CUMULATIVE EFFECTS FOR SELECTED HOUSEHOLDS OF BENEFIT REDUCTIONS ENACTED IN 1981 IN THE AFDC, FOOD STAMP AND HOUSING SUBSIDY PROGRAMS

Staff Memorandum

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SUMMARY

This memorandum outlines the cumulative effects of the changes enacted in 1981 in the AFDC, food stamp, and housing assistance programs for certain single-parent low-income households.[1] The example households chosen illustrate the effects of the changes in these programs for example families who are or were eligible to receive AFDC. The study does not include a number of other cuts in social programs--for example, in social services and discretionary health programs--that would in some instances affect the same low-income families. The major findings of this study are:

- Households with earnings generally lose a much larger proportion of their total benefits than households without earnings. On average, for the cases considered here, those with earnings lose 25 to 35 percent of their total benefits and 10 to 20 percent of their net incomes (after 4 months of employment). For those without earnings, losses in benefits and net incomes would average about 7 percent.

- For those households who lose eligibility for AFDC, reductions in total benefits, including Medicaid, can be very large--up to 60 percent on average in some states, and as high as 50 percent for some recipients in most states. Benefit reductions of this size occur because loss of AFDC benefits generally results in either loss of eligibility for Medicaid or large reductions in Medicaid benefits arising from "spend down" provisions in state programs for the medically needy.

1. Low income, for the purposes of this study, has been defined as income at or below 125 percent of the poverty level. The changes in the AFDC, food stamp and housing subsidy programs modeled for this study are outlined in the Appendix.

- When earnings disregards are ended after four months of employment, many households with low earnings would have net incomes as low or lower than those of households with no earnings, which could constitute a substantial work disincentive.

- If any state chooses to implement the option to include either food stamps or housing subsidies in income for the purpose of calculating AFDC benefits, benefit reductions could be very large. Total benefits for the households affected could fall by 30 to 40 percent on average if the households have earnings. Benefits for households without earnings would fall by about 20 percent on average.

The cumulative effects of the benefit reductions vary depending upon the set of programs considered. Small increases in food stamps occur when AFDC benefits are reduced, since the reductions enacted in food stamp benefits are to some extent offset by increases in food stamps due to lower AFDC benefits. Rent payments in subsidized housing may also fall for AFDC recipients if they experience substantial income reductions, since tenant rent payments are calculated as a percentage of income, and the rent increases taking place this year as a result of the 1981 changes in housing programs are fairly small. The decreases in AFDC benefits may result in smaller than anticipated savings in both the food stamp and housing assistance programs.

For individual families, household incomes and state maximum payment levels in AFDC are important determinants of the impact of the benefit reductions. Within any given state, households with earnings above the average for AFDC recipients generally lose a

larger proportion of their benefits than do households with lower earnings. Across states, however, households in states with low maximum payment standards in most cases lose a larger proportion of benefits than do comparable households in states with higher maximum payment standards.

This study has two major limitations which should be considered in assessing its findings. First, the analysis has been done only on an example basis, so that generalizations concerning the relative proportions of AFDC households affected by a given proposal may be difficult to make. An effort has been made, however, to choose examples which are typical of a variety of AFDC households. Second, these estimates understate the full effect of the budget cuts on AFDC families, especially in the case of individuals with disabilities, certain other health problems, or needs for social services. This understatement results from the omission from this analysis of a number of cuts in programs that are targeted at low-income families and serve some AFDC households, but that are not always tied directly to household income. Examples include rehabilitation services for the disabled, Title XX social services, and youth employment programs. Since participation in these programs depends on a number of factors other than household income--including, for

example, physical disability, the proximity of services, and access to transportation--the effects of reducing their funding cannot be modeled using the present approach. In addition, cuts in AFDC and food stamp benefits which are limited to certain specific types of households, such as households containing strikers or stepparents, have not been included in this study.

