

ECONOMIC POLICIES AS BARRIERS TO SELF-SUFFICIENCY

When Working Harder Does Not Pay: Low-Income Working Families, Tax Liabilities, and Benefit Reductions

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ABSTRACT

Under some circumstances, recent reforms to policies that affect the working poor create a barrier to workers who try to increase their families' financial well-being through greater earnings. As earnings rise, benefits are reduced and taxes increase. Together these two factors may mean that accepting a raise or working more hours may not make a worker's family better off financially. This article presents an analysis of the extent of implicit taxation and describes how low-wage workers experience this phenomenon. We address three areas: how benefit programs and the tax system together create high combined tax rates, the implications of this system for low-income families' well-being, and finally, suggestions for practice and reform.

Over the past 2 decades, a number of policy reforms have altered the relative payoff of market employment to workers' low-income households. Policy changes have aimed to "make work pay" relative to welfare receipt and—perhaps more importantly—by extending supports to millions of low-income households not on welfare. Reforms aimed at supporting employment include earnings-based supports paid through the tax system such as the Earned Income Tax Credit (EITC), subsidized benefits including child care grants and expansions of public health insurance, and administrative changes to increase the proportion of nonwelfare households who use Food Stamps. Sawhill and Haskins (2002) estimate that these changes have created an eight-fold increase in the total value of benefits available to working poor households.

Although these policies certainly increase the income and well-being of low-income working households, their means-tested design means that benefits go down as earnings rise (Ellwood, 2000; Ellwood & Liebman, 2000; Holt, 2002; Sawhill & Haskins, 2002). In effect, increases in

earnings are "taxed away" by lower benefit amounts. Under some conditions, a raise can trigger reductions in several benefits. Because workers with children qualify for higher levels of support, they are also subject to greater reductions. In this article, we use the term *implicit taxation* to refer to situations in which part of the value of a worker's increased earnings is reduced by decreases in one or more means-tested benefits.¹ Workers are also subject to payroll taxes and increased net income tax liabilities as earnings rise. Together, implicit taxation and actual tax liabilities can create high combined tax rates. For upwardly-mobile low-income working families, high combined tax rates can mean that getting a raise or working more hours may not increase disposable income.

¹ We use the term "implicit taxation" to refer to the tax-like reductions in support from means tested programs and "combined taxation" or "combined tax rate" to refer to implicit taxation plus taxation from the tax system. Implicit and combined tax rates are also referred to as "marginal tax rates," "effective taxation," or "effective marginal tax rates" in policy studies and economics research.

TABLE 1. Summary of Case Studies’ Select Budget Items Before and After Raises

MONTHLY INCOME (OR COST)	KAREN			EDITH		
	BEFORE	AFTER	DIFFERENCE	BEFORE	AFTER	DIFFERENCE
Earnings	\$1,042	\$1,542	+\$500	\$1,900	\$2,500	+\$600
Food stamps	\$151	\$70	-\$81	n/a ^a		
Child care costs		n/a ^a		(\$600)	(\$1,200)	-\$600
Rent	(\$179)	(\$356)	-\$177	n/a ^a		
Payroll tax	(\$80)	(\$118)	-\$38	(\$145)	(\$191)	-\$46
Earned income credit ^b	\$459	\$305	-\$154	\$210	\$29	-\$181
TOTAL			+\$50			-\$227

^a Not included because no subsidy is used.

^b Monthly amount calculated as 1/12th of annual amount; includes federal and Wisconsin.

Note. Based on case information and author calculations using administrative rules. Details by authors available by request.

A long-recognized feature of antipoverty policy, high implicit and combined tax rates reflect the tension between three competing goals sometimes called the “iron triangle” of income support: matching assistance with need, promoting economic self-sufficiency through employment, and minimizing public costs. Policy choices between these competing goals reflect values about citizenship, economic rights, and the relationship between market labor and family well-being.

In spite of the complex and arcane nature of implicit tax rates arising from multiple means-tested programs, we argue that understanding this feature of antipoverty policy is necessary for social work practitioners and social welfare policy analysts. Those who serve clients in low-income working families may have observed instances in which clients earned more but received less in benefits or were no longer eligible for certain supports. We will show how policy designs and interactions give rise to these sometimes frustrating situations. Those who serve persons who are working poor (or teach students who will go on to serve such clients) should be aware of the financial impact of clients’ earnings and income choices. Program designers should consider the interactions between programs as they create eligibility guidelines. Finally, those who advocate for policy reforms should be aware that benefit reductions and tax liabilities can blunt the impact of seemingly positive policy changes such as raising the minimum wage.

