

Comments on ABC Consulting study for HSRPPR.
“Beneficios de las Personas Elegibles al Tanf Vs. Escenario de Salario Mínimo Federal”

Prepared by Hector Cordero-Guzman, Ph.D.
Co-Principal Investigator
Building Human Services Research Partnerships in Puerto Rico (BHSRP)
Inter-American University

This document includes some comments and reactions to **ABC Consulting Study for HSRPPR:**
“Beneficios de las Personas Elegibles al Tanf Vs. Escenario de Salario Mínimo Federal.”

This study is divided into seven sections that cover three main topics: the first is a demographic analysis of the low-income population using IPUMS data from the Puerto Rico Community Survey (PRCS) for 2013. More details need to be presented as to exactly what file was used (1yr, 3yr or 5ys) and the actual years covered. The report mentions that the variables analyzed include: *total family income, number of own family members in the household, marital status, any health insurance coverage, and number of own children in the household.*

The demographic section starts by showing population change for the major age groups and then proceeds to prepare a table of family income by number of household members. While this is interesting information, it is hard for the reader to get a clear sense of the proportion of the population below poverty by family size and that critical information can be presented in a separate table or highlighted in the present table. There are too many numbers and the table is hard to follow.

At the top of page 7 of the report the authors highlight that there are over 58,000 persons that qualify for health subsidy but do not appear to be receiving the health plan (Mi Salud) because they did not have health insurance. This is an important point to consider later on when making estimates of the cost\benefit of participating in programs compared to working. It is important to know the proportion of the population that is eligible for various subsidies (the denominator) compared to the proportion of the population that actually receives each of the subsidies (the numerator) in order to produce accurate estimates of program participation and an adequate cost-benefit analysis. The paper appears to include evidence that not all those are eligible actually participate in every program but the cost-benefit analysis does not take this probability of program use and participation into account.

The tables on family income by household members by marital status are interesting but the information needs to be summarized in a way that is easier for the reader to understand and follow the trends in the data from table to table. What is the relationship between marital status, number of household members, and income? How do these tables help us understand the eligible populations for the various programs? It is not clear from looking at all these panels what that relationship is between marital status, number of household members, and household income and that should be clarified.

The data seems to suggest that there are close to 1 million persons married and about 1.7 million that are single. At the bottom of page 9 the authors argue that 48% of the 1.7 million single persons in

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Puerto Rico are women and they suggest that about 207,000 received incomes of less than \$5,000 a year. These are persons in extreme poverty that presumably qualify for various programs but that is not stated clearly in the report. **The authors then proceed to show a table with the number of single women by number of own children in the household and find that of the 867,322 single women about 742,620 do not have any own children. This suggests that according to the author's data 85.6% of single women in Puerto Rico not have any own children in the household.** This is quite relevant for understanding the prevalence of single motherhood in Puerto Rico and for understanding the proportion of the population that will be eligible for TANF and other related programs mentioned in the report that focus on families with young children (such as WIC and Head Start). Again, there is a need to be clear on what proportion of the population of single women are actually eligible for the various subsidies and programs that are mentioned in the report and what proportion actually receive them.

It is critical to stress that while the demographic narrative is interesting, it is somewhat confusing to try to understand what percent of the population is eligible for the different types of programs based on their characteristics and, more importantly, what proportion of the eligible population is actually enrolled and, in fact, receiving subsidies from the various programs. Information on actual take-up rates and program participation is critical to understanding the actual trade-offs between “welfare participation” and work.

Section III of the report provides a detailed analysis of main eligibility criteria for the various programs including PAN, section 8, WIC, TANF, Mi Salud (Health Plan), telephone, water, and electricity subsidies. The data presented in the section discusses some basic eligibility criteria and includes tables on the various income thresholds for the different programs and estimates of what look like the maximum payments allowed for recipients in each of the programs. The TANF benefit estimates on page 14, for example, presents estimates of payments under three different need scenarios and family sizes. This section does not include information on the actual proportion of the population that is eligible for each subsidy and the proportion of the population that actually receives each subsidy.

It is important to note that eligibility for their PAN program and for the health program (Mi Salud) allow for some family income which needs to be taken into account when evaluating the cost\benefits of participating in the programs versus working. It is not an “all or nothing” proposition as many families that receive some work income are also eligible for PAN and Mi Salud. Some portion of the subsidy is retained even if some income is generated and the report does not acknowledge or incorporate that.

The next section IV of the report focuses on estimating how much a minimum wage worker in Puerto Rico would earn under a part-time scenario and a full-time scenario. This section is relatively clear but, again, the earnings estimates from work do not incorporate the fact that some subsidies remain even after some work income is generated. There are households where all the income comes from aid, there are households where all the income comes from work and related (and receive no subsidies), and there are households that have work related income **and also receive some subsidies** and the estimates in this report, particularly the table on page 25, do not account for this.

Section V of the report tries to engage in a quantitative analysis of benefits compared to the potential income received from work.

Table of the top of page 21 presents some estimates of the monthly benefit by household size of the family receiving subsidies from the PAN program, section 8, the health subsidy program (Mi Salud), telephone, electricity, and water subsidy. It presents the total benefits estimated for households with one and up to 8 persons.

