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STAFF DATA WITH RESPECT TO
EARNED INCOME
DISREGARD

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*



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EARNED INCOME DISREGARD

Statutory Provisions Prior to 1967

Before 1967, an adult receiving Aid to Families with Dependent Children had her welfare payment reduced \$1 for each dollar of net earnings. In calculating net earnings, work expenses were deducted from income before the welfare payment was reduced. Since net earnings resulted in a dollar-for-dollar offset against welfare, the definition of work expenses under the regulations of the Department of Health, Education, and Welfare was a broad and generous one. Under the law in effect before 1967, for example, a mother with monthly earnings of \$200 and work expenses of \$100 would have been treated as shown in table 1.

TABLE 1.—*Effect of earnings on welfare before 1967 amendments*

	State having welfare payment level of—		
	\$200	\$250	\$320
1. Gross earnings.....	\$200	\$200	\$200
2. Work expenses.....	—100	—100	—100
3. Net earnings (line 1 minus line 2).....	100	100	100
4. Budgeted needs under welfare....	200	250	320
5. Welfare payment (line 4 minus line 3).....	100	150	220
6. Total gross income (gross earn- ings plus welfare payment, line 1 plus line 5).....	300	350	420

1967 Social Security Amendments

In its efforts to deal with the problems of rising dependency on welfare, the Congress in 1967 enacted the Work Incentive Program. An element of that program required States for the first time to disregard a portion of the monthly earnings of an adult AFDC recipient in order to provide an incentive for the recipient to take employment. Specifically, States had to disregard the first \$30 earned monthly plus one-third of additional earnings. From the Committee reports, both in the House and Senate, it seems that the Congress intended

the \$30 plus one-third disregard to apply *in lieu* of the prior deduction of work expenses. In the 1967 House report, the disregard provision was illustrated as follows:

As an example of these provisions, take a family consisting of a mother and three children who have a grant of \$200 a month. If the mother goes to work and earns \$120 in a month, her family will get the \$120 of earnings plus \$140 of grant (two-thirds of the earnings above \$30 would have been deducted) for a total of \$260. (1967 House Report, page 107.)

An example cited in the 1967 Senate Report similarly omits any reference to work expenses.

However, the Congress did not change the statutory requirement that work expenses be deducted in determining need. The Department of Health, Education, and Welfare did nothing to limit the definition of work expenses in light of the new earned income disregard. The Department's regulations consider the following items as work expenses:

- Social security taxes;
- Federal and State income taxes;
- Union dues;
- Due to employee clubs;
- Transportation to and from work;
- Child care;
- Increased cost of food, including cost of more expensive ready-prepared food when the housewife works;
- Snack break where customary;
- Special clothing or uniforms and cost of cleaning or laundering them;
- Contributions to collections for mandatory employee benefits such as private pension contributions;
- Tools and licenses required for the job; and
- Additional expenses related to employment, including any necessary publications.

In fact, Department regulations went even further by requiring that work expenses be deducted in full *after* disregarding the first \$30 plus one-third of remaining earnings rather than applying the disregard to net earnings. Thus under the Department's guidelines and regulations, the earned income disregard coupled with the deduction for work expenses was far more generous than the legislative history shows that the Congress contemplated. The examples in table 2 below submitted by the State of Nebraska in 1970 illustrate how this double deduction enabled families with substantial income to remain on welfare.

TABLE 2.—*Examples of effect of earned income disregard plus work expense deduction in Nebraska*

	Case		
	1. Father, disabled mother, and 3 children	2. Mother and 3 children	3. Mother and 2 children
1. Gross wages.....	\$800	\$569	\$380
2. \$30 disregard.....	—30	—30	—30
3. Subtotal.....	770	539	350
4. $\frac{1}{3}$ disregard.....	—257	—180	—117
5. Subtotal.....	513	359	233
6. Work expenses.....	—188	—133	—79
7. Net income for welfare purposes.....	325	226	154
8. Budgeted need for welfare.....	504	338	238
9. Welfare payment (line 8 minus line 7).....	179	112	84
10. Total gross income (gross wages plus welfare, line 1 plus line 9).....	979	681	464

The examples shown on table 2 are actual examples. In order to provide examples comparable with the tables shown elsewhere in this pamphlet, table 3 below shows some simplified examples.

