

SPECIAL REPORT
TO GOVERNOR WILLIAM T. CAHILL

THE IMPACT OF PROPOSED FEDERAL WELFARE
LEGISLATION ON NEW JERSEY

June 9, 1970

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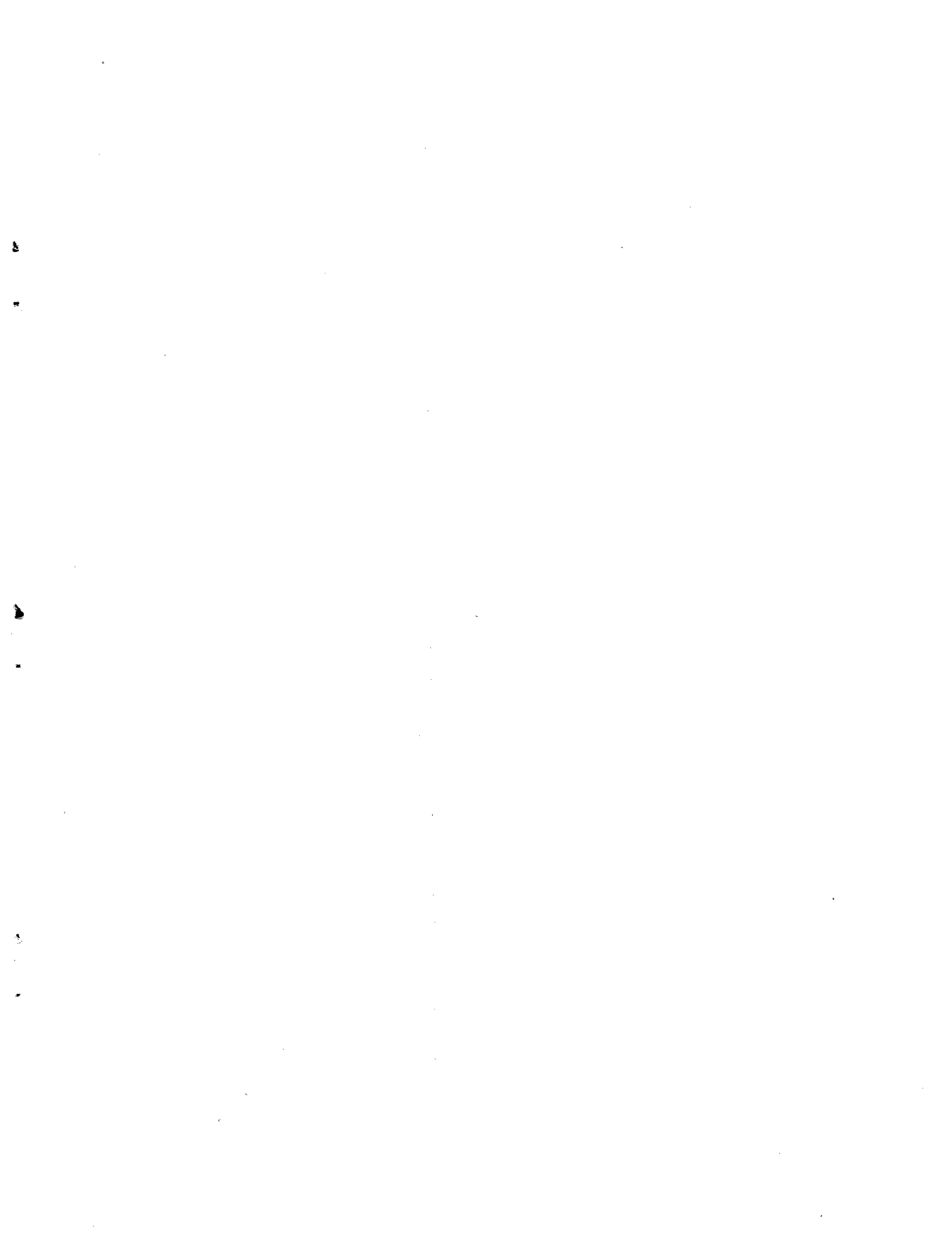
Supplementary Report

Recently Proposed Amendments

To Pending Federal Welfare Legislation

July 16, 1970

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**STATE OF NEW JERSEY
GOVERNOR'S TASK FORCE ON WELFARE MANAGEMENT**

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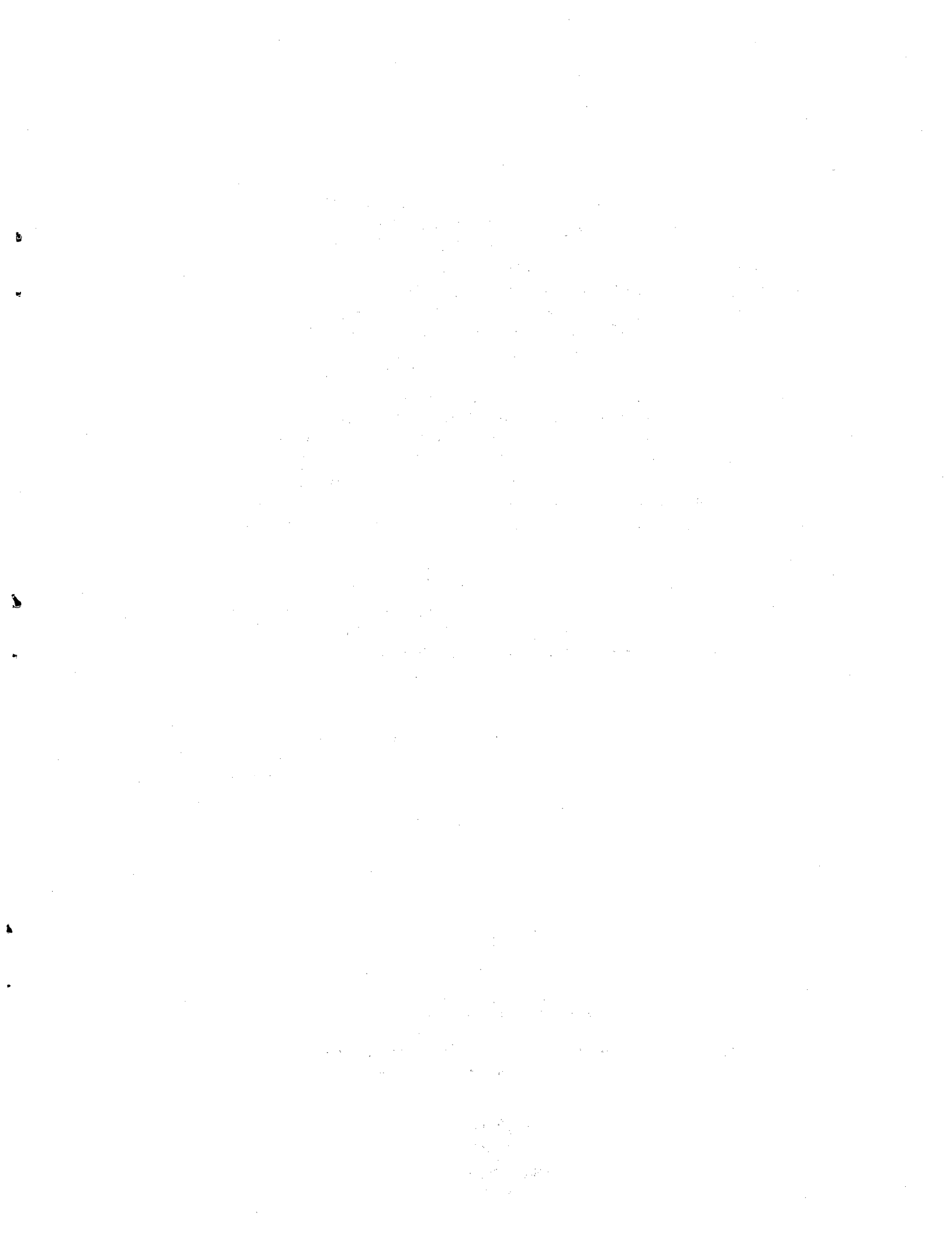
The Honorable William T. Cahill
Governor
State of New Jersey
State House
Trenton, New Jersey 08625

Dear Governor Cahill:

Since August 1969 when President Nixon first proposed reforms in the welfare system of the United States, this Task Force on Welfare management has continually evaluated the impact of proposed legislation on public welfare in New Jersey. On April 16 of this year, the House passed a modified version of the Administration bill and the Senate has begun hearings on the legislation.

Two primary goals of the proposed reforms are improved benefits for recipients and elimination of inequities between the working poor and welfare recipients. However, New Jersey is already among the highest States in benefits for its welfare population and it has recently pioneered in enactment of legislation extending welfare coverage to the working poor. Consequently, the bill passed by the House would have little impact on recipients in New Jersey except to slightly reduce the incentive to work through a weaker schedule of earnings exemptions.

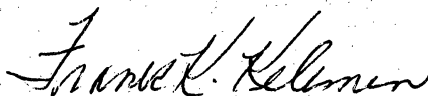
But the legislation would have far-reaching administrative and fiscal consequences for public welfare in New Jersey. The entire package would bring an additional \$28 - 41 million to the State in fiscal 1972. Through streamlining eligibility determination, the new system would improve administration of public welfare. The legislation would also offer a substantial financial inducement to turn over to the federal government administration of all federally-matched welfare programs.



In the view of the Task Force, passage of the bill by the Senate would be beneficial to the State. The Task Force urges you to consider the changes recommended in this report which would ensure a more equitable system for recipients and also bring an additional \$21 million into New Jersey over and above the fiscal gain from the House bill. Our specific recommendations are described in the enclosed summary and detailed in the body of the report.