INTRODUCTION

The cumulative impacts of the reductions enacted in the Aid to Families with Dependent Children (AFDC), Food Stamp, and Subsidized Housing programs vary considerably, depending on the particular characteristics of recipient families. For example, families with some earnings lose a larger proportion of their total benefits than do families with no earnings. Similarly, in most cases families in states with low needs standards, especially those without earnings, lose a larger proportion of benefits than do families in states with higher needs standards. The total decline in benefits, however, depends in any given case on variables such as the family's work-related expenses and child care expenses, the ages and numbers of children in the family, and the characteristics of the state's AFDC program.

For the purposes of this analysis, we have considered AFDC programs in three different states: one with a very high payment standard, one with a very low standard, and one with a standard close to the average. State AFDC programs are quite evenly distributed over these three categories, with about one third of the states having maximum payments to a family of four of less than $300 per month, one third having maximum payments between $300 and $400 per month, and one third having maximum payments of over $400 per month. The three state programs we have modeled are Texas, which has a maximum payment for a family of four of $141; Oklahoma, which has a maximum payment for a family

of four of $349; and California, which has a maximum payment for a family of four of $601. In general, our analysis has concentrated on a "typical family" consisting of one adult and three children, two of whom are of school age, and one of whom is under 6. We have examined the impact of the cuts on such families if they have no earnings, and if they have earnings at a variety of levels. All benefit amounts given are for benefits which would have been received in January 1982.

One of the AFDC changes modeled here, permitting states to count food stamps and housing subsidies in total household income for the purpose of determining AFDC benefits, could result in very large reductions in benefits for some recipients. Since this decision is to be made by each state individually, however, it is difficult to predict the number of households that might be affected by such a change. The Administration has projected that only small savings will result from this change, which indicates that they do not expect many states to adopt it. Since this option would result in extremely large cuts in benefits for AFDC recipients in any state which did implement it, but no reductions for recipents in other states, we have modeled the changes in the AFDC program both including and excluding this option.

Since only about 20 percent of AFDC recipients live in subsidized housing, whereas more than three fourths of them receive food stamps, we have looked separately at the impact of the inclusion of housing subsidies and food stamps in income. Thus, for each state and earnings level, we have calculated total benefits three different ways: first, assuming that the state will count neither food stamps nor housing subsidies as income in calculating AFDC benefits; second, with food stamps included in total income but housing subsidies excluded; and third, with housing subsidies included in income but food stamps excluded. In all cases, we have assumed that the maximum amount of benefits that could be lost under these proposals would be the equivalent of the state need standard for food or housing respectively.[1]

Finally, a number of programs are considered in this analysis. They include AFDC, food stamps, housing subsidies (both public housing and Section 8), and the earned income tax credit. The impact of AFDC changes on participation in the Medicaid program is also discussed. The changes modeled in each of these programs are described in the appendix.

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1. Where there is no explicit state need standard for housing, we have assumed an implicit standard equal to one third of the consolidated need standard.

The next section considers the cumulative impact of the benefit reductions on AFDC households without earnings, which include most AFDC recipients. These households, however, bear a smaller share of the total reductions than do those households with some earnings. In the third section, the cumulative impact of the reductions in benefits on households with earnings at various levels is discussed.

HOUSEHOLDS WITHOUT EARNINGS

At any given time, only about 13 percent of AFDC households have adult members who are employed. Since some AFDC recipients may enter and leave the labor force at relatively short intervals, however, a much larger proportion may be employed over the course of the year. Nevertheless, the majority of recipients probably live in households with no earned income during the year.

Reductions in Total Benefits for Households without Earnings

The benefits received by households without earnings depend primarily on the state payment standard. Benefits received by AFDC households consisting of one adult and three children, with no earnings or other income, are shown in Table 1 for our three example states.

