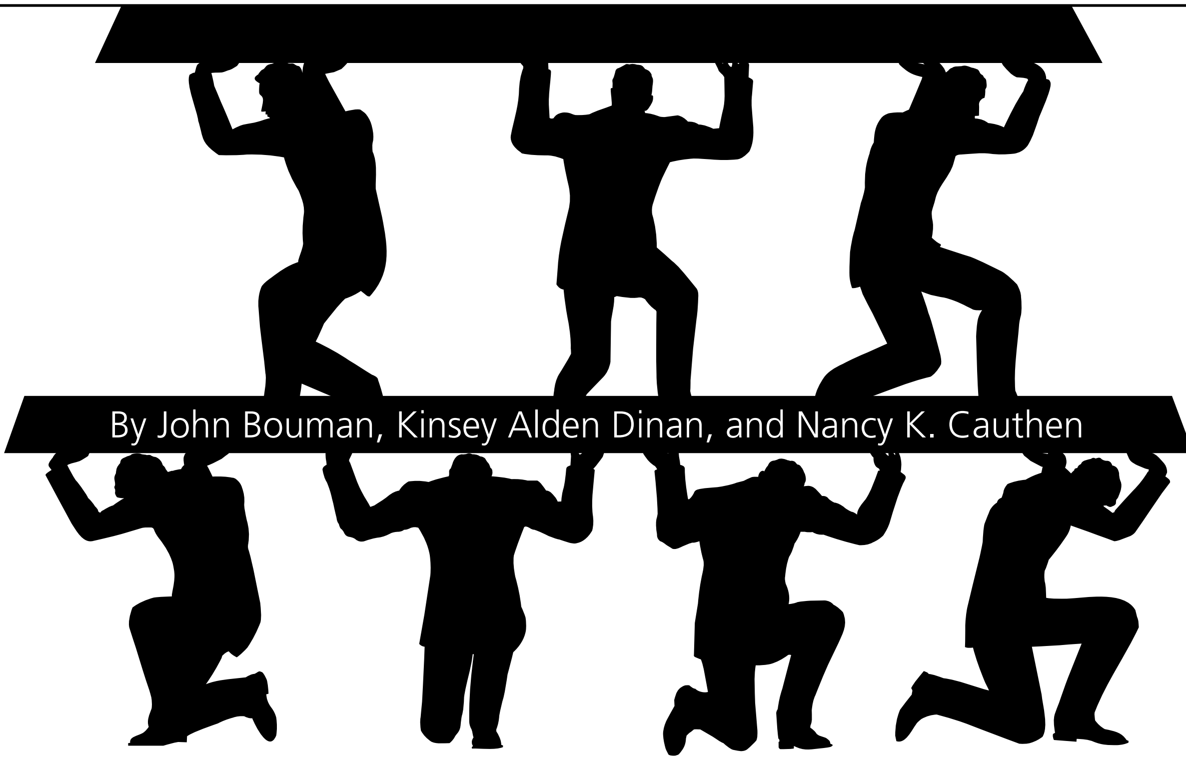
Improving Work Supports: Using the Family Resource Simulator to Identify Problems and Test Solutions



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Benefits that support labor market participation by lower-income workers have been among the most important workforce policies during the past decade. These benefits help workers in two ways: making work *possible* by providing access to services essential to employability (e.g., child care and health care) and making work *pay* by improving the financial circumstances of the worker's family. Some of the benefits provide cash; these include refundable federal and state earned income tax credits (EITC), other tax credits, and Temporary Assistance for Needy Families (TANF), which in many states is a crucial support for the lowest-income workers. Other benefits are in-kind or involve payments to service providers on behalf of workers; these include child care subsidies, health insurance, housing subsidies, and food and nutrition assistance.[1]

Neither the federal government nor the states, however, have approached these benefits in a coordinated way or as a comprehensive workforce strategy. The EITC and child care programs were designed primarily as work supports, but these programs have evolved separately rather than as components of a unified strategy. Programs such as food stamps and health insurance were not designed primarily as work sup-

[1]For an overview of work-support programs, see Nancy K. Cauthen, Economic Policy Institute, Improving Work Supports: Closing the Financial Gap for Low-Wage Workers and Their Families (2007), www.sharedprosperity.org/bp198.html.

ports, although their operation as such has been part of the policy case for expanding them. The essential purpose of the Food Stamp Program is to promote nutrition and combat hunger as well as to support agricultural markets. Medicaid, which has expanded gradually since it began in the 1960s, and the State Children's Health Insurance Program (SCHIP), which began in the late 1990s, are health care and insurance programs. Neither was TANF designed principally as a work-support program; rather it was infused with the caseload reduction policies that dominated the conservative welfare reform agenda of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996. A good deal of congressional rhetoric about work accompanied TANF's creation, but the primary policy direction of TANF was to eliminate receiving cash assistance, whether or not people leaving the program were working.

As a result of this disjointed history, these work-support programs do not always help working parents meet their families' needs.[2] Many who need work supports are not eligible for them, and many workers who are eligible nevertheless do not receive key work supports.[3] Part of the reason for low take-up of work-support programs is a lack of consistent eligibility rules on what counts as income, asset limits, copayments, family composition, and hours of work. Sometimes the rules are outright incompatible across programs. A program's response to a recipient's increase in income can actually defeat the goal of workforce advancement when, due to eligibility "cliffs," a marginal increase in earnings causes a loss of benefits far in excess of the increased earnings, so that the family's total resources drop precipitously.[4]

In Illinois, as in many other states, a major expansion of most of these "work-support" benefits during the last decade fueled and supported increased work activity. This relatively successful environment is a good context for examining policies on work supports. Ongoing problems with the Illinois system should be understood not as a critique of the effort to date but as a road map for next steps. The Illinois work-support system, while helpful to low-income workers, falls short of being a coordinated strategy that produces the maximum favorable impact on work activity and economic mobility.[5] Describing the system's operation, successes, and shortfalls will, we hope, further the efforts of advocates in other states who are working to improve their own systems.

A Web-based policy tool, the Family Resource Simulator (see box), developed by the National Center for Children in Poverty (NCCP), is demonstrably useful.[6] The simulator illustrates how work-support policies respond to increased family income and sometimes reduce total family resources. The simulator can be used for modeling how policy alternatives, such as new investments or changed program rules, would improve the system by resolving benefit "cliffs" or other problems. Using the Family Resource Simulator, we model specific suggestions to improve the Illinois system.