Our aim is to explain the phenomenon of high implicit and combined tax rates in a way that can inform direct practice and policy work. We begin with case studies of two low-wage workers drawn from ethnographic fieldwork. The remainder of the article presents an analysis of the policy context for these workers’ experiences. First, we describe the benefit and tax schedules relevant to low-wage workers. Next we consider how implicit taxation may affect stability and well-being and the normative implications of a system with high combined tax rates on the working poor. Finally, we pose suggestions for practice and reform as an agenda for how social workers, researchers, and policymakers can better support and empower families, particularly the economically vulnerable families of the working

poor. We argue that the promise to make work pay is only half delivered. Work now pays more than welfare, but many working poor families face significant financial barriers along the traditional path of getting ahead by working harder and earning more.

Case Studies

Two cases from an ethnographic study of low-wage workers in Milwaukee, Wisconsin over the period 1998–2001 illustrate families’ experiences of implicit taxation. Details of the full study are in Romich (2006).

Karen

Karen (a pseudonym) is a single woman with three children. Her economic history includes various minimum-wage jobs (often more than one at once), some spells of welfare reliance, and use of means-tested benefits. In 1999, Karen worked as a personal home health care worker, earning \$6.25 per hour. She used food stamps, lived in subsidized housing, and her children had health coverage through Medicaid.

In July 2000, the governor of Wisconsin signed a bill raising the pay of home care workers to \$9.25 per hour, a \$3.00 hourly raise for Karen. Her estimated yearly earnings, before taxes, increased to \$19,000. After this raise, Karen had a periodic meeting with a caseworker at the rental assistance program. There she was told that she was now making too much money to qualify for her current rental subsidy. Her rent was almost doubled, increasing from \$179 to \$356 per month. The raise did not affect her children’s health care coverage, but the family’s food stamp allotment was reduced from \$151 to \$70 per month. Her caseworker told her that if her wage were to increase as little as \$0.50 an hour, her food stamps would be cut altogether. Karen said, “It’s like being persecuted for getting a raise. This is why people don’t want to work.”

Karen’s raise, amounting to just over \$500 more in earnings per month, was offset through benefit cuts by the loss of food stamps and rental assistance valued at \$259. She also paid about \$38 more per month in payroll taxes, and if she worked full-time for the year, her combined state

and federal EITC would have been worth about \$1,848 less for the year (or \$154 per month; author calculations using TAXSIM, Feenberg & Coutts, 1993). In other words, if Karen kept paying her rent and buying the same amount of food, she would have been financially worse off because of the raise. In Karen's case, she stopped seeing one of her clients soon after the raise, her hours fell, and she again qualified for more support. Throughout she felt "stressed out" by her bills and week-to-week finances. Table 1 summarizes Karen's changes in income.

Edith

Edith is a 31-year-old woman with three children, ages 6, 4, and 2 years. A former welfare recipient, Edith started work in 1998 as a receptionist at a local social service agency. She also used subsidized child care and public medical insurance for her children.

Over time, Edith was recognized for her skill at work, received a series of raises, and was transferred to a case management job paying \$30,000 per year. This was above the cutoff point for the child care program, so she no longer qualified for the subsidy that limited her costs to \$600 per month. The cost of paying out-of-pocket at the same care center would be \$1,200 per month. Edith told her caseworker, "If I have to pay \$1,200 per month, then why am I working? Just to pay day care?" Edith is so angered by what she sees as a system making it nearly impossible for her to work and afford day care that she called the governor of Wisconsin to ask for help. She told his aide, "It means that I will lose my job just because I can't receive day care. Are you telling me that I have to quit my job and go back to the system?"

By one reckoning, Edith is a welfare reform success story. She started work and quickly got promoted. However, her last pay increase—from \$1,900 per month to \$2,500—would have been completely consumed by the increase in child care costs. Instead of paying the full cost of care herself, Edith eventually reluctantly switched to paying a relative to babysit her children, frustratingly acknowledging that her children were still safe although they now watched television instead of participating in educational activities. Table 1 summarizes Edith's changes in income.

Policy Background

The two upwardly-mobile low-wage workers presented as cases above experienced implicit taxation as their means-tested benefit eligibility decreased. Both women also experienced changes in taxes owed and credits received through state and local income-tax systems. Benefit eligibility schedules and tax systems have a combined effect on working poor families. This section describes the sources of implicit taxation and the complexities in determining a given family's situation.

