GETTING INCENTIVES RIGHT

Get incentives right so welfare recipients, taxpayers, employers, states, and nonprofits are all better off when someone moves from welfare to work.

Karen VanZant
Executive Director for Life Services, CareSource; Former Welfare Recipient

"The system is well-intentioned, but too often misaligned with government programs that are failing to move Americans out of a life of subsidy and dependence and into a life of economic independence, safety and social well-being."

OVERVIEW

Our nation's safety net should be designed to help those in need find a job, escape poverty, and care for themselves and their families. Unfortunately, under our current system, states and other service providers may lose money when someone leaves welfare for work, meaning they're better off failing than succeeding.

And given the way our welfare system works now, it may not make sense for someone on welfare to work more because they could lose more in government benefits than they gain from earning a paycheck.

For example, when a welfare recipient receives many different benefits, including Obamacare subsidies and tax credits, the effective tax rate for earning an additional dollar from work can lead to more than a dollar reduction in welfare assistance. That means people can actually become financially worse off from working.

Our welfare system should ensure everyone is better off when someone leaves welfare for work. Increasing work among welfare recipients increases economic mobility, leads to greater financial stability, and improves outcomes for children. For taxpayers, increased work and self-sufficiency decreases the demand on government assistance programs and increases tax revenue.

WAYS AND MEANS POLICY PROPOSAL

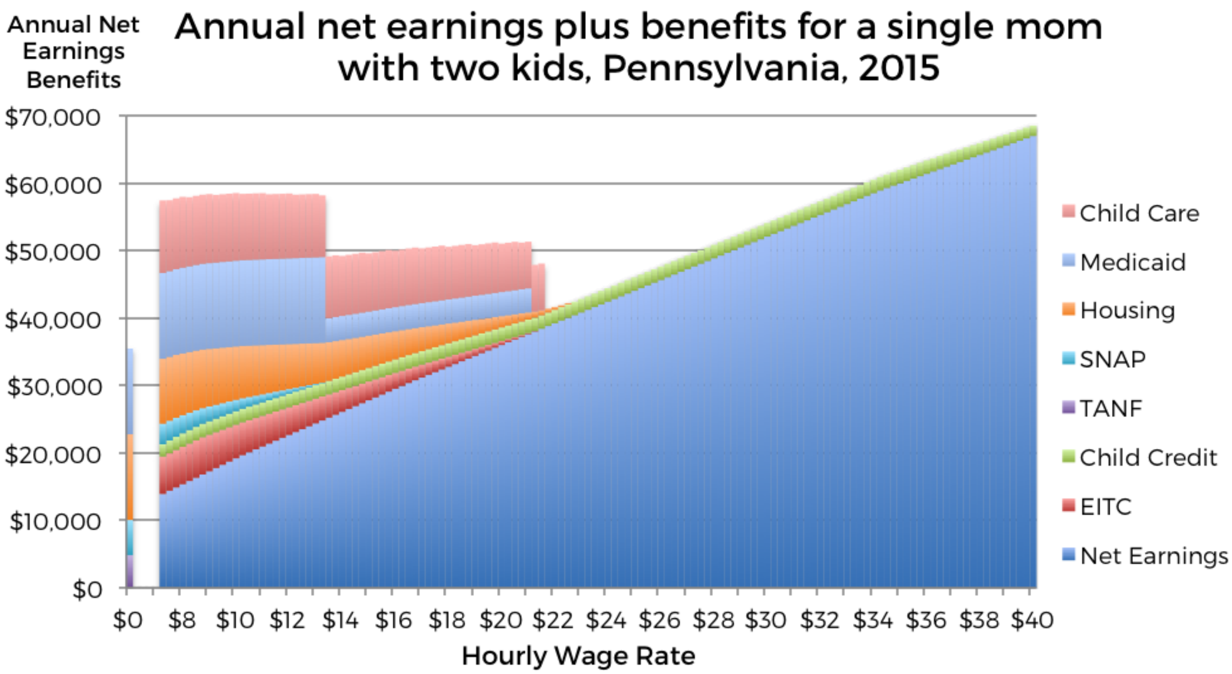
- Evaluate current financial incentives—such as match rates, grant funding, and retention payments—to ensure states and other welfare providers are better off when welfare recipients move into the workforce.
- Provide states with the flexibility needed to customize and coordinate services to prevent the welfare cliffs and high marginal tax rates that discourage individuals from work.
- Review and adjust accordingly existing tax credits, on-the-job training programs, and federal payment policies so that work is always the best option.

MARGINAL TAX RATE EXAMPLE

Should a single parent of two children living in a Chicago suburb leave a $12 per hour job for a better, more convenient $18 per hour job?

The current welfare system discourages people from taking better jobs. In fact, taking the "raise" would mean $11,000 more in earnings, but could result in the loss of more than $34,000 in tax credits, food and housing assistance, child care, and health care benefits—dropping drastically from $39,534 to $5,236.

Our plan changes this by making sure individuals and families are financially better off when they move from welfare to work. These policies increase economic mobility, which leads to greater financial stability, and improve outcomes for children.



Source: Data provided by the Congressional Research Service

Given the way our welfare system works now, it may not make sense for someone to take a higher paying job because they can end up financially worse off.