The reduction in total AFDC and food stamp benefits is generally about $35 per month for a four-person household with no earnings, if food stamps and housing subsidies are not counted as

TABLE 1. MONTHLY AFDC AND FOOD STAMP BENEFITS[a] IN THREE STATES FOR A FAMILY OF FOUR WITH NO EARNINGS OR OTHER INCOME

State	AFDC Benefits Under Prior Law	AFDC Benefits[b] After Reconciliation	Food Stamp Benefits[b] Under Prior Law	Food Stamp Benefits[b] after Reconciliation	Total Under Prior Law: AFDC Plus Food Stamps	Total after Reconciliation: AFDC Plus Food Stamps	Percent Decline in Total
Texas	141	138	242	213	383	351	8.4
Oklahoma	349	342	180	153	529	495	6.4
California	601	589	104	80	705	669	5.1

a. Food stamps and housing subsidies not included in income for the purpose of calculating AFDC benefits.

b. 1981 law food stamp benefits are calculated assuming 1981 law AFDC benefits are paid; food stamp benefits after reconciliation are based on AFDC benefits after reconciliation. The "after reconciliation" amount includes further changes in food stamps which were passed as part of the 1981 farm bill.

part of income when calculating AFDC benefits. This means that the cut in total income is proportionately larger in those states with relatively low benefit levels. On average, however, incomes including food stamps received by households without earnings or other non-transfer income have declined by about 6.5 percent.[2]

For those with no earnings, most of the decline is accounted for by reductions in the food stamp program. The particular reductions which most affect benefit levels for non-earners are the postponement of inflation adjustments in the "thrifty food plan," the minimum-level food expenditure index used by the Department of Agriculture to set food stamp benefit levels, and the freezing of the standard deduction and the excess shelter deduction at 1981 levels.

Inclusion of Food Stamps or Housing Subsidies in the AFDC Income Base

If states choose to take up the option to include either food stamps or housing subsidies in the income base for calculating AFDC benefits, total reductions in benefits would be much larger, as Table 2 shows. AFDC benefits alone could fall by as much as three fourths in low need standard states such as Texas, even if

2. These declines would be much larger, of course, for households affected by any of the categorical eligibility changes not modeled here.

TABLE 2. AFDC AND FOOD STAMP BENEFITS IN THREE STATES FOR A FAMILY OF FOUR WITH NO EARNINGS OR OTHER INCOME: FOOD STAMPS OR HOUSING SUBSIDIES INCLUDED IN THE INCOME BASE FOR CALCULATING AFDC BENEFITS

State	AFDC Benefits Under Prior Law	AFDC Benefits[b] After Reconciliation	Food Stamp Benefits[a] Under Prior Law	Food Stamp Benefits[a] after Reconciliation	Total Under Prior Law: AFDC Plus Food Stamps	Total after Reconciliation: AFDC Plus Food Stamps	Percent Decline in Total
1. Food Stamps Included in Income Base for Calculating AFDC							
Texas	141	30	242	228	383	258	32.6
Oklahoma	349	191	180	197	529	388	26.7
California	601	513	104	103	705	616	12.6
2. Housing Subsidies Included in Income Base for Calculating AFDC[b]							
Texas	141	92	242	226	383	318	17.0
Oklahoma	349	228	180	186	529	414	21.7
California	601	393	104	138	705	531	24.7

a. Current food stamp benefits are calculated assuming current AFDC benefits are paid; Proposed food stamp benefits are based on proposed AFDC benefits.

b. 1981 law food stamp benefits are calculated assuming 1981 law AFDC benefits are paid; food stamp benefits after reconciliation are based on AFDC benefits after reconciliation. The "after reconciliation" amount includes further changes in food stamps which were passed as part of the 1981 farm bill.

only food stamps were counted in income. The fall in combined food stamp and AFDC benefits would be about one third, to $258 per month for a family of four. The fall in states with higher need standards would be somewhat less, since AFDC benefits would be higher and food stamp income therefore commensurately lower. Nevertheless, the reduction in combined food stamp and AFDC income would still be almost one third, except in those states with very high food need standards. Only if the state food need standard exceeded the value of the food stamps received by households with no earnings would the total AFDC and food stamp benefits be reduced by less than 25 percent. Even in the small number of states where this is the case, reductions in total benefits would still be over 10 percent.