Sources of Combined Taxation

We use the blanket term combined taxation to refer to the combination of implicit taxation (the tax-like reductions in benefits) and actual taxation through income and payroll taxes. Both sets of policies affect the financial incentives and constraints faced by low-income working families.

Means-tested benefits. Implicit taxation results from the benefit schedule of means-tested programs: food stamps and subsidized services such as public housing, the Medicaid/State Child Health Insurance Programs (SCHIP), and publicly-funded child care. These programs all have progressive designs such that families with lower incomes receive a greater subsidy; as income rises, families' benefits are reduced. The effect is that of being taxed. This was Karen's experience with food stamps. After she received a raise, her family's food stamp benefit was reduced, lowering the net value of her raise in the same way as would a tax.

The rate at which implicit taxation reduces net income depends on the benefit schedule in question. In the case of food stamps, benefit amounts are calculated according to a formula that includes family size and household income after deductions for earned income, certain medical and dependent care expenses, child support paid, and particularly high housing costs (U.S. Department of Agriculture, 2004). The basic benefit reduction for earnings alone is \$0.24 for every additional dollar, an implicit tax rate of 24% (author calculations from U.S. Department of Agriculture, 2004).

Other programs, such as housing vouchers, child care subsidies, and health care vary both eligibility and cost sharing based on income. For instance, children in households below 100% of the Federal Poverty Guidelines (FPG) are generally covered by free Medicaid. Programs for slightly higher earners vary from state to state. Children and some parents in households who earn between 100% and 200% of the FPG generally qualify for SCHIP, but cost-sharing measures such as annual enrollment fees, monthly premiums or co-pays apply to some or all families in this range (Dubay, Hill, & Kenney, 2002).

Some benefits phase-out gradually, but sometimes a \$1 increase in earnings is enough to impose a sizeable hike in cost-sharing and can even result in a total loss of eligibility. The latter happens when a worker's wages had been hovering right below the income ceiling, so that even a small increase results in an extreme decrease in benefits. Such incidents are referred to as *cliffs* or *notches* in the marginal tax rate literature, and they can completely negate the effect of a raise and even make a household worse off. This was the experience for Edith, whose most recent raise caused her to lose eligibility for her child care subsidy.

This discussion focuses only on key federally-funded supports commonly used by families who may be welfare-eligible. Other programs and benefits also operate on a means-tested or sliding-scale basis. As families earn

more, they may lose eligibility for nutrition programs such as WIC or school lunches; Head Start or locally subsidized children's after-school or summer programs; community resources such as Legal Aid; and clinic-based or other reduced-fee health services.

The tax system. State and federal income tax systems, antipoverty credits delivered through the tax system, and payroll taxes affect taxpayers at each earnings level differently. Overall, the federal income tax system is progressive (lower-income households face lower tax rates), but an increase in earnings can nonetheless be partly undone through higher payroll taxes and lower tax credits. Although state and local sales and property taxes represent a significant part of the overall tax obligations paid by low-wage workers (Seipel, 2000), these taxes are not linked to specific earnings levels and are not discussed below.

The Omnibus Budget Reconciliation Act of 1985 raised the earnings level at which federal income taxes are owed. As a result of the standard deduction and exemptions for household members, the lowest-income households owe no income taxes. For instance, in tax year 2005, an adult worker with two children pays no federal income tax on the first \$17,000 of earnings. Above \$17,000, this household is in the 10% tax bracket (Internal Revenue Service, 2005). Low-income workers also pay payroll taxes of 7.65% on each dollar earned to fund Social Security and Medicare.

For low-wage workers, tax credits are a more important feature in determining the ultimate size of a tax refund check. Expansions in the EITC over the late 1980s and early 1990s plus recent expansions in the Child Tax Credit have increased the redistributive properties of the tax system as a whole. In particular, EITC is credited with increasing the number of single mothers in the workforce (Meyer & Rosenbaum, 2000, 2001) and more generally boosting families' ability to save, pay off bills, and get ahead (Beverly, 2002; Smeeding, Phillips, & O'Connor, 2000; Romich & Weisner, 2000). However, when a tax credit phases out, the result is like an additional tax. Low-income workers with increased earnings can find themselves with lower tax credits. Phase-out ranges and rates depend on filing status and number of children. In 2005, EITC phase-out points began between \$6,530 for a worker without qualifying children and \$16,370 for a married worker with two or more children. For workers with two children, the phase-out rate was 21.06%, meaning that the total credit was reduced by just over 21 cents for each additional dollar earned. From the perspective of the tax filer, the effect is equivalent to a 21% tax.