[2] This result has been called the "hardship gap." See Randy Albelda & Heather Boushey, Center for Economic and Policy Research and Center for Social Policy, Bridging the Gaps: A Picture of How Work Supports Work in Ten States (2007), www.bridgingthegaps.org/publications/nationalreport.pdf. Work supports combined with wages help many workers meet basic living and employment expenses, but an estimated forty-one million Americans remain in the "hardship gap," where wages plus work supports leave them still unable to meet these expenses. *Id.* at 8.

[3] The *Bridging the Gaps* study contains information about the dimensions of this "eligibility gap" in a variety of states, *id*. at 20, and about low take-up rates for work-support programs that it calls the "coverage gap." *Id*. at 28.

[4] See Cauthen, *supra* note 1, at 11-13. See also Betsy L. Tessler & David Seith, MDRC, From Getting by to Getting Ahead: Navigating Career Advancement for Low-Wage Workers (Oct. 2007), www.mdrc.org/publications/465/overview.html.

[5] See Kinsey Alden Dinan & Nancy K. Cauthen, National Center for Children in Poverty, Supporting Work in Illinois: The Challenges Ahead (2007), www.nccp.org/publications/pub_702.html.

[6] The Family Resource Simulator is described and made available to users at www.nccp.org/tools/frs/.

Family Resource Simulator

The Family Resource Simulator is a Web-based tool developed by the National Center for Children in Poverty (NCCP) at Columbia University's Mailman School of Public Health. The simulator calculates the impact of federal and state work supports on the budgets of low- to moderate-income families and concretely illustrates the effectiveness of current policies in rewarding and encouraging work. The simulator also illustrates the impact of proposed policy reforms.

Family Resource Simulators are available for seventeen states—and more than ninety localities within those states—and the District of Columbia. The states are Alabama, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Michigan, New York, Pennsylvania, Texas, and Washington. The Illinois simulator includes these localities: Aurora, Chicago, Peoria, Mount Vernon/Jefferson County, Rockford, and Springfield. The simulator allows policies to be modeled for large city, suburban, small city, and rural environments with different economies and costs of living.

I. Illinois Expands Work-Support Policies

Illinois has led state efforts to expand supports for low-wage workers. With All Kids, which went into effect in July 2006, Illinois became the first state to offer public health insurance to children at all income levels.[7] At the lowest income levels coverage is free; at higher levels families pay premiums and copayments that rise with income. Illinois FamilyCare has substantially increased parents' access to health insurance; FamilyCare recently increased the income eligibility limit for the program to 400 percent of the federal poverty level, or just over $70,000 annually for a family of three (as in All Kids, premiums rise with family income).[8] Prior to this latest increase, the eligibility limit was 185 percent of the federal poverty level—already far above the income limit for parents in most states.[9]

The Illinois Child Care Assistance Program, another critical work support, subsidizes the cost of care for children in families with income up to 185 percent of the poverty level, or approximately $32,600 for a family of three.[10] About half of the states have higher income limits for child care subsidies, but many have long waiting lists for assistance. Illinois is the largest state to provide subsidies to all eligible applicants.[11] Other benefits available to Illinois's low-wage workers include food stamps and the federal EITC, which the state supplements with a small but refundable state tax credit.[12]

Very low-income families may receive cash assistance through the Illinois TANF program.[13] Two-thirds of recipi-

[7]All Kids was established by the Covering ALLKIDS Health Insurance Act, 215 Ill. Comp. Stat. 170. See also 305 Ill. Comp. Stat. 5/12-13 (2008). The rules are published at Ill. Admin. Code tit. 89, § 123 (2008). The state's helpful website for the program is www.allkidscovered.com. The Illinois Department of Healthcare and Family Services operates all the state's health coverage programs. See also John Bouman, *The Path to Universal Health Coverage for Children in Illinois*, 39 Clearinghouse Review 676 (March–April 2006).

[8]Notice of Emergency Rulemaking, 31 Ill. Reg. 15854 (Nov. 7, 2007), amending Ill. Admin. Code tit. 89, § 120.33 (2008) (to allow federal matching funds to be claimed under Medicaid as well as under the State Children's Health Insurance Program (SCHIP) and to expand eligibility to 400 percent of the federal poverty level). This emergency rule making expanded the program effective December 1, 2007, and successful applicants are being covered. However, a taxpayer lawsuit challenging the emergency rule making as beyond the governor's powers is pending. *Caro v. Blagojevich*, No. 07 CH 34353 (Ill. Cir. Ct. Cook County Dec. 2007).

[9]FamilyCare covers the parents of Illinois children who receive Medicaid or SCHIP benefits. Thus FamilyCare is authorized under Illinois's SCHIP implementation law, the Children's Health Insurance Program Act, 215 Ill. Comp. Stat. 106 (2008). For the rules, see Ill. Admin. Code tit. 89, § 125 (2008). See www.familycareillinois.com. See also John Bouman, *The Power of Working with Community Organizations: The Illinois FamilyCare Campaign—Effective Results Through Collaboration*, 38 Clearinghouse Review 583 (Jan.–Feb. 2005).

[10]The Illinois Department of Human Services operates the child care subsidy program. See 305 Ill. Comp. Stat. 5/9A-11 (2008); Ill. Admin. Code tit. 89, § 50 (2008), and www.dhs.state.il.us/page.aspx?item=29720.

[11]Karen Schulman & Helen Blank, National Women's Law Center, State Child Care Assistance Policies 2007: Some Steps Forward, More Progress Needed (2007).

[12]The Illinois Food Stamp Program website includes a benefits calculator; see www.dhs.state.il.us/page.aspx?item=30357. The Illinois earned income tax credit is 5 percent of the federal credit and is refundable. See 35 Ill. Comp. Stat. 5/212 (2008); Ill. Admin. Code tit. 86, § 100.2199 (2008). The Illinois Department of Revenue operates the credit; see www.revenue.state.il.us/Individuals/CreditsDeductions/earnedincomecredit.htm.

[13]See 305 Ill. Comp. Stat. 5/arts. IV, IXA (2008); Ill. Admin. Code tit. 89, § 112 (2008). The Illinois Department of Human Services operates the Temporary Assistance for Needy Families (TANF) program; see www.dhs.state.il.us/page.aspx?item=30358. The best sources for detailed program information and systems are the subregulatory policy manual and worker's action guide at www.dhs.state.il.us/page.aspx?item=4107.

ents' earnings are disregarded in benefit calculations, allowing a worker to combine low earnings with cash benefits.[14] Illinois uses state funds to pay benefits to those who work "full-time" (defined as at least thirty hours per week), so that the federal TANF time limit does not apply to the residual TANF grant that these families receive in addition to earnings.[15] Thus TANF functions as a wage supplement for full-time workers whose wages remain below the phase-out point for TANF benefits.

