



DISINCENTIVES FOR WORK AND MARRIAGE IN GEORGIA'S WELFARE SYSTEM

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Disincentives for Work and Marriage in Georgia's Welfare System

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Georgia Center for Opportunity

About Georgia Center for Opportunity

Georgia Center for Opportunity (GCO) is independent, non-partisan, and solutions-focused. Our team is dedicated to creating opportunities for a quality education, fulfilling work, and a healthy family life for all Georgians. Unfortunately, these primary pathways to opportunity - education, work, and family - have experienced a rapid decline in recent decades. To achieve our mission, we research ways to help remove barriers to opportunity in each of these pathways, promote our solutions to policymakers and the public, and help effective and innovative social enterprises deliver results in their communities. Our ultimate goal is to see every Georgian who is willing to seize the opportunities presented to them living a life that can be characterized as truly flourishing.



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The views expressed herein are those of the author and do not necessarily represent the views of the Georgia Center for Opportunity. The content of this paper is educational in nature and not intended to influence any legislation before any political body of the United States or the State of Georgia.

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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.

Acronyms

ACTC: Additional Child Tax Credit

ACA: Patient Protection and Affordable Care Act of 2009, also commonly known as ObamaCare

CAPS: Child Care and Parent Services program

DCA: Georgia Department of Community Affairs

EITC: Earned Income Tax Credit

FPL: Federal Poverty Level

HCV: Section 8 Housing Choice Vouchers

HIX: Health Insurance Exchange pursuant to the Affordable Care Act

HUD: United States Department of Housing and Urban Development

IPUMS: Integrated Public Use Microdata Series of Census data

SLCSP: Second Lowest Cost Silver Plan pursuant to HIX

SNAP: Supplemental Nutrition Assistance Program, also known as food stamps

TANF: Temporary Assistance for Needy Families

WIC: Women, Infants and Children program

Introduction

Public policy has often been driven by good intentions to help the poor, resulting in numerous means-tested programs designed to help individuals and families obtain housing, food, medical care, cash, and child care services. Beneficiaries of this welfare system include populations considered to be vulnerable, such as persons with disabilities, the elderly, and low-income families with children.

Although not recited here, research and anecdotal evidence have shown these programs have unintended consequences, which should be of little surprise. The system came about in a haphazard manner with varying eligibility criteria and methodologies for calculating benefits. While certainly helpful in obtaining specific categories of assistance, recipient individuals and families can be faced with financial disincentives for earning more money or even marrying. More specifically, families can find themselves in circumstances whereby if they earn more money they lose far more in benefits than what they gain in increased earnings. Consequently, the natural tendency for self-improvement and the desire to advance the financial situation of one's family are thwarted with the cruel choice of foregoing the higher pay in order to maintain the immediate financial stability of the family.

The Georgia Center for Opportunity contracted the author to develop a computer-based computational model to examine the impact of welfare system on the typical welfare family in Georgia and to determine whether the programs create financial incentives or disincentives for earning more money and whether there is a marriage penalty.

The computer-based model is entirely computational. Eligibility rules of the major means-tested programs for families were translated into formulae, and the formulae generate benefit amounts based on basic inputs and assumptions, replicating eligibility systems of the various welfare programs. The model is a tool enabling policymakers and researchers to evaluate the impact of the system on families. The tool not only helps understand current policy but also may be adapted to develop solutions to the unintended consequences of today's welfare system.

The computer model can generate scenarios for every county in Georgia for various family types by varying factors, such as whether there are one or two parents, one to four children, the ages of the members of the families, chosen child care settings and the grade levels of the children if they are in school. This paper reviews scenarios for the typical family that receives welfare assistance in Georgia. It also compares the same scenario results for Fulton, Gwinnett, Hall and Peach counties, representing counties of different population sizes, to explore whether there are differences among the counties. It also explores the question as to whether there are any financial penalties for the single mom who wants to marry. Finally, it reviews lessons learned and some basic principles for reform.

Describing the typical family who receives welfare assistance

The first task is to determine what the typical welfare family looks like, which will be run through the computer model for analysis. Single parent families, especially single mom families, are the most likely to be in poverty and to be participating in means-tested welfare assistance programs. Recent data from the U.S. Census Bureau state this with statistical certainty.

The 2008 Panel of the Survey of Income and Program Participation is a relatively new data source on the participation and characteristics of people who receive assistance. A recent report from the Census Bureau noted that female householder families with no husband present were more likely to participate in major means-test programs than other family household types: fifty percent of all such female-headed households participated in 2014 compared to 29.5 percent of all male-headed householders with no wife present and 14.7 percent of married-couple households.¹

This statistical statement remains true for every major assistance program examined. Single mom households had greater participation rates than married-couple households or male householders with no wives present in every major category surveyed: Medicaid, food stamps, housing assistance, supplemental security income and Temporary Assistance for Needy Families (TANF).²

The survey results align well with data on families in poverty. Female householders not only have the highest percentage in poverty but also constitute the largest number of family types in poverty. Half of all families in poverty are female-headed households despite the fact that overall they make up only 19 percent of all family types.

Table 1: Thousands of families in 2014: United States totals

	All	Below Poverty	Above	Below Poverty	Above
All Families	81,730	9,467	72,263	11.6%	88.4%
Married Couples	60,015	3,735	56,280	6.2%	93.8%
Female Householder, No Husband Present	15,553	4,764	10,789	30.6%	69.4%
Male Householder, No Wife Present	6,162	969	5,193	15.7%	84.3%
Married Couples	73.4%	39.5%	77.9%		
Female Householder, No Husband Present	19.0%	50.3%	14.9%		
Male Householder, No Wife Present	7.5%	10.2%	7.2%		

Source: Current Population Reports, U.S. Census Bureau³

Georgia follows the national pattern. In 2014, 9.8 percent of married-couple families with children under 18 years of age were in poverty. However, 43.2 percent of single moms with children under 18 years of age were impoverished. The disparity was even worse for families with children under five years of age. The poverty rate for married-couple families with children under five years of age was 7.6 percent in 2014, but the rate was 46.1 percent for single moms with children under age five. Sadly, the large number of single-mom families in Georgia creates the situation where more than one in every four children—that is, 26.3 percent—are living in poverty. For children under the age of five, the percentage is even higher: 29.8 percent of these young children come from families with incomes under the poverty level.⁴

Table 2: Georgia families with children: percent married by income level

Income Relative to Federal Poverty Level	1960				2014			
	Married	Widowed or Divorced	Never Married	All Families	Married	Widowed or Divorced	Never Married	All Families
≤100%	82.9%	15.8%	1.2%	100%	40.1%	22.9%	36.9%	100%
>100% and ≤200%	92.5%	7.1%	0.3%	100%	58.2%	26.3%	15.5%	100%
>200% and ≤300%	94.1%	5.8%	0.1%	100%	68.8%	22.5%	8.7%	100%
>300% and ≤400%	95.2%	4.8%	0.0%	100%	75.4%	19.5%	5.2%	100%
>400% and ≤500%	90.7%	9.3%	0.0%	100%	81.3%	15.9%	2.8%	100%
>500%	91.3%	8.7%	0.0%	100%	87.4%	11.1%	1.5%	100%
All Income Levels	89.7%	9.8%	0.5%	100%	68.0%	19.8%	12.3%	100%

Data source: IPUMS microdata extract of 1960 Census data and 2014 American Community Survey data⁵

This statistical relationship has not always been the case. The marital status of families with children has changed significantly over the past fifty years. It used to be that only a very small percentage of families with children were single parents who had never married. In 1960, prior to many of the welfare assistance programs in existence today, nearly ninety percent of Georgia families with children were headed by married couples, 9.8 percent were families headed by a widowed or divorced parent, and 0.5 percent were headed by single parents who never married. In 2014, 68 percent of families were headed by married couples, 19.8 percent were families headed by a widowed or divorced parent, and 12.3 percent were headed by single parents who never married.

For 2014, the American Community Survey data reveal another pattern. Families headed by an unmarried parent—whether never married, divorced or widowed—tend to be poorer. The lower the income level, the greater the chance that the family is headed by a single parent. In fact, nearly sixty percent of families with incomes below the poverty level are single-parent families.

Table 3: Distribution of Georgia families with children by income level in 2014

Income Relative to Federal Poverty	Married	Unmarried	All Families
≤100%	10.1%	32.0%	17.1%
>100% and ≤200%	17.2%	26.2%	20.1%
>200% and ≤300%	17.6%	17.0%	17.4%
>300% and ≤400%	15.0%	10.4%	13.5%
>400% and ≤500%	11.4%	5.6%	9.5%
>500%	28.6%	8.8%	22.3%
All Income Levels	100.0%	100.0%	100.0%

Data source: IPUMS microdata extract of 2014 American Community Survey data⁶

Another way to describe the social situation is to view how families with children are distributed by income level. Roughly one quarter of families headed by married couples fall under 200 percent of the poverty level, which is a good rule-of-thumb to estimate whether they are in poverty or marginally above poverty. In contrast, 58.2 percent of families headed by unmarried couples fall into the same category.

To summarize, it makes no difference whether the data are viewed horizontally or vertically. When viewing horizontally, that is, comparing how each income bracket breaks into families headed by a married couple or unmarried parent, the poorer the income bracket the greater is the percentage of unmarried parents making up that income bracket. When viewing vertically, that is, comparing the income distribution of family types, families headed by unmarried parents have a much greater chance of being poor.

On average, the number of children per family has decreased over the last fifty years. Today families with children who live in poverty have on average of 2.1 children.

Table 4: Average number of children per family

Income Relative to Federal Poverty Level	1960				2014			
	Married	Widowed or Divorced	Never Married	All Families	Married	Widowed or Divorced	Never Married	All Families
≤100%	3.3	2.1	2.5	3.1	2.3	1.7	2.2	2.1
>100% and ≤200%	2.4	1.8	1.0	2.4	2.0	1.5	1.7	1.9
>200% and ≤300%	2.0	1.5	1.0	1.9	1.9	1.4	1.4	1.7
>300% and ≤400%	1.7	1.3	N/A	1.7	1.8	1.3	1.4	1.7
>400% and ≤500%	1.7	1.3	N/A	1.6	1.7	1.3	1.3	1.6
>500%	1.7	1.3	N/A	1.6	1.6	1.2	1.3	1.5
All Income Levels	2.5	1.9	2.1	2.4	1.8	1.4	1.9	1.8

Data source: IPUMS microdata extract of 1960 Census data and 2014 American Community Survey data⁷

Demographic trends indicate the situation is unlikely to change anytime soon. The 2014 American Community Survey showed that nearly forty percent of all births were to unmarried women, meaning that the number of unmarried families is unlikely to decrease in the near future.

Table 5: Births by age group and marital status within the last twelve months of the 2014 American Community Survey

	Married	Unmarried	Total	Married	Unmarried
15 to 19 Years Old	2,309	6,655	8,964	25.8%	74.2%
20 to 34 Years Old	58,682	40,687	99,369	59.1%	40.9%
35 to 50 Years Old	21,526	6,559	28,085	76.6%	23.4%
Total	82,517	53,901	136,418	60.5%	39.5%
15 to 19 Years Old	2.8%	12.3%	6.6%		
20 to 34 Years Old	71.1%	75.5%	72.8%		
35 to 50 Years Old	26.1%	12.2%	20.6%		

Source: 2014 American Community Survey⁸

In summary and based on the statistical information, the typical recipient of means-tested welfare assistance is a single mom with two children.

Major means-tested welfare assistance programs for families

Families that are in poverty can avail themselves of various means-tested benefit programs intended to alleviate their condition of poverty. These programs provide cash assistance as well as subsidies for food, housing, child care services, and medical care.

The cash assistance programs include:

- the Earned Income Tax Credit (EITC),
- the Additional Child Tax Credit (ACTC),
- and cash from the Temporary Assistance for Needy Families (TANF) program.

Programs providing food, housing, child care or medical care include:

- food stamps, also known as the Supplemental Nutrition Assistance Program (SNAP),⁹
- National School Lunch and Breakfast programs,
- Women, Infants and Children (WIC) food packages,
- housing assistance, especially the Housing Choice Vouchers (HCV) program, also known as Section 8 vouchers,
- subsidized child care services, or the Child Care and Parent Services (CAPS) program,
- Medicaid,
- Separate Children's Health Insurance Program (SCHIP) or PeachCare,
- Patient Protection and Affordable Care Act (ACA) subsidies.

Two of the cash assistance programs are refundable tax credits. The principle behind these programs is that families can receive money from the federal tax system without paying any taxes at all. Economists call these credits *negative income taxes* because they are actually not taxes but function as the opposite, i.e., subsidies. Some states supplement the EITC with their own refundable tax program, but Georgia does not.

One serious drawback with refundable tax credits is that they do not allow regular cash flow during the year, which is a major concern for families in poverty. The EITC used to allow recipients to receive advance payments, thus helping them establish cash flow. However, one of the first actions by the Obama administration was to eliminate these advance payments. Unfortunately, this action defeats one of the primary purposes of the program and places low-income families in the precarious position of having to borrow money in anticipation of receiving the tax credit at the end of the tax year.¹⁰

Exacerbating this problem is that low-income families typically do not have good credit scores and are forced to borrow from family, friends, or businesses with higher interest rates to account for the higher risk that they pose to lenders. Furthermore, governmental actions to combat predatory lending have had the unintended consequence of drying up some of those sources, making it even more difficult for families to achieve cash flow, causing them to adopt higher cost strategies.¹¹

In contrast, TANF cash assistance is a monthly benefit, but it has limited participation. Families entering the TANF program are typically limited to sixty months. These cash grants are only one part of the federal TANF block grant program administered by the Georgia Department of Human Services. The program includes other services to help

families achieve “self-sufficiency.” Moreover, the cash benefits are relatively small and only available for most families if the parent works on a part-time basis. For example, a single mom with two children working full-time for the minimum wage already exceeds the threshold for TANF cash whereas EITC does not completely phase out until the parent earns more than \$21.25 per hour.

The largest government food subsidy program is food stamps. In 2013, 575,317 Georgia households—or 16.2 percent of all households—had received food stamps, giving Georgia the ninth highest rate among the states. As a matter of comparison, the national average was 13.5 percent of all households received food stamps.¹² Food stamps are no longer issued as paper stamps or coupons but are now issued as electronic benefits transfer cards that operate much like debit cards. The program enables families to purchase food at participating stores. The benefits are fully-funded by the federal government, but states administer the program and share in the administrative costs.

The second largest government food subsidy programs are the National School Lunch Program and the School Breakfast Program. These two programs are very similar in structure and are essentially run by the same federal, state and local administrators. For these reasons, they are considered as one program in this analysis. They provide free or reduced-cost lunches and breakfasts for school children while in school, providing significant relief for a family’s budget. All counties in Georgia have schools participating in the school lunch program and most counties have schools participating in the breakfast program. The school meal programs are fully-funded by the federal government but the state Department of Education and local schools implement the program at the local level.

The Women, Infants, and Children program is the smallest of the government food assistance programs considered in this analysis. This program provides food packages worth approximately \$40 a month to income-qualifying pregnant women and families with children under age five. WIC also provides nutritional education and health-care referrals. Perhaps the most difficult programs to navigate and understand are the housing assistance programs. These programs are funded and regulated by the U.S. Department of Housing and Urban Development (HUD), but housing authorities—which are creatures of state law—administer the programs locally. Housing authorities typically have public housing available that they rent to families based on their ability to pay. In addition, these housing authorities also run housing choice voucher programs, also known as Section 8 vouchers.

In Georgia, however, the Department of Community Affairs (DCA) administers the housing choice voucher program for 149 of the 159 counties. DCA has established entrance eligibility to be extremely low income, which reduces participation in the program. All independent housing authorities have waiting lists for vouchers or public housing, and the voucher program is notoriously known for its chronic problem of having far more demand than availability of funds in the same manner that public housing is known for shortages of available rental units.

The Child Care and Parent Services program is Georgia’s program for subsidized child care. Assistance is available for families with incomes under 160 percent of the 2008 federal poverty level, qualifying children must be under age 13 unless they are disabled, and the parent must need the service for employment for at least 24 hours per week or other qualified-activity, such as job training. Families also are required to pay fees as a copayment of the costs based on income levels and the number of children receiving subsidized care.

Medical care assistance programs rival housing assistance for complexity. Subsidized medical care is provided by three distinct and separate programs. Eligibility for family members is different for parents and children, and eligibility for children varies based on age. Low-income Medicaid is provided to parents up to 35 percent of the federal poverty level (FPL), but up

to 205 percent for children under one year of age, 149 percent for children ages one through four, and 133 percent for children ages six through eighteen.