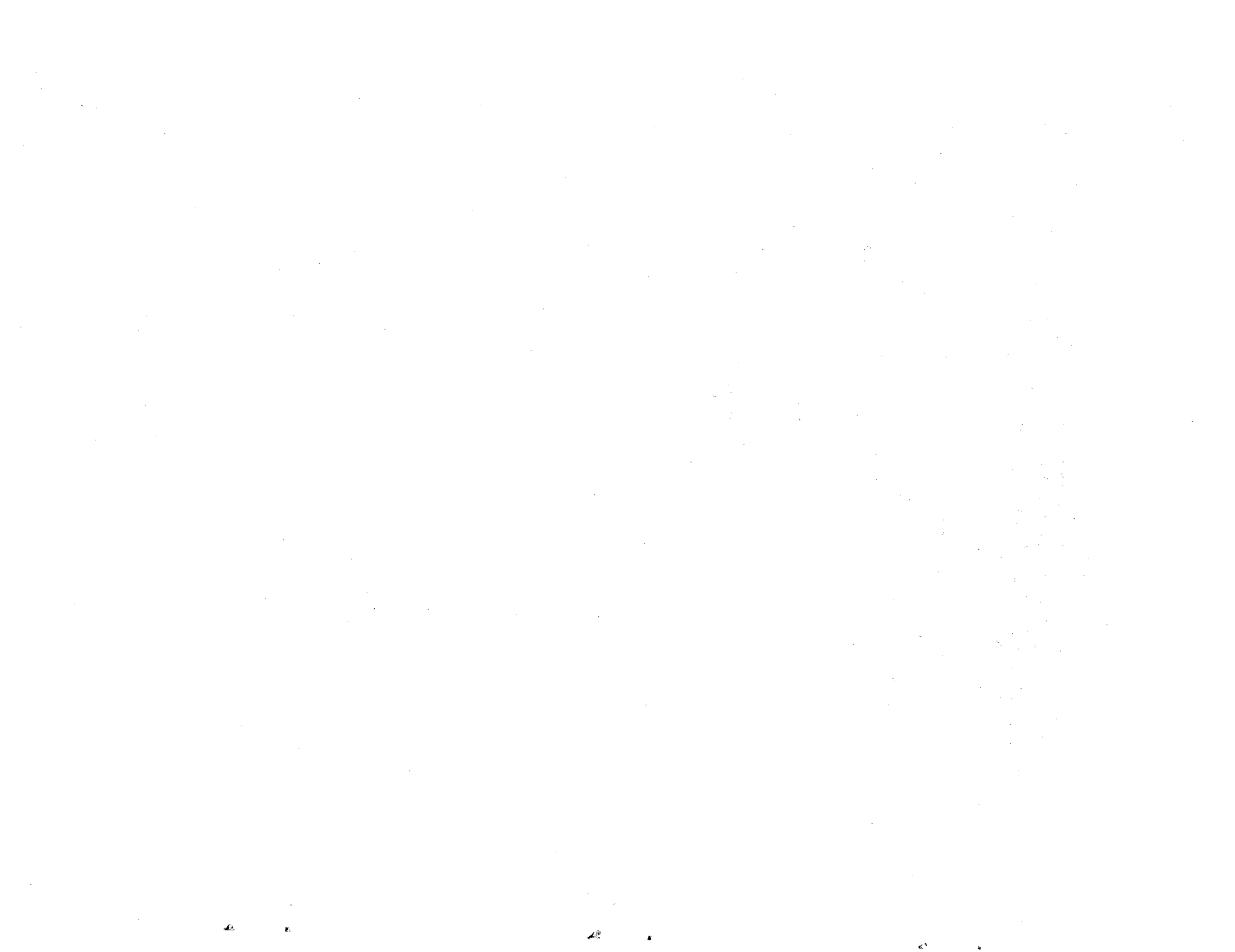
The House bill is currently being redrafted by the Administration at the request of the Senate Finance Committee. Since hearings on the revised legislation are scheduled to resume shortly, the next several weeks will be crucial to the development of the final shape of the program. We urge you to take all appropriate steps to bring about the changes recommended in this report.

Respectfully yours,



Frank K. Kelemen
Chairman

FKK:mcb



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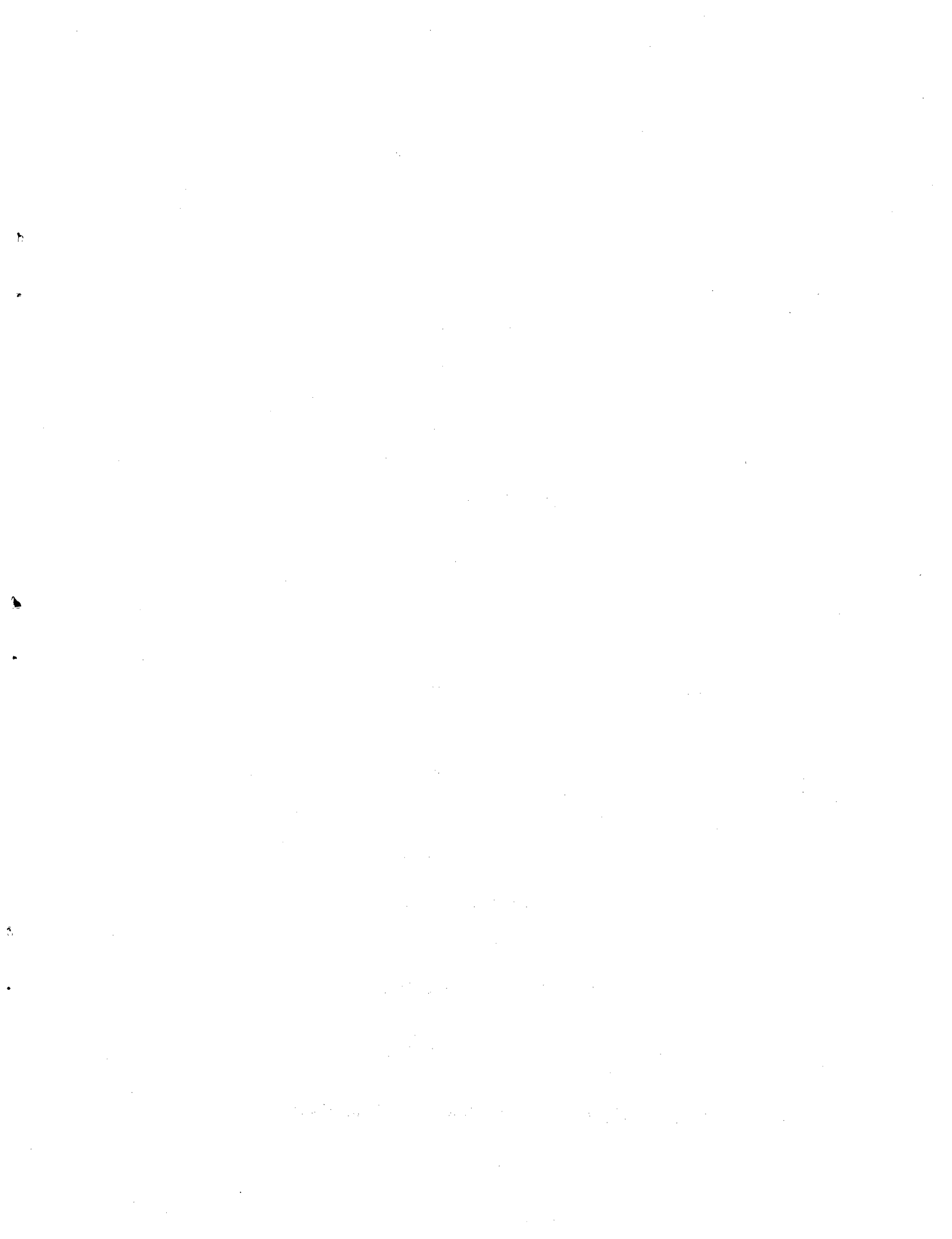
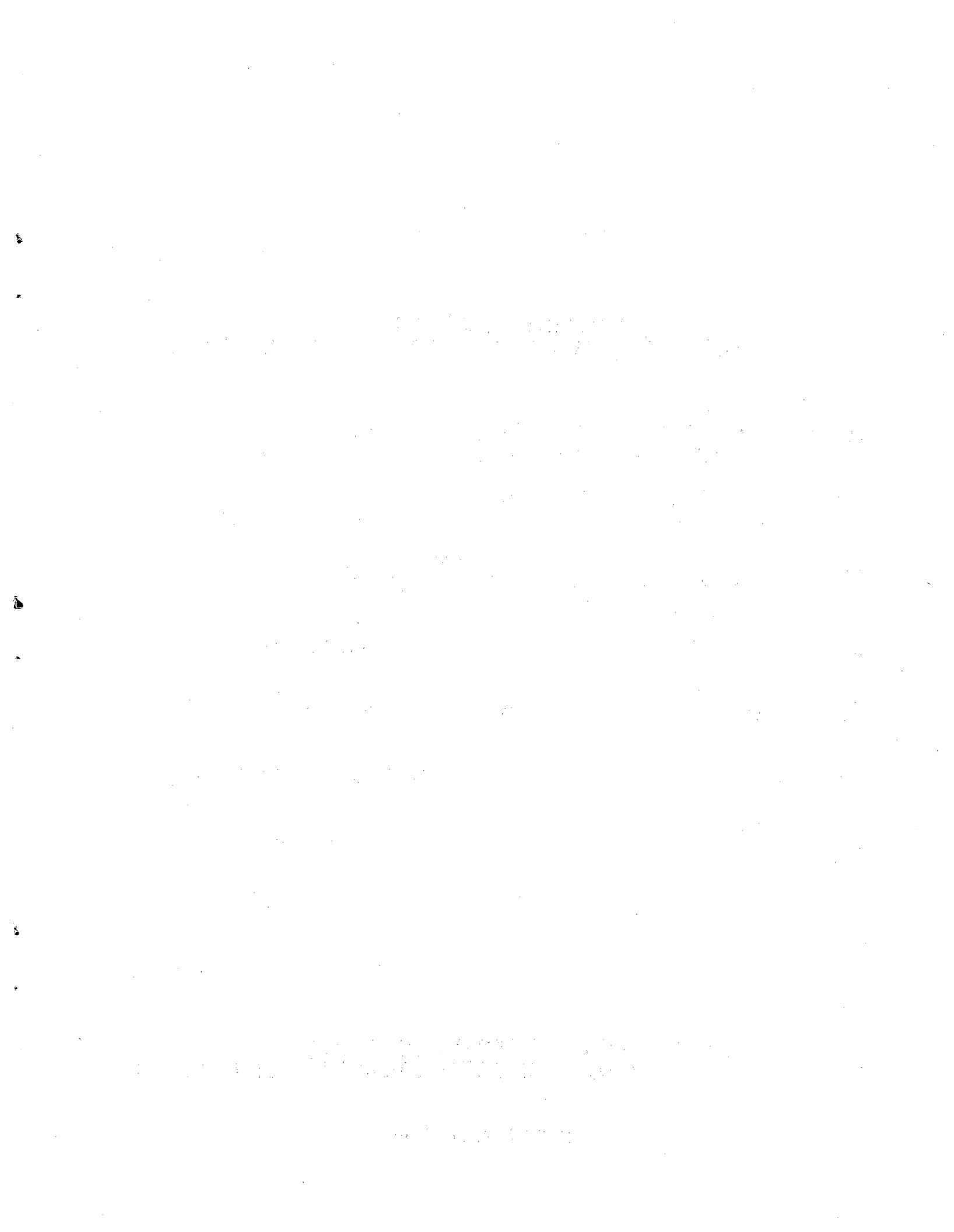


TABLE OF CONTENTS

SPECIAL REPORT: THE IMPACT OF PROPOSED FEDERAL WELFARE LEGISLATION ON NEW JERSEY (June 9, 1970)

	Page
SUMMARY	1
INTRODUCTION	6
MAJOR PROVISIONS OF H. R. 16311	7
IMPACT ON NEW JERSEY RECIPIENTS	18
IMPACT ON THE STATE: ADMINISTRATIVE AND FISCAL EFFECTS . . .	22
RECOMMENDATIONS	28
APPENDIX I: IMPACT OF PROPOSED LEGISLATION ON WELFARE EXPENDITURES IN NEW JERSEY	34
APPENDIX II: IMPACT OF TASK FORCE RECOMMENDATIONS ON WELFARE EXPENDITURES IN NEW JERSEY	42
APPENDIX III: EFFECT OF INCENTIVE SCHEDULES ON DISPOSABLE INCOME OF CLIENTS	48

SUPPLEMENTARY REPORT: RECENTLY PROPOSED AMENDMENTS TO FEDERAL WELFARE LEGISLATION 53
(July 16, 1970)



SUMMARY

On April 16, the House of Representatives approved legislation [H. R. 16311] which would have far-reaching consequences for public welfare in every state. This special report of the Governor's Task Force on Welfare Management outlines the provisions of the House legislation, assesses its potential impact on New Jersey, and proposes recommendations for modification of the legislation in the Senate.

