



DISINCENTIVES FOR WORK AND MARRIAGE IN GEORGIA'S WELFARE SYSTEM

BY: ERIK RANDOLPH | MARCH 2017
Erik Randolph Consulting



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Disincentives to Work and Marriage in Georgia's Welfare System

Executive Summary

Almost since the start of modern-day public welfare programs in the 1930s, there have been calls for reforms to better serve those most in need, to incentivize behaviors thought to lead to better outcomes for the poor, and to control spending.

Given the vast amounts of money spent on these programs annually, over \$1 trillion in FY 2011, including \$746 billion by the federal government and an additional \$283 billion spent by the states to match those programs,ⁱ and the relationship they have in driving the growth in federal budget deficits and the national debt, there is a strong fiscal argument that reforms are desperately needed.

However, what is too often left out of the fiscal argument for reforming the many dozens of means-tested welfare programs is a robust understanding of how these programs inadvertently punish and can actually inflict harm on the neediest in our communities. Due to poorly conceived eligibility requirements that are often inconsistent across programs, our welfare system frequently traps beneficiaries in dependency by punishing work and family formation – two behaviors that are the most likely to allow a beneficiary to escape poverty. Known as the “welfare cliff,” the idea that welfare programs often punish efforts to work – due to dramatic drops or “cliffs” in benefits as a recipient’s earnings increase, even by just cents per hour – is not a new concept. In fact, it has been discussed anecdotally for years with some reports looking at how one or two programs disincentivize work as a general matter.

If the welfare cliff is known to exist, why does this report matter?

This report is important and unique because, for the first time, it references and provides a model that demonstrates how welfare programs, alone or in combination with other programs, create multiple welfare cliffs for recipients that punish work. In addition to covering a dozen programs - more than any previous model - the tool used to produce the following report allows users to see how the welfare cliff affects individuals and families with very specific characteristics, including the age and sex of the parent, number of children, age of children, income, and other variables. Finally, while the report includes examples from just three counties in Georgia, the welfare cliff tool allows for the same analysis to be generated for any county in the state.

i. U.S. Senate Budget Committee, “CRS Report: Welfare Spending The Largest Item in the Federal Budget.” 2012: http://www.theccwr.org/pdfs/D_CRS-Welfare-Spending-Report.pdf

What does the report tell us about the welfare cliff in Georgia?

While there are many findings regarding the welfare cliff within the report, the most important are the following:

- It is a real and significant problem across every county in the state.
- Recipients in the most populous and wealthiest counties face the most significant financial loss when they fall from the welfare cliff.
- The poorest of welfare beneficiaries – particularly single moms with young children - suffer the greatest loss from falling from the welfare cliff.
- The welfare cliff does not have to exist

As an example of how the welfare cliff works,ⁱⁱ consider a mom of two small children in Georgia who is receiving benefits from five different categories of means-tested welfare programs and is working to advance in her career. She will face at least two significant cliffs as her pay increases. When she is earning approximately \$12.50 per hour, she will be receiving just over \$53,500 annually as a combination of both earnings and welfare benefits. Should she receive a raise and earn just 25 cents more per hour (to \$12.75), she will face a net loss in income (because of reduced welfare benefits) of \$1,301 annually. Should this same mom receive an additional raise of just one dollar more per hour (to \$13.75), her net loss in annual income would be another \$3,540. Combined, this single mom could expect to lose more than \$4,700 in income annually by accepting a raise of just \$1.25 per hour.

And, to make matters worse, for her to make up for the loss in benefits that she would face, her salary would not have to go up just a few more dollars. Instead, her salary would have to jump from \$12.50 per hour to \$30.50 per hour – a salary increase of nearly 250 percent!

Any rational person faced with this kind of reality would have few options other than to decline a raise or a promotion or a new job opportunity that brought with it such a financial loss to her family. This is the real tragedy represented by the welfare cliff – the hard-working welfare recipient striving to get ahead finding that becoming independent of public assistance is virtually impossible to achieve because of the financial hardship they will have to endure.

This is the dilemma faced by thousands of Georgians (and millions of people across the country) every day. It is the dilemma that welfare reformers must face if they are serious about serving the poor, reducing dependency, increasing employment rates, and reducing the size of the welfare system overall. Addressing the welfare cliff,ⁱⁱⁱ in conjunction with addressing fraud, encouraging employment, and setting limits on benefits for the able-bodied, is the key to creating a system that is finally able to help those truly in need. At the same time, it has the power to convert our trap-laden welfare system into one that incentivizes hard work, earned success, and provides a real avenue to self-sufficiency.

ii. See page 13 for a full description of this example.

iii. Reform recommendations begin on page 39 of this report and will be addressed in greater detail in upcoming reports.



GEORGIA CENTER FOR OPPORTUNITY

333 Research Court, Suite 210
Norcross, GA 30092
(770) 242-0001 Telephone | (770) 242-0501 Fax
www.georgiaopportunity.org
www.facebook.com/gaopportunity