For children over those income thresholds, medical care coverage is obtainable up to 247 percent of FPL through PeachCare, which is Georgia's Separate Children's Health Insurance Program. Except for children under age six, PeachCare requires a monthly premium share based on family income.

This odd arrangement of income eligibility of both Medicaid and PeachCare means that a family of three can have one child on Medicaid, a second child on PeachCare, and the mom with no healthcare coverage at all.

The Patient Protection and Affordable Care Act, commonly called ObamaCare, provides two different subsidies for families. The act categorizes plans as platinum, gold, silver, or bronze, depending on the amount of coverage, with platinum plans covering about 90 percent of healthcare costs, gold covering about 80 percent of costs, silver covering about 70 percent of costs, and bronze covering about 60 percent of costs. The first subsidy is the premium tax credit that can help with the cost of insurance purchased through the Health Insurance Exchange (HIX). Essentially, the credit is equal to the difference between the cost of the plan, or the second lowest cost silver plan locally available, whichever is less, and a maximum premium contribution that the family is expected to make based on its income, as defined by the law.

The second subsidy is invisible to the consumer. For families with incomes between 100 percent and 250 percent of FPL, the federal government gives the insurance companies subsidies to lower out-of-pocket expenses that must be paid by the consumer. What the consumer sees is that the insurance coverage has lower cost-sharing that would normally require a higher premium. What the consumer may not realize is that the lower cost-sharing is available because the federal government is paying a subsidy to the insurer.

The ACA has requirements for employers to provide healthcare coverage, but there are exceptions to those requirements. Even if the employer provides coverage, many times the policy requires a premium cost share that can be difficult for low-income employees to pay. This analysis does not examine the complex problems surrounding affordability of the ACA.

Another major problem with the ACA is that for adult parents with incomes between 35 percent of FPL and 100 percent of FPL who do not receive coverage through their employer will not be eligible for any subsidies. For a single mom with two children, she would need to earn slightly more than \$9.50 in order to reach this level, meaning that many single moms can find themselves in this exact situation with no health coverage for themselves personally.

Modeling the impact of means-tested welfare assistance programs

A computer-based computational model was developed to demonstrate the microeconomic impact of the welfare system on families for each county in the state of Georgia plus a statewide weighted average. This computer-based model allows variations in basic family characteristics and calculates potential benefits from major means-tested welfare assistance programs for 176 earned income levels. The levels or intervals vary from families earning no income, to working part-time, to working full-time at minimum wage—which is \$7.25 per hour—and then increasing the wage by 25 cents per hour until the 176th interval of earning \$50 per hour. The model also calculates expected income and payroll taxes, giving the ability to identify those areas where a family runs into a “welfare cliff,” that is, becoming trapped at that level of earnings.

A welfare cliff is technically defined as a negative marginal benefit—in terms of net earnings and government subsidies—from earning additional money. A “subsidy,” of course, is any government benefit or payment received not exchanged for a good or service.

“Welfare benefits” and “subsidies” are used interchangeably. For this computer model, “earning additional money” means earning an extra 25 cents per hour. A more user-friendly definition is to think about the welfare cliff as losing more in welfare benefits than what one would receive in increased earnings by earning an extra 25 cents per hour. This cliff occurs because the additional take-home pay would not offset the loss in benefits.

Welfare cliffs, if steep enough, become the points where families become trapped. When confronted with a cliff, a family would be unwilling or hesitant to accept a pay raise or a job that pays more because of the loss in benefits. This behavior is completely rational because nobody likes to be worse off from earning more money. However, as the model demonstrates, some means- tested welfare assistance programs introduce cliffs all by themselves. Other programs become problematic because of the effect of stacking benefits on top of other programs.

The model makes calculations on the major welfare assistance programs described earlier, which are as follows:

- the Earned Income Tax Credit,
- the Additional Child Tax Credit,
- cash from the Temporary Assistance for Needy Families program,
- Food stamps,
- National School Lunch and Breakfast programs,
- Women, Infants and Children food packages,
- the Section 8 Housing Choice Vouchers program,
- the Child Care and Parent Services program,
- Low-income Medicaid,
- PeachCare,
- the Patient Protection and Affordable Care Act.

For each program, eligibility is determined based on family characteristics, and the benefit amounts are calculated for each gross earned income interval. In other words, gross earnings become the independent variable against which all the benefits are calculated. For simplicity, it assumes that the families do not have excess resources that would disqualify them for benefits. “Family” is defined as a household with at least one parent and at least one child, and no other individuals that may be living in the household are counted as part of the family. It also assumes that the family does not have other sources of income other than earnings and government benefits and that the family would take standard deductions on their taxes. It further assumes for this analysis that no member of the family is disabled although the computer model allows the children to be disabled as a variable.

The inputs to the model are as follows:

- whether there is one parent or two, and, if one, whether it is the mom or dad;
- the age(s) of the parent(s), which is needed to determine health insurance costs;
- the number of children, up to a maximum of four;

- the ages of the children, whether they are in school, and their grade levels;
- the gender of the children, which is needed to determine the number of bedrooms needed for subsidized housing;
- whether any children are disabled;
- the chosen child care setting, whether center, group, family or informal;
- the county where the family resides, or a statewide average.

Finally, 2014, 2015 or 2016 can be chosen for the year. Unless otherwise specified, all data in this report were calculated for 2016.

These inputs may be changed, and the computer model generates new calculations, enabling comparisons on how factors can influence benefit levels.

The model also enables the user to toggle on and off benefit programs so the impact of removing a program from consideration can be studied. Because benefits of some programs are inputs to other programs, this becomes an important feature. For example, income from TANF cash is an input to food stamps and changes the amount of food stamp benefits. Also, housing costs is an input to food stamp benefits because if housing costs exceed the thresholds for excess shelter costs, it can cause the benefit amounts to increase. As a final example, child care costs are inputs to both food stamps and income taxes.

Typical welfare-assisted family: Statewide average scenario

Single mom, age 30, with a 10-year-old girl and a 2-year-old boy

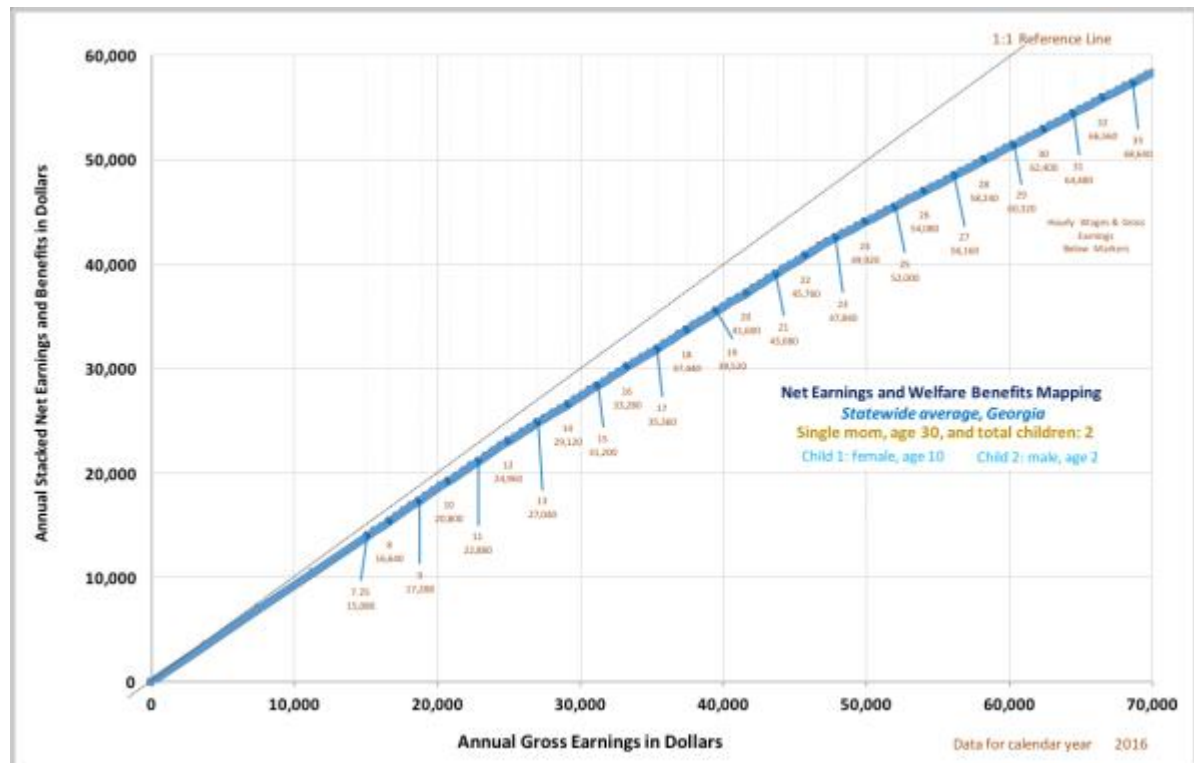
To demonstrate the computer model, a scenario was run for a statewide average for the typical welfare-assisted family, which is a single mom with two children. The mom's age was assumed to be thirty, and the children were chosen to be a ten-year-old girl and a two-year-old boy. The girl is assumed to be in fourth grade, and the mother has placed the girl in after school child care. The mother also places the boy in full-time care when she is employed for at least 24 hours per week, which is consistent with CAPS rules.

Chart 1-A provides the basic chart template displaying the calculations of the computer modeling. The horizontal axis is the independent variable, i.e., gross earnings, expressed in annual amounts. The vertical axis displays net earnings after income taxes and payroll taxes are deducted. Subsequent charts will also display the values of the categories of means-tested welfare assistance benefits on the vertical axis, which will be stacked upon each other. Thus, by following the top lines, it gives the value of net earning plus all welfare benefits considered in the chart.

The blue line in chart 1-A is net earnings. Each point along the line is one of the 176 earned income intervals, starting at zero income, followed by working 10 hours a week at minimum wage (\$7.25 per hour), 20 hours per week at minimum wage, 30 hours a week at minimum wage, 40 hours a week at minimum wage, and then it increases earnings by adding 25 cents per hour until \$50 per hour is reached. Although the computer model goes up to \$50 per hour, the chart itself stops at \$33.50 per hour, which is about \$70,000 per year. The hourly wages and gross earnings are shown below the line for selected points, and the corresponding points are marked by a darker shade of blue.

The charts also display a “1:1 reference line.” This line shows you where net earnings would be if no taxes were taken out. This line provides a visual to understand the difference between gross earnings and net earnings, also showing the progressiveness of the tax system. In other words, the more the line bows downwards the greater the progressiveness of the tax code, meaning that as gross earnings rise taxes are taken out at higher proportions.

Chart 1-A: Typical scenario starting graph



Refundable tax credits, TANF cash, food assistance and medical assistance

Chart 1-B builds onto chart 1-A, shown on page 14, adding what is considered a basic package of welfare benefits, including refundable tax credits, TANF cash, food assistance and medical assistance. The refundable tax credits, shown in the dark blue line, consist of EITC and ACTC, and as can be seen visually, they work well to preserve the natural incentives for the single mom to increase earnings. The credits by themselves phase in quickly with earnings, reach a plateau, and then phase out slowly. When combined with net earnings, the family always receives more money from earning more, that is, the marginal benefits are always positive for each additional 25 cents per hour earned, reinforcing the natural tendency to want to earn more to better oneself and family.

TANF cash, shown as the orange line in the graph, which appears in the left corner of the graph, comes into play only at the lowest earning levels and disappears by the time the single mom works 30 hours a week at minimum wage. While important to families at the lowest levels, the program is relatively small and helps only at those low earning levels.

Food assistance, shown in the green line, consists of food stamps, subsidized school meals, and WIC food packages. Working backwards, the family is eligible for WIC food packages because of the two-year old boy. The benefit remains constant at \$41 a month until it disappears when the family reaches 185 percent of the federal poverty level. Subsidized school meals work the same way, except the benefit steps down at 130 percent of FPL from the free-meal level at a program cost of \$797 per year per participating child to the reduced-cost meal level at a program cost of \$684 per participating child, and then it disappears altogether at the 185 percent of FPL. Thus, the family loses both the WIC food packages and the subsidized reduced-cost school meals at the same level.

The loss of these benefits creates the first cliff for our review, which is the smaller cliff found in the green line at \$18 per hour. The loss, however, may not be significant enough to alter behavior. Focusing on the green line, a single mom earning \$17.75 would lose \$979 in marginal benefits if she would accept a 25-cent pay raise. The reason for this negative marginal benefit is that while a 25 cent pay raise would net \$432 in earnings, it would also cause her to lose \$1,168 in food assistance benefits in addition to having her refundable tax credits reduced. The computer calculates that she would need to earn \$19.25 before she would make up for the loss. While this cliff is discouraging and may cause some individuals to turn down the pay raise, it is also possible that the prospect of earning more in the near future would override concerns, or perhaps she would be able to negotiate a higher pay raise to compensate for the loss in benefits.

However, the cliff created by the loss of food stamps, which is the more noticeable drop-off in the green line, dwarfs the concerns over the loss of subsidized school meals and WIC food packages. Food stamp benefits are more difficult to understand than school meals or WIC food packages because the benefit packages result from a series of calculations that change depending on what other assistance the family might be receiving or costs the family may be incurring. The basic assumption for this scenario is that the parent is renting an apartment that it would qualify for under the housing voucher program in addition to placing the child in an informal setting for child care. Following these assumptions and further assuming the family is not receiving the housing choice vouchers nor CAPS subsidies at this junction of the analysis, and many do not receive housing vouchers, then the food stamp benefit levels remain fairly high because of the excess shelter and dependent care deductions. Because the food stamp program does not sufficiently taper off benefit amounts before the family hits the gross income threshold limit, there is a sudden loss in marginal benefits amounting to \$3,995 between earning \$12.50 per hour and \$12.75 per hour.

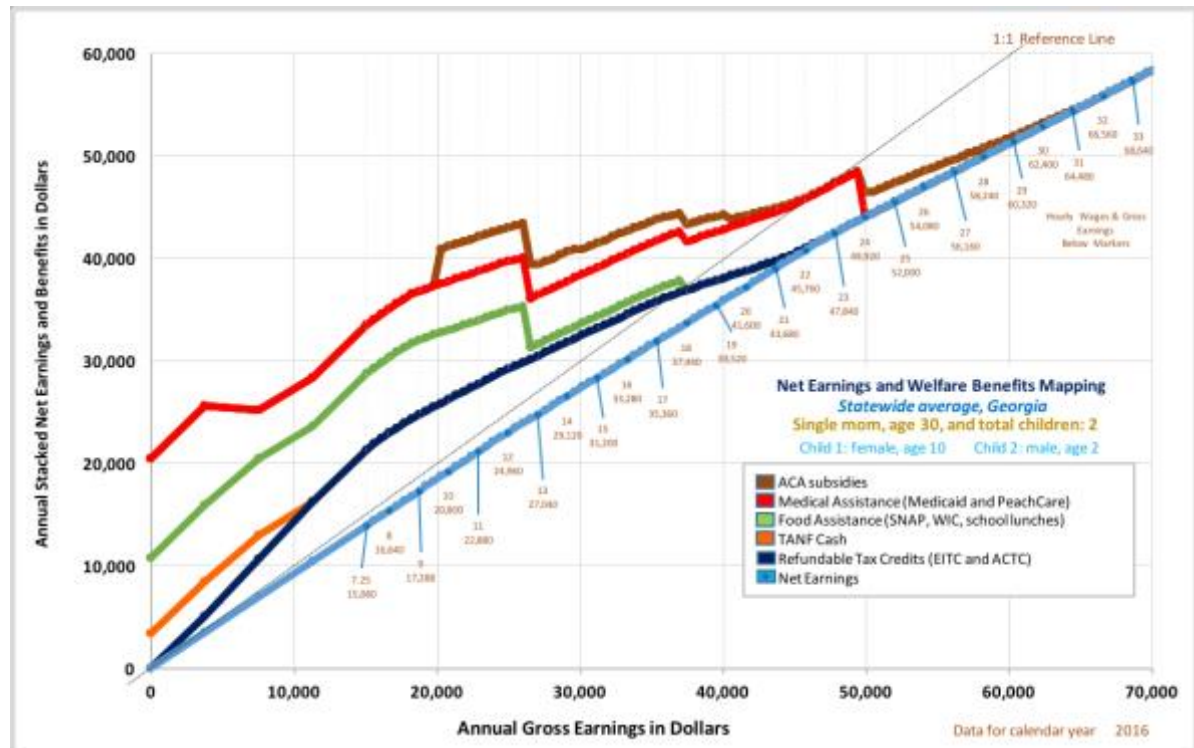
Additionally, the food stamp benefits loss occurs at a lower income level, meaning that more families and poorer families are adversely impacted by the cliff, making the cliff from the food stamp benefit loss worse than losing WIC food packages and reduced-cost school meals. To recover from that loss, this hypothetical single mom would need to earn \$15.75 per hour, a significant increase over a wage of \$12.50 per hour, and one that she may not clearly see a future prospect of overcoming, thus thwarting her incentive to earn more.