Analysis by the Task Force indicates that the proposed welfare reform package will benefit recipients through a simplified and more uniform system of administration while yielding a fiscal dividend to New Jersey of \$28 to \$41 million in its first effective year. However, the Task Force proposes further modifications to establish a fairer system for recipients and enhance the fiscal gain for New Jersey without compromising the essential elements of the reform measure. The recommended modifications concern six areas of the legislation: 1) the ceiling on federal reimbursement for state supplementary benefits; 2) federal sharing in state supplementary benefits for the working poor; 3) treatment of non-employment income of clients; 4) penalties for desertion; 5) the work requirement and 6) work incentive schedules. Adoption of the recommendations would yield \$21 million to New Jersey in addition to the \$28 - \$41 million from the existing package.

1) Ceiling on federally matchable state supplementary payments

The House bill provides that the 30% federal matching for state supple-

mentary benefits will not be paid for that portion of benefits which raises the income of any family above the poverty line. New Jersey is the only state affected by this arbitrary restriction. Because a small proportion of benefits paid to families in this state exceeds the poverty line, removal of the ceiling would result in a slight fiscal gain. Administrative savings would also accrue from removal of the ceiling: calculation of the federal share of state supplementary payments would be greatly simplified by the elimination of this complex factor that would otherwise have to be figured separately for each family. Accordingly, the Task Force recommends that the provision of the House bill prohibiting federal matching payments for state supplementary benefits above the poverty level be eliminated.

2) Federal sharing in state supplementary benefits for the working poor One of the stated objectives of the bill is the removal of inequities between the unemployed and the working poor. Under the legislation, however, states are required to make federally matched supplementary payments to the unemployed but they are neither required nor encouraged to make supplementary payments to the working poor. Because of this distinction, the inequity between the two categories will remain in almost all states.

New Jersey now makes payments to the working poor on a statewide basis without the benefit of federal matching funds. The Task Force recommends that the House bill be altered to encourage other states to

initiate similar programs by offering federal matching payments of 30%. This would help eliminate this inequity between the unemployed and the working poor. It is estimated that such matching payments would bring into New Jersey more than \$8 million in added federal funds in fiscal 1972. This gain would be in addition to the total derived from the existing House legislation.

3) Treatment of non-employment income of clients Under the House bill, non-employment income of clients is credited against federal minimum benefits first, and must reduce the federal share entirely before decreasing the state contribution to the family. The Task Force recommends that non-employment income of clients be proportionately credited against state supplementary benefits as well as basic (federal) Family Assistance benefits. The client would receive the same amount of money, but the state share would be reduced. This would be a technical change, but its implementation should result in a gain of an additional \$13 million for New Jersey in fiscal 1972.

4) Penalties for desertion The House bill provides that parents who desert their families and fail to place themselves under a court order for support would become liable to the federal government for the federal portion of benefits paid to their families in their absence. This liability would be collected either directly or by withholding payments due under any federal program.

The Task Force recommends that this provision be eliminated from the legislation. In its opinion, the penalties envisioned in the bill could prove unenforceable, arbitrary and capricious in application, and could provide serious deterrents to reconciliation of broken families. As instruments to discourage desertion, the Task Force believes that the penalties would be inferior to existing legal remedies which consider ability to pay, number of dependents, and circumstances of the desertion in setting the amount of legal liability of the deserting parent.

5) The work requirement The House bill is similar to existing legislation in that refusal of a recipient to accept employment without "due cause" is ground for suspension of benefits. However, removal by the House of the proviso that employment be "suitable" has raised many questions about the manner in which the work requirement will be enforced. The Task Force recommends that the Senate clarify the legislative intent of this work requirement to prevent its administration from abridging the fundamental human rights of welfare clients. Although the wording of the House bill offers certain protections, it still shows too little concern for individual family situations, child care problems, possible exploitation by low-paying employers, and personal circumstances of recipients.

It is not possible to specify in legislation all of the situations in which rigid application of the work requirement would be inappropriate. The Task Force believes, therefore, that it is essential for the Senate and the Secretary of Labor to stipulate their clear intent that administration of the requirement be respectful of the dignity and fundamental rights of welfare clients.

6) Earnings Incentive Schedules In states paying supplementary benefits, the House legislation permits recipients to retain as an earnings incentive the first \$60 plus one-third of additional gross monthly earnings up to the federal "break-even point." But, above this break-even point of \$3920 in earnings for a family of four, the incentive would be reduced to 20% of gross income from employment. Since mandatory payroll deductions for Social Security and income taxes exceed 20% of earnings above that level of income, the "earnings incentive" of that amount provided for in the legislation would entirely disappear. Any increase in work effort would accordingly yield no increase in disposable income for the family. The Task Force recommends that families receiving benefits under the legislation be permitted to retain one-third of gross earnings above the federal break-even point without having their grants reduced. Such a disregard would maintain a moderate earnings incentive after taxes, ensuring that families could increase their take-home earnings by increasing their work effort.

INTRODUCTION

On August 8, 1969, President Nixon announced to the nation his intention to seek major changes in public welfare programs in the United States. Several months later, an Administration bill [H. R. 14173] was drafted and submitted to both houses of Congress for consideration. After a lengthy and thorough evaluation of the Administration bill by the House Ways and Means Committee, a new bill [H. R. 16311] embodying the essential components of the President's proposals was reported to the House floor and passed on April 16, 1970. The Senate Finance Committee held truncated hearings on the bill before sending it back to HEW for rewriting. It is possible that the full Senate will vote on the bill in July or August.

Throughout the process of proposal and modification, the Task Force on Welfare Management has continually evaluated the impact of the new reforms on public welfare programs in New Jersey. The Task Force has found that the House bill would bring into the State an additional \$28 to \$41 million in the first year of operation relative to existing matching formulas. The House bill could also result in major administrative changes in this State if enacted without modification. Thus, final passage

of the bill by the Senate, in the view of the Task Force, would be administratively and financially beneficial to New Jersey. However, certain changes could be made in the bill which would further improve the legislation's impact on this State and recipients throughout the country without compromising its essential purposes. It is our hope that such changes -- as set forth in our recommendations -- can be made in the Senate, and that both those changes and the essential gains reflected in H. R. 16311 can be retained in the final legislation sent to the President for signature.

MAJOR PROVISIONS OF H. R. 16311

Unlike the President's other proposals affecting domestic programs, his suggested welfare reforms would increase the authority of the federal government rather than decentralizing such authority to the states. Establishment of national minimum standards of support, alteration of matching formulas to increase the proportion of federal funds, and specification of new administrative structures, would limit the responsibilities of states in the area of welfare. Changes made by the House Ways and Means Committee strengthened these tendencies toward federalization by increasing the proportion of federal financing and offering incentives to the states to yield administration of their welfare programs to the federal government.

The basic provisions of the legislative package which passed the House include:

- 1) A nation-wide minimum support level for recipients in federally-assisted welfare programs;
- 2) Uniform and simplified eligibility requirements (other than level of income) for federally-assisted welfare programs;
- 3) Extension of benefits to unemployed* and "working poor"** families on a nation-wide basis;
- 4) A stringent work requirement for the proposed Family Assistance Program and new earnings incentive schedules for all categories;
- 5) Expanded manpower programs and immediate release of additional funds for day-care services;
- 6) Imposition of heavy financial penalties on parents who desert their families;
- 7) New administrative options for channelling payments to needy recipients;
- 8) Consolidation of Old Age Assistance, Aid to the Blind, and Disability Assistance into a single program;

* Although undefined in the bill, current New Jersey regulations define 'unemployment' as under 35 hours of work a week, or less than the number of hours considered to be full time for the job (whichever is less).

** 'Working poor' refers to persons working full time but earning less than welfare families in similar circumstances.

- 9) Coverage of the "severely disabled" as well as the "permanently and totally disabled" under disability assistance.

The legislation would become effective on July 1, 1971.

Federal Minimum Support Standards for Welfare Programs

The new proposals would abolish Aid to Families with Dependent Children (AFDC) and substitute a new Family Assistance Program. "FAP" would set a federally-supported floor under welfare benefits payable to poor families with children. A family of four with no income and no sizeable assets would receive federal benefit payments of \$1600 per year in any state. The family of four with some earnings from employment would be eligible for federal assistance, but would receive reduced benefits, until its income -- net of certain exclusions -- reached \$3920. The support floor would, of course, vary with the size of the family: \$500 would be provided for each of the first two members and \$300 for each additional member.

These federal standards are higher than benefit levels in eight states (Alabama, Arkansas, Georgia, Louisiana, Mississippi, Missouri, South Carolina and Tennessee). The remaining forty-two states would have to maintain their present standards* with supplemental payments.

* The single state (New Jersey) with a standard exceeding the poverty line could lower its standard to that level.

In New Jersey, for example, a family of four paying \$90 monthly rent (with no income) receives from \$3168 to \$4044 per year -- depending on family composition -- in the AFDC program. If the proposed legislation is enacted, the federal government will pay the first \$1600 of benefits and 30% of the State supplementary benefits up to the poverty line (now set at \$3720). Supplementation would neither be required nor federally matched, however, for families with fathers working full time.

The House legislation would also establish a minimum support standard for programs assisting aged, blind, and disabled adults, and require states to maintain their present benefit levels if they are higher. States would be compelled to maintain a standard of at least \$110 per month for an individual recipient with no income. The new federal matching formula would substantially increase the percentage of federal funds supporting assistance in these adult programs.

Uniform and Simplified Eligibility Requirements

Within broad limits, States now set their own eligibility requirements for categorical assistance. According to H. R. 16311, determination of eligibility for the federally-assisted adult programs would be greatly simplified and made uniform nationwide. In establishing limitations on the resources of eligible families, the bill specifies only that such resources must be less than \$1500 exclusive of home, household goods, personal effects, and "other property which . . . is so essential to the

family's means of self-support as to warrant its exclusion." Delineation of relatives legally responsible for the support of recipients would be limited to spouses, parents of children under 21, and parents of blind and disabled persons. The legislation also requires the use of a simplified method of eligibility determination in assistance programs for the aged, blind and disabled, embodying a simplified application form and verification of eligibility on a random sample basis.