Federal housing assistance is tremendous for low-income families struggling with the high cost of rent, but only a small fraction of eligible families receive housing assistance. The waiting list for the federal Housing Choice Voucher Program in Chicago, for example, has been closed since 1997, and it has been three years since anyone from the list has received assistance.[16]

The Illinois Family Resource Simulator illustrates how Illinois work-support policies can help families meet their basic needs when the families apply for and receive the benefits for which they are eligible. We identify and describe structural problems with the design of the work-support system, particularly the incongruous eligibility "cliffs" that result in financial penalties when income improves. We consider the bottom of the income spectrum, where workers in deep poverty struggle to make ends meet. We use the Illinois Family Resource Simulator eligibility and benefit rules in effect as of July 2006 (see "Work-Support Policies in Illinois" table for details).[17]

II. Eligibility Cliffs Can Undermine Work Supports

Work-support benefits in Illinois can close the gap between low wages and basic family expenses. Without such supports, a single parent with two children (one school-aged and the other pre-school-aged) living in Chicago needs about $36,000 a year to cover basic needs.[18] To reach this income level, a full-time worker would have to earn $17 an hour—more than twice Illinois's minimum wage of $7.50. Moreover, this basic-needs budget includes only the most minimal necessities, with no room for entertainment or after-school activities; life or disability insurance; or savings for education, retirement, or a rainy-day fund. The basic-needs budget assumes that the family has access to employer-based health insurance coverage—although in practice most low-wage workers have none—and leaves nothing for out-of-pocket medical expenses such as deductibles and copayments.

Covering this basic budget takes far more than a low-wage job. For the many Illinois workers at the lower end of the pay scale, work supports can close or nearly close the gap between their wages and their basic needs. For those who receive them, these benefits can make supporting a family possible even when wages are low and employment-related benefits, such as health insurance, are unavailable. But, as is true in most states, the Illinois system has problems. Benefits fall short of filling the whole gap between wages and a basic budget for every worker; not all workers are eligible for necessary benefits; and not all eligible workers receive benefits.

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[14]See Illinois Department of Human Services, Policy Manual § PM 10-02-01, www.dhs.state.il.us/page.aspx?item=15856. A family of three with no savings in larger Illinois counties is eligible for a standard monthly grant of $396. With the two-thirds earnings disregard, the family does not phase off assistance entirely until monthly earnings reach $1,188. At $8 per hour, this is 148.5 hours of work in a month, or about 34.5 hours a week, considered full-time for TANF purposes.

[15]*Id.* § PM 01-06-01, www.dhs.state.il.us/page.aspx?item=13318.

[16]E-mail from staff of CHAC Inc., which administers the Chicago Housing Choice Voucher Program, to Kinsey Alden Dinan, Nov. 16–17, 2006.

[17]The only substantial change that has occurred since then is the significant increase in the income eligibility limit for public health insurance for parents under the FamilyCare program (see *supra* note 9).

[18]Budget is derived from the Family Resource Simulator and assumes that the children are cared for in a center-based setting while the parent works, with the older child in after-school care.

Work-Support Policies in Illinois *(As of July 2006)*

Work-support program	Benefit	Income eligibility limits	Limits set at national or state level	All eligible applicants served?
Federal Earned Income Tax Credit (EITC)	Tax refund *(up to $2,662 a year for 1 child; up to $4,400 a year for 2 or more children)*	**$31,030–$37,263** a year, depending on family structure and number of children	National	Yes
State EITC	Tax refund *(up to $133 a year for 1 child; up to $220 a year for 2 or more children)*	**$31,030–$37,263** a year, depending on family structure and number of children	State	Yes
Food Stamps	Food subsidies (at point of purchase) *(up to $399 a month for family of 3; up to $506 a month for family of 4)*	**130% FPL*** before subtracting deductions from income **100% FPL*** after subtracting deductions from income	National, with some state options	Yes
FamilyCare	Subsidized health insurance for parents	**185% FPL*** after subtracting deductions from income ***Note:*** *This limit increased to 400% FPL in November 2007.*	State	Yes
All Kids	Subsidized health insurance for children	No income limit *(premiums and copayments increase with income)*	State	Yes
Child Care Assistance Program (CCAP)	Child care subsidy	**$30,408** a year for a family of 3; **$36,204** a year for a family of 4**	State	Yes
Section 8 Housing Choice Vouchers	Rental assistance	50% of area median income	National	No

Note: Illinois has a state minimum wage that is higher than the federal. It was $6.50 an hour in July 2006, increased to $7.50 in July 2007, and will rise to $8.25 in 2010.