For the approximately 20 percent of AFDC households living in public or Section 8 housing, AFDC benefits would also fall considerably if housing subsidies were included in income. Federal housing subsidies would generally be larger for these households than the housing portion of the state need standard, so that the effect of counting subsidies in income would generally be to reduce AFDC benefits by the entire amount of the housing allowance. (Where there is no explicit housing allowance, an implicit standard equal to one third of the AFDC grant has been assumed.)

Effects of Benefit Reductions on Subsidized Housing Rents

Reductions in AFDC benefits also cause subsidized housing rents to decline. Estimated rents for AFDC recipients with no earnings are shown in Table 3. In most cases, average rents will change very little in 1982--rents rise slightly for public housing residents and fall slightly for those in housing subsidized under the Section 8 provisions.[3] Total disposable household income, after rent payments and including AFDC benefits and food stamps (valued at face value), falls approximately 10 percent on average, with the decline being slightly larger in states with low needs standards and for those in public housing, and slightly smaller in states with high needs standards and for those in Section 8 housing.

Because rents are calculated as a proportion of income, the large reduction in AFDC benefits which would be implied by the inclusion of either food stamps or housing subsidies in the income base used to calculate AFDC benefits would also result in a large reduction in rents. If states choose to implement this option for either food stamps or housing subsidies, net income after rent, as

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3. Since the change in the formula used to compute rents involves a phased-in increase from the current level of 25 percent of net income to 30 percent of net income in 1986, rents would rise somewhat more than this over the next 5 years. The 1981 Reconciliation Act provides the Secretary of Housing and Urban Development with substantial discretion, however, with respect to the pace at which rent increases are implemented.

TABLE 3. MONTHLY RENTS IN SECTION 8 AND PUBLIC HOUSING IN THREE STATES, FOR A FAMILY OF FOUR WITH NO EARNINGS OR OTHER INCOME

		Rents Under Prior Law		Rents After Reconciliation Changes		
State	AFDC Benefits Under 1981 Law	Section 8	Public Housing	AFDC Income Base Only Includes Money Income	AFDC Income Base Also Includes Food Stamps	AFDC Income Base Also Includes Housing Subsidies
Texas	141	21	12	14	3	9
Oklahoma	349	66	61	63	24	33
California	601	129	121	127	102	76

defined above, would decline between 20 and 30 percent on average, depending on the state. Average rents, however, would decline much more than this, since they would be based on AFDC benefits alone for those with no earnings. Thus, total rent collections from subsidized housing units could decline substantially in any state which chose to implement either of these options.

HOUSEHOLDS WITH EARNINGS

AFDC households with earnings will generally lose a larger proportion of their total benefits as a result of the reconciliation changes than households without earnings, but the extent of the reductions depends on a number of factors, including the level of earnings, the household's work-related and child care expenses, and the state's need standard. There are several reductions in the AFDC program which particularly affect those households with some earnings. These include counting the earned income tax credit in monthly income on a prospective basis for the purpose of calculating AFDC benefits; capping the earnings disregard allowed for child care expenses at $160 and standardizing the disregard for work-related expenses; and, after four months of employment, eliminating the earnings disregard which allows AFDC recipients to exclude the first 30 dollars of earnings and one third of their remaining earnings from the income

base used to calculate their AFDC benefits. This last provision results in a considerable drop in benefit levels after four months of employment for most AFDC households with earnings, and so most of the findings discussed in this section are presented separately for the first four months and for recipients employed for four months or more.

The Food Stamp Program also has some benefit reductions which are particularly likely to affect those who are employed. Under 1981 law, an expanded deduction from income was to be allowed for child and dependent care expenses incurred by those who are employed, starting in October 1981. This expansion was repealed, however. In addition, the exclusion from eligibility of those with gross incomes over 130 percent of the poverty level would affect mostly those with some earnings, since very few food stamp recipients have substantial unearned incomes. The maximum AFDC payment in the state with the highest need standard, for example, provides an income equal to approximately 80 percent of the poverty level.