New Provisions for Intact Families

Perhaps the most significant change that would follow from the new proposals is the extension to all states of federally assisted coverage to needy families with non-disabled fathers in the home. Since 1961, states have been permitted to grant AFDC to families with unemployed fathers who could demonstrate a recent attachment to the labor force. This assistance is intended to eliminate the incentive for the fathers to leave the home in order to allow their families to qualify for benefits. Only twenty-five states, however, had implemented this program prior to the beginning of this year. In the absence of federal matching funds, only one state -- New Jersey -- had initiated a separate state-wide program of assistance for the working poor. In most of the country, many poorly-paid wage earners and their families subsist on even smaller budgets than the meager grants given to welfare families with similar needs. The House bill would extend federal Family Assistance benefits to all families meeting the financial eligibility criteria. The forty-two

states required to make state supplementary payments would have to include families with unemployed fathers. However, no state would be required to make available state supplementary benefits to the working poor; nor would federal matching be provided for any state such as New Jersey which does so voluntarily. In states that choose not to provide supplements for the working poor, therefore, an incentive to become unemployed would be introduced. Thus, although one aim of the bill is the elimination of the differential in treatment between the unemployed and the working poor, the unfortunate inequity will remain in most states.

Work Requirements and Work Incentives for Recipients

The welfare package's emphasis on work is conveyed by its stringent work requirement and a new schedule of work incentive payments. These measures are intended to get recipients of the new family assistance benefits off the welfare rolls and into well-paying jobs. All "employable" recipients -- those not excluded by poor health, advanced age, or responsibility for care of a pre-school child or an ill member of the household -- would be required to register with the State Employment Service for job referral, job training, or other employment preparation. Included within the category of "employable" recipients are those who are already working full time at substandard wages. If a recipient refused to register or accept employment, the family would lose his portion of its assistance.

The earnings incentive schedule in the bill simply modifies the

schedule previously introduced in the 1967 amendments to the Social Security Act. States are already required to disregard the first \$30 of a recipient's monthly earned income plus work expenses plus one-third of the remainder before reducing his benefits to compensate for earnings. The House bill would change those incentives, strengthening their effect in low-benefit states and weakening them in high-benefit states. A family's annual federal grant would be reduced by one-half of gross family income in excess of \$720 per year. In those states making supplementary payments, combined federal and State payments would be reduced by two-thirds of any gross family income between \$720 and the federal "break-even point," when federal benefits reach zero (\$3920 for a family of four). Beyond the federal break-even point, state benefits would be reduced by four-fifths of additional gross family income.

Under present law, no part of earned income is disregarded in determining eligibility for AFDC. An applicant is deemed eligible for benefits only if his gross income is less than the welfare standard. After he is on the rolls, however, part of his income will be disregarded as a work incentive in establishing the amount of benefits he will receive. In contrast to current policies the House legislation would apply the earnings incentive schedule in determining initial eligibility. For example, assuming a welfare standard of \$4044 for a family of four in New Jersey, a family under present law would not be eligible for assistance

if its earnings from employment were even a single dollar above \$4044, even though a similar family already on the rolls could have up to \$5620 in combined earnings and benefits before its grant were completely terminated. Under the proposed legislation, an identical family with earnings below the new State "break-even point" of \$6309 would be eligible for supplementary benefits.

Expanded Man power and Day Care Programs

The House legislation would abolish the present WIN program and substitute an expanded program of manpower services under the authority of the Secretary of Labor. Authorization of funds for manpower services would be significantly increased with the federal government matching 90 percent of the cost of training programs (compared with 80% under the WIN program). New funding for day care programs would be provided with the federal government authorized to make direct grants on a project basis for up to 100 percent of the cost of day care centers for the children of manpower trainees. These funds would be made available immediately upon signing of the legislation rather than waiting for the effective date of the program (July 1, 1971).

Penalties Against Deserting Parents

In a section of the House legislation which was absent from the President's proposal, heavy financial penalties are assessed on deserting parents whose families receive FAP benefits in their absence. Under the bill, parents who desert their families and fail to place themselves under a court order for support would become liable to the federal government

for: (1) the amount of any federal payments made to their families in their absence under the Family Assistance Program and (2) the federal portion of state supplementary benefits paid. This liability could be collected either directly or by withholding from payments due under any federal program.

Administration

The administration of assistance payments could be substantially changed in many states by the new proposals. Federally-assisted welfare programs are now administered as grant-in-aid programs, with the states making payments to recipients which are partially reimbursed by the federal government according to specified matching formulas. Under the House plan, this arrangement could continue in programs of assistance to the aged, blind, and disabled with states given the new option of contracting with the federal government to make the payments. Under that option, the federal government would assume the total cost of administration.

The federal role in the operation of the new Family Assistance Program would be greatly increased as well. Unlike the present program, FAP will make a clear distinction between basic federal benefits and state supplementary benefits. In the eight states without supplementary benefits, Family Assistance payments will be made directly to recipients by the federal government. In the remaining forty-two states, three options are provided. First, the Secretary is empowered to make agreements whereby

states administer both federal and state benefits. Under this option, the federal government will reimburse the state for all its costs of administering federal benefits and fifty percent of its costs of administering state benefits. Second, states may agree to delegate administration of both federal and state benefits to the federal government. Under this option, the federal government will assume total administrative costs. Third, in those states failing to reach any agreement with the Secretary of HEW, the federal government and the states will each administer their own benefits. The federal government will assume all of the costs of federal benefits and reimburse the state for fifty percent of its costs of administering state benefits. Thus, the federal government will make payments directly to recipients in those eight states which will not supplement. In the other forty-two states there will be three options: total federal administration, total state administration, or dual responsibility for administration of benefits.

Adult Programs

The House legislation mandates the consolidation of the Old Age Assistance, Aid to the Blind, and Disability Assistance Programs into a single category called, appropriately enough, Aid to the Aged, Blind and Disabled (AABD). This is primarily a technical change requiring a consolidation which has been optional for the individual states since 1962. Its practical effect would be to establish uniform standards of assistance among those adult categories of recipients.

The new proposals would increase the earnings incentives granted to the aged and the disabled. Elderly recipients would be permitted to retain the first \$60 of monthly earnings plus one-half of the remainder without having their grants reduced. Disabled recipients would be permitted to retain the first \$85 per month plus one-half of the remainder -- the same exemption which is now given to the blind.

The bill passed by the House would broaden the definition of disability from the current "permanent and total disability" to "severe disability." Although the meaning of "severe" is not spelled out in the bill, the committee report states the expectation that "severely disabled" will be interpreted to mean persons whose physical or mental conditions substantially preclude them from engaging in gainful employment or self-employment. It is also expected that the disability is one that has or can be expected to last for a period of 12 months or result in death." This definition follows closely that used for Social Security disability insurance benefits.

Summary of Major Provisions

Taken individually, the provisions of the new proposals represent moderate, incremental adjustments in the present system of public welfare in this country. Taken together, the provisions will lead to a sharp break in current practices. Establishment of minimum federal standards of support will for the first time force all states to meet a basic floor in order to qualify for federal aid. Provision for uniform, simplified eligibility determination

will substantially reduce the overwhelming red-tape and paperwork which now causes frustration for caseworkers and recipients alike. Extension of benefits to families with an unemployed or under-employed wage earner will greatly expand the coverage of the total federally-assisted welfare system. Consolidation of assistance programs for the elderly, blind, and disabled into a single category will result in more equitable benefits in many states. The new administrative options could simplify administration and improve accountability by reducing the number of levels of government involved in disbursing payments.

The overall effect of this proposed package, then, would be to expand coverage of and tighten federal control over public welfare programs in this country. These are important improvements and they will have far-reaching consequences for public welfare in every state.

IMPACT ON NEW JERSEY RECIPIENTS

If the House legislation is passed without significant alteration, there would be little impact on benefits for individual recipients, but earnings incentives would be slightly weakened and additional penalties would be assessed on deserting parents.

The minimum standards of support for welfare recipients set forth in the legislation are far below levels currently received by New Jersey recipients. Whereas the proposed federal standard for a family of four with no income or sizeable assets is \$1600, New Jersey's standard (assuming an average rent of \$90) ranges from \$3168 to \$4044. New Jersey's standards for the aged, blind, and disabled are also much higher

than the proposed minimum.

The extension of eligibility to families with unemployed or underemployed fathers would not expand categorical coverage in New Jersey, since this state already provides assistance to both groups.

It is not possible to determine now whether the stringent work requirement of the legislative proposal would significantly affect welfare recipients. Although it is not generally realized by the public, a work requirement was introduced into the AFDC program by the 1967 amendments to the Social Security Act. This requirement is part of the Work Incentive (WIN) Program. It is administered according to a set of priorities which theoretically ensures that those most fit for work and likely to profit from training are referred first to employment service slots. For example, male family heads are referred before mothers with children. The proposed legislation is similar to the 1967 amendments in wording. It is not clear whether changes in administration are contemplated which would significantly alter the impact of the work requirement on welfare clients.

The legislative package reported by the Ways and Means Committee would have required a recipient to accept "suitable" employment or lose his grant. The "suitable" proviso was designed to prevent welfare recipients from being forced to accept substandard wages, bad working conditions, or jobs inappropriate for women or young people. In a last-

minute stiffening of the work requirement, however, the House eliminated the "suitable" rule, thereby requiring recipients to accept employment without this restriction. Efforts will likely be made in the Senate to reinstate and define the "suitable" terminology.

The increase in the earning exemptions for aged and disabled recipients will make work more attractive for them insofar as work is feasible. But the revisions of the existing earnings exemption schedule for wage earners of families can possibly have a negative effect on their desire to accept employment.

At the present time in New Jersey, a recipient of AFDC who goes to work is permitted to keep \$80 per month (the first \$30 per month, plus \$50 per month for work expenses) plus one-third of the remainder without having his grant reduced. According to current policy, this earnings exemption is applied to earned income net of mandatory payroll deductions (income taxes, social security tax, unemployment compensation taxes, and garnishments).

Under the proposed legislation, recipients would be permitted to retain the first \$60 per month, plus one-third of earnings up to \$3920 (for a family of four), and one-fifth of earnings greater than that amount. In contrast to current New Jersey policy, this new earnings incentive schedule will be calculated on the basis of gross income. Yet social security taxes of 4.8%, combined with a federal income tax rate exceeding 15% for a family of four with an income above \$3920, will entirely consume

the 20% "earnings incentive." Payroll taxes will leave the family with nothing to show for increased work effort. Thus, the net impact of the proposed incentive schedule in New Jersey would eliminate any incentive to increase earnings beyond \$3920 for the average AFDC family. This effect is demonstrated graphically in Appendix III.

One other section of the bill would adversely affect many recipients. Under the bill, deserting parents are liable to the federal government for the amount of Family Assistance payments and the federal share of state supplementary payments made to their families in their absence. This liability can be collected by withholding any federal payments due the parent, regardless of the type of payment or the parent's age or social circumstances. This mandatory claim of liability could include the parent's Social Security benefits years after he has deserted, his Veteran's Benefits, federal wages, tax refunds, manpower training stipends or any other federal payments.

Present State and federal law provides numerous methods for compelling parents to support their children. Welfare agencies are required to report deserters to appropriate law enforcement officials. The courts may require that children be supported by their parents through garnishment of wages, liens on properties, and other civil remedies.