TABLE 3.—*Impact of earnings disregard and work expense deduction under 1967 amendments*

Family composition	State having welfare payment level of—		
	\$200	\$250	\$320
1. Gross wages.....	\$200	\$200	\$200
2. \$30 disregard.....	—30	—30	—30
3. Subtotal.....	170	170	170
4. ⅓ disregard.....	—57	—57	—57
5. Subtotal.....	113	113	113
6. Work expenses.....	—100	—100	—100
7. Net income for welfare purposes.....	13	13	13
8. Budgeted need for welfare.....	200	250	320
9. Welfare payment (line 8 minus line 7).....	187	237	307
10. Total gross income (gross wages plus welfare, line 1 plus line 9).....	387	437	507

Earnings Disregard Under H.R. 1

H.R. 1 seeks to end the abuse of the work expense deduction by replacing the present disregard (the first \$30 earned monthly plus one-third of additional earnings plus the work expense deduction) with a flat disregard of the first \$60 earned monthly plus one-third of additional earnings. Actual expenses for child care represent the only allowable work expense. Table 4 below shows the impact of this provision of H.R. 1, assuming that child care has been provided to a mother at no cost to her.

TABLE 4.—*Impact of earned income disregard provision of H.R. 1*

Family composition	State having welfare payment level of—		
	\$200	\$200	\$320
1. Gross wages.....	\$200	\$200	\$200
2. \$60 disregard.....	60	60	60
3. Subtotal.....	140	140	140
4. ½ disregard.....	—47	—47	—47
5. Subtotal.....	93	93	93
6. Work expenses.....			
7. Net income for welfare purposes.....	93	93	93
8. Budgeted need for welfare.....	200	250	320
9. Welfare payment (line 8 minus line 7).....	107	157	227
10. Total gross income (gross wages plus welfare, line 1 plus line).....	307	357	427

Ribicoff Amendment No. 559

Under Senator Ribicoff's printed amendment No. 559, the earnings disregard provision would be similar to that under H.R. 1 except that 40 percent rather than 33 percent of earnings in excess of the first \$60 monthly would be disregarded, as illustrated in Table 5 below.

TABLE 5.—*Impact of earned income disregard provision under Ribicoff Amendment No. 559*

Family composition	State having welfare payment level of—		
	\$200	\$200	\$320
1. Gross wages.....	\$200	\$200	\$200
2. \$60 disregard.....	—60	—60	—60
3. Subtotal.....	140	140	140
4. 40 percent disregard.....	—56	—56	—56
5. Subtotal.....	84	84	84
6. Work expenses.....			
7. Net income for welfare purposes.....	84	84	84
8. Budgeted need for welfare.....	200	250	320
9. Welfare payment (line 8 minus line 7).....	116	166	236
10. Total gross income (gross wages plus welfare, line 1 plus line 9).....	316	366	436

Staff Suggestion for Earnings Disregard Once Employment Program Becomes Effective

1. *Treatment of earnings for State supplementation purposes, for individual in employment program.*—In its deliberations the Committee has made it clear that it does not wish to require any State to pay more than \$2,400 annually to a family of four. However, in order to avoid a situation where higher benefits are provided a mother under the welfare system than under the employment program, the Committee has agreed that any State paying more than \$200 per month in welfare benefits to an AFDC-type family eligible for welfare (that is, one headed by a mother) will have to supplement the wages of a work program participant to that same level. For example, a State paying \$250 per month to a welfare mother with three children would have to pay \$50 as a welfare supplement to a mother with three children earning \$200 as an employee of the Government under the employment program.

Furthermore, the State would be required to disregard any earnings between \$200 a month and \$300 a month (the amount an employee would earn working 40 hours a week at the minimum wage) to ensure that the incentive system of the employment program is preserved. These earnings disregards would be a flat requirement; States would not be required to take into account work expenses. States would be

free to treat income above \$300 monthly in any way they wished as long as the first \$300 earned is treated as though it were \$200. The effect of this requirement would be to give a participant in the work program a strong incentive to work full time (since earnings of \$200 will be attributed to her in any case), and it would not interfere with the strong incentives she would have to seek regular employment rather than working for the Government at \$120 per hour.