At the state level, 41 states plus the District of Columbia tax income, and 18 states plus the District of Columbia have a version of a state EITC. Some state income tax systems are less progressive than the federal system. For instance, Illinois levies an income tax of 3% on all income above an exemption of \$2,000 per filer or dependent. Other states are more progressive. Some localities also

levy income taxes (for example, the City of Philadelphia taxes all residents' earnings at 4.33%), and three localities have their own EITC.

Variations

Rates of implicit taxation can vary greatly from household to household. In addition to obvious considerations such as earnings and the number and age of children, program interactions introduce additional complexities. For example, income supports such as SSI can affect benefit levels depending on the program. Families who have high housing costs and do not receive any housing subsidy will receive higher food stamp allotments. Even federally-funded benefits can vary by state, and benefit calculation formulas change on varying schedules or because of state budgetary considerations.

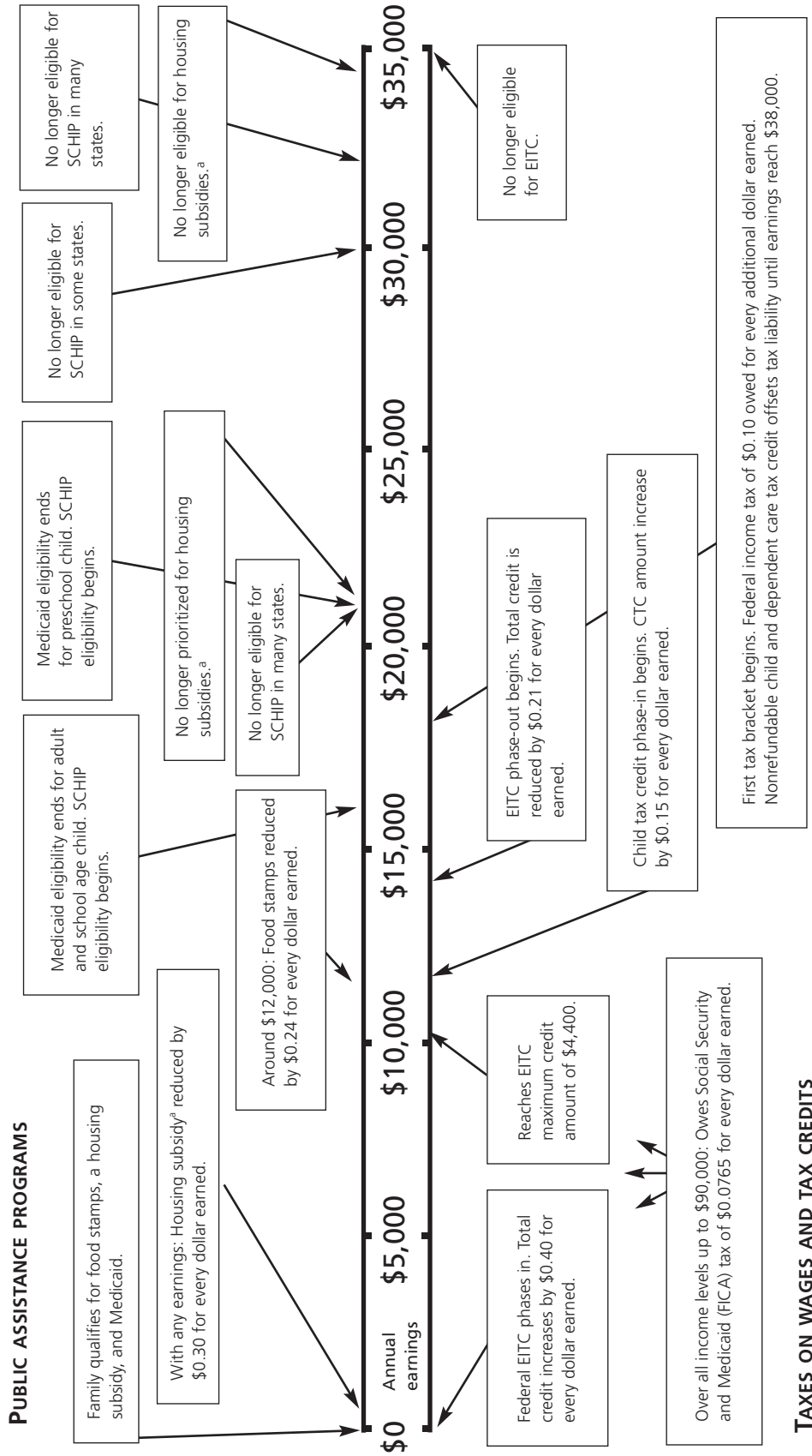
Transitional provisions designed to ease the transition from welfare to work are another source of variation. SCHIP programs may allow families who qualify for coverage with incomes of less than 185% of the FPG to continue their coverage for a period of time even when income exceeds the standard income cap. Some residents of public housing have a phased 24-month exemption for the earnings of household members who moved from long-term unemployment or TANF receipt into employment (Office of Public and Indian Housing, 2002). These program interactions and time-limited extensions further complicate the task of determining a family's future income from assistance programs.