Medical care benefits add the final layer of complexity for Chart 1-B. Above the green line illustrating food assistance benefits, the chart has a red line showing the combination of low-income Medicaid and PeachCare and a brown line showing the premium tax credit and out-of-pocket subsidies from the Affordable Care Act. In this case, it is assumed that the mom does not have an employer who provides health insurance. The mom loses her low-income Medicaid coverage at 35 percent of FPL and does not qualify for ACA subsidies until she earns \$9.75 per hour, which reveals a deficiency with the ACA subsidies. Although she could be working full-time for wages from minimum wage through \$9.50 per hour, she is unable to access health insurance through the exchange.

Considering all the benefits in this scenario—refundable tax credits, TANF cash, food assistance and medical assistance—the family’s total benefits peak at \$12.50 per hour, or \$26,000 in gross earning, for a total benefit of \$43,378 in net earnings and welfare benefits. If she would earn just 25 cents more per hour, at \$12.75, there is a loss of \$4,005. She would need to earn \$16.75 before she could recover from the loss.

A final cliff discoverable on the chart is the loss of PeachCare for the children at \$23.75 per hour.

Chart 1-B: Typical basic welfare package that includes refundable tax credits, cash, food and medical assistance



Subsidized child care

CAPS—Georgia’s subsidized child care program—adds significantly to the problem of welfare cliffs. Georgia’s program requires parents to work or to be in an approved work-related activity, such as training, for at least 24 hours. Children must be below 13 years of age, unless they are defined as having special needs.

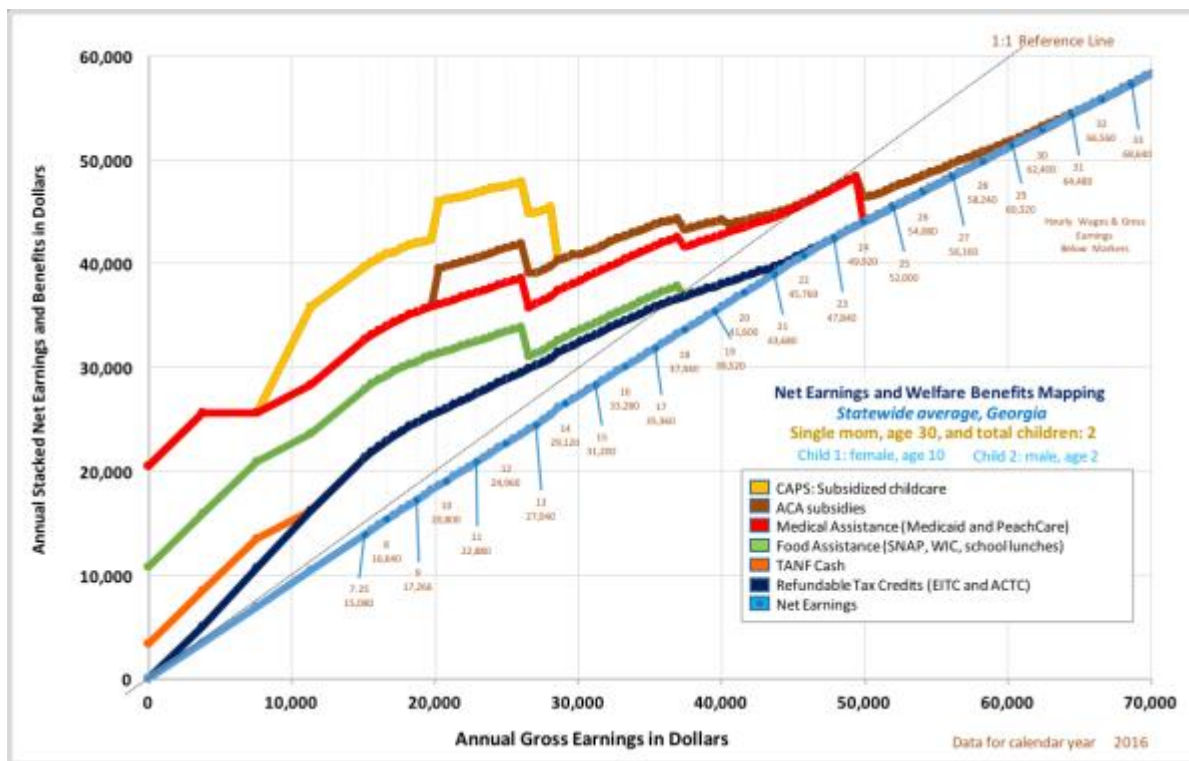
Participating parents are required to contribute to the cost of the child care service in what is called a family fee. These required copayments vary based on the number of children receiving care and the annual income of the family.

Although family fees increase progressively with income, often they do not increase sufficiently to prevent a steep and abrupt loss of benefits when the program income limits are met. This impact can be seen in Chart 1-C that adds subsidized child care onto the basic welfare package, which is shown as the top yellow line. The prior cliffs from the prior welfare programs considered are still noticeable with net earnings and welfare benefits peaking at \$47,901 when the mom might earn \$12.50 per hour. However, because the dependent care deduction for food stamps is reduced, the size of the cliff moving from \$12.50 to \$12.75 is less than

before but still significant, causing the single mom to lose \$3,019 in net earnings and welfare benefits. At \$13.50 per hour, or \$28,080, the mom encounters the new and more significant cliff caused by the loss of child care subsidies. At the next wage increment considered—at \$13.75 per hour, she would lose \$5,119 in marginal benefits.

In October 2016, the Department of Early Care and Learning implemented important changes to the CAPS program. Among them is the new requirement that entrance into the program will be restricted. If a family currently not receiving benefits wishes to receive a subsidy, it must belong to one of several priority groups, such as TANF applicants, minor parents, families that have children with special needs, and children in custody of the Division of Family and Children Services of the Department of Human Services. What this change means for the cliff analysis is that not all families will be receiving CAPS subsidies even if they are income eligible. Therefore, the yellow line illustrating child care subsidies should be viewed within this context.

Chart 1-C: Basic welfare package plus subsidized child care



Subsidized housing

Subsidized housing adds not only to the costs but also the level of complexity. If the single mom were to receive a Section 8 housing choice voucher, it would greatly reduce her excess shelter costs for food stamp benefit determinations, which would allow the food stamp benefits to taper more aggressively, greatly reducing—although in this case not eliminating—the cliff effect with food stamps. She would still hit a cliff from \$12.50 per hour to \$12.75 per hour for a loss of \$1,301.

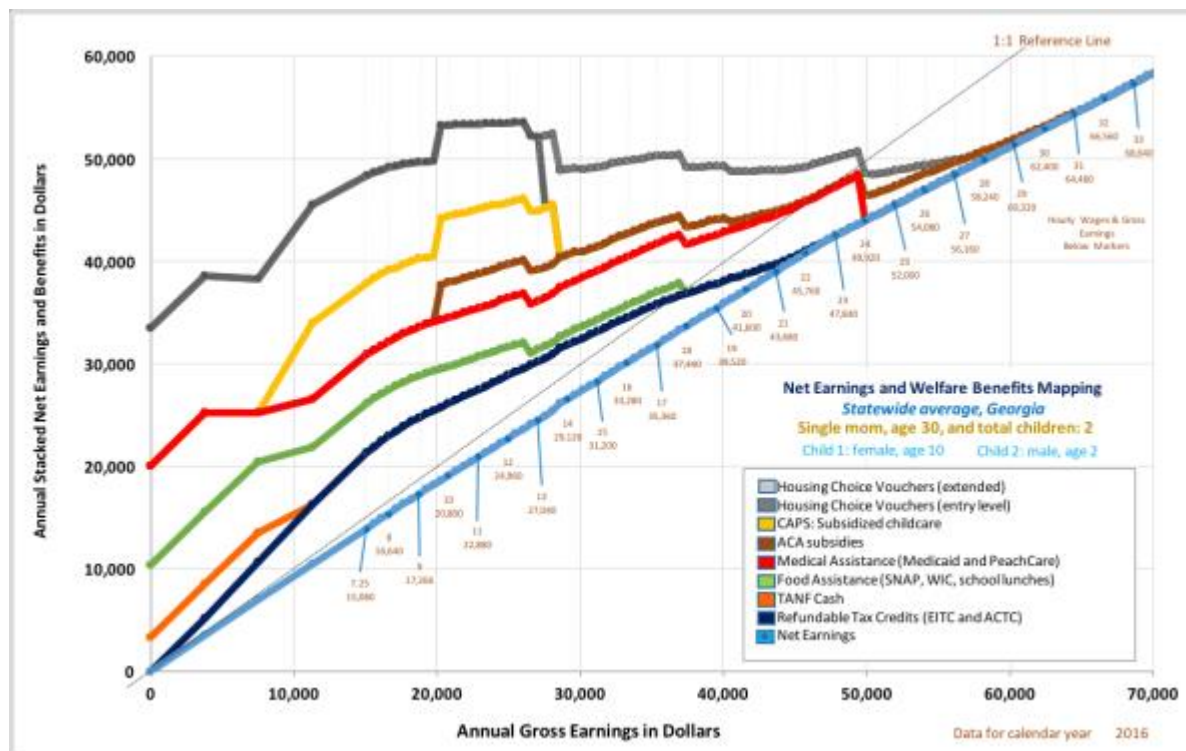
The size of her combined net earnings and welfare benefits now reach \$53,562 when she is grossing only \$26,000 at \$12.50 per hour. This effect is clearly seen in Chart 1-D. For her to recover the loss in benefits at this wage, the mom needs to earn \$63,440 or \$30.50 per hour. To state the obvious, it is very unlikely that she would be offered employment at two-and-a-half times her current wage. This scenario creates a tremendous disincentive for most single moms to aspire to earn anything more. Moreover, her net earnings and welfare benefits are virtually flat from \$9.75 to \$12.50, further reducing any incentive to earn more than \$9.75 per hour.

Further analysis reveals the real advantage for her to reach the plateau starting at \$9.75 per hour would be to qualify for ACA subsidies through the health insurance exchange, evident by the brown line in Chart 1-D. Absent these subsidies, the advantage for earning more than minimum wage are greatly reduced and becomes essentially flat starting at \$9.00 per hour. For example, if she would earn \$7.50 per hour instead of \$7.25 per hour, her marginal benefit is only \$282 out of the additional \$520 she would make in gross earnings. Moving up in increments of 25 cents per hour that earns \$520 in gross pay results in only \$270 for \$7.75 per hour, \$236 for \$8.00 per hour and \$94 per \$8.25 per hour.

However, these observations of the data miss a fundamental unfairness of housing programs, which is shown graphically by providing two different shades of gray. The dark gray shows the entrance eligibility level, meaning this is the level of income where an applicant may qualify for the program. The light gray shows the subsidies for those who had been admitted to the program previously but are unavailable to other families despite being identical in composition and income.

The reality is that the government cannot fund every family who would otherwise qualify for Section 8 housing choice vouchers. In Georgia, there are approximately 44,000 families that have vouchers. Compare that number to the 1.1 million tax returns who receive the earned income tax credit or the 839,000 households that receive food stamps. Therefore, the administering agencies—public housing authorities and the Georgia Department of Community Affairs—frequently close the voucher program to new applicants, and they close them for long durations of time. When they do open the program, it is only for short periods of time so new applicants may get on waiting lists. The U.S. Department of Housing and Urban Development regulates how the administering agencies may select the “winners” from those waiting lists that may include random drawings. For this reason, the lines representing Section 8 vouchers are placed on top in Chart 1-D to reinforce the reality that only a small selection of families could ever receive those vouchers.

Chart 1-D: Typical scenario total package, including medical care



Welfare program complex and uncoordinated

One feature of the cumulative effect of the welfare system is the magnitude of benefits the typical family potentially could receive. If the mom worked for 30 hours per week at minimum wage, earning \$11,310 in gross income, she could potentially receive benefits worth \$35,030. Working full-time at minimum wage, the benefits would be \$34,410. At \$12.50 per hour where her total benefit from net earnings and subsidies peak, her welfare benefits are valued at \$29,963.

Note that these welfare benefit amounts do not include the administrative overhead in providing those subsidies. There are federal, state, and local bureaucracies involved in administering and providing those benefits, and they all have operating costs. Federal agencies include the Internal Revenue Service, Administration for Children and Families, Food and Nutrition Service, Office of Public and Indian Housing, and Centers for Medicare and Medicaid Services. State agencies include the departments of Human Services, Community Affairs, Community Health, and Education. Local agencies include housing authorities and school districts.

An important observation is that it is not possible to reform the system by starting at the peak and smoothing out benefits for everyone from that level. As just explained, the peak of \$12.50 per hour potentially costs taxpayers \$29,963 in subsidies for one family. If that were the starting point, it would mean that benefits would have to be given to families earning in excess of \$30.50 per hour, which is simply not fiscally feasible considering the number of families that fall into those income ranges and the tax increases that would be required to raise the revenue to cover those costs. That said, with reforms that will be discussed later and in more detail in subsequent reports, the welfare cliff can be eliminated so that work can be made to pay.