**FPL: Federal poverty level in 2006 is $16,600 for a family of 3; $20,000 for a family of 4.*

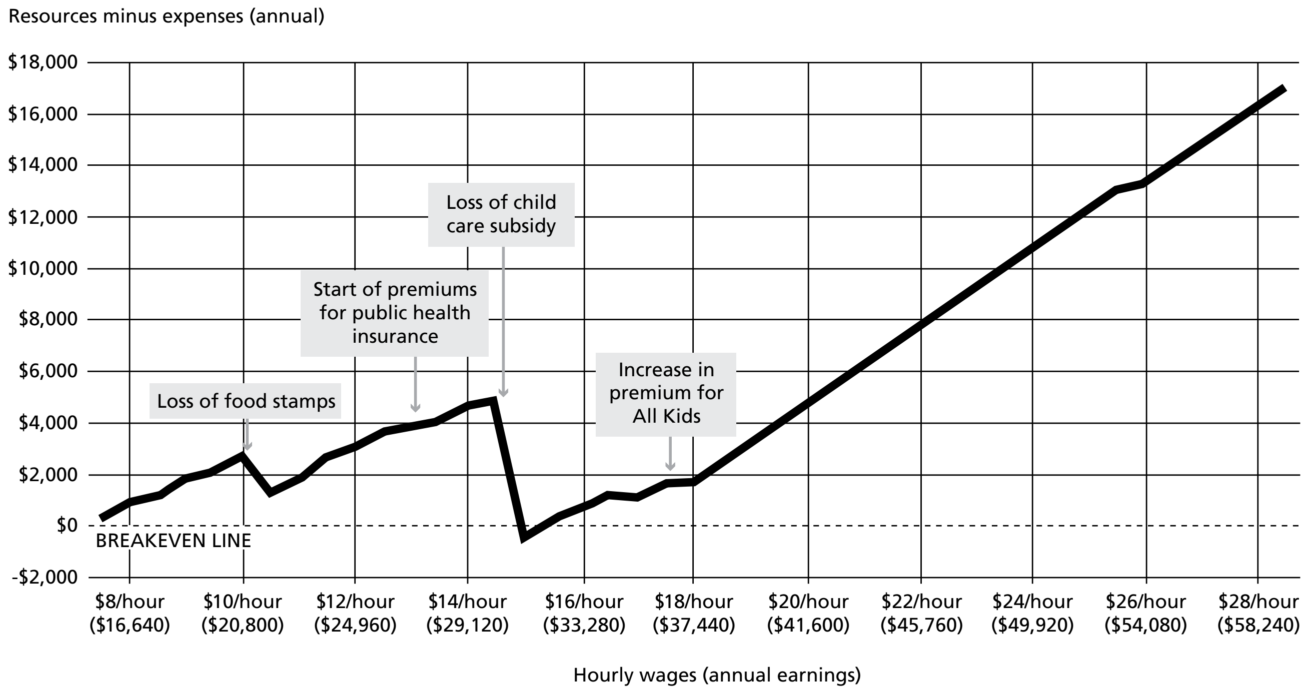
***In September 2007 Illinois changed its method for calculating child care subsidy program income limits from 50 percent of state median income to 185 percent of the federal poverty level, but limits did not change substantially in dollar terms.*

Among the causes and indicators of these problems is the phenomenon of eligibility "cliffs." This problem in Illinois, as in other states, flows from the fact that work supports are generally means-tested and phase out at income levels where people still need them. As parents succeed in the workforce and their earnings increase, they lose eligibility for critical supports. In some cases, just a small raise can lead to a substantial benefit loss, leaving a family worse off. Such losses can even mean that a family that was making ends meet can no longer do so, despite *increased* wages. Figure 1 illustrates how this can happen. For a single parent with two children living in Chicago, this figure shows how net family resources—that is, what remains after subtracting the cost of basic family expenses—change as wages increase. The analysis assumes that when eligible the family receives food stamps, federal and state EITC, public health insurance, and child care subsidies.[19]

Figure 1 demonstrates the value of work-support programs. With full-time employment at $8 an hour—just under $17,000 a year—and multiple work-support benefits, the family is able to make ends meet. At this wage rate, the family's

[19]Housing assistance was not included in this scenario because it is unavailable to most eligible families.

Figure 1.—Net Family Resources as Earnings Increase (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care);family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

net resources are just above the "breakeven line"—the point where resources equal expenses. The family has a small surplus beyond the cost of basic daily needs (assuming no unexpected expenses or debts). Figure 1 shows the value of work-support programs and of enrolling families in the work-support programs for which they are eligible.[20]

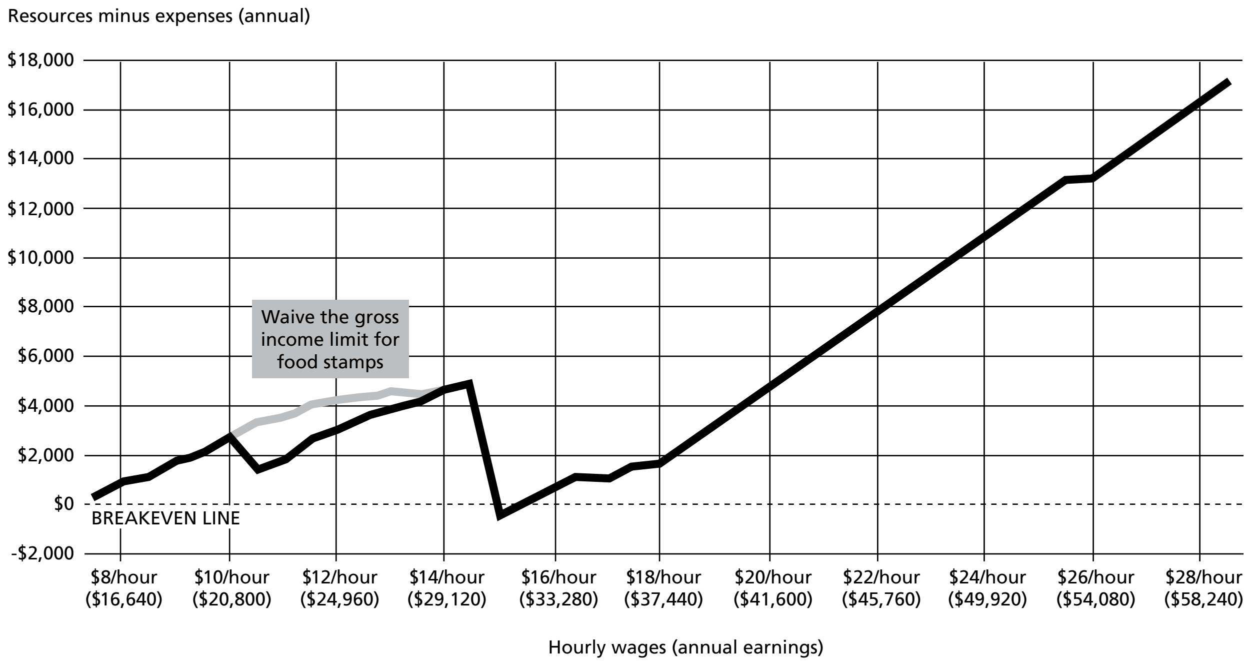
But Figure 1 shows that, as earnings increase, the family faces a series of financial setbacks. The first "cliff" occurs when wages reach $10.50 an hour and the family loses thousands of dollars annually in food stamps. The family recovers from this loss of income with further increases in earnings, only to face a much bigger cliff when the parent's wages hit $15 an hour and income exceeds the eligibility limit for child care subsidies. The loss of child care assistance leaves the family unable to afford basic expenses and significantly worse off—below the breakeven line—than when the parent was earning just $8 an hour.[21]

All together, the eligibility rules for work-support programs in Illinois can leave workers facing untenable choices, such as between turning down a raise and moving children into cheaper, but potentially

[20]Figure 1 also shows these families' fundamental economic fragility if faced with medical expenses that their insurance does not cover. The simulator accounts for premiums and assumes that the family will phase from public to employer-supported insurance. Even with this favorable assumption, the family is at the mercy of copayments and deductibles and policy limits in the event of significant medical needs; this explains why so many personal bankruptcies stem from medical debt incurred by people who are insured.