Combined Rates

When taken individually, programs such as food stamps or progressive tax measures such as the EITC are seen as positive supports for families. However, the combination of reduced benefits and increased net taxes may pose barriers. Figure 1 shows the changes in eligibility for means-tested assistance and net tax liability that affect households moving along an earnings trajectory. A household with earnings of \$10,000 per year (roughly full-time work at the federal minimum wage of \$5.15) qualifies for Medicaid, housing subsidies, and food stamps. This household would also be in the phase-in portion of the EITC, meaning that each additional dollar earned is supplemented by an additional \$.40 in the tax credit. However, if this worker were to move to a higher-paying job, the family would soon reach the "flat" or plateau point of the EITC schedule, in which additional earnings do not increase the total EITC. The family's food stamps and rental assistance would be taxed away at 24% and 30% respectively. Above \$16,090, adults and children over age 6 would no longer be eligible for Medicaid, although children could switch to SCHIP.

The combined tax rate for working poor households with children can easily exceed 50%, meaning that a family loses out on over half of every additional dollar

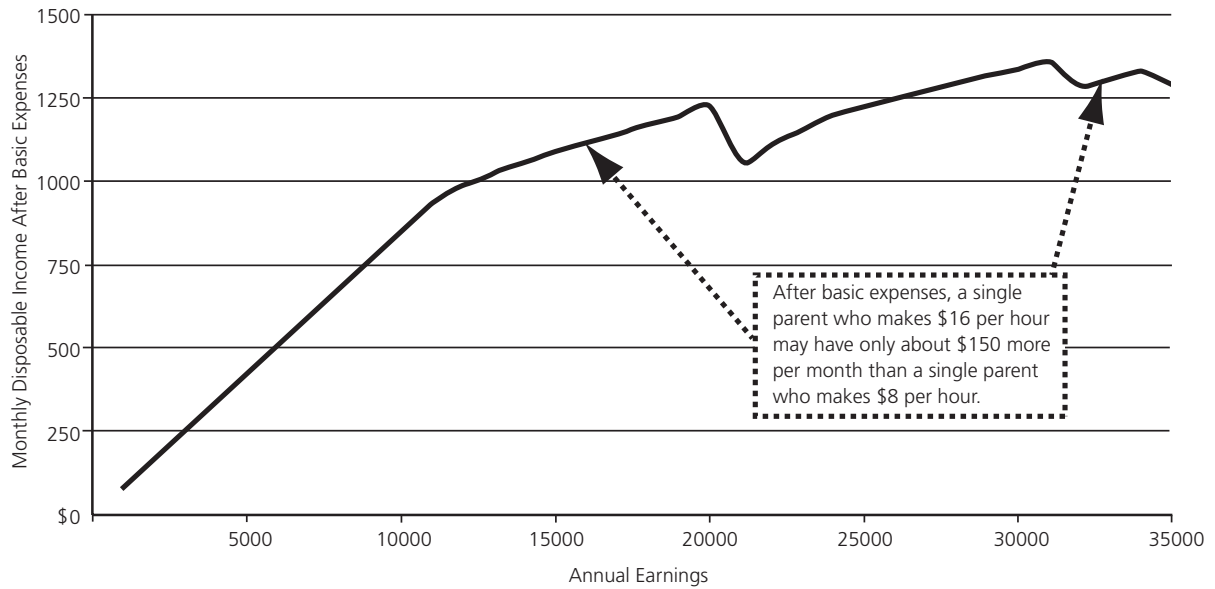
FIGURE 1. Means-tested public assistance, tax credits and tax liability at different income levels for one adult worker with one preschool and one school-aged child in 2005.