The table below shows how wages under the employment program would be treated for State welfare purposes:

Hours worked per week	None	20	40	40
Hourly wage.....		\$1. 20	\$1. 20	\$1. 60
Approximate actual monthly income.....	0	100. 00	200. 00	300. 00
Income deemed available for State welfare purposes.....	\$200	200. 00	200. 00	200. 00

2. *Treatment of earnings under welfare program for persons not participating in employment program.*—If the earned income disregard provision of present law or of H.R. 1 were to apply to the earnings of a person still eligible for AFDC benefits once the employment program is effective, it would generally be considerably more attractive to remain on welfare than to participate in the employment program, since earnings would be treated more generously under welfare.

The staff suggestion attempts to meet both the goal of not having the State undermine the work incentive built into the employment program and, at the same time, not providing a disincentive for a welfare mother to seek employment on her own or to volunteer to participate in the employment program.

For mothers working full time, the staff suggestion provides identical treatment for the mother participating in the employment program who receives a State supplement and the mother who has full employment on her own, but is still eligible for a welfare payment, as shown in items 4 and 5 of table 6 below. The table also shows the payment levels if there were no earned income disregard.

TABLE 6.—Effect of earnings disregard under staff suggestion and effect of having no earnings disregard

	Staff suggestion		No earnings disregard	
	Welfare	Work program	Welfare	Work program
A. In State paying \$200 per month:				
1. No earnings: Welfare payment.....	\$200	0	\$200	0
2. Mother works half time at \$1.20 per hour in private employment:				
(a) Wages from employer.....	104	\$104	104	\$104
(b) Wage supplement and work bonus.....	36	36	36	36
(c) Total earnings (line (a) plus line (b)).....	140	140	140	140
(d) Earnings disregarded.....	-40	---	0	---
(e) Earnings for welfare purposes.....	100	200	140	200
(f) Welfare payment or supplement (\$200 minus line (e)).....	100	0	60	0
(g) Actual income (line (c) plus line (f)).....	240	140	200	140
3. Mother works half time at \$1.60 per hour:				
(a) Wages from employer.....	139	139	139	139
(b) Work bonus.....	14	14	14	14
(c) Total earnings (line (a) plus line (b)).....	153	153	153	153
(d) Earnings disregarded.....	-53	---	0	---
(e) Earnings for welfare purposes.....	100	200	153	200
(f) Welfare payment or supplement (\$200 minus line (e)).....	100	0	47	0
(g) Actual income (line (c) plus line (f)).....	253	153	200	153

4. Mother works full time at \$1.20 per hour in private employment:

(a) Wages from employer.....	208	208	208	208
(b) Wage supplement and work bonus.....	72	72	72	72
(c) Total earnings (line (a) plus line (b)).....	280	280	280	280
(d) Earnings disregarded.....	-80	-80	0	0
(e) Earnings for welfare purposes.....	200	200	280	280
(f) Welfare payment or supplement (\$200 minus line (e)).....	0	0	0	0
(g) Actual income (line (c) plus line (f)).....	280	280	280	280

5. Mother works full time at \$1.60 per hour:

(a) Wages from employer.....	278	278	278	278
(b) Work bonus.....	28	28	28	28
(c) Total earnings (line (a) plus line (b)).....	306	306	306	306
(d) Earnings disregarded.....	-100	-100	0	0
(e) Earnings for welfare purposes.....	206	206	206	206
(f) Welfare payment or supplement (\$200 minus line (e)).....	0	0	0	0
(g) Actual income (line (c) plus line (f)).....	306	306	306	306

TABLE 6.—Effect of earnings disregard under staff suggestion and effect of having no earnings disregard—Continued

	Staff suggestion		No earnings disregard	
	Welfare	Work program	Welfare	Work program
B. In State paying \$250 per month:				
1. No earnings: welfare payment-----	\$250	\$50	\$250	\$50
2. Mother works half time at \$1.20 per hour in private employment:				
(a) Wages from employer-----	104	104	104	104
(b) Wage supplement and work bonus-----	36	36	36	36
(c) Total earnings (line (a) plus line (b))-----	140	140	140	140
(d) Earnings disregarded-----	-40	-	0	-
(e) Earnings for welfare purposes-----	100	200	140	200
(f) Welfare payment or supplement (\$250 minus line (e))-----	150	50	110	50
(g) Actual income (line c plus line f)-----	290	190	250	190
3. Mother works half time at \$1.60 per hour:				
(a) Wages from employer-----	139	139	139	139
(b) Work bonus-----	14	14	14	14
(c) Total earnings (line (a) plus line (b))-----	153	153	153	153
(d) Earnings disregarded-----	-53	-	0	-
(e) Earnings for welfare purposes-----	100	200	153	200
(f) Welfare payment or supplement (\$250 minus line (e))-----	150	50	97	50
(g) Actual income (line c plus line f)-----	303	203	250	203