The six example households with earnings consist of two households with earnings of $400, which is approximately the national average for AFDC households with earnings, and two

households each with earnings 50 percent higher and lower than the average. Within each pair of households, we have included one household with deductible child care and work related expenses of $100, and one with no reported child care or work related expenses. Among households with reported expenses, $100 is approximately the average amount, but about 40 percent of households with earnings do not report any expenses.

The figures presented here reflect national average earnings for AFDC recipients with earnings, and will of course fail to reflect state differences in earnings and price levels. Unfortunately, data on average earnings of AFDC recipients by state are not available, but in examining the tables that follow it should be remembered that earnings levels do vary considerably by region. In 1979, for example, median earnings for AFDC recipients with earnings were $280 in the South, and $407 in the West. (Adjusted to 1982 levels, these values would be $323 and $470 respectively.)

Changes in AFDC Benefits

Earnings levels have a significant impact on reductions in AFDC benefits resulting from the reconciliation changes, as Table 4 shows. In general, households with higher earnings would lose a

TABLE 4. AFDC BENEFITS FOR A FAMILY OF FOUR IN THREE STATES, FOR SELECTED HOUSEHOLDS WITH SELECTED LEVELS OF EARNINGS AND EXPENSES BUT NO OTHER INCOME

State	Monthly Earnings	Child Care and Work Related Expenses	AFDC Benefits Under Prior Law	AFDC Benefits After Reconciliation: First 4 Months	AFDC Benefits After Reconciliation: After 4 Months	Percent Change in Benefits First 4 Months	Percent Change in Benefits After 4 Months
Texas	200	100	127	71	0	-44.1	-100
	200	0	27	31	0	+14.8	-100
	400	100	0	0	0	--	--
	400	0	0	0	0	--	--
	600	100	0	0	0	--	--
	600	0	0	0	0	--	--
Oklahoma	200	100	336	275	212	-18.2	-36.9
	200	0	236	235	153	-0.1	-35.2
	400	100	202	148	22	-26.7	-89.1
	400	0	102	109	0	+6.9	-100
	600	100	69	39	0	-43.5	-100
	600	0	0	0	0	--	--
California	200	100	588	522	459	-11.2	-21.9
	200	0	488	482	400	-1.2	-18.0
	400	100	454	395	269	-13.0	-40.7
	400	0	354	356	210	+0.6	-40.7
	600	100	321	286	105	-10.9	-67.3
	600	0	221	247	46	+11.8	-79.2

higher proportion of their total benefits, although in the first 4 months the amount lost depends on the level of deductible expenses. Impacts vary by state, since both eligibility for the program and the level of benefits received before the 1981 changes depend on the state's payment standard. Thus, those states with very low payment standards may tend to have fewer participants in AFDC who have earnings, since even a relatively low level of earnings may be enough to disqualify families from the program. Further, where benefits are already relatively low, the same absolute reductions will result in a larger percentage change.

During the first four months of employment, even before the changes in the earnings disregard come into effect, the total declines in benefit levels for AFDC recipients with earnings can be substantial for those households who previously claimed work-related expenses. However, those households who did not previously claim expenses may actually experience a small rise in benefits during the first four months of employment, as a result of the standardized work-related expense deduction of $75 which is now applied to all households with earnings. For those households who did previously claim expenses, the percentage of benefits lost generally rises with income within any given state. Across states, however, those in states with higher maximum payment

levels experience smaller declines in benefits. Those with gross earnings above the maximum payment standard could experience much larger declines, and could, in some cases, lose their AFDC benefits completely.

After an AFDC recipient has been employed for four months, the disregard of $30 and 1/3 of remaining earnings is eliminated. For those AFDC recipients who remain employed, this change results in considerable declines in benefit levels. In this case as well, the impact of the reduction is greatest for those recipients with high earnings relative to the state payment standard. The proportion of benefits lost depends less in this case on deductible expenses, however, than it does in the first four months of employment. Instead, the percentage reduction in benefits rises fairly steadily with net earnings after expenses.