In the opinion of the Task Force, this provision would prove unenforceable and would surely discourage any reconciliation between deserting parents and their families. If the parent deserts for only a

short time, his debt would build up at a rate making return to the family impossible. This would have long term deleterious effects upon the family structure of welfare recipients. The provision considers neither ability to pay, number of dependents, nor other personal circumstances in requiring parents to reimburse the federal government. As such, it is an insensitive instrument which will not achieve its goal of discouraging desertion and illegitimacy. On the contrary, it will discourage reconciliation and encourage deserting parents to become "non-existent" relative to official records.

Other provisions of the proposed legislation would affect recipients only marginally. Establishment of uniform and simplified eligibility criteria would streamline the process of eligibility determination, make eligible a certain number of previously ineligible clients, and also permit clients to retain a financial cushion of up to \$1500 in resources. Expanded manpower and day care programs would enable more recipients to take advantage of these services. Extension of disability assistance to the "severely" disabled will make assistance available to many in that category who are currently ineligible.

IMPACT ON THE STATE: ADMINISTRATIVE AND FISCAL EFFECTS

Under the House legislation, New Jersey's administrative structure for categorical assistance could undergo major changes, and the State would obtain a sizeable fiscal dividend relative to existing matching formulas.

Administrative Effects

Since New Jersey would provide funds for state supplementary benefits under the new plan, it would have to exercise one of the three previously described options for administering the new program: total federal administration, total state administration, or dual responsibility for administration of benefits.

Dividing administrative responsibility between the State and federal governments would be confusing in practice. Duplicating the administrative process would be wasteful and would create two parallel assistance agencies to which the poor would have to apply for aid. A potential recipient would have to deal with two bureaucracies to obtain the same benefits he now receives from one.

State responsibility for both federal and state assistance payments would be scarcely different from the existing arrangement, unless the federal government institutes much stricter controls.

The remaining alternative, in which the federal government would administer State funds as well as its own, would constitute a sort of "reverse federalism" which is probably unprecedented in the American system of government. If New Jersey chose this option, it would sign an agreement to have the federal government determine eligibility and make payment of state supplementary benefits as well as basic federal benefits. The State would then reimburse the federal government for the State's share of the cost of the supplementary benefits.

States might be reluctant to permit the federal government to control the expenditure of large open-ended sums of State funds. Furthermore, the problems which the federal government would encounter in undertaking such a monumental administrative task -- particularly in the transition -- would be extraordinarily complex. Nonetheless, the House legislation provides incentives for States to sign up for this alternative, with an offer to relieve such states of all administrative costs of the programs. Depending on the precise formula, such an incentive would mean \$5 to \$10 million to New Jersey in the first year of the program alone.

Consolidation of Old Age Assistance, Aid to the Blind, and Disability Assistance into a single category is intended primarily to eliminate disparities among those categories in benefit levels and treatment accorded to recipients. Since New Jersey already has a unified benefit schedule, consolidation of the three adult programs into a single category is largely a technical change that will have few substantive effects on either recipients or administrators.

Fiscal Effects

The aggregate fiscal effect of the House legislation in New Jersey would be favorable, though less favorable proportionately than the effect on most other states. Relative to State costs incurred with the present federal matching formula of 50% in all categories, we project a gain in fiscal 1972 of \$7.7 million in the regular AFDC category and a gain of

\$1.4 million in the federally-matched AFDC-unemployment category.

Details of this projection are given in Appendix I; the gain would result from the federal government's payment of basic benefits (the first \$1600 annually for a family of four) plus 30% of the cost of state supplementary benefits in these categories. We also anticipate some gain for the State from federal payment of basic benefits to the working poor, corresponding to the state underemployment segment of AFDC which is not now federally matched. That gain would amount to approximately \$7 million, though its precise magnitude is difficult to project on the basis of current information.

In the adult categories of assistance to the elderly, blind, and disabled, the State would realize a benefit of about \$7.0 million. Federal matching would be raised from 50% of total benefits to 90% of the first \$65 of the average monthly grant plus 25% of the remainder.

Even if New Jersey retains the current administrative arrangement, an increase in federal assistance for financing administrative costs of Family Assistance payments would save the State another \$5 to \$10 million (depending on how the calculation will be made); if the State requests the federal government to administer the entire program as well as Aid to the Aged, Blind and Disabled, total administrative relief will rise to approximately \$18 million.

The total fiscal dividend accruing to the State from the House bill, then, would range from \$28 million to \$41 million. In order to place this dividend in perspective, it is worth noting that the federal, State, and county expenditures for categorical welfare programs in New Jersey anticipated for fiscal 1972 under the present system would amount to

approximately \$460 million.

A mere change in definition of the disability category from "permanently and totally disabled" to "severely disabled" may offer a measure of relief to General Assistance rolls in the State. General Assistance is a residual category now serving those needy persons not covered by the federally-assisted categories: couples and single adults under 65 who are neither blind, disabled, nor supporting children under the age of 21. Many of these GA recipients have serious health disabilities but do not comply with the restricted eligibility criteria of the current Disability Assistance program. Accordingly, a transfer of some cases from the General Assistance program to the Disability Assistance category could be expected if the broader definition of "severe disability" is enacted into law. However, the proportion of GA recipients which might be affected cannot be estimated because of a lack of current information on the composition of the General Assistance rolls.

Changes in Eligibility Requirements

The House legislation would also eliminate certain current eligibility requirements for receiving public assistance in New Jersey. First, the House bill establishes a ceiling on the resources of eligible families of \$1500 exclusive of home, household goods, and personal effects. In contrast, New Jersey presently requires liquidation of all cash and liquid assets as well as most substantial life insurance policies. Personal property and automobiles are now regarded as potential resources with

liquidation required under certain conditions. In addition, recipients of Old Age Assistance and Disability Assistance are required to sign an "Agreement to Reimburse" county welfare agencies for the amount of welfare benefits granted. This Agreement operates as a lien on homes and other property of recipients in these categories*.

Second, this legislation would limit specification of relatives legally responsible for the support of recipients to spouses, parents of children under 21, and parents of blind and disabled persons. This provision compares with New Jersey's specification of grandparents, spouses, parents, and adult children (if under 55) of clients. These changes will affect the administrative and fiscal structure in New Jersey by slightly widening the pool of eligibles and denying the state the limited income it now receives from legally responsible relatives as well as liens on the property of welfare recipients. At the same time these changes would streamline the process of determining eligibility and lower administrative costs. In this respect, they are in accord with the recommendations of this Task Force set forth in its preliminary report of January 15, 1970.

An important provision in the legislation stipulates that a family will be eligible for welfare payments if its income net of the proportion of earned income disregarded as a work incentive falls below the state

* H. R. 16311 may be interpreted as requiring elimination of the Agreement to Reimburse in the adult categories, but ambiguity in the relevant provision causes sufficient doubt in this interpretation that further clarification from Washington is being sought.

standard of welfare assistance. This provision will increase the number of families in New Jersey eligible for supplementary benefits. Since Medicaid is tied to eligibility for categorical welfare payments in New Jersey, this provision will also increase the number of families eligible for medical benefits. Assuming a basic welfare standard of \$4044 for a family of four in New Jersey, such families with gross earnings from employment of \$6309 or less would be eligible for supplementary benefits and Medicaid. This provision will only widen eligibility of female-headed families, however, since (1) there are no federal requirements in the bill governing state supplementary payments to intact families with an under-employed wage earner and (2) families with an unemployed male wage earner would presumably be earning far less than the basic welfare standard. Until data from the 1970 census are made available, there is no reliable way of calculating the number of additional families who could become eligible because of this provision.

The House bill leaves untouched the present program of social services for public welfare recipients. However, Administration legislation setting forth proposals for restructured services is expected to be submitted to Congress in the near future and is rumored to advocate major changes in the present system.

RECOMMENDATIONS

The proposed welfare reform package contained in the House legis-

lation will yield a fiscal dividend to New Jersey of \$28 - \$41 million and benefit recipients through a simplified and more uniform system of administration. Some provisions of the House bill, however, should be modified to establish a fairer system for recipients and enhance the fiscal gain for New Jersey, without compromising the essential features of the reform measure.

First, we recommend that the provision of the House bill prohibiting federal matching payments for supplementary benefits above the poverty level be eliminated. The poverty level is too arbitrary to represent an adequate minimum level of support for all families in all states. It makes allowance for neither regional variations in cost-of-living nor differences in family composition. In addition, New Jersey is the only state affected by this provision. Even in New Jersey, the welfare standard exceeds the poverty line only for certain types of families with high shelter costs (the minimum standard of support varies with rent, family size, number of adults and age of children). Elimination of this provision would result in only a slight fiscal gain for New Jersey since the proportion of payments made to raise families' income above the poverty level is small. But it would make calculation of the federal share of the State supplementary payments a great deal easier since it would remove a complex factor that would otherwise have to be figured separately for each family.

Second, we recommend that the federal government match State supplementary payments to working poor families in those States which

voluntarily establish such a program on a statewide basis. Such matching payments should be made on the same basis as those made for families with an unemployed parent (30% in the House bill).

One of the stated objectives of the bill is the removal of inequities between treatment of the unemployed and the working poor. Yet in any State making sizeable supplementary payments to unemployed heads of families, a serious inequity will remain under the present legislation. An offer by the federal government to match supplementary payments to families of the working poor would encourage some states to set up statewide programs, thereby removing this inequity.

Furthermore, the distinction drawn in the House bill between unemployed and working poor fathers will be highly arbitrary and extremely difficult to administer. Under present regulations, a client is considered unemployed if he is working less than full time. Thus, a change of as little as an hour of working time in a single week can shift a client from one category to another. As the legislation now stands, a slight downward shift in work effort could bring a sizeable increase in benefits for the client in states without supplementary benefits for the working poor. Conversely, in New Jersey, where supplementary benefits for the working poor are not federally matched while supplementary benefits for the unemployed are, a small upward shift in a client's work effort could bring a sizeable reduction in federal funds.

A 30% match in federal funds for supplementary payments to the

working poor could be expected to bring into New Jersey more than \$8 million in additional federal funds in fiscal 1972.

Third, we recommend that non-employment income of clients be proportionately credited against state supplementary benefits as well as basic Family Assistance benefits. To illustrate the effect of this recommendation, let us assume that New Jersey family "A" with four members has no income or resources and is eligible for total benefits of \$4000 per year. According to the House bill, \$1600 would be paid in federal benefits and \$2400 would be paid in state supplementary benefits (with 30% federal matching). Let us further assume that family "B" is identical except that it has \$500 in non-employment income. According to the House bill, the \$500 would be deducted first from the basic federal benefits. Thus, the basic federal benefits would be reduced to \$1100 while the State supplementary benefits of \$2400 would remain the same. According to our recommendation, two-fifths of the \$500 (or, \$200) should be deducted from the basic federal benefits while three-fifths (or, \$300) should be deducted from the state supplementary benefits. The client would receive the same amount of money, but the state share would be reduced. This would be a technical change, but its implementation would result in a gain of about \$13 million for New Jersey in fiscal 1972.