4. Mother works full time at \$1.20 per hour in private employment:

(a) Wages from employer	208	208	208	208
(b) Wage supplement and work bonus	72	72	72	72
(c) Total earnings (line (a) plus line (b))	280	280	280	280
(d) Earnings disregarded	-80	-80	-80	0
(e) Earnings for welfare purposes	200	200	200	280
(f) Welfare payment or supplement (\$250 minus line (e))	50	50	50	0
(g) Actual income (line (c) plus line (f))	330	330	330	280
5. Mother works full time at \$1.60 per hour:				
(a) Wages from employer	278	278	278	278
(b) Work bonus	28	28	28	28
(c) Total earnings (line (a) plus line (b))	306	306	306	306
(d) Earnings disregarded	-100	-100	-100	0
(e) Earnings for welfare purposes	206	206	206	306
(f) Welfare payment or supplement (\$250 minus line (e))	44	44	44	0
(g) Actual income (line (c) plus line (f))	350	350	350	306

TABLE 6.—*Effect of earnings disregard under staff suggestion and effect of having no earnings disregard—Continued*

	Staff suggestion		No earnings disregard	
	Welfare	Work program	Welfare	Work program
C. In State paying \$320 per month:				
1. No earnings: welfare payment	\$320	\$120	\$320	\$120
2. Mother works half time at \$1.20 per hour in private employment:				
(a) Wages from employer	104	104	104	104
(b) Wage supplement and work bonus	36	36	36	36
(c) Total earnings (line (a) plus line (b))	140	140	140	140
(d) Earnings disregarded	-40		0	
(e) Earnings for welfare purposes	100	200	140	200
(f) Welfare payment or supplement (\$320 minus line (e))	220	120	180	120
(g) Actual income (line (c) plus line (f))	360	260	320	260
3. Mother works half time at \$1.60 per hour:				
(a) Wages from employer	139	139	139	139
(b) Work bonus	14	14	14	14
(c) Total earnings (line (a) plus line (b))	153	153	153	153
(d) Earnings disregarded	-53		0	
(e) Earnings for welfare purposes	100	200	153	200
(f) Welfare payment or supplement (\$320 minus line (e))	220	120	167	120
(g) Actual income (line (c) plus line (f))	373	273	323	273

4. Mother works full time at \$1.20 per hour in private employment:

(a) Wages from employer	208	208	208	208
(b) Wage supplement and work bonus	72	72	72	72
(c) Total earnings (line (a) plus line (b))	280	280	280	280
(d) Earnings disregarded	-80	-80	0	0
(e) Earnings for welfare purposes	200	200	280	280
(f) Welfare payment or supplement (\$320 minus line (e))	120	120	40	40
(g) Actual income (line (c) plus line (f))	400	400	320	320

5. Mother works full time at \$1.60 per hour:

(a) Wages from employer	278	278	278	278
(b) Work bonus	28	28	28	28
(c) Total earnings (line (a) plus line (b))	306	306	306	306
(d) Earnings disregarded	-100	-100	0	0
(e) Earnings for welfare purposes	206	206	306	306
(f) Welfare payment or supplement (\$320 minus line (e))	114	114	14	14
(g) Actual income (line (c) plus line (f))	420	420	320	320

3. *Part-time Employment.*—Table 6 above illustrates the conflict between two incompatible goals as they relate to the treatment of earnings from part-time employment. Under the staff suggestion, a portion of part-time earnings would be disregarded (based on the same kind of earnings disregard as under the employment program, prorated on a part-time basis), providing an incentive for part-time employment. As a result, however, part-time employment under welfare would be more attractive than part-time employment under the employment program. Since the basic guaranteed income under welfare would still be available to supplement part-time earnings of a welfare recipient.

On the other hand, if there is no earnings disregard under welfare, the attractiveness of part-time employment under welfare compared with under the employment program would be corresponding less—but there would be no gain whatever to the welfare mother as a result of her earnings.