Chart 2: Typical scenario total package, potential size of benefits

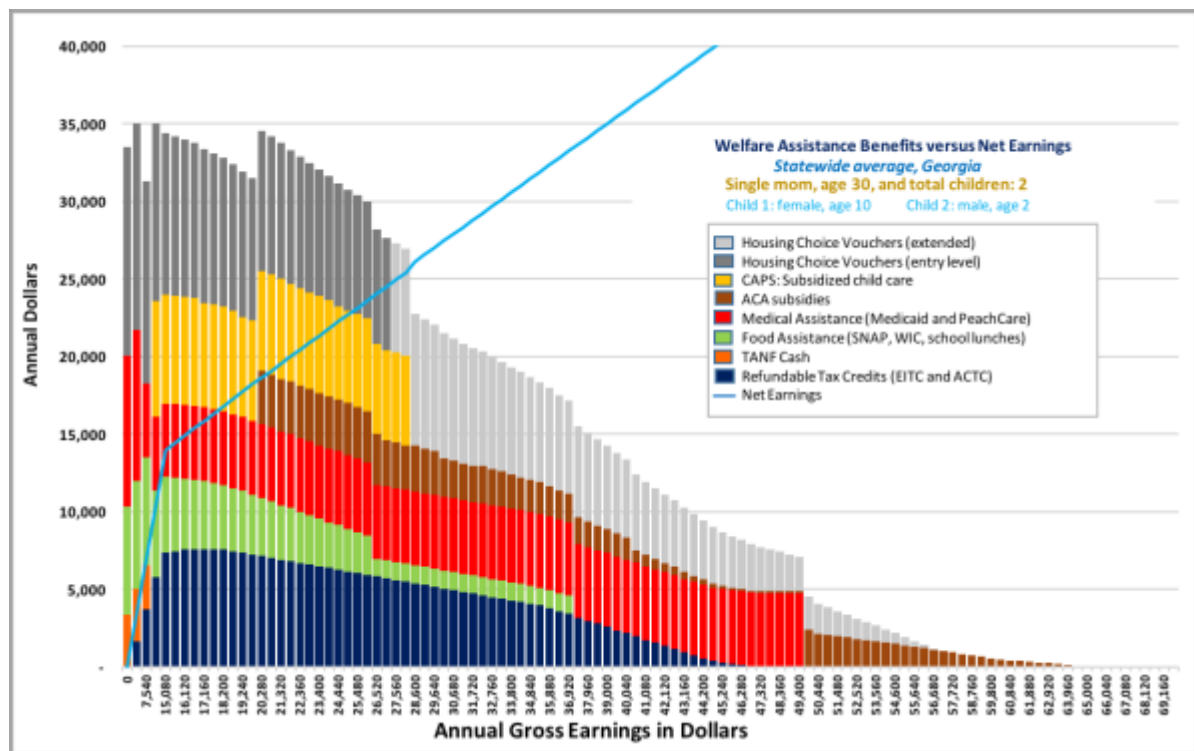


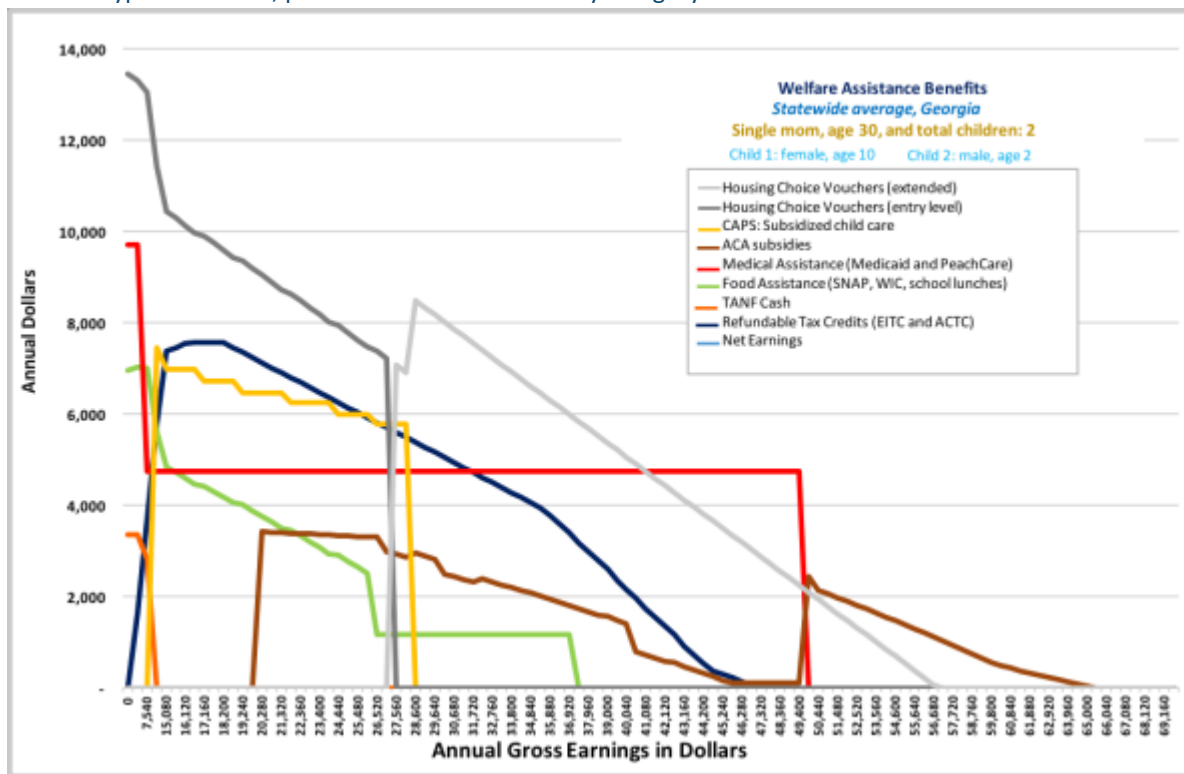
Chart 3 shows how each category of mean-tested welfare assistance programs change with earned income. This overlay demonstrates the complexity of the system. Each program has its own set of rules determining eligibility and benefit amounts, and there is little coordination among them.

The dark blue line is refundable tax credits. The benefit amounts increase rapidly with earnings and phases out slowly. As already seen, by themselves refundable tax credits do not introduce any disincentives for work. In contrast, food assistance programs, shown with the green line, do phase out evenly until they hit certain thresholds where there are sudden drops in benefit amounts.

Low-income Medicaid and PeachCare are shown by the red line, and ACA subsidies are shown by the brown line. Medicaid and PeachCare have sharp and steep cliffs when eligibility ends for the programs. Although the ACA subsidies do have a generally downward-sloping phase down, it is bumpy with not only small cliffs but also two points where benefits increase with earnings due to either the loss of Medicaid benefits or increased copayment obligations of PeachCare.

Subsidized child care, shown in the yellow line, phases down in steps but meets a steep and large drop-off. Housing assistance does phase out slowly, but as already explained, there are issues of unfairness not graphically discernable. Finally, even if every benefit program phased out evenly and gradually, if there are too many programs, they can collectively create disincentives to earning more money because of the stacking effect.

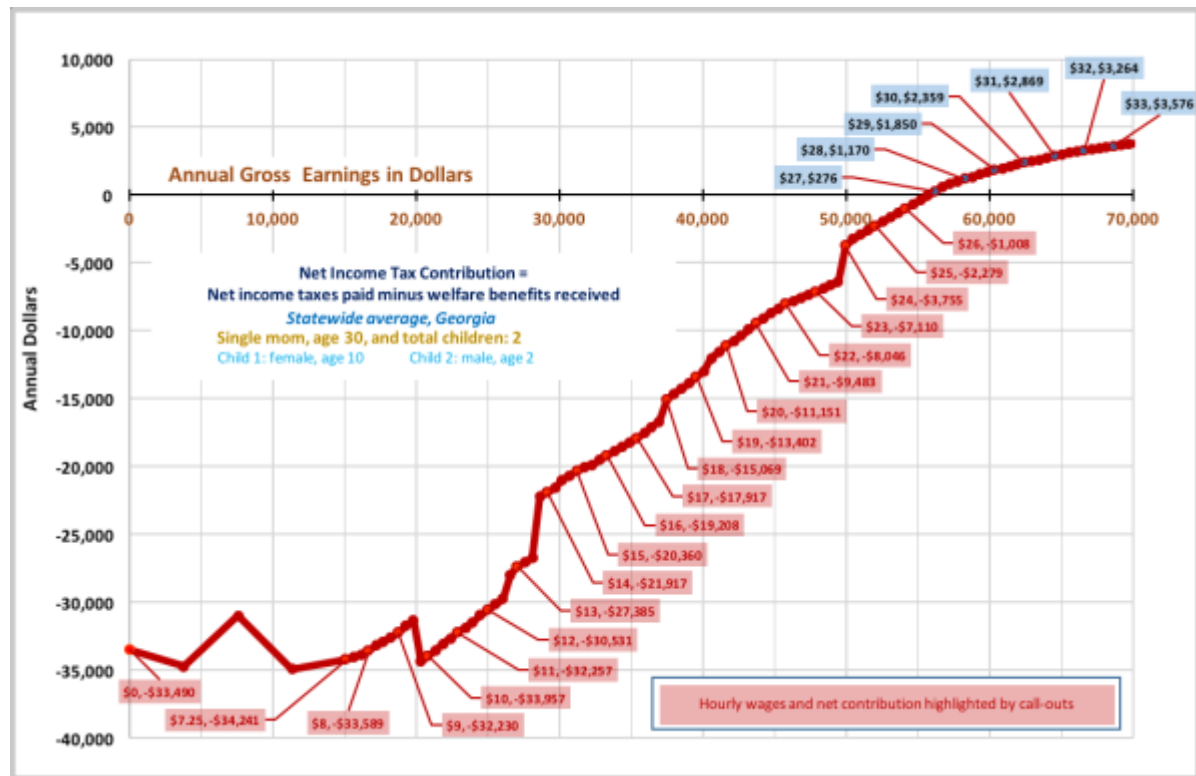
Chart 3: Typical scenario, potential benefit amounts by category



The magnitude of the benefits and the extent for which this typical family receives them mean that the family's net contribution to income taxes remains negative until the single mom earns \$27.00 per hour or \$56,160. Chart 4 shows these calculations. Net contribution to income taxes is simply defined as income taxes paid subtracted by subsidies received.

In this chart, income taxes are the sum of both federal and state income taxes. Payroll taxes are naturally excluded because they are designated to pay for future social security and Medicare benefits and do not help pay for the cost of general government. The red line in the chart is the net contribution after subsidies are subtracted. When the line is below the axis, it means the family receives more in subsidies than it pays in income taxes. The point at which the line crosses the axis is the moment when the family make a positive contribution to governmental expenses.

Chart 4: Typical scenario, net contribution to income taxes



Variations among the counties

The typical scenario just analyzed is the weighted average of all counties in Georgia and represents the potential “average” experience. Individual family experiences will vary depending on the county and decisions and circumstances of the family. This section explores differences among the counties. Several of the means-tested programs vary based on location, as set out below.

School Breakfast Program

Although the National School Lunch Program is offered in all counties in Georgia, there are fifty counties that do not offer the school breakfast program at any of their schools. In addition, seven counties only offer the breakfast program for elementary and grammar schools, and another seven counties only offer the program at elementary, grammar, or middle schools, i.e., it is not offered at the high school level.

Table 6: Counties with no or limited participation with the school breakfast program

Counties with no school breakfast programs						
Appling	Banks	Bryan	Carroll	Catoosa	Charlton	Chattooga
Cherokee	Columbia	Coweta	Dade	Dawson	Douglas	Effingham
Fayette	Forsyth	Franklin	Gilmer	Glascok	Gordon	Gwinnett
Habersham	Harris	Hart	Heard	Henry	Jackson	Jasper
Jones	Lamar	Lee	Lincoln	Lumpkin	Madison	Monroe
Morgan	Newton	Oconee	Oglethorpe	Paulding	Pickens	Pike
Putnam	Rockdale	Schley	Taylor	Towns	Walker	Walton
Wayne						
Counties with school breakfast programs only at elementary or grammar schools						
Bacon	Bleckley	Chattahoochee	Floyd	Murray	Pulaski	Treutlen
Counties with school breakfast programs only at elementary, grammar or middle schools						
Clay	Clinch	Cook	Elbert	Haralson	Spalding	Stephens

Data source: Georgia Department of Education, as of February 2016.

Housing Choice Vouchers variations

Housing choice vouchers also vary by county, which differ based on entrance income eligibility and payment standards. Income eligibility for housing choice vouchers depends on whether a county adopted “extremely low income,” “very low income” or “low income” as its income standard. Furthermore, these standards are based on percentages of median income by family size as published by HUD. However, because the Department of Community Affairs selected the extremely low income level for the 149 counties it manages, and those levels are the same across many of the counties, there are ultimately only six different income eligibility levels. The difference between the high—\$48,600 in Clayton County—and the low—\$20,160 for 152 counties—is significant.

Table 7: Entrance eligibility income for housing choice vouchers for families with three members

\$20,160	All counties except those listed below
\$20,400	Sumter County
\$22,550	Bibb County
\$23,350	Muscogee County
\$30,400	Cobb, DeKalb and Fulton Counties
\$48,600	Clayton County
\$27,574	Statewide weighted average

Sources: Georgia Department of Community Affairs, U.S. Department of Housing and Development and the housing authorities of the remaining counties not covered by DCA.

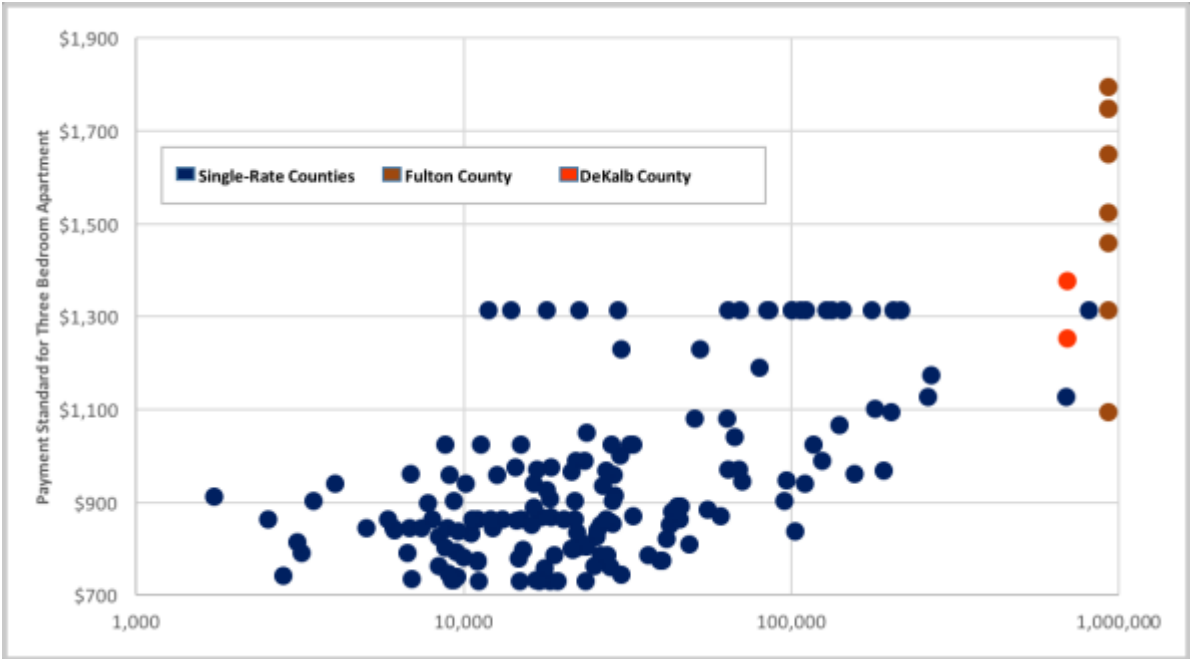
While the variation for housing entrance income eligibility is limited to six variations, which impacts getting on waiting lists, payment standards for counties are more important and vary even more widely. Each housing authority and the Department of Community Affairs may vary payment standards for rental units from 90 percent to 110 percent of the fair market rents for each county as published by HUD, and nearly all agencies do vary from the published levels.

All counties except for two have a single payment standard for each apartment size that is valid for anywhere in its respective county. DeKalb County has two sets of payment standards depending on whether the apartment is in

North DeKalb or South DeKalb. Fulton County has eight zones, seven of which are administered by the Atlanta Housing Authority, and the remaining zone is outside Atlanta, which is administered by DCA.

There are 95 different standards for a three-bedroom apartment for the 159 counties. Fulton County has seven standards for eight zones: seven in Atlanta and one outside the city. DeKalb county has two sets of standards: one for North DeKalb and the other for South DeKalb. The price for a three-bedroom apartment ranges from a low of \$730, which fifteen counties have, to \$1,795 for the northern zone of the Atlanta Housing Authority.

Chart 5: Payment standards for three-bedroom apartments by county size



Data sources: Georgia Department of Community Affairs, U.S. Department of Housing and Development and the housing authorities of the remaining counties not covered by DCA.

Child care variations

The Georgia subsidized child care program, or CAPS, has three zones listing the maximum payment rates for providers of child care services. Participating families are responsible for fees that act as copayments, and the state pays the provider the difference between the maximum rate or cost of the service, whichever is less. If the cost of the service is more than the maximum rate, the family is responsible for paying the amount over the maximum rate. The family fee is based on a chart that increases with income and the number of children receiving subsidized child care services.

Table 8: CAPS zones by county

CAPS Zone 1 Counties						
Camden	Cherokee	Clayton	Cobb	DeKalb	Douglas	Fayette
Forsyth	Fulton	Gwinnett	Hall	Henry	Paulding	Rockdale
CAPS Zone 2 Counties						
Baldwin	Barrow	Bartow	Bibb	Bryan	Bulloch	Butts
Catoosa	Chatham	Clarke	Columbia	Coweta	Dawson	Dougherty
Effingham	Floyd	Glynn	Harris	Hart	Houston	Jackson
Jones	Lamar	Lee	Liberty	Lowndes	Lumpkin	Madison
McDuffie	Morgan	Muscogee	Newton	Oconee	Peach	Pike
Putnam	Richmond	Spalding	Tift	Troup	Walker	Walton
Whitfield						
CAPS Zone 3 Counties						
Appling	Atkinson	Bacon	Baker	Banks	Ben Hill	Berrien
Bleckley	Brantley	Brooks	Burke	Calhoun	Candler	Carroll
Charlton	Chattahoochee	Chattooga	Clay	Clinch	Coffee	Colquitt
Cook	Crawford	Crisp	Dade	Decatur	Dodge	Dooly
Early	Echols	Elbert	Emanuel	Evans	Fannin	Franklin
Gilmer	Glascok	Gordon	Grady	Greene	Habersham	Hancock
Haralson	Heard	Irwin	Jasper	Jeff Davis	Jefferson	Jenkins
Johnson	Lanier	Laurens	Lincoln	Long	Macon	Marion
McIntosh	Meriwether	Miller	Mitchell	Monroe	Montgomery	Murray
Oglethorpe	Pickens	Pierce	Polk	Pulaski	Quitman	Rabun
Randolph	Schley	Screven	Seminole	Stephens	Stewart	Sumter
Talbot	Taliaferro	Tattnall	Taylor	Telfair	Terrell	Thomas
Toombs	Towns	Treutlen	Turner	Twiggs	Union	Upson
Ware	Warren	Washington	Wayne	Webster	Wheeler	White
Wilcox	Wilkes	Wilkinson	Worth			