The proportion of benefits lost is generally quite large for earners who are employed for over four months, and depends, in a given state, on earnings relative to the maximum payment level. In our three example states, someone with earnings at the level of the regional median for AFDC recipients with earnings would lose 70 to 100 percent of benefits. Losing all of one's benefits, and thus leaving the AFDC program, has implications for participation

in other programs such as Medicaid, where receipt of AFDC benefits is one way to become eligible. In addition, reductions in benefit levels of this magnitude could have some major work disincentive effects.

Changes in Total Benefits

Total AFDC and food stamp benefits fall less than AFDC benefits alone, since some offsetting increases in food stamps would occur when AFDC benefits fall (see Table 5). Higher income households still usually lose more, but the general level of the reductions is more comparable across earnings groups. Those households who lose all of their AFDC benefits generally experience the largest declines in total benefits. In the first four months of employment, households with earnings at approximately the level of the regional median and deductible expenses generally lose 15 to 20 percent of their combined AFDC and food stamp benefits, and those without expenses lose 5 to 15 percent of combined benefits. For those without expenses, declines in total benefits during the first four months of employment are larger than declines in AFDC benefits alone, since most households lose some food stamp benefits.

TABLE 5. TOTAL AFDC AND FOOD STAMP BENEFITS FOR A FAMILY OF FOUR IN THREE STATES, FOR SELECTED HOUSEHOLDS WITH EARNINGS

State	Monthly Earnings	Child Care and Work Related Expenses	Total AFDC Plus Food Stamps Under Prior Law	Total AFDC Plus Food Stamps After Reconciliation: First 4 Months	Total AFDC Plus Food Stamps After Reconciliation: After 4 Months	Percent Decline in Benefits: First 4 Months	Percent Decline in Benefits: After 4 Months
Texas	200	100	343	273	223	20.6	35.1
	200	0	255	227	205	11.0	19.7
	400	100	207	175	175	15.5	15.5
	400	0	189	157	157	16.9	16.9
	600	100	159	126	126	20.8	20.8
	600	0	141	109	109	22.7	22.7
Oklahoma	200	100	490	417	373	14.9	23.9
	200	0	402	371	313	7.5	22.1
	400	100	348	279	190	19.8	45.4
	400	0	260	234	157	10.0	39.7
	600	100	207	154	126	25.7	39.1
	600	0	141	109	109	22.7	22.7
California	200	100	666	591	547	11.3	17.9
	200	0	578	545	488	5.6	15.6
	400	100	524	453	364	11.5	30.5
	400	0	436	408	305	6.4	30.0
	600	100	383	328	201	14.4	47.6
	600	0	295	283	141	4.2	52.2

Households with an adult member who remains employed for more than four months would lose a somewhat larger proportion of their combined benefits. The proportion of benefits lost is less than if AFDC benefits are considered alone, however, since these households generally receive some offsetting increases in their food stamp allotments. (Those households whose AFDC benefits have already declined to zero would, of course, continue to receive the same food stamp allotment as during the first four months of employment.) The overall benefit decline is still quite significant, amounting to 25 to 35 percent of total benefits on average. Higher income households generally lose a higher proportion of their benefits than those with lower incomes, although all of the example households with earnings would lose at least 15 percent of their combined benefits.

Changes in Net Incomes

Such large reductions in benefit levels also imply considerable decreases in total incomes for many of these households. Table 6 shows net income for these households, which is defined as earnings plus cash assistance plus the value of food stamps, less actual work-related and child care expenses. Benefits received by those households with no earnings have also been included for comparison.