[21]Because Figure 1 is based on policy rules in effect in Illinois in July 2006, it does not reflect the recent increase in eligibility limits for parental health coverage. The current FamilyCare program offers a single parent who has two children and lacks employer-based health benefits access to public coverage until earnings reach about $70,000 a year. At higher income levels, premiums are more expensive than participation in the average employer-based plan but still far cheaper than insurance on the open market.

Figure 2.—Impact of a Change in Food Stamp Eligibility (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

lower-quality, care. Workers' inability to get ahead by working and earning more jeopardizes workers' opportunity for advancement and economic mobility. And these disappointing outcomes can lead to negative information being spread by word-of-mouth, resulting in suppressed enrollment in valuable work-support programs.

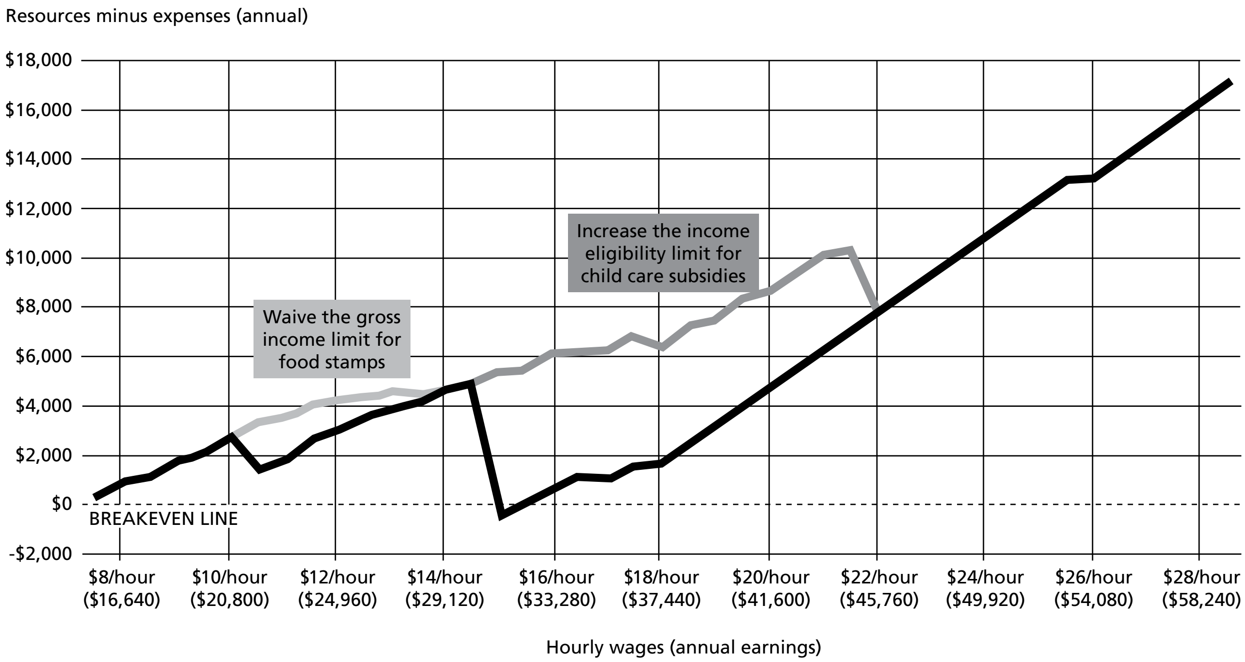
III. Policy Options Can Counteract Eligibility Cliffs

While Illinois has been a leader in promoting policies that support low-wage workers, there remains significant room for improvement. The Family Resource Simulator can model policy options that would better support Illinois's low-wage workers and their families; several options directly meet the problems described above. For example, to overcome the first cliff, that created by loss of food stamps, Illinois could, as federal law permits, opt to extend food stamp benefits to families in which the worker's income is somewhat above the official federal limit.[22] Benefits would phase out gradually as earnings increase rather than dropping sharply at the eligibility limit (see Figure 2).

Similarly Illinois could take several approaches to phase out child care assistance and ease the cliff that now faces a family whose income exceeds the eligibility limit for subsidies. One option is to extend the subsidy eligibility limit at the upper end of the income scale. Families with subsidies contribute to the cost of care through a copayment that increases as earnings rise. Under this option, a

[22]For more details, see Stacy Dean, Center on Budget and Policy Priorities, States Have the Flexibility to Set Their Own Food Stamp Asset Test (2008); see 7 C.F.R. § 273.2(j)(2) (2007).

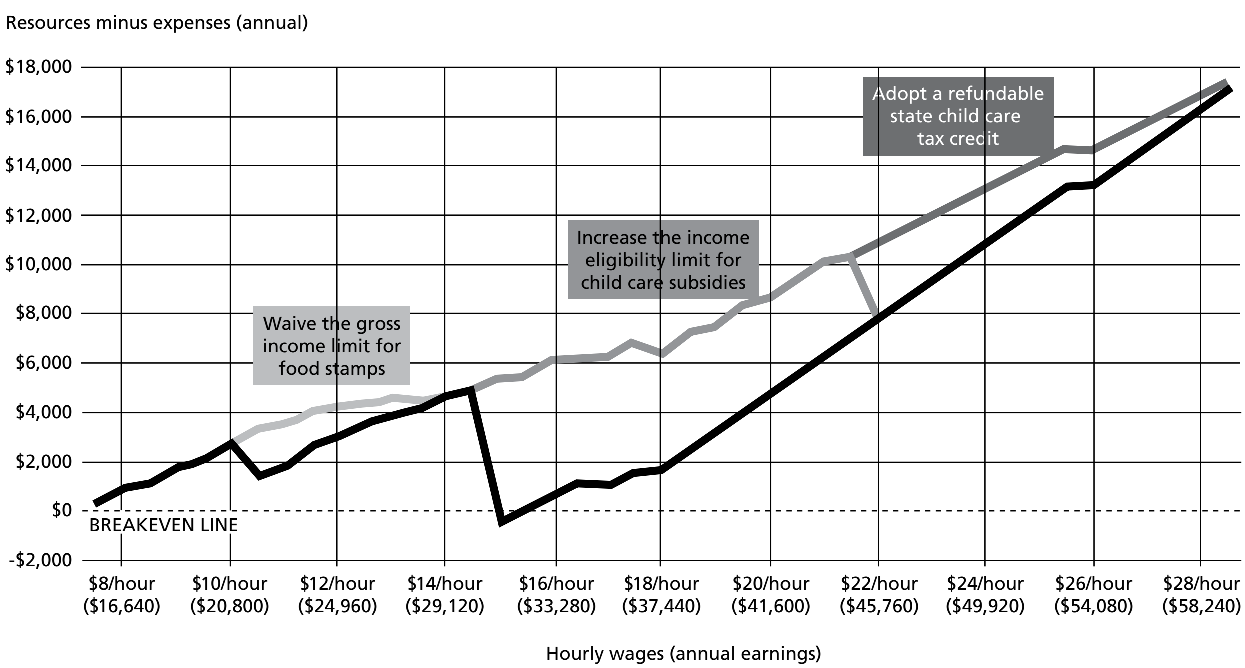
Figure 3.—Impact of a Change in Child Care Subsidy Eligibility (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