Source: Georgia Department of Human Services

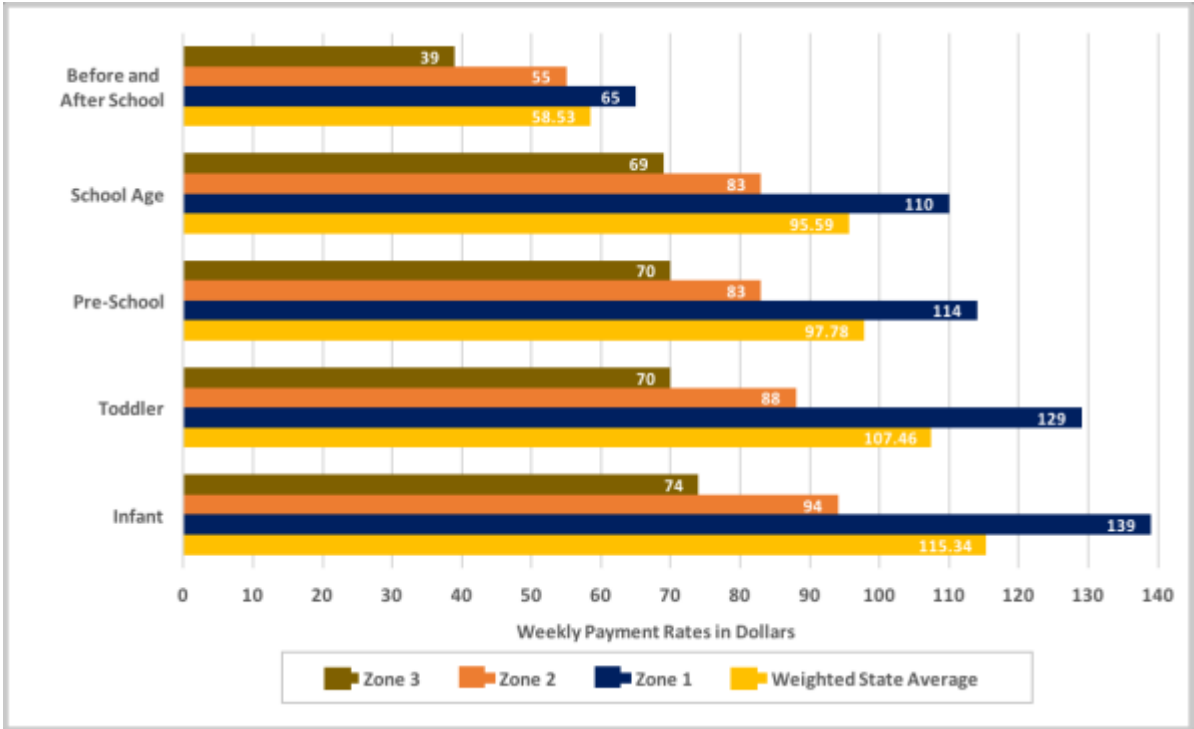
The DHS payment rates for child care services vary widely depending on the zone, age of the child, and the chosen child care setting. For example, the full-time weekly rate for an infant varies from \$50 for an informal setting in zone 3 to \$139 for a center or group setting in zone 1. For a preschooler, the range varies from \$34 for an informal setting in zone 3 to \$114 for a center or group setting in zone 1. The same pattern holds true of toddlers, school age children, and before-and-after school care and can be found by comparing charts 6, 7 and 8.

The settings are one factor in the variability in costs. Centers provide care for 19 or more children in a specialized facility and are licensed by the state. Group settings are also licensed but provide care for seven through 18 children who are not related to the provider. Family settings must register with the state and provide care in private residences for three to six children not related to the provider. Informal settings provide care for up to two unrelated children, which can be in the child's home, caregiver's home, or the home of a relative, neighbor, or friend. Center and group settings have the same rates and are the most expensive. On average, center and group setting rates are 16 percent more expensive than family rates, depending on the age classification of the

child and zone. In zone 1, they are 37.5 percent more expensive for school age children, and in zone 2, they are 4 percent more expensive for before-and-after school care. Family settings are on average 24 percent more expensive than informal settings, ranging from 2 percent for before-and-after school care in zone 1 to 44 percent more expensive for school age care in zone 3. In total, center and group settings are 43 percent more expensive than informal rates, ranging from 10 percent for before-and-after school care in zone 2 to 54 percent for infant care in zone 1.

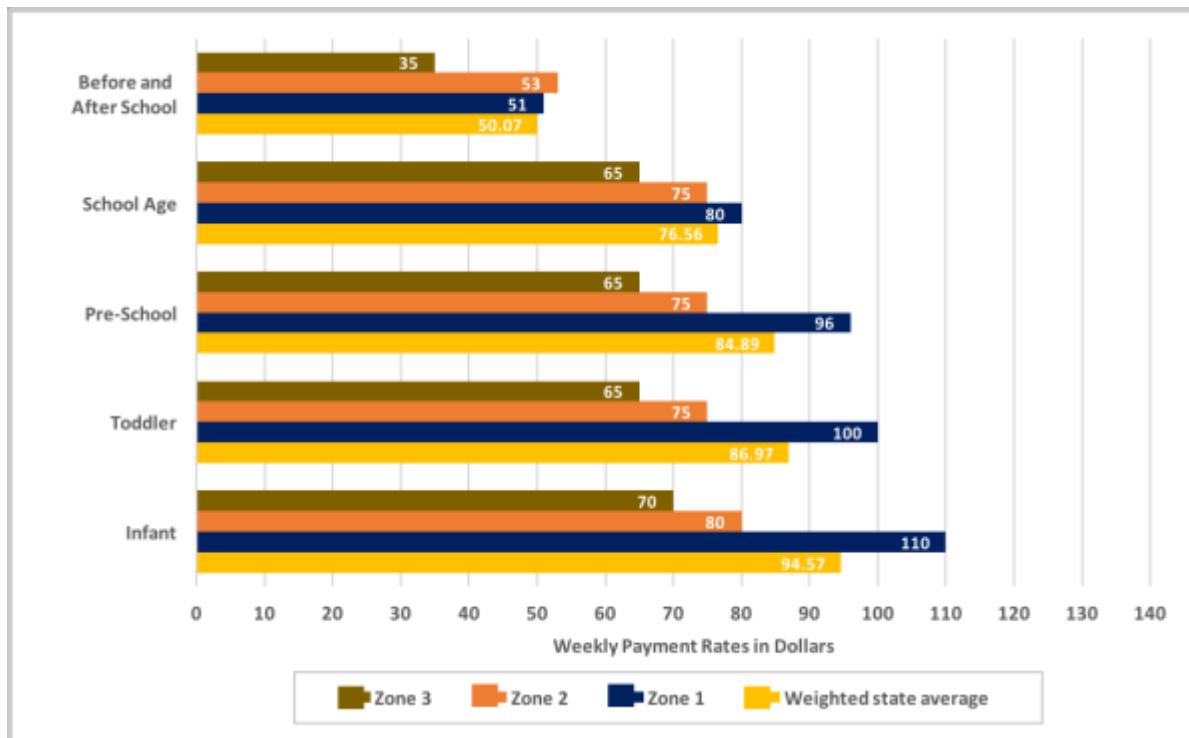
Differences among counties matter because of the zoning. Zone 1 consists of larger urban and suburban areas, zone 2 consists of smaller urban and suburban areas, and zone 3, rural areas. Full-time payment rates for counties in zone 1 are on average 37 percent more expensive for center and group settings than in zone 2. Likewise, the rates for counties in zone 2 are on average 27 percent more expensive for center and group settings in zone 3. This means that counties in zone 1 have center and group rates on average 72 percent more expensive than those counties in zone 3. The pattern holds true for family and informal settings. For family settings: zone 1 is on average 20 percent more expensive than zone 2; zone 2 is on average 22 percent more expensive than zone 3, making zone 1, on average, 45 percent more expensive than zone 3. For informal settings: zone 1 is on average 29 percent more expensive than zone 2; zone 2 is on average 31 percent more expensive than zone 3, making zone 1 some 68 percent more expensive than zone 3.

Chart 6: Full-time payment rates for subsidized child care services at center or group settings



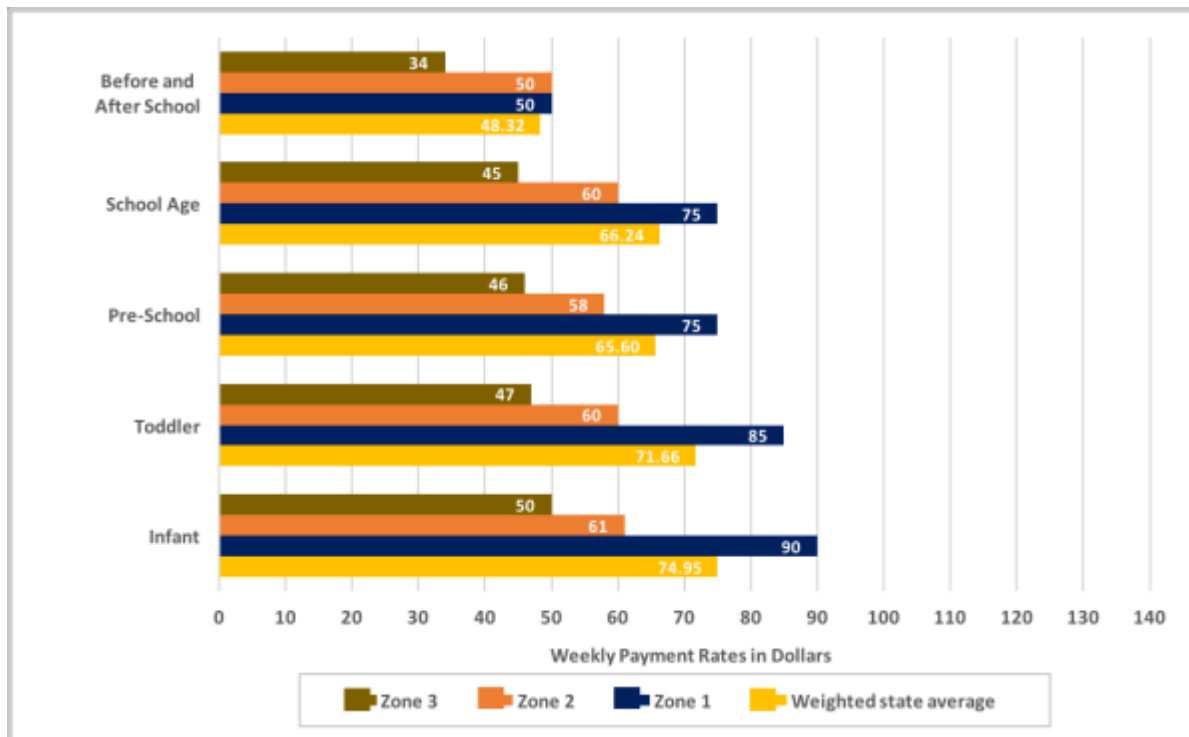
Data source: Georgia Department of Human Services

Chart 7: Full-time payment rates for subsidized child care services at family settings



Data source: Georgia Department of Human Services

Chart 8: Full-time payment rates for subsidized child care services at informal settings



Data source: Georgia Department of Human Services

ACA variations

Pursuant to implementing the Affordable Care Act, the federal government established health insurance exchange rating areas throughout the country whereby the rates are uniform within each rating area. Georgia has sixteen HIX rating areas shown in Table 9.

Table 9: HIX rating areas by county

HIX Rating Area 1								
Effingham	Calhoun	Clay	Crisp	Dougherty	Lee	Mitchell	Randolph	Schley
Sumter	Terrell	Worth						
HIX Rating Area 2								
Barrow	Clarke	Elbert	Greene	Jackson	Madison	Morgan	Oconee	Oglethorpe
HIX Rating Area 3								
Bartow	Butts	Cherokee	Clayton	Cobb	Coweta	DeKalb	Douglas	Fayette
Forsyth	Fulton	Gwinnett	Henry	Jasper	Lamar	Newton	Paulding	Pike
Rockdale	Spalding	Walton						
HIX Rating Area 4								
Carroll	Haralson	Heard						
HIX Rating Area 5								
Burke	Columbia	Emanuel	Glascok	Jefferson	Jenkins	Lincoln	McDuffie	Richmond
Taliaferro	Warren	Wilkes						
HIX Rating Area 6								
Bacon	Brantley	Camden	Charlton	Glynn	McIntosh	Pierce	Ware	Wayne
HIX Rating Area 7								
Catoosa	Dade	Walker						
HIX Rating Area 8								
Chattahoochee	Harris	Macon	Marion	Meriwether	Muscogee	Quitman	Stewart	Talbot
Taylor	Troup	Upton	Webster					
HIX Rating Area 9								
Fannin	Murray	Whitfield						
HIX Rating Area 10								
Banks	Dawson	Franklin	Habersham	Hall	Hart	Lumpkin	Rabun	Stephens
Towns	Union	White						
HIX Rating Area 11								
Atkinson	Coffee	Jeff Davis	Johnson	Laurens	Montgomery	Telfair	Toombs	Treutlen
Wheeler								

HIX Rating Area 12

Bibb	Bleckley	Crawford	Dodge	Dooly	Houston	Jones	Monroe	Peach
Pulaski	Putnam	Twiggs	Wilcox					

HIX Rating Area 13

Chattooga	Floyd	Gilmer	Gordon	Pickens	Polk			
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HIX Rating Area 14

Appling	Bryan	Bulloch	Candler	Chatham	Effingham	Evans	Liberty	Long
Screven	Tattnall							

HIX Rating Area 15

Ben Hill	Berrien	Brooks	Clinch	Colquitt	Cook	Decatur	Early	Echols
Grady	Irwin	Lanier	Lowndes	Miller	Seminole	Thomas	Tift	Turner

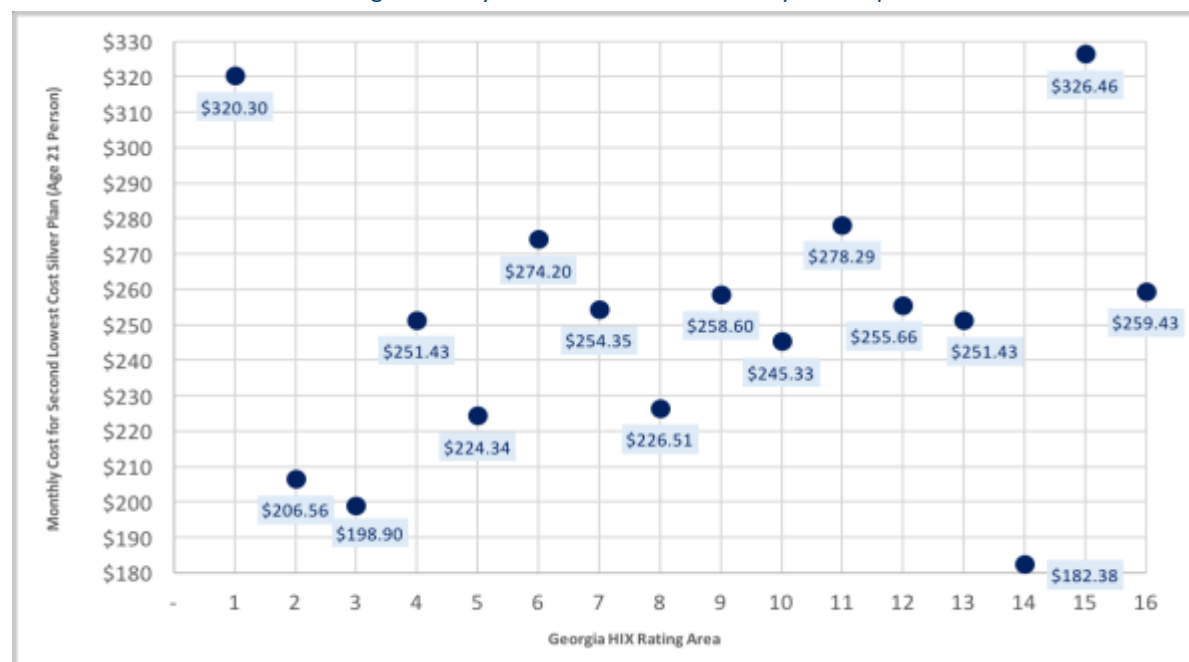
HIX Rating Area 13

Baldwin	Hancock	Washington	Wilkinson					
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Source: Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services, The Center for Consumer Information & Insurance Oversight: <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/ga-gra.html>.

Chart 9 shows the variability among rating areas for the second lowest cost silver plan (SLCSP) for 2015 for a 21-year-old person. The second lowest cost silver plan was selected because it is the basis for the premium tax credit, which is based on the cost of the plan or the SLCSP, whichever is lower. Age 21 is chosen because actuarially it is the normal basis for determining costs of health plans. That is, insurers adjust the cost of the plan using age curative data with age 21 as the starting point. The cost increases after age 25, and for children ages zero through 20, they are a percentage of the cost for a 21-year old.