Sources: Food stamp formula from U.S. Department of Agriculture (2005). Medicaid/SCHIP information from Dubai, Hill, and Kenney (2002). Housing subsidy information from U.S. Department of Housing and Urban Development (2002). Tax and tax credit information from author calculations using TAXSIM (Feenberg & Coutris 1993) assuming wages are the only income source and child care costs are \$200 per month.

^aHousing subsidy rates are based on national median income and rental rates. Specific cutoff points vary by location and housing assistance is subject to limited availability. Reductions in subsidy are delayed for 12 months and then phased in at a 50% rate for an additional 12 months for housing subsidy recipients who move from unemployment into the labor force.

FIGURE 2. Annual earnings and disposable income after basic expenses for a one-adult worker with one pre-school and one school-aged child in 2005.



Note. “Disposable income after basic expenditures” refers to household funds left over after buying basic common essentials (food, shelter, and health insurance coverage). Figure assumes the household uses food stamps, housing assistance, and Medicaid/SCHIP (with cost sharing set by averaging premiums by income level for the three most populous states). Federal taxes (including FICA) and eligible tax credits are included as monthly averages. Other common expenditures not included as basic expenditures may include utilities and phone service; cleaning and personal hygiene products; child care costs (costs of \$200 per month assumed for purposes of tax calculations); over-the-counter medications and medical copayments; clothing, including school clothes and work uniforms; school supplies, books and fees; transportation such as bus, train or ferry fare and/or car ownership and gas expenses; union dues; political, charitable or religious contributions; personal life or property insurance; expensive food such as fresh meats and produce or food for special diets; entertainment or travel; gifts; etc. For sources see Figure 1. Additional documentation available by request from first author.

earned. If higher earnings trigger a cliff effect, the household may actually have less money although earning more (a combined tax rate of over 100%). Figure 2 illustrates these results of high combined taxation by showing the disposable income available to a sample family after paying taxes, receiving transfers, and securing basic essentials (basic food, housing, and health insurance). As earnings double from \$15,000 to \$30,000 per year, household income after basic expenses is relatively flat, increasing only by about \$250 per month. The dip at the \$20,000 point corresponds to a cliff effect where the household starts to pay health insurance premiums.

Effects of High Combined Tax Rates

What is the impact of these high combined tax rates? One recognized concern is whether or not high tax rates reduce employment. Although there is little evidence that this happens, another emerging area of concern is how steep tax rates may affect the well-being of working poor families through creating financial instability. Finally, there are moral questions of whether high implicit tax rates are unfair when measured against larger social values.

Few Impacts on Work Effort

By lessening the incentive to increase earnings, high tax rates may create a new “poverty trap” (Wolfe, 2002) or “welfare wall” (Sayeed, 1999) if it prevents low-wage workers from taking on more work or moving up to better-paying jobs. Economic theory predicts that higher tax rates on additional earnings may reduce work effort under some conditions. Research shows that this is the case for very high-income tax filers (Gruber & Saez, 2002). For instance, physicians in higher tax states work fewer hours and miss work due to vacation or illness more frequently than do physicians in states with lower marginal tax rates (Thurston, 2002). However, low-income households do not appear to work less when they face high implicit tax rates (Gruber & Saez, 2002; Keane, 1998).²

Effects on Family Well-Being

High combined tax rates may cause economic instability. In the wake of TANF reforms, attention forced on interruptions or reductions in supports due to sanctions (Cherlin, Bogen, Quane, & Burton, 2002; Scott, Edin, London, & Kissane, 2004; Cheng, 2005). Implicit taxation—and benefit cliffs in particular—may be a second underrecognized source of instability in benefits (Romich, 2006). This was the case for Edith, who lost her child care

subsidy after earning a raise. For other families, the loss of child care benefits may lead to transitions in child care (which can impact children's well-being), job losses due to lack of child care, and financial strain.

Values Concerns

High combined tax rates occur when policies target supports to lower-income families and phase them out for higher earners. High tax rates are an unfortunate side effect of otherwise progressive policies, but are they unfair? They certainly seem unfair to workers. High combined taxation may lead to worker discouragement or disengagement, as it did in the cases of Karen and Edith. In examining responses to incidents of income-triggered benefit reductions, Romich (2006) finds that losing benefits after a raise is certainly maddening, but many workers eventually accept the decreases in benefits. Other reactions include challenges based on administrative grounds and strategic action involving misrepresentation of income or other circumstances. As a whole, this set of options does not allow workers to manage their own families' future in a way that gives a sense of control, rewards compliance with rules, or provides for increasing well-being.

