



## California Should Provide Incentive Payments to CalWORKs Families Who Meet Federal Participation Requirements Through Work

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Due to changes included in the federal Deficit Reduction Act (DRA) of 2005, California must substantially increase, starting in October 2006, the number of CalWORKs participants meeting federal work participation requirements or face substantial penalties. In response, California enacted a package of CalWORKs funding and policy changes to help meet the new federal requirements. This package provided funding for counties and community colleges to provide services and implement new work participation strategies; however, it provided no direct incentives for CalWORKs *families* to meet the new federal requirements.

### CBP Proposal: Provide Incentive Payments to Certain CalWORKs Families

The California Budget Project (CBP) recommends that the state pass legislation to provide direct financial incentives to families who are employed sufficient hours to meet federal work participation requirements. On average, approximately three-quarters (77.0 percent) of CalWORKs participants who met federal work requirements between federal fiscal year (FFY) 2000 and FFY 2004 did so through employment. The CBP estimates that providing a \$75 per month incentive payment to working families who meet federal participation requirements would cost approximately \$40 million during the first year of implementation. This cost could be lower depending on the size of offsetting grant savings, as described below.

Research indicates that combining earnings supplements, such as the proposed incentive payments, with work participation requirements reduces reliance on welfare and increases earnings, employment, income, and children's school performance. For example, a much-studied Minnesota program that combined financial incentives with work-related mandates "produced substantial increases in employment and earnings" among single parents who had received cash assistance for a long period.<sup>1</sup> Research also shows that even temporary increases in income provided by earnings supplements can benefit children after the supplements have ended.<sup>2</sup>

### Benefits of the CBP Proposal

Providing incentive payments to working CalWORKs families who meet federal participation requirements through work would have several benefits to families and the state. For example, providing incentive payments:

- **Could encourage families to increase their hours of work.** California will have to meet a 50 percent participation rate for all families in FFY 2007.<sup>3</sup> California achieved a participation rate of 27.9 percent in FFY 2005 among one- and two-parent families combined, according to the most recent data available. In order to close this gap, thousands of additional CalWORKs participants must meet federal requirements starting in October 2006. The Department of Social Services reports that in FFY 2005, more than 31,000 CalWORKs participants were engaged in work activities allowed under federal law, but for too few hours to meet work participation requirements. Providing incentive payments could encourage many of these families to increase their hours of work, thereby increasing the state's work participation rate.
- **Would increase families' monthly income.** Currently, a single parent with two children age 6 or older who works 29 hours per week at \$7 per hour earns \$880 per month and receives a grant of \$396, for a total monthly income of \$1,275.<sup>4</sup> This family would not meet federal work participation requirements since single parents must work at least 30 hours per week if their children are age 6 or older.<sup>5</sup> This family's income would increase by \$90 (7.1 percent) to \$1,366 if the parent worked 30 hours per week. This increase reflects higher earnings from work and a \$75 incentive payment for working sufficient hours to meet federal participation requirements, offset by a small grant reduction due to higher earnings.
- **Would build on the current CalWORKs earnings disregard policy.** California does not count the first \$225 of a family's earned income and 50 percent of each additional dollar earned in determining the grant amount. Providing incentive payments to working families who meet federal requirements would not change this earnings disregard policy, thereby helping to limit CalWORKs grant costs. For example, a family of three in a high-cost county would continue to lose eligibility for cash assistance when their income exceeds \$1,651 per month, even if that family has been receiving incentive payments.

## Estimated Cost of the CBP Proposal

The CBP estimates that providing incentive payments to CalWORKs families who meet federal work participation requirements through work would result in additional costs of approximately \$50 million during the first year of implementation, assuming that incentive payments are set at \$75 per month. However, approximately one-fifth (\$10 million) or more of this new cost would likely be offset by reduced grant payments to families who increase the number of hours they work in order to receive the incentive payments. Therefore, the net cost of the incentive payments would be approximately \$40 million, and could be lower depending on the size of offsetting savings related to lower grant payments. The annual cost could be higher in subsequent years if more families meet federal work participation requirements through employment.

## Endnotes

<sup>1</sup> Virginia Knox, Cynthia Miller, and Lisa A. Gennetian, *Reforming Welfare and Rewarding Work: A Summary of the Final Report on the Minnesota Family Investment Program* (Manpower Demonstration Research Corporation: September 2000), p. 2.

<sup>2</sup> Lisa A. Gennetian, Cynthia Miller, and Jared Smith, *Turning Welfare into a Work Support: Six-Year Impacts on Parents and Children from the Minnesota Family Investment Program* (MDRC: July 2005), p. 11.

<sup>3</sup> In addition, a separate 90 percent participation rate applies to two-parent families. The 50 percent all-families rate and the 90 percent two-parent rate would be reduced in FFY 2007, and in subsequent years, to the extent that California qualifies for a "caseload reduction credit" based on caseload decline since FFY 2005. However, if the CalWORKs caseload does not decline or increases after FFY 2005, California would have to meet the maximum participation rates starting in FFY 2007.

<sup>4</sup> This example assumes that the family lives in a high-cost county and does not have another source of income other than earnings.

<sup>5</sup> Single parents with a child under age 6 must work at least 20 hours per week in order to meet federal participation requirements.