Fourth, we recommend that provisions imposing heavy financial

penalties on deserting parents be eliminated. In the opinion of the Task Force, the penalties envisioned in the bill could prove generally unenforceable, arbitrary and capricious in application, and serious deterrents to reconciliation of broken families. As instruments to discourage desertion, the Task Force believes that the penalties would be inferior to existing legal remedies which consider ability to pay, number of dependents, and circumstances of the desertion in setting the amount of legal liability of the deserting parent.

Fifth, we recommend that the Senate and the Secretary of Labor clarify the legislative intent of the work requirement to prevent its application from abridging fundamental human rights of those Americans who find it necessary to apply for welfare benefits. Although the wording of the House bill offers certain protections, in the opinion of the Task Force it still shows too little concern for individual family situations, child care problems, possible exploitation by low-paying employers and personal circumstances of recipients. The bill was weakened in this respect on the House floor, where the stipulation that required employment be "suitable" was eliminated. Since it is not possible to specify in the legislation all of the situations in which rigid application of the work requirement would be inappropriate, we believe that it is crucial for the Senate and the Secretary of Labor to stipulate their clear intent that administration of the requirement be respectful of the dignity and fundamental rights of welfare clients.

Sixth, we recommend that families be permitted to retain the first

\$60 plus one-third of additional gross monthly earnings without having their benefits reduced. The proposed legislation provides an exemption of \$60 plus one-third of additional gross monthly earnings up to the federal break-even point, but only one-fifth of earnings above that level. The recommended disregard of 33 1/3% of gross earnings would maintain a moderate incentive of approximately 13% after taxes and would raise the state break-even point from \$6309 to \$6786. By maintaining a consistent positive incentive, this recommendation would ensure that recipients of benefits would increase their disposable income by increasing their work effort.

APPENDIX I: PROJECTED IMPACT OF NEW WELFARE LEGISLATION
ON NEW JERSEY WELFARE EXPENDITURES, FISCAL 1972

If it is enacted in the form which passed the House of Representatives, the new welfare legislation will be implemented in Fiscal 1972. The estimates set forth in this appendix project the anticipated impact on New Jersey's welfare expenditures* in that year if the House bill becomes law without modification.

I. Aid to the Aged, Blind, and Disabled

New Jersey now receives fifty percent reimbursement from the federal government for the cost of assistance payments in the categories of Old Age Assistance, Aid to the Blind, and Disability Assistance. Under the House legislation, New Jersey would receive ninety percent (\$58.50) of the first \$65 of the average grant plus twenty-five percent of the remainder in the new category of Aid to the Aged, Blind, and Disabled. Based on estimates prepared by the Bureau of Business Services (Division of Public Welfare) of the average monthly grants and average number of monthly recipients in those categories in Fiscal 1972, the improved federal formula would net the State an additional \$7.0 million in that year. This is calculated as follows:

	<u>OAA</u>	<u>DA</u>	<u>AB</u>
1. Average monthly recipients	20,000	14,000	1,020
2. Average monthly grant	\$85.00	\$127.00	\$117.00
3. Old Federal match (50% of average grant)	\$42.50	\$ 63.50	\$ 58.50

*Combined expenditures of the State and 21 counties.

	<u>OAA</u>	<u>DA</u>	<u>AB</u>
4. New Federal match (\$58.50 + one-fourth of amount greater than \$65)	\$63.50	\$74.00	\$71.50
5. Increase in match (4 - 3)	\$21.00	\$10.50	\$13.00
6. Net annual savings (5 x 1) x 12	\$ 5.04 million	\$ 1.76 m	\$.17 m
Total Savings = \$5.04 m + \$1.76 m + \$.17 m = \$6.97 million			

II. Family Assistance

Under the Family Assistance Program in New Jersey, the federal government would pay a family of four \$1600 per year. The State of New Jersey would supplement the basic FAP benefit to raise total family benefits to the level of the New Jersey welfare standard. Non-employment income of the family would be credited first against the FAP benefit. State supplementary benefits would be reduced by the family's non-employment income only if such income exceeded the level of FAP benefits.

Below the federal break-even point for supplementation of earned income (\$3920 for a family of four), 50% of a family's earned income (after the first \$60 per month) would be deducted from FAP benefits and an additional 17% would be deducted from State supplementary benefits. Above the federal break-even point, 80% of earned income would be deducted from State benefits.

The federal government would match 30% of State supplementary assistance benefits except for that portion of the supplement which raised family incomes above the poverty line.

The Bureau of Business Services (Division of Public Welfare) estimates that New Jersey will have 370,000 average monthly recipients in the AFDC-

regular segment in fiscal 1972 plus 24,000 recipients in the AFDC-unemployment segment. The average per-recipient monthly grant is estimated at \$73.00 in the regular segment and \$63.00 in the unemployment segment.

The 1969 AFDC case record survey indicated that average family net income (after work expenses, earnings exemptions, etc.) in the regular segment was \$49.13 per month, or slightly less than \$12.50 per recipient. This represented a decrease from \$65.78 per family in 1967, probably due to implementation of the new earnings exemptions. Net income in the unemployment segment was slightly less than \$10.25 per recipient in 1969. Because there is no clear basis for projecting either an increase or a decrease in these levels for fiscal 1972, it is estimated that net family income will remain constant.

In order to determine the proportion of family income which would be credited against FAP benefits, data on net income from the 1969 AFDC survey was classified according to family size. The FAP benefit level was calculated for each family size. The percentage of net family income exceeding FAP benefit levels was determined on an individual basis. Over the entire sample, 18.6% of net family income exceeded FAP benefit levels.

For fiscal 1972, therefore, it is estimated that 20% of net AFDC family income in the regular and unemployment segments will exceed FAP benefit levels. Thus, 80% of net family income will be deducted from FAP payments and 20% will be deducted from State supplementary payments.

Accordingly, total FAP benefits and State supplementary benefits paid to the estimated AFDC (regular and unemployment segments) caseload on a monthly basis can be projected as follows:

AFDC - regular segment

1.	Total Monthly Assistance Payments		
	$\$73.00 \times 370,000$	=	\$27,010,000
2.	Net Family Income (Other than Assistance Payments)		
	$\$12.50 \times 370,000$	=	\$ 4,625,000
3.	Gross FAP Payments		
	$\$33.33 \times 370,000$	=	\$12,332,100
4.	Net FAP Payments		
	$\$12,332,100 - (80\% \times \$4,625,000)$	=	\$ 8,632,100
5.	Total State Payments		
	$\$27,010,000 - \$8,632,100$	=	\$18,377,900
6.	Federal Share of State Payments		
	$30\% \times \$18,377,900$	=	\$ 5,513,370

7.	Net State Cost		\$12,864,530
8.	Net Federal Cost		\$14,145,470
9.	Net State Cost Under Existing Formula		
	$50\% \times \$27,010,000$	=	\$13,505,000
10.	Monthly Savings for State		\$ 640,470
11.	Annual Savings for State		\$ 7,685,640

Because essential information regarding non-assistance income is lacking for the underemployed (working poor) segment of AFDC in New Jersey, it is not possible to project fiscal savings for that caseload with the same accuracy that can be achieved in other segments. As stated previously, the federal government will pay only basic benefits to this group of recipients; state supplementary benefits will not be matched. It is estimated that gross assistance expenditures in this category will be \$34.6 million in Fiscal 1972. We project that the State will be relieved of twenty percent of this amount, or about \$7 million. Since current information upon which that projection is based is incomplete, however, the actual gain could be somewhat higher or lower.

III. Costs of Administration

Total expenditures for assistance payments in the adult categories are estimated to be \$43 million in Fiscal 1972. In calendar year 1968, the last year for which data are available, expenditures for administration, services, and training for the adult categories amounted to fourteen percent of expenditures for assistance payments. On this basis, it is projected in Fiscal 1972 that expenditures for administration, services, and training will be approximately \$6.0 million. We arbitrarily (in the absence of available information) estimate that 75% of such expenditures constitute administrative rather than service costs. Thus, the cost of administering the adult categories in Fiscal 1972 will come to about \$4.5 million. If the State continues to administer benefits in these categories, the present federal matching rate of fifty percent of administrative costs will not change. But, if the State agrees to have the federal government

administer benefits in those categories, the State will gain about \$2.25 million from federal assumption of all administrative costs.

Similarly, costs of administration, services, and training in the AFDC segments will amount to about \$41.6 million in Fiscal 1972 (11% of \$377.8 million). Administrative costs alone are therefore estimated to be approximately \$31.2 million. If the State administers federal and State benefits, the federal government will reimburse the State for the full cost of administering the federal benefits plus fifty percent of the cost of administering State benefits. Since there is no advance indication of the formula with which the federal government will estimate the proportion of total administrative costs assignable to federal benefits, we can only estimate that the proportion will be between one-third and two-thirds. Thus, the federal share of one-hundred percent reimbursement for administration of State benefits will range from \$20.8 to \$26.0 million. This will result in a saving to the State of \$5.2 to \$10.4 million relative to the present formula, under which the State would receive \$15.6 million. However, if the State agrees to have the federal government administer both federal and State benefits, the State would be relieved of a total of \$15.6 million in administrative costs.

IV. Summary

The total low and high estimates for the fiscal gain for the State from enactment of House Bill 16311 without significant change can be summarized as follows:

LOW AND HIGH ESTIMATES OF SAVINGS TO NEW JERSEY FROM ENACTMENT
OF HOUSE WELFARE LEGISLATION, BY CATEGORY AND TYPE OF EXPENDITURE

	LOW (millions of dollars)	HIGH
AID TO THE AGED, BLIND AND DISABLED		
Benefits	7.0	7.0
Administration	0.0	2.3
Total	7.0	9.3
AID TO FAMILIES WITH DEPENDENT CHILDREN		
Benefits	16.1	16.1
Regular segment	7.7	
Unemployment segment	1.4	
Underemployment segment	7.0	
Administration	5.2	15.6
Total	21.3	31.7
ALL CATEGORIES	<u>\$28.3</u>	<u>\$41.0</u>

APPENDIX II: PROJECTED IMPACT OF TASK FORCE RECOMMENDATIONS
ON NEW JERSEY WELFARE EXPENDITURES, FISCAL 1972

The Task Force makes two recommendations which would bring significant amounts of additional federal funds into New Jersey. The recommendation that the federal government share in the cost of state supplementary benefits for the working poor could bring into New Jersey more than \$8 million in added federal funds in fiscal 1972. The recommendation that non-employment income of clients be proportionately credited against state supplementary benefits as well as against basic (federal) Family Assistance benefits should result in a gain of about \$13 million for New Jersey in that same year. This appendix gives the details of the estimated gains to be expected from adoption of these recommendations.