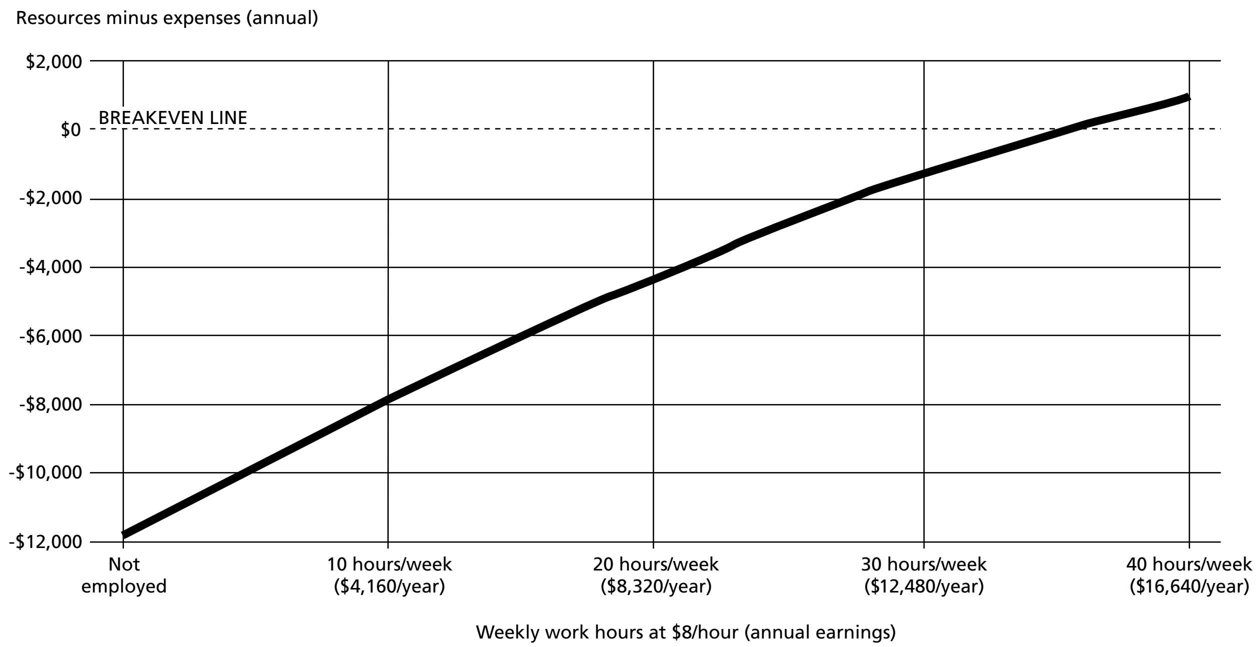
Figure 4.—Impact of a Hypothetical State Child Care Tax Credit (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

Figure 5.—Net Family Resources as Work Hours Increase (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, Temporary Assistance for Needy Families cash assistance, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care).

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

family that reaches a higher income limit will already have assumed a larger share of the full cost of care and will have more earnings available to sustain a loss in benefits. Figure 3 shows that extending the eligibility limit for child care subsidies from 185 percent to 275 percent of the federal poverty level would significantly reduce the magnitude of the child care cliff and ensure that the family remains able to meet basic expenses as earnings increase.

Many states provide child care assistance through refundable tax credits. Figure 4 shows how the child care cliff facing Illinois families could be eliminated entirely by combining an increase in the eligibility limit for subsidies with a refundable state child care tax credit for families whose income exceeds the (expanded) limit. This example assumes that, upon loss of the child care subsidy, the family initially receives an annual tax credit of about $1,500 per child. The value of this credit gradually declines to $0 as the parent's earnings approach the state's median income—or about $60,000 per year for a family of three.

Of course, obstacles underlie all these potential solutions to the problem of eligibility cliffs; cost is primary among the obstacles. Nevertheless, the Family Resource Simulator helps illustrate an ironic truth: the cliffs penalize people for striving to get ahead economically and penalize them even more for succeeding. This truth strikes close to core American values, and shining a light on how the cliffs harm families can drive the necessary changes. The simulator helps model the extent to which various solutions can actually solve the problem.

IV. Work Supports Matter at the Lower End of the Income Spectrum

Work supports make a difference at the lower end of the income spectrum, even before a parent takes a job. Assuming a family receives the benefits for which it is eligible (TANF, food stamps, Medicaid), the system can provide the basic support that mitigates the need to focus on mere survival and allows the parent's focus to turn to employment, at which point other supports (TANF earnings disregards, child care subsidies, and the EITC) take effect to nurture that effort. Figure 5 shows how the current array of work supports in Illinois come into play at the lower end of the income spectrum.

Figure 5 reflects Illinois's relatively low TANF payment level, which is now about 27 percent of the federal poverty level. This low benefit level makes the move into employment more difficult because of the survival distractions that a family so poor inevitably encounters. However, Figure 5 shows the impact of a favorable set of policies that take effect once the parent enters employment. Illinois has a TANF earnings disregard of two-thirds, so that the monthly payment decreases by only $1 for every $3 in earnings. Illinois pays a residual TANF benefit (calculated after the two-thirds earnings disregard) without regard to the TANF time limit if the parent works at least thirty hours a week, so that the TANF payment functions as a non-time-limited earnings supplement while wages remain low.[23] The state and federal earned income credits take effect when a parent goes to work. The child care subsidy has a nominal copayment, and public health insurance stays in place without premiums or copayments until income is higher. Figure 5 shows the net impact of these policies in helping the family get to the "breakeven" point relatively quickly, at an earnings level equivalent to thirty-five hours of work per week at $8 an hour.