Although we understand the policy compromises that gave rise to high implicit and combined tax rates, we feel that the current system fails by denying the working poor a chance at economic mobility. First, it creates seemingly arbitrary and potentially destabilizing changes in income for working poor families. We do not disagree with the idea of progressive redistribution, but the phase-out points of common benefits are often within or just above poverty levels. Second, the current system has the potential to be most disruptive to the households who rely on it most. The highest tax rates arise when families use multiple programs. Program use is not random, however. The families that rely on multiple supports are those with a combination of intense need and resourceful help-seeking. A system in which these families are most vulnerable to disruption is at odds with an ideal of hard work paying off. Below we present some alternatives that can better promote eco-

omic mobility while still maintaining acceptable levels of baseline income security and total public spending.

Implications for Practice

How should social workers respond to implicit taxation? Here we outline an agenda for social work practice under current laws and a set of reforms that could reduce the poverty trap present in those laws.

Best Practice Under Current Policies

Taking current policies as a given, practitioners who work with low-income families can take steps to increase families' control over their financial future. We recognize that we make these suggestions to human service workers who have likely faced increased job demands as a result of welfare reform (Abromovitz, 2005). Our hope is that investing time initially to help a client fully understand implicit taxation could result in less time spent in the future helping clients untangle benefit decreases and reduced incomes.

Recognize when high rates of implicit taxation may arise. Social workers in clinical or agency settings should first diagnose whether and how implicit taxation affects their clients. In addition to the experiences of Edith and Karen, we have noticed less obvious situations in our own and colleagues' practice in which implicit taxation likely plays a role. For instance, coaches in a job training agency report a common pattern in which former welfare recipients enter the program with a high degree of motivation and move into full-time jobs, only to quit the jobs and leave the program after 6 or 8 months. Through speaking with clients about their experiences, the coaches learned that this was because their finances became more strained as benefits were reduced over time. Because of the lag in benefit recertification, the effects of benefit reductions were not immediately noticed.

The experience of rising taxes, decreasing benefits and increasing costs is not limited to clients. After making a presentation based on this research, the first author was approached by a single mother who just recently earned a college degree and got a full-time job at a social service agency. She quietly confided that this research resonated with her own experience. Despite moving from part-time to full-time work and getting a substantial increase in pay, her checking account does not have much more money at month's end than it did when she was a student. She cannot make payments on the car she drives to work and has barely enough to buy food now that her family no longer qualifies for food stamps.

Generate and disseminate local knowledge. Implicit and combined tax rates vary by state, local practice, and individual families' situations, so practitioners need to be aware of the benefit and tax schedules that apply in their particular areas. Although the above analysis describes the programs to track, an additional challenge is that the

² The economics literature contains several explanations for why low-wage workers do not seem to respond to high combined tax rates. One explanation is that low-income workers have little discretion in reducing their work hours. If workers cannot select the amount of time they work (hours, shifts, etc.), their only choice may be between working or not working at a given job. A larger issue is imperfect information or understanding. Marginal tax rates are difficult to calculate. When faced with intersecting programs in the welfare system, two knowledgeable observers note that "even economists have a hard time computing marginal tax rates" (Liebman & Zeckhauser, 2004). Evidence suggests that front-line caseworkers generally do not explain them (Meyers, Glaser, & MacDonald, 1998; Anderson, 2001) and peers are not a good source of information because individual situations are dependent on a large set of parameters which vary widely even among superficially similar families (Romich, 2006). Finally, low-wage workers—like many economic decision makers—may make decisions based on simplified "rules" that are useful in many situations, but do not always accurately reflect certain complex financial trade-offs (Liebman & Zeckhauser, 2004; Mullainathan, 2000; Shefrin & Thaler, 1988).

effects of increased income are only revealed over time. Most people have experienced the surprise of payroll and income tax withholding from their first paycheck. The larger impacts of benefits reductions and increased cost-sharing will occur over time based on eligibility review schedules. Local knowledge is important here, as practice may deviate from policy. Even programs with monthly reporting may have 1- to 2-month delays. Keep in mind as well that reductions in tax-based supports such as the federal (and, if present, state) EITC will not be experienced until the next annual filing, often long after the earnings change that will result in a smaller refund.