I. Federal Sharing in State Supplementary Benefits for the Working Poor

According to this recommendation, the federal government would reimburse states for 30% of the cost of State supplementary benefits for the working poor. The Bureau of Business Services (Division of Public Welfare) projects total assistance expenditures for this category of \$34.6 million in fiscal 1972. As stated previously in Appendix I, FAP benefits for this group are expected to amount to approximately \$7 million. Thus, state supplementary benefits would be about \$27.6 million. Since the recommendation would have the federal government reimburse New Jersey for 30% of that amount, savings to the state would amount to approximately \$8.3 million.

II. Treatment of Non-employment Income of Clients

Under the existing House legislation, non-employment income of clients is credited against federal minimum benefits first, and must reduce the federal share entirely before decreasing the state contribution to the family. According to the Task Force recommendation, non-employment income would be proportionately credited against state supplementary benefits as well as against basic (federal) Family Assistance benefits.

In Appendix I, the fiscal impact of the Family Assistance Program on welfare expenditures in New Jersey was calculated by crediting 80% of net family income against FAP benefits. The 80% figure represents a weighted average of net employment income plus non-employment income to be deducted from FAP benefits.

In determining the additional impact of the Task Force recommendation, it is necessary to separate employment income from non-employment income. Seventy-five percent of employment income is credited against FAP benefits because the federal government deducts 50% from client earnings while the State deducts only 17% (between \$720 and the federal break-even point). However, under the Task Force recommendation, non-employment income is proportionately credited against federal and state benefits. Gross FAP benefits are calculated as a proportion of total "budgetable" family income, which represents the sum of benefits plus other net income available to the family. The remainder of the calculation follows the procedures used in Appendix I.

Thus, the impact of this recommendation on New Jersey welfare expendi-

tures in the AFDC (regular and unemployment segments) caseload on a monthly basis can be derived as follows:

AFDC - regular segment

1.	Total monthly assistance payments		
	$\$73.00 \times 370,000$	=	\$27,010,000
2.	Net family income from employment		
	$\$ 3.00 \times 370,000$	=	\$ 1,110,000
3.	Net family non-employment income (other than assistance payments)		
	$\$ 9.50 \times 370,000$	=	\$ 3,515,000
4.	Total budgetable family income		
	(1) + (2) + (3)	=	\$31,635,000
5.	Gross FAP payments		
	$\$33.33 \times 370,000$	=	\$12,332,100
6.	Gross FAP payments as % of total budgetable family income		
	$\$12,332,100/\$31,635,000$	=	39.0%
7.	Employment income credited against FAP payments		
	$\$1,110,000 \times .75$	=	\$ 832,500
8.	Non-employment income credited against FAP payments		
	$\$3,515,000 \times .390$	=	\$ 1,370,850
9.	Net FAP payments	=	\$10,128,750
10.	Total State payments	=	\$16,881,250
11.	Federal share of State payments	=	\$ 5,064,375
12.	Net state cost	=	\$11,816,875
13.	Net federal cost	=	\$15,193,125
14.	Monthly savings for State relative to House bill		\$ 1,047,655
15.	Annual savings for State		\$12,571,860

AFDC - unemployment segment

1.	Total monthly assistance payments		
	$\$63.00 \times 24,000$	=	\$1,512,000
2.	Net family income from employment		
	$\$ 4.15 \times 24,000$	=	\$ 99,600
3.	Net family non-employment income (other than assistance payments)		
	$\$ 6.10 \times 24,000$	=	\$ 146,400
4.	Total budgetable family income		
	(1) + (2) + (3)	=	\$1,758,000
5.	Gross FAP payments		
	$\$33.33 \times 24,000$	=	\$ 799,920
6.	Gross FAP payments as % of total budgetable family income		
	$\$799,920 / \$1,758,000$	=	45.5%
7.	Employment income credited against FAP payments		
	$\$1,110,000 \times .75$	=	\$ 74,700
8.	Non-employment income credited against FAP payments		
	$\$146,400 \times .455$	=	\$ 66,612
9.	Net FAP Payments		\$ 658,608
10.	Total State Payments		\$ 853,392
11.	Federal Share of State Payments		\$ 256,017
12.	Net State Cost		\$ 597,374
13.	Net Federal Cost		\$ 914,625
14.	Monthly Savings to State Relative to House Bill		\$ 38,842
15.	Annual Savings for State		\$ 466,105

SUMMARY OF SAVINGS TO NEW JERSEY FROM ENACTMENT OF
TASK FORCE RECOMMENDATIONS

Federal Sharing in State supplementary benefits for the working poor	\$ 8.3 million
Proportionate crediting of client non-employment income against state supplementary benefits as well as basic (federal) FAP benefits	\$13.1 million
AFDC - regular segment	\$12.6 m
AFDC - unemployment segment	\$ 0.5 m
 TOTAL	 <u>\$21.4 million</u>

APPENDIX III: EFFECT OF INCENTIVE SCHEDULES ON
DISPOSABLE INCOME OF RECIPIENTS

Under the House legislation, a family would be permitted to retain the first \$60 plus one-third of gross employment income up to the federal break-even point, plus one-fifth of employment income above that point. After deduction of Social Security and income taxes, however, this incentive schedule actually results in no incentive at all above the federal break-even point, as is shown in Table I*.

The Task Force recommends that the one-third earnings exemption be extended to apply to all earned income up to the state break-even point, above which the family would not be eligible to receive any benefits. Table II shows the effect of this recommendation -- a moderate but consistent net incentive to work.

Graph I compares the impact on a family's disposable income of the alternative incentive schedules. The disposable income under the Task Force's recommended incentive continues to climb.

* This analysis is based on tax withholding schedules effective Jan. 1, 1970. On July 1, 1970 a new schedule pursuant to the Tax Reform Act of 1969 will go into effect, and a "low-income allowance" will slightly alter the marginal tax rate for low income persons. However, this change will not be large enough to significantly modify the withholding rates shown in Tables One and Two, and the basic disincentive will remain.

TABLE ONE: Impact of H. R. 16311 on Disposable Income
of Family Receiving FAP Benefits (1)

<u>Gross Pay</u>	<u>Kept Under FAP at Present</u>	<u>Soc. Security Tax at 4.8%</u>	<u>Income Tax</u>	=	<u>Net Family Earned Income</u>
\$ 60/mo.	60	- 2.88	- 0	=	57.12
150	90	- 7.20	- 0	=	82.80
240	120	-11.52	- 0	=	108.48
300	140	-14.40	- 1.80	=	123.80
326.66 (2)	148.88	-15.68	- 6.80	=	126.40
400.00	163.55	-19.20	-24.80	=	119.55
420.00	167.55	-20.16	-28.00	=	119.39
500.00	183.55	-24.00	-40.80	=	118.75
525.75 (3)	188.70	-25.24	-44.00	=	119.46

(1) Family with four exemptions, married head; retain of gross monthly earnings
 $\$60 + 1/3$ (to $\$3920$) + $1/5$ ($\$3920-\6309)

(2) Federal break-even point ($\$3920$)

(3) State break-even point ($\$6309$)

TABLE TWO: Impact of Recommended Incentive on Disposable
Income of Family Receiving FAP Benefits (1)

<u>Gross Pay</u>	<u>Kept Under FAP at \$60 + 1/3</u>	<u>Soc. Security Tax at 4.8%</u>	<u>Income Tax</u>	=	<u>Net Family Income</u>
60/mo.	60	- 2.88	- 0	=	57.12
150	90	- 7.20	- 0	=	82.80
240	120	-11.52	- 0	=	108.48
300	140	-14.40	- 1.80	=	123.80
326.66 (2)	148.88	-15.68	- 6.80	=	126.40
400.00	173.33	-19.20	-24.80	=	129.33
420.00	180.	-20.16	-28.00	=	131.84
500.00	206.66	-24.00	-40.80	=	141.86
525.75 (3)	215.25	-25.24	-44.00	=	146.01
565.55 (4)	228.51	-27.15	-50.40	=	150.96

(1) Family with four exemptions, married head; retain \$60 + 1/3 of gross monthly earnings

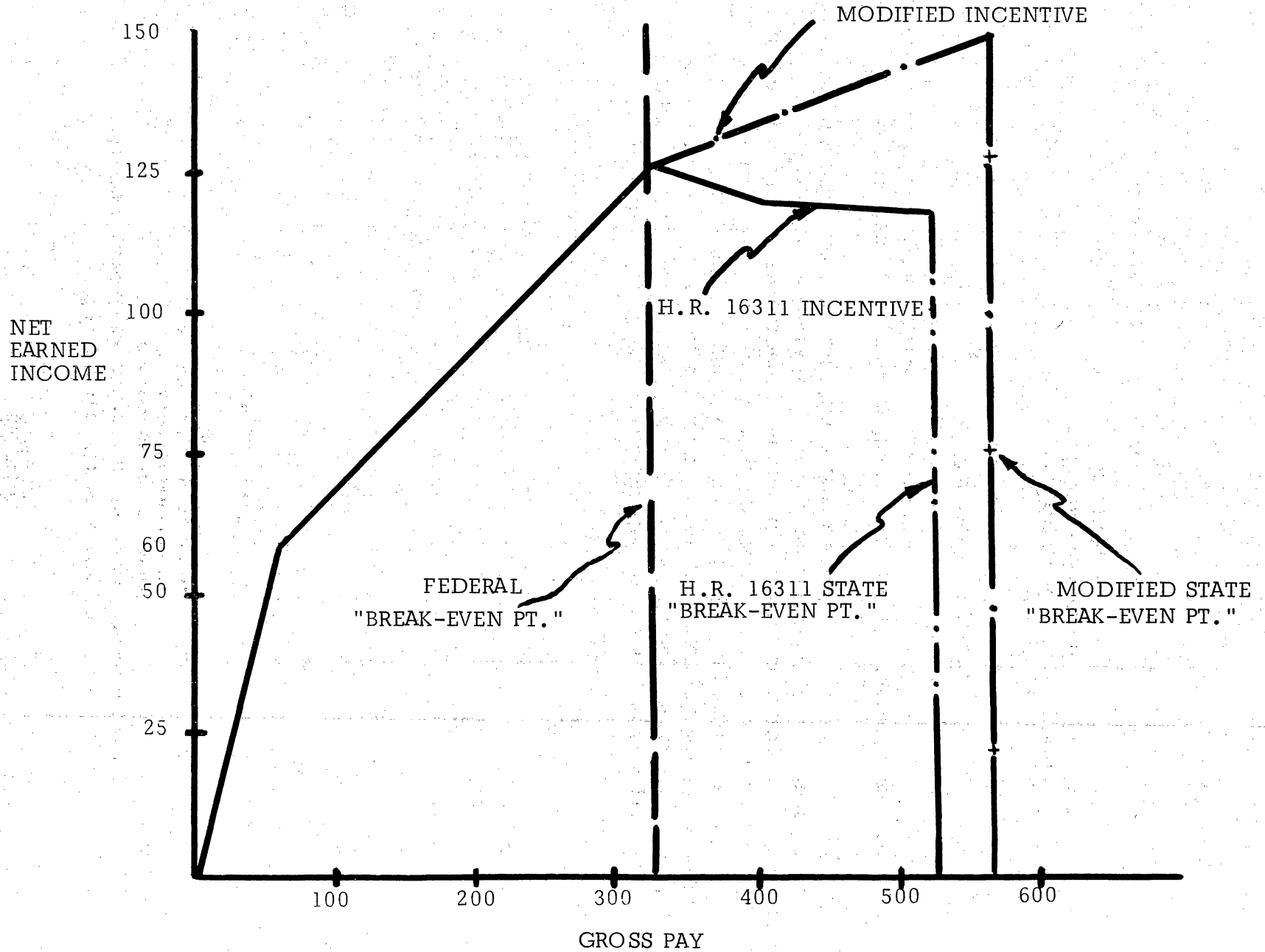
(2) Federal break-even point (\$3920)

(3) State break-even point in H. R. 16311 (\$6309)

(4) New State break-even point (\$6786)

GRAPH ONE: Net Earned Income of Recipient Families Under Provisions of H. R. 16311 Compared With Recommended Provision

GRAPH ONE: Net Earned Income of Recipient Families Under Provisions of H. R. 16311 Compared With Recommended Provision





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July 16, 1970

Honorable William T. Cahill
Governor
State of New Jersey
State House
Trenton, New Jersey 08625

Dear Governor Cahill:

On June 9th, this Task Force submitted to you a Special Report on The Impact of Proposed Federal Welfare Legislation on New Jersey. Shortly after transmittal of the Special Report, President Nixon proposed four major revisions to the pending legislation [H.R. 16311]. Only one of our six recommendations -- to liberalize earnings exemptions for recipients -- was included in the group of proposed amendments. The remaining five recommendations would still be relevant to the House legislation if it is modified in accordance with the Administration's proposals.