Chart 9: Health insurance exchange monthly costs for non-disabled 21-year-old person



Data source: Robert Wood Johnson Foundation HIX datasets. <http://www.rwjf.org/en/library/collections/hix-silver-plan.html>

The cost for insurance varies widely across Georgia. The SLCSP for a person age 21 is as low as \$182.38 per month for rating area 14 or as high as \$326.46 per month for rating area 15, a monthly difference of more than \$144 or an annual difference of \$1,729. As the age of the person increases, the cost of the plan also increases.

Therefore, it makes more sense to examine the plans in terms of percentages. To restate the difference, insurance plans in rating area 15 are 79 percent more expensive than those in rating area 14.

The weighted average for the age 21 SLCSP was \$215.13 in 2016. However, a family's experience will vary depending on which rating area it lives in, the ages of the adults, and the number of children as well as the insurance plan it chooses.

Impact of combining benefits across counties

Chart 10 compares the differences among Fulton, Gwinnett, Hall and Peach Counties. Net earnings are shown, but refundable tax credits, TANF cash, and food benefits are not shown. Nonetheless, these benefits are assumed. Refundable tax credits and TANF cash would remain the same no matter the county. Food benefits change, however, for two reasons. First, as already explained, not all counties participate in the school breakfast program. Second, housing and child care benefits can alter benefit amounts for food stamps.

The focus of chart 10, however, is the level of benefits when considering refundable tax credits, TANF cash, food benefits and medical assistance. HIX rating areas and participation in the school breakfast program create the largest differences among the counties. Nonetheless, the differences are not remarkably different.

Chart 10: Comparing Fulton, Gwinnett, Hall and Peach Counties: Benefit levels from refundable tax credits, TANF cash assistance, food assistance and medical assistance when added to net earnings.

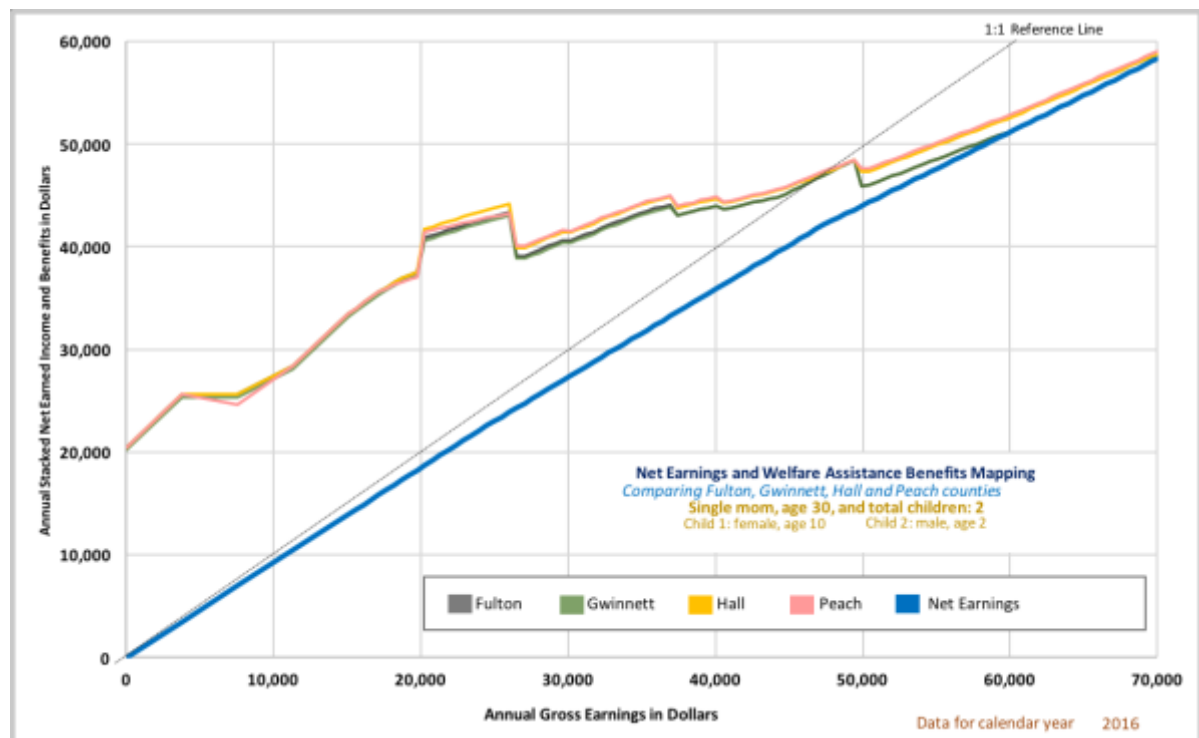


Chart 11 works the same way as chart 10, except now CAPS is added as a benefit. Because Peach county is in a

different CAPS zone, it separates from the pack with its lower payment rates for subsidized child care services.

Chart 11: Comparing Fulton, Gwinnett, Hall and Peach Counties: Benefit levels from refundable tax credits, cash assistance, food assistance, medical assistance, and subsidized child care when added to net earnings

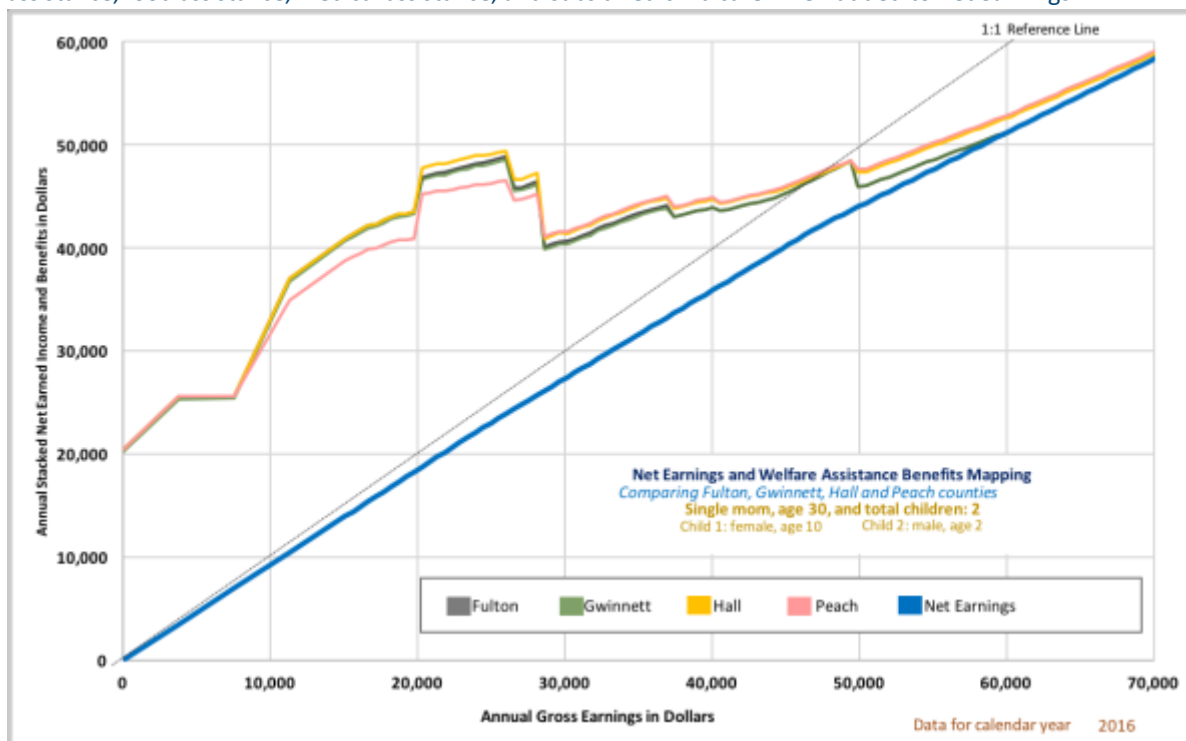


Chart 12 continues the process from charts 10 and 11, except now all means-tested welfare assistance programs are included. All four counties have welfare cliffs, and the more urban the county, the higher the benefit levels and steeper the cliffs. Fulton and Gwinnett counties—the most urban—are almost identical. Hall county benefit levels fall below the more urban counties, and Peach County—the most rural one—has the smallest benefit amounts and cliffs.

Chart 12: Comparing Fulton, Gwinnett, Hall and Peach Counties: Benefit levels from all programs when added to net earnings

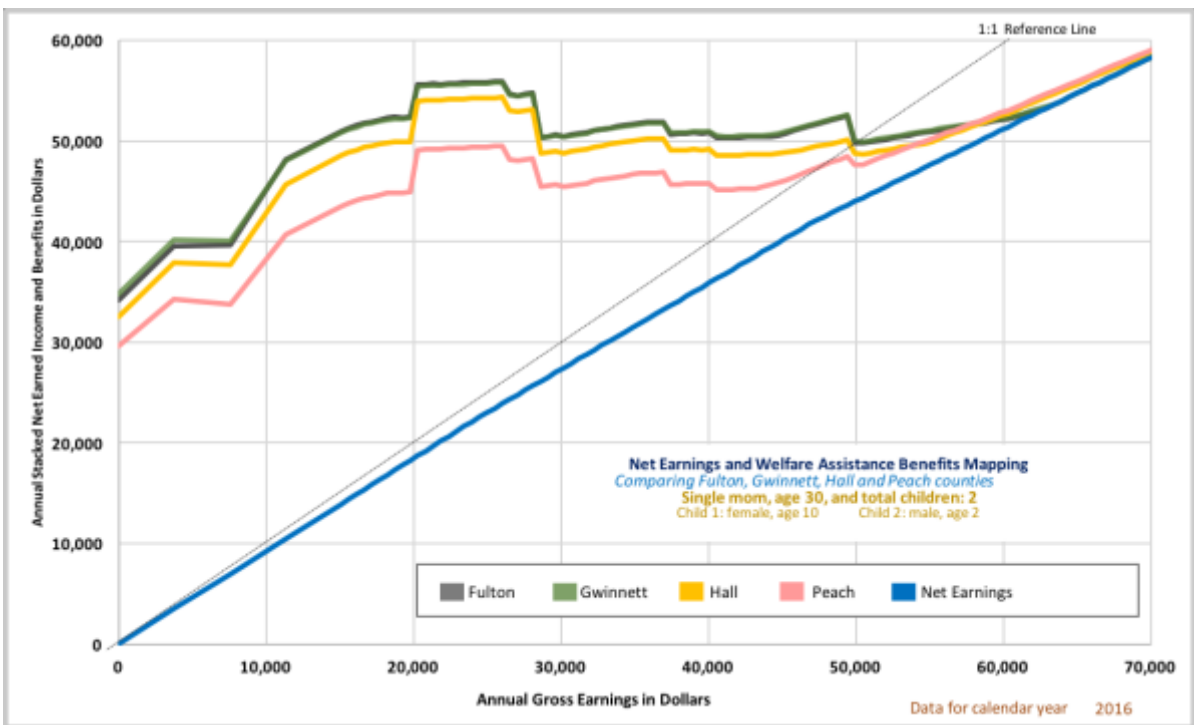


Table 10 provides some key wage levels at the points where the typical family would hit a peak and then the troughs. Peak is defined as the high point in net earnings and benefits before the cliff, and a trough is defined as the wage level after a steep cliff when the total benefit from earnings and subsidies hit bottom before they begin to climb. The peaks occur at the same wage--\$12.50 per hour—for all counties but the level of the earnings and subsidies vary for each county with the highest level for the most urban county in descending order to the least urban county.

Table 10 also shows the first two troughs. These are reached at the levels for all counties, which are \$13.00 per hour and \$13.75 per hour. Again, the total net earnings and subsidies are higher for the more urban counties.

Finally, the wages required to recover from the losses, that is, regaining in earnings what was lost in governmental subsidies, differ based the population among the counties. For Fulton County, the recovery wage is \$32.25 with net earnings and subsidies of \$56,223; for Gwinnett County, \$32.00 with net earnings and subsidies of \$55,851; for Hall County, \$30.25 with net earnings and subsidies of \$54,355, and for Peach County, \$26.00, with net earnings and subsidies of \$49,672.

Table 10: Key differences among Fulton, Gwinnett, Hall and Peach counties

County	Peak		First Trough			Second Trough			Recovery Wage	
	Wage	Earnings + Subsidies	Wage	Earnings + Subsidies	Loss	Wage	Earnings + Subsidies	Loss from first peak	Wage	Earnings + Subsidies
Fulton	\$12.50	\$55,931	\$13.00	\$54,504	-1,427	\$13.75	\$50,365	-5,566	\$32.25	\$56,223
Gwinnett	\$12.50	\$55,796	\$13.00	\$54,418	-1,377	\$13.75	\$50,279	-5,516	\$32.00	\$55,851
Hall	\$12.50	\$54,334	\$13.00	\$52,907	-1,427	\$13.75	\$48,768	-5,566	\$30.250	\$54,355
Peach	\$12.50	\$49,479	\$13.00	\$48,052	-1,427	\$13.75	\$45,416	-4,063	\$26.00	\$49,672

When dad reenters the picture—the marriage penalty

As already presented, there is a negative correlation between marriage and poverty levels. While there are many economic, sociological, cultural and personal factors that enter into the question of marriage, this section will examine whether the tax structure in combination with the welfare system imposes financial disincentives on marriage for a couple where the children are living with one parent, usually the mother, and the other parent, usually the father, is living separately. In other words, does the system disincentivize marriage? This analysis assumes the same circumstances as before: single mom, age 30, with two children: a ten-year-old girl and a two-year-old boy. The dad is assumed to be 32 years of age, and the scenario is the weighted statewide average. It is also assumed that the mom avails herself of all welfare assistance programs, including Section 8 housing vouchers. The dad could be the boyfriend of the mom and not necessarily the father of the children. However, for simplicity, the assumption will be he is the dad.

Scenario: Neither parent working

The first case examined—when neither parent earns money—is the toughest of all scenarios. From the point of view of the dad, it would be financially better if he were living with the family. The only assistance available to him living separately is food stamps, which is limited to the purchase of food. He would have no cash assistance, and it is assumed that he would not be provided any housing vouchers. Although his income level is below the threshold, preferences for housing subsidies go to families with children or disabled individuals, and considering the extremely limited availability of housing subsidies, it is unlikely a non-disabled male would receive this benefit. Consequently, unless the dad were staying with a friend or relative, it is possible that he would be homeless.

From the mother’s point of view, she is financially better off as a single parent instead of being married to the dad without any earnings. Although the family as a married couple would receive \$3,960 in cash assistance instead of \$3,360, an increase of \$600, the cash is supporting four people instead of three, reducing the average per capita benefit from \$1,120 to \$990.

In terms of food assistance, less assistance is available to them if they are married. The reason for this is the way the food stamp program works. The benefit increases with family size but the marginal benefit decreases. The largest marginal benefit amount is given to a household unit with one member. For example, the maximum monthly payment rate is \$706—comprised of \$511 for a household of three plus \$194 for a household of one—if the parents lived separately. However, if they lived together, the monthly maximum benefit amount would be \$649, which is \$57 less.

Table 11: Food stamp benefit allocations from October 1, 2014 through September 30, 2017

Household Size	Maximum Payment	Marginal Benefit
1	\$194	\$194
2	\$357	\$163
3	\$511	\$154
4	\$649	\$138

Data source: Food and Nutrition Service, U.S. Department of Agriculture

The mom would receive a higher subsidy through the housing choice voucher program—\$13,462 versus \$13,289—if she were single as opposed to married. The reason for this is that TANF cash benefits, which are higher for a married couple, increase the required tenant payment.

Finally, concerning health benefits, the dad would be better off married because he would be eligible for Medicaid as a parent but not as a single adult. However, the mom and children are eligible for Medicaid regardless whether the father lives with them as a married couple or not.

In conclusion, the mom is better off living with the children without the father present. Her per “person-benefiting” benefit—a metric used to determine the financial advantage of marriage that is an adjusted per-capita benefit calculation to specifically measure whom in the family benefits from each welfare program and aggregates the total among all programs and earnings—is \$11,163 as opposed to \$11,114 living as a married couple with the children. For this case, marriage is likely better than cohabitation. For some welfare programs, it makes no difference whether the parents are married or cohabitating for some welfare programs. The definitions for families utilized by the food stamp, TANF cash assistance, and housing programs are broad enough that they may qualify as a family without the formality of marriage.