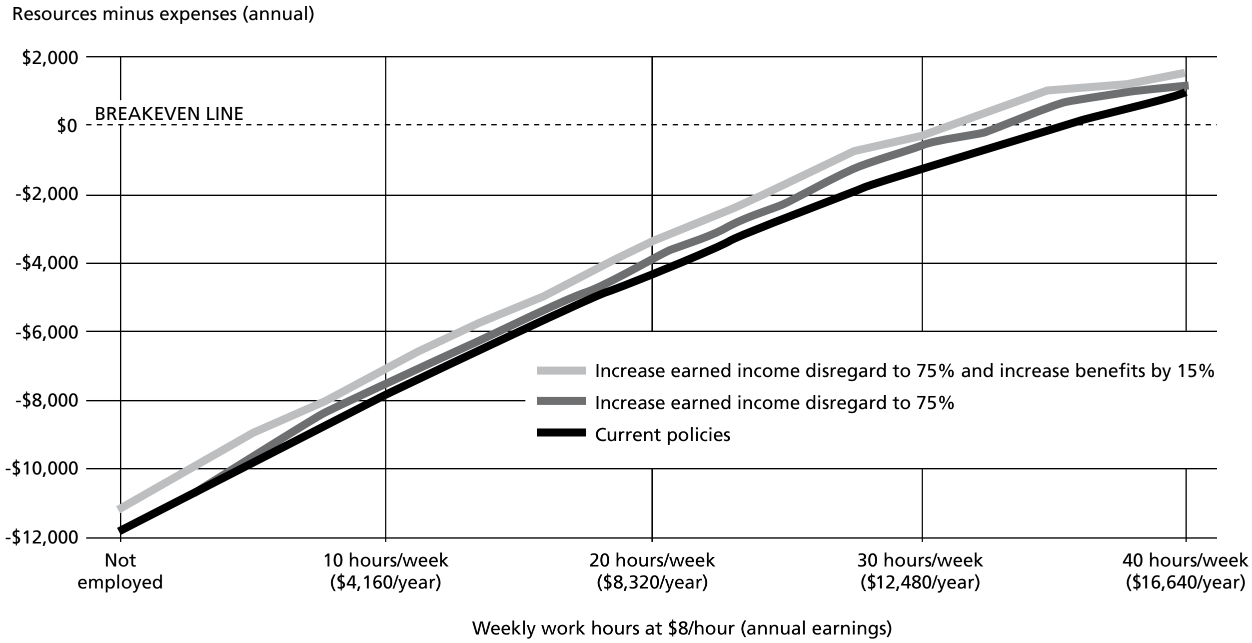
Strategies to improve work-supports policy for those with the lowest incomes have to involve the TANF program because it is the starting point for those not yet in the labor force. TANF can function as an earnings supplement before the parent's earnings trigger the highest EITC. Relatively modest improvements in the program make a difference in real life for families that start so far below their "breakeven" point. A few dollars can mean a great deal in the harsh calculations that people in deep poverty must make—rent or food, carfare or shoes, gas bill or light bill—and small improvements in a family's bottom line can make all the difference in whether a transition to employment is successful. Figure 6 shows the impact of two policy improvements in Illinois: increasing the earnings disregard from two-thirds to three-fourths, and increasing the TANF payment levels by 15 percent.

Figure 6 shows that increasing the earnings disregard moves the family more quickly from preemployment with no earnings to the breakeven point. It illustrates how, compared to current policies, increasing the earnings disregard becomes incrementally more helpful the higher the family's earnings, and how the disregard phases out with no cliff when the family's income is high enough to exit TANF. That is a productive design that provides incentives and support without imposing inadvertent punishments. Figure 6 illustrates the somewhat obvious proposition that increasing the TANF payment level would help families make the transition to work. Even before employment, a higher grant places a family closer to its breakeven point, providing a stronger platform for the transition to work. And Figure 6 shows how marrying the grant increase to the improved earnings disregard would get a family to the breakeven point more quickly and supplement income higher up the income scale.

To focus more closely on these proposed policy changes, Figure 7 shows the same changes as Figure 6, but starting when the parent is working twenty hours a week rather than having no earnings.

[23]These policies—a generous earnings disregard and non-time-limited benefits for full time workers—have the ancillary administrative benefit of keeping more working people in the TANF caseload. For the relatively low cost of residual TANF benefits paid to these working families, the state receives a strong boost toward meeting the strict TANF work participation rates imposed under the federal regulations, in that the state has a higher percentage of families who are in the program and meet work requirements through paid employment. For more on Illinois's TANF program, see John Bouman, Margaret Stapleton, and Deb McKee, *Time Limits, Employment, and State Flexibility in TANF Programming: How States Can Use Time Limits and Earnings Disregards to Support Employment Goals, Preserve Flexibility, and Meet Stricter Federal Participation Requirements*, 37 Clearinghouse Review 289 (Sept.–Oct. 2003).