The attached Supplementary Report gives a brief factual summary of the amendments suggested by President Nixon.

Respectfully yours,

Frank K. Kelemen
Frank K. Kelemen
Chairman

FKK:mcb

SUPPLEMENTARY REPORT

TO GOVERNOR WILLIAM T. CAHILL

ADDENDUM TO SPECIAL REPORT ON
THE IMPACT OF PROPOSED FEDERAL WELFARE
LEGISLATION ON NEW JERSEY

Recently Proposed Amendments to Pending
Federal Welfare Legislation

On June 9, 1970, this Task Force submitted to Governor Cahill a Special Report on the Impact of Proposed Federal Welfare Legislation on New Jersey. The Special Report outlined the provisions of legislation which had been enacted by the House of Representatives [H.R. 16311], assessed its potential impact on New Jersey, and proposed recommendations for modification of the legislation in the Senate. Shortly after release of that Special Report, the Nixon Administration submitted to the Senate Finance Committee -- at the Committee's request -- a group of suggested amendments to the House Legislation. This Supplementary Report summarizes those suggested amendments which affect the substance of the welfare reform legislation and briefly assesses their potential impact on New Jersey.

Four substantive revisions of H.R. 16311 have been proposed by the Administration:

- 1) Provision for state supplementary benefits for the unemployed would be eliminated.
- 2) Earnings exemptions for recipients of Family Assistance benefits would be increased.
- 3) Federal administration of General Assistance programs would be authorized under certain conditions.
- 4) Social services now provided under the various federally-assisted welfare categories would be consolidated into a single comprehensive program focussed on all persons living in poverty.

1) Elimination of State Supplementary Benefits for the Unemployed

H.R. 16311 provides for payment of federal basic benefits of \$1600 per year to four-person families with unemployed parents. In addition, those forty-two states with higher AFDC benefits would be required to supplement these basic federal benefits to the level of their current AFDC standards. These state supplementary benefits would be matched at the rate of 30% by the federal government. The purpose of this provision in the House bill is to ensure comparable levels of benefits among female-headed families and families headed by an unemployed father. Comparability would remove the financial pressure on the father to desert his family when he loses his job.

The Administration proposes that provision for state supplementary benefits for the unemployed be removed. States would not be required to pay supplementary benefits to families with unemployed wage earners and they would not receive federal matching payments if they chose to do so voluntarily. Provided that New Jersey continues supplementary payments to the unemployed, elimination of provision for 30% federal matching payments would reduce this State's fiscal dividend from the new legislation by \$1.4 million in the first year of implementation.

2) Earnings Exemptions The Administration suggests that earnings exemptions for recipients of Family Assistance Program (FAP) benefits be liberalized in two respects. First, earned income of recipients would be defined as earnings net of federal income tax and employee social security payments rather than gross earnings. Second, combined federal and state benefits would be reduced by two-thirds of net income from employment. Under the House legis-

lation, such combined benefits are reduced by two-thirds up to the federal "break-even point" (\$3920 for a family of four), after which they are reduced by four-fifths. This proposed change accords with the Task Force's sixth recommendation in our Special Report -- except that our recommendation would have the earnings exemption calculated on gross rather than net income.

3) Administration of General Assistance The House legislation gives states an option -- along with financial incentives -- to delegate administration of FAP benefits and Aid to the Aged, Blind and Disabled to the federal government. The Administration's suggested amendments offer states the additional option of delegating administration of General Assistance to the federal government if it has already so delegated responsibility for the federally-assisted categories. This would permit all assistance payments in a given state to be disbursed by a single agency.

4) A New Program of Social Services H.R. 16311 would leave intact the present programs of social services to public welfare clients. The Administration proposes a new Title XX to the Social Security Act which would provide for a new consolidated services program, called "individual and family services." These services are defined to include the full range of family and child welfare services, services in support of manpower training and employment programs, foster care and adoption services, self-care and protective services for adults, and temporary emergency assistance (both cash and emergency services).

This program of individual and family services would be made available

without charge to all persons below the poverty line, not just recipients of public assistance payments. The services could also be made available on an ability-to-pay basis to those persons above the poverty line.

In order to be eligible to participate in the federally-assisted program, the Governor of each state must divide his entire state into service areas. He must then designate a "prime sponsor" to administer the service program in each service area. This prime sponsor may be either a state agency or a local governmental unit. However, in any city with population of 250,000 or more, a "self-designation" option is available under which the chief elected official may choose to designate that city as a service area and designate a local prime sponsor of his choice to administer the program. A separate Government Assistance Program would be established to provide aid to Governors and local chief executives "to strengthen the capacity of their offices to plan, manage, and evaluate health, education and welfare programs on an effectively coordinated basis." The Governor of each state would be authorized to submit a single consolidated plan including his program of individual and family services and any one or more of his state's health, education, and welfare programs (excluding Medicaid and public assistance). Under such a consolidated plan, the Governor would be permitted to transfer among programs up to 20 percent of the federal assistance available for one such program.

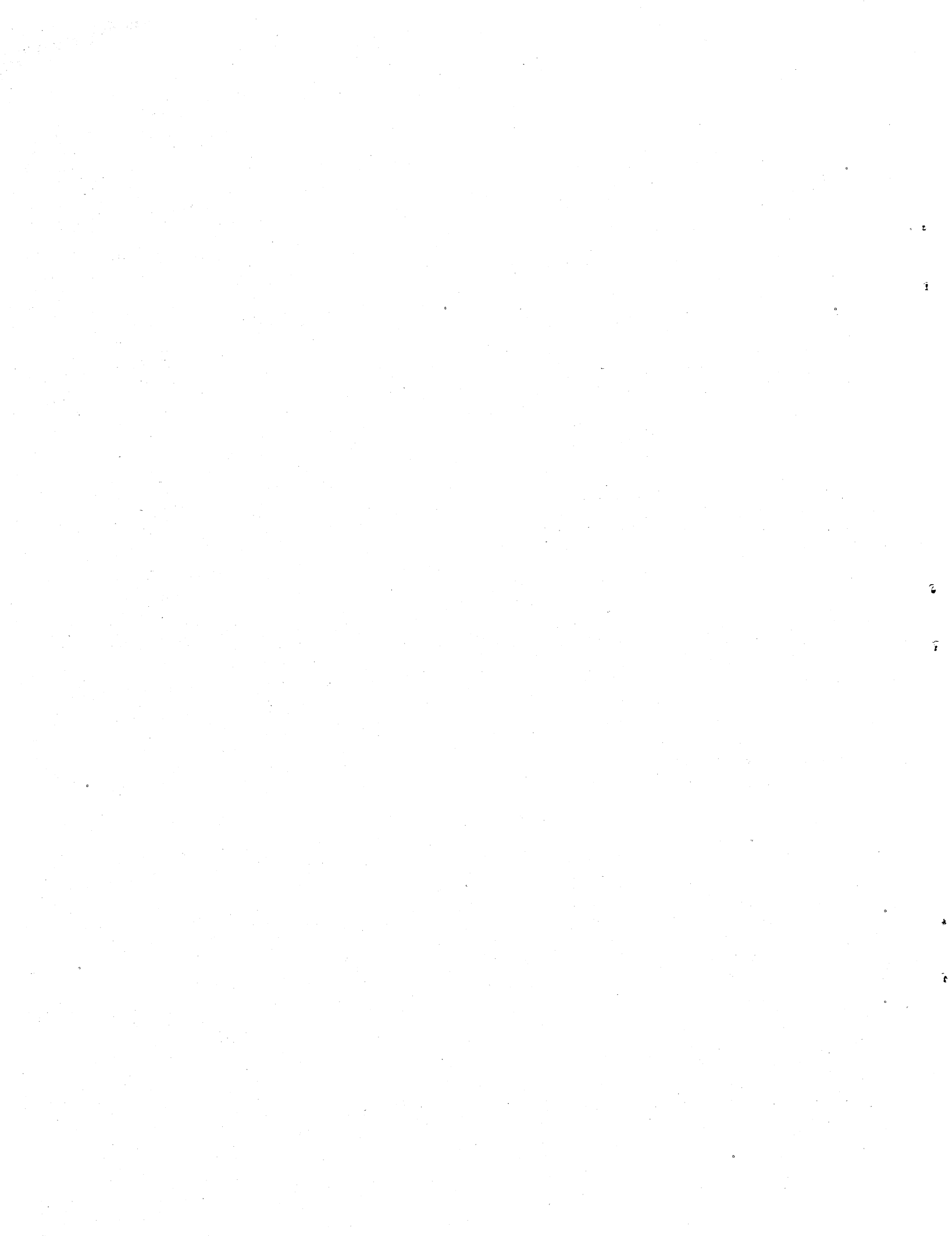
5) Other Changes Many technical changes have been proposed for H.R. 16311, but they would not affect the basic substance.

Far-reaching changes have been outlined for programs complementary to the Family Assistance Program:

a) The Medicaid program would be replaced by a contributory health

- insurance program for the poor;
- b) The food stamp program would be revised so that it would mesh more closely with Family Assistance benefits;
 - c) The rent structure for public housing would be changed to avoid "sudden-death" termination of benefits as tenant income increases.

Details of the changes proposed for food stamps and Medicaid will be submitted to Congress next year. Modifications advocated for public housing programs have already been submitted. None of the changes proposed for the complementary programs would affect the core FAP legislation [H.R. 16311] analyzed in the Task Force's recent Special Report.



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