Table 12: Neither mom nor dad earn money

	Living Separately			Married
	Mom	Dad	Combined	
Hourly Wage	\$0.00	\$0.00	\$0.00	\$0.00
Annual Gross Earnings	0	0	0	0
Net Earnings	0	0	0	0
Refundable Tax Credits	0	0	0	0
Cash Assistance	3,360	0	3,360	3,960
Food Assistance	6,960	2,328	9,288	8,484
Housing Assistance	13,462	0	13,462	13,289
Child Care Assistance	0	0	0	0
Subtotal Subsidies	23,782	2,328	26,110	25,733
Subtotal Earnings + Subsidies	23,782	2,328	26,110	25,733
Per “Person-Benefiting” Subsidies	7,927	2,328		7,447
Per “Person-Benefiting” Earnings + Subsidies	7,927	2,328		7,447
Medical Assistance	9,708	0	9,708	14,668
ACA Subsidies	0	0	0	0
Total Subsidies	33,490	2,328	35,818	40,401
Total Earnings + Subsidies	33,490	2,328	35,818	40,401
Per “Person-Benefiting” Subsidies	11,163	2,328		11,114
Per “Person-Benefiting” Earnings + Subsidies	11,163	2,328		11,114

Scenario: Only mom works

If the mom earns minimum wage and the dad has no earnings, the mom would still be financially better off if she lived separately unmarried, and significantly so: \$16,112 in the per person-benefiting metric versus \$11,301.

Compared to the prior scenario where she earned no income as a single parent, she would no longer be eligible for TANF cash assistance, and her food stamp and housing voucher benefits would decrease. However, she now receives earnings, refundable tax credits, and is eligible for child care subsidies as a single parent.

Her net earnings and refundable tax credits would be the same if she were married or not, but if she were married the income would have to support four people instead of three. It is the same situation as before with food stamps. The family and the dad would get more in food stamps if they lived separately. Again, the subsidies from the housing choice vouchers would be less for a married couple as opposed to a single mom. This anomaly is due to the loss of the dependent care deduction if she were married.

As a single mom, she would be eligible for subsidized child care, but as a married couple with only one spouse working, she would not be eligible for that benefit. Neither dad nor mom is eligible for Medicaid, but both children are covered whether they are married or not.

Cohabiting as opposed to marrying would not likely change the situation for this scenario. It would still be better for mom to live separately. It is important to understand that the “combined” totals listed in the corresponding

tables are for reference purposes. They are not equal to the benefits of cohabitation, which can vary depending on how a family applies for and is approved for benefits and often include strategies to maximum benefits that are beyond the scope of this study.

Table 13: Mom earns minimum wage but dad earns no money

	Living Separately			Married
	Mom	Dad	Combined	
Hourly Wage	\$7.25	\$0.00	\$7.25	\$7.25
Annual Gross Earnings	15,080	0	15,080	15,080
Net Earnings	13,926	0	13,926	13,926
Refundable Tax Credits	7,384	0	7,384	7,384
Cash Assistance	0	0	0	0
Food Assistance	4,848	2,328	7,176	6,048
Housing Assistance	10,452	0	10,452	9,953
Child Care Assistance	6,978	0	6,978	0
Subtotal Subsidies	29,662	2,328	31,990	23,385
Subtotal Earnings + Subsidies	43,589	2,328	45,917	37,312
Per “Person-Benefiting” Subsidies	9,887	2,328		6,633
Per “Person-Benefiting” Earnings + Subsidies	14,530	2,328		10,114
Medical Assistance	4,748	0	4,748	4,748
ACA Subsidies	0	0	0	0
Total Subsidies	34,410	2,328	36,738	28,133
Total Earnings + Subsidies	48,337	2,328	50,665	42,060
Per “Person-Benefiting” Subsidies	11,470	2,328		7,820
Per “Person-Benefiting” Earnings + Subsidies	16,112	2,328		11,301

Scenario: Both parents earn minimum wage

If both mom and dad earn minimum wage, the situation improves immensely for dad because he would have earnings to live on whether he marries or not, but marriage is still beneficial for him. For mom, the situation also favors marriage. The per member-benefiting combined earnings and subsidies metrics are greatest for being married: \$16,247 versus \$16,112 for remaining single.

Without ACA subsidies, remaining single in this scenario is clearly better for mom. Removing the ACA subsidies changes the metric to \$14,443 for being married compared to \$16,112 for remaining single, demonstrating the financial penalty. These results demonstrate the fundamental question that determines whether there is a financial penalty or not. Will dad's earnings overcome the loss in welfare benefits? For every other category of welfare benefits in this scenario, his additional earnings fall short of that task. The additional ACA subsidies, which is ironically not available to the single mom, only becomes available if she marries. Therefore, healthcare coverage—whether through an employer or the government-run exchange or not at all—becomes crucial in determining whether marriage or remaining single is financially advantageous in this scenario.

Table 14: Both mom and dad earn minimum wage

	Living Separately			Married
	Mom	Dad	Combined	
Hourly Wage	\$7.25	\$7.25	\$14.50	\$14.50
Annual Gross Earnings	15,080	15,080	30,160	30,160
Net Earnings	13,926	13,045	26,972	27,540
Refundable Tax Credits	7,384	0	7,384	6,217
Cash Assistance	0	0	0	0
Food Assistance	4,848	516	5,364	3,372
Housing Assistance	10,452	0	10,452	6,365
Child Care Assistance	6,978	0	6,978	5,522
Subtotal Subsidies	29,662	516	30,178	21,476
Subtotal Earnings + Subsidies	43,589	13,561	57,150	49,017
Per “Person-Benefiting” Subsidies	9,887	516		6,371
Per “Person-Benefiting” Earnings + Subsidies	14,530	13,561		13,256
Medical Assistance	4,748	0	4,748	4,748
ACA Subsidies	0	0	0	7,219
Total Subsidies	34,410	516	34,926	33,443
Total Earnings + Subsidies	48,337	13,561	61,898	60,984
Per “Person-Benefiting” Subsidies	11,470	516		9,362
Per “Person-Benefiting” Earnings + Subsidies	16,112	13,561		16,247

Both parents work, mom earns minimum wage, dad earns more

If the dad were to earn \$10 per hour instead of the minimum wage, marriage becomes no longer financially advantageous. The loss of subsidies makes it financially better for mom and dad to live separately. As a single mom, she would receive \$34,410 in subsidies compared to \$23,800 if married. Although family income for the married couple is greater when earnings are added in—\$56,461 versus \$48,337—the loss in per person-benefiting subsidies, which is more than \$4,000, is not offset by dad’s additional earnings when shared by the whole family. This is shown by the difference in the per person-benefiting earnings and subsidies metrics that are \$14,643 when married and \$16,112 if mom were to remain single.

Although the ACA subsidies improve the financial prospect for marriage in this scenario, they are insufficient to reverse the marriage penalty from the loss of other welfare benefits. The per person-benefiting for subsidies metric without healthcare assistance is only \$3,650 when the mom is married compared to \$9,887 if she would remain single. Adding in earnings does not overcome this marriage penalty. The revised metrics that include earnings become \$11,815 when married and \$14,530 when single.

Considering mom’s obligation to look after the best interests of her children, the financial penalty undermines the natural inclination and advantage of marriage.

Table 15: Mom earns minimum wage and dad earns \$10 per hour

	Living Separately			Married
	Mom	Dad	Combined	
Hourly Wage	\$7.25	\$10.00	\$17.25	\$17.25
Annual Gross Earnings	15,080	20,800	35,880	35,880
Net Earnings	13,926	17,403	31,329	32,660
Refundable Tax Credits	7,384	0	7,384	5,017
Cash Assistance	0	0	0	0
Food Assistance	4,848	0	4,848	1,168
Housing Assistance	10,452	0	10,452	6,306
Child Care Assistance	6,978	0	6,978	0
Subtotal Subsidies	29,662	0	29,662	12,491
Subtotal Earnings + Subsidies	43,589	17,403	60,992	45,151
Per “Person-Benefiting” Subsidies	9,887	0		3,650
Per “Person-Benefiting” Earnings + Subsidies	14,530	17,403		11,815
Medical Assistance	4,748	0	4,748	4,748
ACA Subsidies	0	0	0	6,562
Total Subsidies	34,410	0	34,410	23,800
Total Earnings + Subsidies	48,337	17,403	65,739	56,461
Per “Person-Benefiting” Subsidies	11,470	0		6,478
Per “Person-Benefiting” Earnings + Subsidies	16,112	17,403		14,643

Both mom and dad earning above minimum wage

If the mom and dad both begin to earn more, the financial penalty for marriage can still exist. If both parents earn \$14 an hour, the non-healthcare subsidies for the single mom is \$14,772. However, there are no non-healthcare subsidies if she were to marry. The per person-benefiting earnings and subsidies metric is \$14,617 when married compared to \$16,317 if she were to remain single.

Table 16: Mom and dad each earn \$14 per hour

	Living Separately			Married
	Mom	Dad	Combined	
Hourly Wage	\$14.00	\$14.00	\$28.00	\$28.00
Annual Gross Earnings	29,120	29,120	58,240	58,240
Net Earnings	26,549	23,745	50,295	51,585
Refundable Tax Credits	5,270	0	5,270	0
Cash Assistance	0	0	0	0
Food Assistance	1,168	0	1,168	0
Housing Assistance	8,334	0	8,334	0
Child Care Assistance	0	0	0	0
Subtotal Subsidies	14,772	0	14,772	0
Subtotal Earnings + Subsidies	41,321	23,745	65,066	51,585
Per “Person-Benefiting” Subsidies	4,924	0		0
Per “Person-Benefiting” Earnings + Subsidies	13,774	23,745		12,896
Medical Assistance	4,748	0	4,748	4,748
ACA Subsidies	2,884	0	2,884	2,133
Total Subsidies	22,403	0	22,403	6,881
Total Earnings + Subsidies	48,952	23,745	72,698	58,466
Per “Person-Benefiting” Subsidies	7,468	0		1,720
Per “Person-Benefiting” Earnings + Subsidies	16,317	23,745		14,617

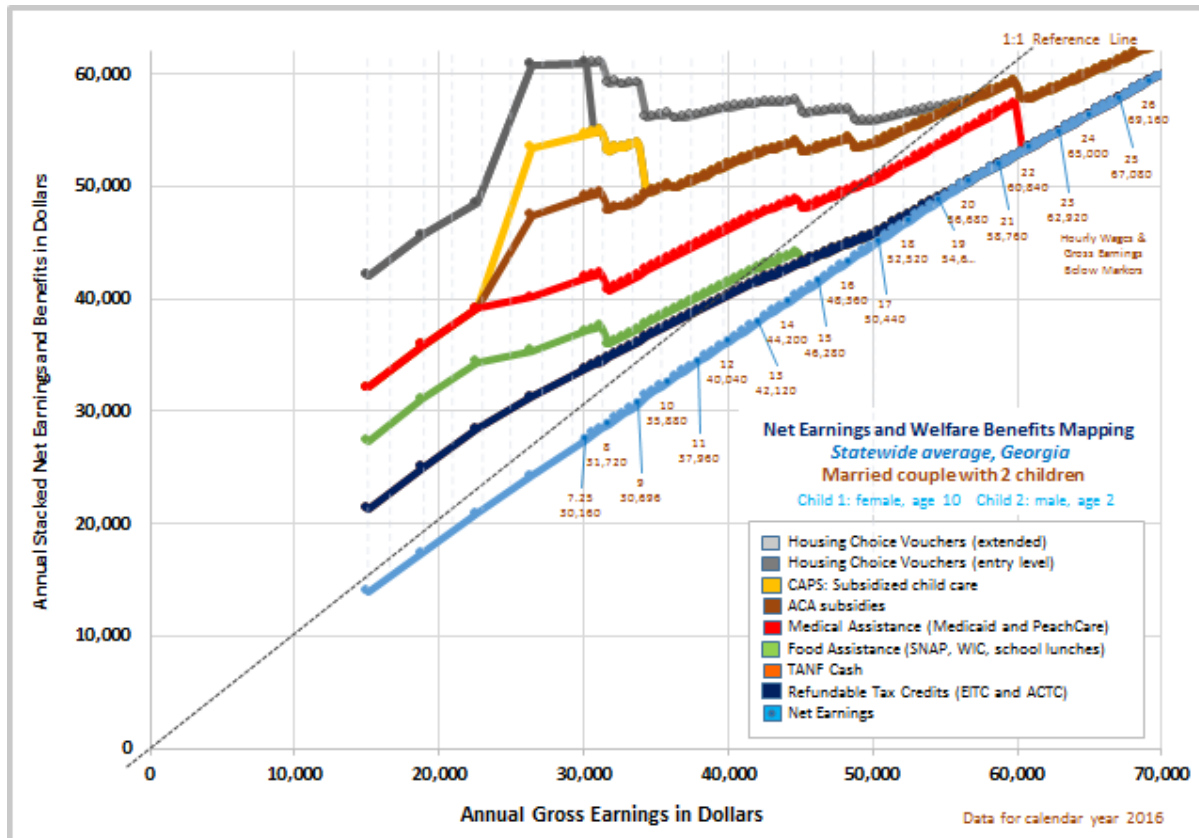
As earnings increase even more and welfare benefits subsequently decrease, the natural advantage for marriage reemerges. Considering the case where both mom and dad earn \$20 per hour, dad's earnings are finally sufficient to overcome the loss in welfare benefits. The per person-benefiting metric for marriage is \$17,688 compared to \$16,249 if they were to remain single. If their earnings increase even more, the financial advantage for marriage correspondingly increases as well.

Table 17: Mom and dad each earn \$20 per hour

	Living Separately			Married
	Mom	Dad	Combined	
Hourly Wage	\$20.00	\$20.00	\$40.00	\$40.00
Annual Gross Earnings	41,600	41,600	83,200	83,200
Net Earnings	37,217	32,649	69,865	69,392
Refundable Tax Credits	1,537	0	1,537	0
Cash Assistance	0	0	0	0
Food Assistance	0	0	0	0
Housing Assistance	4,590	0	4,590	0
Child Care Assistance	0	0	0	0
Subtotal Subsidies	6,127	0	6,127	0
Subtotal Earnings + Subsidies	43,343	32,649	75,992	69,392
Per "Person-Benefiting" Subsidies	2,042	0		0
Per "Person-Benefiting" Earnings + Subsidies	14,448	32,649		17,348
Medical Assistance	4,748	0	4,748	0
ACA Subsidies	655	0	655	1,358
Total Subsidies	11,529	0	11,529	1,358
Total Earnings + Subsidies	48,746	32,649	81,395	70,750
Per "Person-Benefiting" Subsidies	3,843	0		340
Per "Person-Benefiting" Earnings + Subsidies	16,249	32,649		17,688

Finally, it is important to note that the welfare cliffs do not disappear for married couples. Chart 13 runs the computer model for the same family type, except now it assumes that the mom is married and that one of the parents earns minimum wage. This family headed by a married couple runs into similar cliffs displaying the same irregular, steep, and uneven phase-outs of the welfare assistance programs that was already demonstrated for a family headed by a single mom.

Chart 13: Married couple: one parent earns minimum wage; other parent's earnings vary



Summarizing results

The computational model allows us to examine more closely the impact of the welfare system on incentives to improve a family's financial circumstances by earning more money. As demonstrated, the benefits of the programs making up the system distort the natural progression of attaining better financial circumstances from earning more. This paper investigated a weighted average for the state of Georgia using a typical family on welfare, which is a single mom with two children with no one disabled. It showed conclusively that the manner by which the programs determine eligibility and benefits creates welfare cliffs where the loss in government benefits exceed net earnings. It also looked at the impact of adding a father's income to the same family. These financial disincentives interfere with the natural progression of wanting to earn more money to improve the financial circumstances of one's family and discourage family formation, a potential source of both relational and financial help to the family.

Furthermore, the computational model shows the impact from the various counties. Fulton, Gwinnett, Hall, and Peach counties were chosen as representative counties for this paper, from the most urban county to a rural county. In each of the cases examined, the pattern is essentially the same, although dollar amounts and income levels differ. For the representative counties, the more populated the county, the more the benefit amounts. Fulton County allowed higher benefit amounts and required even higher earnings to recover from the loss of benefits.

There are several important implications. First, the disincentives embedded in the system can “trap” families into low-income lifestyles and low wages. Because recipients experience steep losses in benefits in very short periods of time as their wages increase, there is little rational basis to justify earning more money. Second, the incentives are perverse and inequitable. A family earning more money may be worse off financially than a family earning less income because of the governmental subsidies. Not only is this unfair to the family earning more money, but it also encourages families to earn less so that they can avail themselves of the subsidies. Finally, these programs can act as a wedge between mothers and fathers and between fathers and their children because they impose financial penalties on family formation.

At a program level, the problem is worse with some governmental programs than with others. In this analysis, TANF cash showed no perverse effects and is helpful to families at the lowest income levels. Refundable tax credits by themselves— EITC and ACTC—both preserved natural incentives to earn more money, although they restrict cash flow because a family must wait until the end of a tax year to get the refund. Food assistance—food stamps, subsidized school meals and WIC food packages—introduce welfare cliffs. Subsidized school meals and WIC food packages have hard cut-offs, creating minor welfare cliffs. Food stamps are more complex and the size of the cliff, which can be significant, varies based on other benefit programs received that impact housing and child care costs.