TABLE 6. NET INCOME[a] FOR A FAMILY OF FOUR IN THREE STATES, FOR SELECTED HOUSEHOLDS

State	Monthly Earnings	Child Care and Work Related Expenses	Net Income Under Prior Law	Total Net Income After Reconciliation: First 4 Months	Total Net Income After Reconciliation: After 4 Months	Percent Decline in Net Income: First 4 Months	Percent Decline in Net Income: After 4 Months
Texas							
	0	0	383	351	351	8.3	8.3
	200	100	443	373	323	16.0	27.1
	200	0	455	427	405	6.2	11.1
	400	100	507	475	475	6.3	6.3
	400	0	589	557	557	5.4	5.4
	600	100	659	626	626	5.0	5.0
	600	0	741	709	709	4.3	4.3
Oklahoma							
	0	0	529	495	495	6.4	6.4
	200	100	590	517	473	12.4	19.9
	200	0	602	571	513	5.0	14.8
	400	100	648	579	490	10.6	24.4
	400	0	660	634	557	3.9	15.6
	600	100	707	654	626	7.5	11.5
	600	0	741	709	709	4.3	4.3
California							
	0	0	705	669	669	5.1	5.1
	200	100	766	691	647	9.8	15.6
	200	0	778	745	688	4.1	11.6
	400	100	824	753	664	8.6	19.4
	400	0	836	808	705	3.4	15.6
	600	100	883	828	701	6.3	20.6
	600	0	895	883	741	1.4	17.2

a. Includes earnings, AFDC benefits and food stamps; excludes work related expenses.

All of the AFDC recipient households examined experience a decline in net incomes. For those with deductible work-related expenses, the decline averages about 6 to 12 percent of net income in the first four months of employment, while for those without expenses the average percentage decline in net income is about 4 percent, with greater losses occuring in lower payment standard states.

After four months, those who remained employed lose a much larger proportion of their total net income--on average, between 10 and 20 percent. Households with net earnings below the state maximum payment level generally receive little or no increase in income as a result of employment after 4 months, and those households with low income levels and deductible expenses can often experience lower net incomes if they continue to work than if they leave the labor force. This provision, therefore, can result in substantial work disincentives for these households, which could cause a large proportion of them to leave employment. This, in turn, would result in increased costs to the AFDC program, since the benefits paid to non-earners are generally greater than those paid to earners. As many as one third of AFDC households with earnings may have low enough earnings levels so that after four months their net income, including earnings, AFDC, and food stamp benefits, and excluding work-related and child care expenses, would be at or below the level of benefits they would receive with no earnings.

Effects of AFDC and Food Stamp Reductions on Other Benefits

The changes enacted in AFDC and food stamps also affect benefits in the Medicaid and housing subsidy programs. The effect of declines in the total incomes of AFDC recipients who are tenants of subsidized housing has been discussed in the section on AFDC households without earnings. Since AFDC recipients with earnings generally experience greater reductions in their total incomes than would those without earnings, the decline in rents paid by residents of subsidized housing is greater for this group. Those with low earnings relative to the state payment standard generally experience the greatest percentage decline in rents paid, while those with higher earnings might actually experience a small increase in rents, due to the changes in subsidized housing programs discussed earlier.

Reductions in AFDC and in the Medicaid program interact in two different ways. First, approximately 400,000 households could lose eligibility for AFDC, according to HHS estimates. As we have seen, this occurs for a fairly large proportion of households with earnings, particularly those whose earnings levels are high relative to their state's maximum payment level. In 20 states, including Texas, loss of AFDC eligibility results in automatic loss of Medicaid eligibility as well, so that for households in

those states who lose their AFDC benefits, Medicaid benefits are also reduced to zero. Since this is particularly likely to happen to households with earnings, this could further increase the work disincentive effects of the proposed AFDC changes. In the remaining 30 states, including Oklahoma and California, there are programs for the medically needy, so that those who become ineligible for AFDC do not necessarily lose their Medicaid benefits entirely. In most cases, however, former AFDC recipients would have to spend down to AFDC levels in order to qualify as medically needy.

For households who lose eligibility for AFDC, total benefit declines, including declines in Medicaid, are quite substantial. In Texas, for example, the value of average AFDC, food stamp and Medicaid benefits for our example AFDC households with earnings declines almost 60 percent. Even in states with programs for the medically needy, such as California, average benefits including Medicaid could decline by half for those who lose their AFDC eligibility.