Offer tools for proactive choices. After diagnosing what an earnings change may trigger, the next step is to communicate this information in a way that helps workers plan to achieve their goals despite the looming changes in benefits and taxes. Workers receive information about benefits from various sources. Word of mouth and advice from caseworkers are two of the most common ways that workers come to understand their options. The PRWORA reforms eradicated the predictability of the AFDC system. Under the old system, workers could exchange information about support amounts with relative consistency. Now that benefit amounts are more dependent on family structure and wages, there is less certainty and more possibility for the spread of inaccurate information (Romich, 2006).

Organizations whose constituents include working poor families can develop a set of resources that describe tax rates, state-specific benefit schedules, and explain the interactions between various programs. For instance, some not-for-profit employment agencies are testing a simulation tool to help familiarize clients with the impacts of earnings on income supports (Holt, 2002). The tool, in spreadsheet form, shows monthly family budgets based on actual program schedules and formulas. Multiple scenarios capture variation in family composition and benefit use patterns. During an orientation for new participants, a leader walks the group through the columns for the initial month (in which employment begins) and then month three as earnings increase, taxes begin to be incurred, and benefits start to decrease. Small groups each then work with a particular scenario to predict the impacts on that household's income supports in month five. The leader then provides each group with the tool's month five projections and leads a discussion of what participants found surprising. This interactive process continues through the orientation period and is reinforced in subsequent refresher training sessions. For low-wage workers, developing a hands-on understanding the connection between earnings and changes in benefits may help alleviate confusion and frustration associated with increased earnings and stagnant financial well-being.

Advocate for Solutions

Policy-level advocacy on social programs and tax issues is an important part of social work practice (Seipel, 2000; Anderson & Gryzlak, 2002). The above analysis suggests important considerations for social workers engaged in advocacy.

Consider unintended consequences. The interaction of multiple programs should be considered by advocates for the working poor when developing an agenda for improving families' financial well-being. There is general support for increasing the EITC or raising earnings via minimum wage or local living wage strategies, but higher wages do not pay more than lower wages for some families. At the state or local level, raising wages may reduce federal transfers through making fewer workers eligible for the EITC. Raising all workers' wages will then have the unintended result of disproportionately benefiting childless workers relative to workers with children (Toikka & Neveu, 2002). This is not to say that living wage strategies are wrong-minded. Certainly there is a case to make that persons are better off when more of their income comes from wages rather than transfers. However, in some cases, increased wages will be offset by lower benefits or higher taxes. Advocates should add these concerns to their consideration of the full range of consequences policy proposals can have on the well-being of the working poor.

Real solutions. Although both state and federal policies contribute to high combined tax rates, reform at the federal level is needed. Advocates for the working poor generally support increasing the EITC (Seipel, 2000; Beverly, 2002), but the phase-out portion of the EITC is the largest contributor to the high marginal tax rates facing low-income families. Increasing the value of the credit would require either making the phase-out rate greater or making it apply to moderately higher income families (families with incomes just above the current cut-off). One solution proposed at the federal level is a unified child credit which would combine the benefits in the EITC, Child Tax Credit, and value of dependent exemptions (Sawicky, Cherry, & Denk, 2002). This is similar to the idea of a child allowance (Ozawa & Hong, 2003) in that it would provide a benefit to all families without regard to earnings. It would also reduce the current penalty on middle-class parents who earn too much to qualify for the EITC but receive less value for their dependent exemptions relative to higher-earning families (Ellwood & Liebman, 2000).

Among means-tested programs, the most damaging consequences for families occur when families unexpectedly fall off the cliffs present in programs such as subsidized health and child care. Replacing restricted, means-tested programs with universal programs (financed through broad, progressive taxation) would eliminate the possibility of upwardly mobile families losing key supports. Expansions of early childhood

educational services (such as statewide prekindergarten) replace families' reliance on means-tested subsidies with a universal service accessible to all households. Similarly, efforts toward more universal health insurance would increase workers' ability to take higher-paying jobs without risking loss of means-tested medical coverage.

Conclusion

How well does the "work pays" social contract with the working poor hold? One tenet of welfare reform—that work should pay more than cash assistance—has been realized. This analysis suggests that a corollary—that more work should pay more than less work—does not yet fully hold for working poor families. Movements toward universal programs that do not phase out as earnings rise could allow for greater stability and pay-off from work. Such reforms could increase total public expenditures, but aligning effort with reward for the working poor justifies the price.

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