Housing benefits, i.e., housing choice vouchers, create gross inequities between the few selected families who get the benefits and the overwhelming majority of non-selected families who may not even be allowed to get on the waiting list. Subsidized child care introduces the worst cliffs, although the benefit disappears when the children age out at 13, unless the child is disabled, when the family is no longer eligible for the benefit for that child.

Subsidized medical care is complex, consisting of low-income Medicaid, PeachCare and ACA subsidies. If the single-mom family is unable to secure health insurance through the mom's employer, she will likely be ineligible

for Medicaid and the ACA subsidies because her income will be too much for Medicaid and too little for the subsidies through the exchange. Her children will likely be covered either by Medicaid or PeachCare, or perhaps one child on each, depending on her income and their ages. Once they lose those coverages, the family will hit welfare cliffs.

The computational model also examined the potential financial impact on marriage, i.e., whether there are financial incentives or disincentives for marriage. It was shown consistently that as long as the single mom and her children are receiving subsidies, it is usually financially advantageous to be a single mom as opposed to part of a married couple. The dad must earn enough to overcome the loss in benefits to make marriage financially worthwhile, contrary to what naturally would happen in the absence of benefits.

Finally, it was shown that the pattern of welfare cliffs that exist for a single-mom family also exist for a married couple receiving welfare benefits.

Groundwork for Reform

The computational model provides a valuable tool that can be used to help reform the welfare system that will eliminate disincentives to earn more money and enter into marriage. The model provides lessons and an overview on how the system works as a whole and reveals principles for reform that cannot be violated. It can also be adapted and developed further to facilitate a new eligibility system of a reformed system.

One principle that cannot be violated is that a family must always be better off from earning more money. Mathematically, this is easy to explain. The marginal benefit from earnings and subsidies must always be more with increased earnings. Graphically, it is easy to show because the line combining earnings and subsidies must always have a positive slope. If at any time the slope is negative, then there is a welfare cliff. Implementing these changes at a program level will be more difficult.

However, reforming the system must also begin with the benefit amounts. As explained, it is not fiscally possible to start at the current peaks and overlay a smoothed-out earnings/ subsidies line without breaking the bank. The peaks are too high. Therefore, the reform will require redefining the peak levels so the system becomes fiscally feasible.

A major problem revealed with the current system is that the programs are not integrated. The programs have different eligibility standards and methods of calculating benefits, and they are administratively not coordinated. It will be necessary to integrate and coordinate the programs in order to reform them. One solution could be to appoint a single agency to oversee the total package of welfare benefits received by a family with the power to override eligibility standards and benefit amounts of individual programs to preserve the overriding principles mentioned above.

Although not the subject of this paper, the reforms will work better if they recognize natural support systems and work with those systems. Families and community organizations, such as faith-based organizations, provide a natural support structure that can help by providing commodities, services, encouragement, or mentoring. Finally, a reformed system will work best if other policy changes are implemented along with the reform that promote market-based solutions that drive down prices for services, such as affordable housing and health insurance.

End notes

1. Shelley K. Irving and Tracy A. Loveless, U.S. Census Bureau, Household Economic Studies, P70-141, Dynamics of Economic Well-Being: Participation in Government Programs, 2009–2012: Who Gets Assistance?, 2014, U.S. Government Printing Office, Washington, DC, May 2015, pp. 9 and 10.
<http://www.census.gov/content/dam/Census/library/publications/2015/demo/p70-141.pdf>.
2. Ibid.
3. Carmen DeNavas-Walt and Bernadette D. Proctor, U.S. Census Bureau, Current Population Reports, P60-252, Income and Poverty in the United States: 2014, U.S. Government Printing Office, Washington, DC, 2015, Table 4, p. 16. <http://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-252.pdf>.
4. U.S. Census Bureau, American Community Survey 2014 1 year estimates, Table CP03: Comparative Economic Characteristics. Comparison profiles are available through the Census Bureau's American Factfinder: <http://www.census.gov/acs/www/data/data-tables-and-tools/american-factfinder>.
5. Steven Ruggles, Katie Genadek, Ronald Goeken, Josiah Grover, and Matthew Sobek. Integrated Public Use Microdata Series: Version 6.0 [Machine-readable database]. Minneapolis: University of Minnesota, 2015. Author's extraction and calculations. Definition of married are those who were married at the time of the survey and includes those with an absent parent or parents who are separated.
6. Ibid. Author's extraction and calculations. Definition of married are those who were married at the time of the survey and includes those with an absent parent or parents who are separated. Definition of unmarried are those who are widowed, divorced or never married.
7. Ibid. Author's extraction and calculations. Definition of married are those who were married at the time of the survey and includes those with an absent parent or parents who are separated.
8. Table B13002: Women 15 To 50 Years Who Had A Birth In The Past 12 Months By Marital Status And Age - Universe: Women 15 to 50 years, American Community Survey, 1-year estimates. Comparison profiles are available through the Census Bureau's American Factfinder: <http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml>
9. The U.S. Food, Conservation and Energy Act of 2008, more commonly known as the Farm Bill of 2008, renamed the "food stamps" program as the Supplemental Nutrition Assistance Program (SNAP), effective October 1, 2008.
10. Internal Revenue Service, "Advance Payments of EITC Eliminated, Archived notice, <https://www.eitc.irs.gov/EITC-Central/hot/archive>; Press Briefing by OMB Director Peter Orszag and CEA Chair Christina Romer, The White House, February 26, 2009. <https://www.whitehouse.gov/the-press-office/press-briefing-omb-director-peter-orszag-and-cea-chair-christina-romer>; Mark Robyn, "Obama Proposes Elimination of Advance Earned Income Tax Credit," Tax Foundation Blog, March 8, 2009. <http://taxfoundation.org/blog/obama-proposes-elimination-advance-earned-income-tax-credit>
11. Georgia was one of two states who had banned payday loans, widely considered to be "predatory" lending, and which was studied by two economists at the Federal Reserve Bank of New York. The study concluded that low-income Georgians were not better off. There were more bounced checks that come with bounced-check fees that are higher in cost than payday loan rates, increased complaints about traditional lenders and debt collectors, and increased rates in Chapter 7 bankruptcy filings. "Banning payday loans did not save Georgian households \$153 million per year, as the ... [Center for Responsible Lending] projected, it cost them millions per year in returned check fees. ... payday credit is cheaper than the 'bounce' protection that earns millions for credit unions and banks. Forcing households to replace costly credit with even costlier credit is bound to make them worse off." Donald P. Morgan and Michael R. Strain, "Payday Holiday: How Households Fare after Payday Credit Bans," Federal Reserve Bank of New York Staff Reports, no. 209, November 2007; revised February 2008. https://www.newyorkfed.org/research/staff_reports/sr309.html.

12. Tracy A. Loveless, "Supplemental Nutrition Assistance Program (SNAP) Receipt for Households: 2000–2013," American Community Survey Briefs, U.S. Department of Commerce, Economics and Statistics Administration, U.S. CENSUS BUREAU, Issued March 2015, ACSBR/13-08, p. 3.
<http://www.census.gov/content/dam/Census/library/publications/2015/acs/acsbr13-08.pdf>.

Sources

Data and other information used in the computer-based modeling and this report were extracted from official sources on eligibility and program administration. In addition, other reputable sources were examined, and administrators and other experts were consulted. The information and rules were then converted to allow for analyses, tables, and graphics found in this report. The following descriptions provide summaries of some of the more important sources.

Federal poverty guidelines are published annually and available from the Office of the Assistant Secretary for Planning and Evaluation (ASPE), U.S. Department of Health and Human Services, “Poverty Guidelines”:

<https://aspe.hhs.gov/poverty-guidelines>

Federal income tax information is available from the Internal Revenue Service, U.S. Department of the Treasury.

Variable 2015 tax information can be found in the Internal Revenue Bulletin, Bulletin No. 2014-47, November 17, 2014: Rev. Proc. 2014–61, pp. 865-866: <https://www.irs.gov/pub/irs-irbs/irb14-47.pdf>. In addition, the IRS provides specific guidance to tax topics.

U.S. Tax Code information is available through the Legal Information Institute of the Cornell University Law School. Specifically, 26

U.S. Code §§ 21 (Expenses for household and dependent care services necessary for gainful employment), 32 (Earned income), and 24 (Child tax credit): <https://www.law.cornell.edu/uscode/text/26/24>, <https://www.law.cornell.edu/uscode/text/26/21>, and <https://www.law.cornell.edu/uscode/text/26/32>, respectively.

Information on the elimination of the advance payments of the EITC can be found from the following sources: Internal Revenue Service, “Advance Payments of EITC Eliminated, Archived notice: <https://www.eitc.irs.gov/EITC-Central/hot/archive>; Press Briefing by OMB Director Peter Orszag and CEA Chair Christina Romer, The White House, February 26, 2009: <https://www.whitehouse.gov/the-press-office/press-briefing-omb-director-peter-orszag-and-cea-chair-christina-romer>; Mark Robyn, “Obama Proposes Elimination of Advance Earned Income Tax Credit,” Tax Foundation Blog, March 8, 2009: <http://taxfoundation.org/blog/obama-proposes-elimination-advance-earned-income-tax-credit>

Data on Georgia income taxes were extracted from Georgia forms and instructions, specifically Individual Income Tax 500 and 500 EZ forms and instructions, found on the Department of Revenue’s website:

<https://dor.georgia.gov/individual-taxes> and <https://dor.georgia.gov/popular-forms>.

TANF information is available from the Georgia Department of Human Services. Specifically, rule and regulations of the State of Georgia provide information on the TANF program: <http://rules.sos.state.ga.us/gac/290-2-28>. Important data can be found in Georgia’s State Plan Renewal FFY-2014– FFY 2015 Temporary Assistance for Needy Families, Georgia Department of Human Services, Division of Family and Children Services, Submitted September 27, 2013: <http://dhs.georgia.gov/sites/dhs.georgia.gov/files/Georgia%20State%20Renewal%20Plan%20FFY%202014-2015%20Rev%2009-27-13.pdf>. Additional information, including fact sheets and public notices, are available on the Division of Family and Children Services’s webpage dedicated to TANF:

<http://dfcs.dhs.georgia.gov/temporary-assistance-needy-families>. Additional information is available from the Urban Institute’s Welfare Rules Databook: Erika Huber, Elissa Cohen, Amanda Briggs, and David Kassabian, Welfare Rules Databook: Policies of July 2014, Urban Institute, OPRE Report 2015-81, August 2015: [http://anfdata.urban.org/databooks/2014%20Welfare%20Rules%20Databook%20\(FINAL\).pdf](http://anfdata.urban.org/databooks/2014%20Welfare%20Rules%20Databook%20(FINAL).pdf).

SNAP data are made available and eligibility rules are promulgated by the Food and Nutrition Service of the U.S. Department of Agriculture. Eligibility rules and sample calculations can be found on its website:

<http://www.fns.usda.gov/snap/eligibility>. In addition, statutory information can be found through the Legal Information Institute of the Cornell University Law School: 7 U.S. Code Chapter 51 – Supplemental Nutrition

Assistance Program: <https://www.law.cornell.edu/uscode/text/7/chapter-51>.

Data for the National School Lunch Program and School Breakfast Program are available through the Food and Nutrition Service of the U.S. Department of Agriculture and the Division Director for School Nutrition Program for the State of Georgia Department of Education. Child nutrition tables are available through the FNS:

<http://www.fns.usda.gov/pd/child-nutrition-tables>. FNS also provides fact sheets on its programs:

<http://www.fns.usda.gov/sites/default/files/NSLPFactSheet.pdf> and <http://www.fns.usda.gov/sites/default/files/SBPfactsheet.pdf>. Program rules are defined in the Federal Register, Volume 79, No.

43, Wednesday, March 5, 2014: <http://www.fns.usda.gov/sites/default/files/2014-04788.pdf>. In addition, Georgia's School Nutrition Program provided data to the author on participating schools.

Data for the Women, Infants and Children food packages came from the Food and Nutrition Service of the U.S.

Department of Agriculture. Information can be found on its WIC program website:

<http://www.fns.usda.gov/pd/wic-program>

Section 8 Housing Choice Voucher data and information are available through the Office of Public and Indian Housing, U.S. Department of Housing and Urban Development, the Georgia Department of Community Affairs, and the following housing authorities: Macon Housing Authority, Savannah Housing Authority, Jonesboro Housing Authority, Marietta Housing Authority, Housing Authority of DeKalb County, Atlanta Housing Authority, Brunswick Housing Authority, Columbus Housing Authority, Augusta Housing Authority and Americus Housing Authority.

HUD provides a Voucher Program Guidebook, April 2001: [http://](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/forms/guidebook)

portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/forms/guidebook. In addition, HUD provides datasets giving income limits and fair market rents:

<https://www.huduser.gov/portal/datasets/il/il15/index.html> and

<https://www.huduser.gov/portal/datasets/fmr.html>. DCA policies can be found in its Housing Choice Voucher Administration Plan (revised September 1, 2015), including the payment standards for 149 counties:

(http://dca.state.ga.us/housing/RentalAssistance/programs/downloads/2015%20PS_Final.pdf). Other program information can be found on DCA's website for the Housing Choice Voucher Program:

http://dca.state.ga.us/housing/RentalAssistance/programs/hcvc_program.asp. The housing authorities listed above were individually contacted by the author and staff of the Georgia Center for Opportunity, and they provided information on their payment standards and income limits.

The Child Care and Parent Services program is administered by the Division of Family and Children Services within the Department of Human Services. General information can be found on its Subsidized Child Care Assistance website:

<http://dfcs.dhs.georgia.gov/subsidized-child-care-assistance>. Income limits are found on its website:

<http://dfcs.dhs.georgia.gov/caps-income-requirements>. Weekly assessed family fees are found in the Georgia CCDF State Plan and Attachments (Attachment 2.4.1):

http://dfcs.dhs.georgia.gov/sites/dfcs.dhs.georgia.gov/files/imported/DHR-DFCS/DHR-DFCS%20CAPS/Files/2012-2013CCDFStatePlan/2012-2013_Attachment2.4.1.pdf. Provider payments are found in the same document.

http://dfcs.dhs.georgia.gov/sites/dfcs.dhs.georgia.gov/files/imported/DHR-DFCS/DHR-DFCS%20CAPS/Files/2012-2013CCDFStatePlan/2012-2013_Attachment2.7.1.pdf

An open record request was submitted to the Department of Community Health to receive data relating to the low-income Medicaid and PeachCare programs. Historic data can be found in the Department's annual reports. See Annual Report for FY 2014, Georgia Department of Community Health: <https://dch.georgia.gov/fy-2014-annual-report-auxiliary-charts>. In addition to the department, eligibility requirements can be found on the federal government's Medicaid site operated by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services: <https://www.medicaid.gov/medicaid-chip-program-information/by-state/georgia.html>.

Health Insurance Exchange data of the Affordable Care Act came from various sources. The Congressional Research Service published a paper on the premium tax credit: Bernadette Fernandez, Specialist in Health Care Financing, “Health Insurance Premium Credits in the Patient Protection and Affordable Care Act (ACA)”, Congressional Research Service, R41137, March 12, 2015: <http://fas.org/spp/crs/misc/R41137.pdf>. Text of the Affordable Care Act also was consulted: <http://housedocs.house.gov/energycommerce/ppacacon.pdf>. The Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services, provides information and datasets on HIX, including Qualified Health Plan selections that were used to weight averages for second lowest cost silver plans: <https://data.healthcare.gov/dataset/2015-Qualifying-Health-Plan-Selections-by-Household/sy6b-59wj> and <https://data.healthcare.gov/dataset/2015-Qualifying-Health-Plan-Selections-by-CSR-and-ncbw-vdsn>. The geographic rating areas are listed by the Department’s Center for Consumer Information & Insurance Oversight: <https://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Market-Reforms/ga-gra.html>. The Department of Health and Human Services’ Final Rule published in Federal Register on March 11, 2014, Volume 79, No. 47, provides important payment parameters, costing sharing variation adjustments, and calculation methodologies. The Internal Revenue Service has several forms, instructions and information on HIX tax credits, including Form 1095-A, Form 8962, Publication 974 and Publication 5187. The Robert Wood Johnson Foundation has made available datasets on HIX rates: <http://www.rwjf.org/en/library/collections/hix-silver-plan.html>. The Heritage Foundation provided advice on actuarial adjustments on federal cost-sharing subsidies to reduce out-of-pocket expenses of consumers.

In addition, the following sources were cited:

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<https://www.ipums.org>.

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<http://factfinder.census.gov/faces/nav/jsf/pages/searchresults.xhtml> and <http://www.census.gov/acs/www/data/data-tables-and-tools/american-factfinder>



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