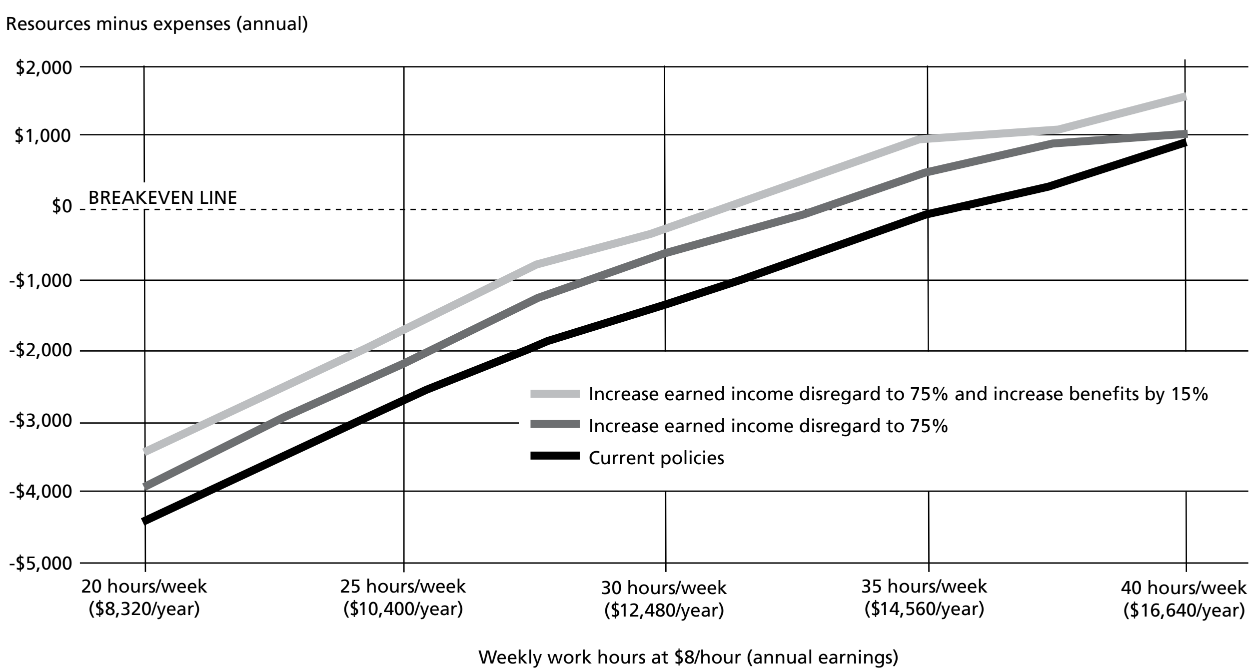
Figure 6.—Impact of Changes in TANF Policy (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, TANF (Temporary Assistance for Needy Families) cash assistance, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care).

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

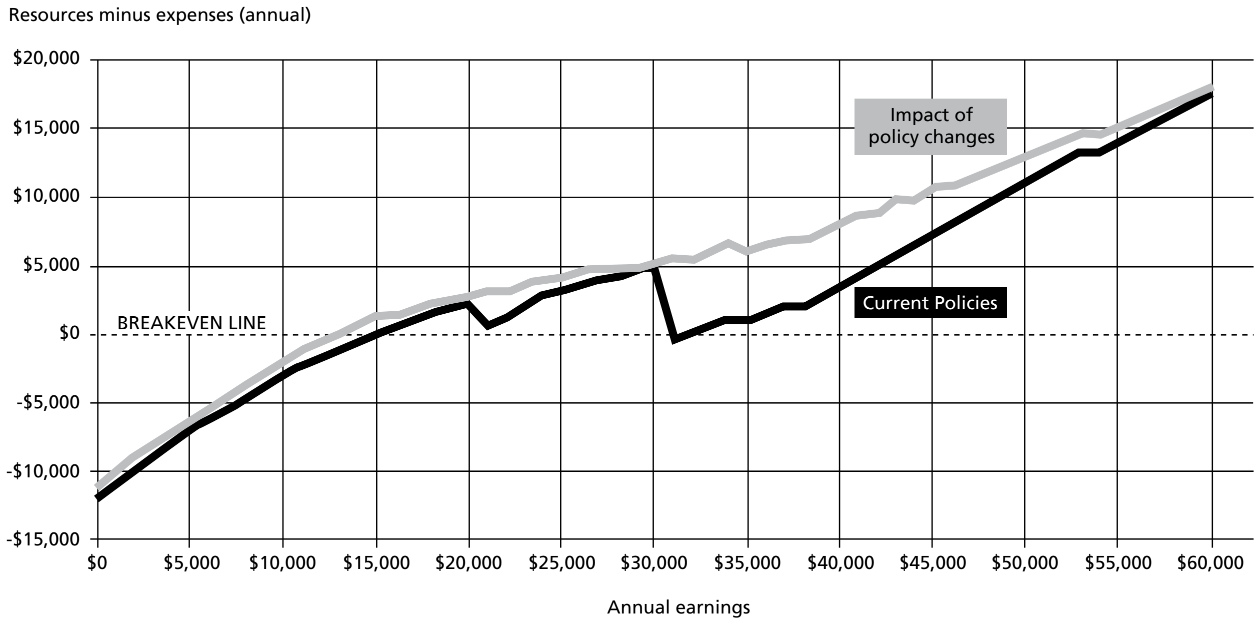
Figure 7.—Impact of Changes in TANF Policy (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, TANF (Temporary Assistance for Needy Families) cash assistance, food stamps, public health insurance, and a child care subsidy. Children are in center-based care while their parent works (the older child is in after-school care).

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

Figure 8.—Impact of Changes in TANF, Food Stamp, and Child Care Policies (Chicago)



Notes: Results are based on a single parent with a 3-year-old and a 6-year-old child. When eligible, the family receives federal and state earned income tax credits, TANF (Temporary Assistance for Needy Families) cash assistance, food stamps, public health insurance, and a child care subsidy (family resources with policy changes also include a hypothetical state child care tax credit when family is eligible). Children are in center-based care while their parent works (the older child is in after-school care); family members are covered by employer-based health insurance when public coverage is unavailable or more expensive.

Source: Analysis based on the National Center for Children in Poverty's Family Resource Simulator, Illinois (2006) (reflects policies in effect as of July 2006).

Figure 7 better illustrates the impact of these proposed changes, which can look deceptively small on the larger graph. With the policy changes, the family would break even when earnings are roughly $13,000 a year, while under current policies the family would break even when earnings are roughly $15,000 a year. While the difference may seem small, it is a substantial improvement for a family struggling to survive on such low earnings. Even under current policies, work supports have a large impact on a family's ability to make ends meet, and the public policy value of those policies is clear. The proposed changes would increase the impact and value of these programs.

■ ■ ■

A next step in shaping policy is to see all of these work-support programs as parts of a coherent whole, to understand how the programs interact and how together they can most productively affect employment activity and family support. Figure 8 shows the impact of this combined approach by modeling on one graph all of the policy proposals discussed here, compared to current Illinois policies.

All the proposed changes, working together, can provide a quicker path to making ends meet as earnings increase among the poorest families, where the strongest work incentives are needed, and continuously reward greater effort and success without the damaging cliffs.

Work supports are already highly effective. The more work-support programs are improved, the greater their impact will be on workforce policy and the lives of the workers and their families. The Family Resource Simulator is a fine policy-making tool for understanding the positive effects of current policies, identifying the remaining problems, and modeling proposed changes.

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