In addition to the decline in Medicaid expenditures due to reductions in AFDC eligibility, Medicaid benefits received by AFDC households may also fall as a result of reductions of up to 3

percent in federal Medicaid matching grants received by the states. It is difficult to characterize the effect of this limit on recipients because of the wide variety of measures states have adopted in an effort to limit Medicaid expenditure. Several states have somewhat reduced Medicaid eligibility, and changes in covered services adopted by many states have affected the remaining recipients. For example, some states have imposed limits on the length of hospital stays or instituted co-payments for prescription drugs. In addition, reductions in reimbursement for physicians and hospitals implemented by some states may lead to reduced access to care for Medicaid patients, if providers decide not to accept Medicaid patients.

Inclusion of Food Stamps or Housing Subsidies in the AFDC Income Base for Households with Earnings

The analysis of the proposed changes in AFDC and food stamp benefits for households with earnings has so far assumed that states will not choose to implement the optional proposal to include food stamps or housing subsidies in the income base used for calculating AFDC benefits. As discussed in the section on households without earnings, implementing either of these options would result in considerable reductions in benefits for most AFDC households. The percentage decline in total AFDC and food stamp bene-

fits under either of these options would vary by earnings and by the state maximum payment level, but all of the six household types examined would lose at least 12 percent of their benefits in every state, and households could lose up to two thirds of their benefits. The average total benefit reduction would be approximately 20 to 30 percent of benefits for AFDC households with earnings in the first four months of employment, and 30 to 40 percent thereafter. The pattern of benefit reductions across household types would be similar to those experienced by these households if food stamps and housing subsidies are not included in income, although of course the total decline in benefits would be larger.

APPENDIX: Changes in the AFDC, Food Stamp and Housing Subsidy Programs Modeled for Example Households

I. AFDC

The following changes in the AFDC program were modeled:

1. Substitution of a standard earnings disregard ($75 for full time workers) for the work-related expenses deduction.

2. Implementation of a cap of $160 per child on deductible child care expenses.

3. Limitation of the existing work incentive disregard, which allowed the first $30 of earnings and one-third of the rest to be disregarded, to the first 4 months of employment.

4. Reduction in the work incentive disregard by basing the "30 and one-third" rule on net earnings instead of gross earnings.

5. Inclusion of the Earned Income Tax Credit in countable income.

6. Permission for states to include food stamps and housing subsidies in countable income.

7. Elimination of payments of less than $10.

8. Requirement that states use retrospective accounting to calculate recipients' income.

These changes account for about half of the total savings in AFDC. Changes not modeled were primarily those which would not affect the example households as described, such as the elimination of payments to strikers, the elimination of payments for children 18 and older who are not in high school, and the inclusion of stepparents' income for benefit computation purposes. Also not included were provisions mandating that various types of unearned income be counted and that total resources be limited to $1,000, since it was assumed that the example households had no unearned income or countable resources.

II. Food Stamps

The following changes in the Food Stamp Program were modeled:

1. Limitation of eligibility to non-elderly households with incomes below 130 percent of the poverty level.

2. Postponement until October 1, 1982 of inflation adjustment in the thrifty food plan.

3. Freezing of the standard and dependent care/excess shelter deductions at existing levels until July 1, 1983.

4. Reduction in the earnings disregard from 20 percent to 18 percent of earned income.

5. Requirement that states use monthly reporting and retrospective accounting to calculate recipients' incomes.

These changes account for about two thirds of the savings in the food stamp program. Those changes which were not modeled were primarily those which would not affect the example households as described, such as the prorating of the first month's food stamp benefits and the elimination of benefits for strikers.

III. Housing Assistance Programs

The following changes in the computation of rental charges in the public housing and Section 8 housing programs were modeled:

1. Computation of rent for both Section 8 and public housing tenants as the highest of three values--26 percent of the household's monthly adjusted income, 10 percent of the household's monthly gross income, or that part of a household's welfare payment specifically designated as the housing or shelter component if the state has such a component.

2. Definition of adjusted income for both Section 8 and public housing as gross income minus $33.33 per child.

3. Limitation of rent increases to no more than 10 percent.

4. No household's rent payment may decrease as a consequence of changes in subsidized housing rent rules adopted in accordance with the Reconciliation Act.

All changes that would affect the rents paid by the example households as they are described in the text have been modeled.