Section VI presents the quantitative analysis comparing a family working full or part-time at the minimum wage of \$7.25 per hour. The authors argue that their estimate of subsidies received is a conservative estimate because they do not include all of the programs that a family could receive and particularly mentions the WIC program and the Pell grants. These two programs are received by families and individuals with particular characteristics and under particular circumstances including pregnant women (or with young children) or college students. Rather than speculating that some families could also receive these subsidies, the study could have provided an estimate of the proportion of the population in each of those two categories (low income college students and women with children under 1, 2 or 3 years of age) and included those numbers in the estimates for the relevant households. It is also debatable whether the Pell Grant program can be considered “welfare” in any meaningful sense.

The first scenario that the paper presents is a scenario where the person receives some subsidies but not the TANF program or section 8 and compares estimated subsidies with earnings from part-time work. It finds that for one and two person households working part-time yields more than relying on subsidies.

Adding the TANF subsidies (as estimated in the paper) and section 8 subsidies in table 2 on page 24 the authors suggest that there is an advantage of receiving all subsidies over working part-time. Again, these estimates do not account for the fact that some subsidies remain with part-time work.

Comparing subsidies without the TANF program and section 8 compared to full-time earnings in table 1 on page 25 suggest that full-time earnings are a considerable advantage over partial subsidies.

The key table in the paper is table 2 on page 25 that compares total subsidies, including what this study estimates of the value of TANF and section 8 benefits, compared to the estimates of full-time earnings for households of various sizes.

The table would appear to show that a family with one member working full-time would earn \$1,159 and a family of three persons would also earn \$1,159 and if a family of three received all of the subsidies including TANF and section 8 they could receive \$1,743 per month in subsidies and benefits and that appears to be an advantage of \$585 over full time minimum wage work. These were the numbers that were used in the “Krueger Report” to argue that there was an “advantage of welfare over work.”

Beneficios de Personas Elegibles al TANF vs. el Salario mí...

tiempo completo cuando la familia alcanza los dos (2) miembros.

Tabla 2:

Miembros en el hogar	Estimado de Ayudas Económicas	TANF	Sección 8	Total Ayudas Económicas	Estimado de Salario Mínimo a Tiempo Completo	Diferencia
1	\$296	\$166	\$409	\$871	\$1,159	\$288
2	\$556	\$290	\$409	\$1,255	\$1,159	\$96
3	\$829	\$414	\$500	\$1,743	\$1,159	\$585
4	\$924	\$538	\$500	\$1,962	\$1,159	\$804
5	\$1,013	\$662	\$679	\$2,354	\$1,159	\$1,196
6	\$1,113	\$786	\$679	\$2,578	\$1,159	\$1,420
7	\$1,193	\$910	\$780	\$2,883	\$1,159	\$1,725
8	\$1,290	\$1,034	\$780	\$3,104	\$1,159	\$1,946



PUERTO RICO – A WAY FORWARD

- Workers are disinclined to take up jobs because the welfare system provides generous benefits that often exceed what minimum wage employment yields; one estimate shows that a household of three eligible for food stamps, AFDC, Medicaid and utilities subsidies could receive \$1,743 per month – as compared to a minimum wage earner's take-home earnings of \$1,159.

The result of all of the above is massive underutilization of labor, foregone output, and waning competitiveness.

There are several challenges with the numbers in this table 2 on page 25 of the ABC Report.

- The table assumes that all households use all subsidies. Data presented in report shows not all eligible persons use health (Mi Salud) or housing subsidies, for example. The report needs to factor the probability of participation and take-up rates into the estimates of the value of subsidies over work. Does the report include any data on what proportion of households of different sizes that actually receive all the mentioned subsidies?
- The estimates in the table assume everyone gets the maximum potential payment. This is in theory and we need to examine actual program data to see what are the actual benefit levels by household size. Very few cases get maximum potential benefit in all the programs because funds are capped.
- Assumes a household labor supply of one person that is the same (and unaffected) by household size or the age/gender composition of the household. Larger households, depending on the age of members, are likely to have higher labor supply and it is unreasonable to assume that a household with 8 members will have the same labor supply as a household with one member. Estimating earning for just one member in large households lowers the estimates of earned income and increases the relative value of the subsidies. The report should look at actual household composition, household size, and labor supply data in order to make more realistic estimates of potential earnings for households of different sizes and composition.

4. The estimates do not account for fact that many households would still be eligible for Mi Salud and PAN subsidies if earning at minimum wage or earning below poverty level. The estimates assume either all subsidy income or all work income but the authors do not contemplate or analyze the cost\benefit calculation for households that receive some subsidies and also generate some income.
5. The report does not provide nuanced estimates of cost\benefit analysis for households with different composition and various mixes of adults and children. A household of three persons could have one adult and two children, two adults and one child, or three adults, and the eligibility for benefits and subsidies will be different for different types of households. The report does not take this into account.

Below, I present two corrections to the estimates presented in the report.

1. First, I corrected the numbers for TANF payments based on actual TANF Data for June 2015 on average benefit levels by household size. The column labeled "TANF real" is the actual average amount of TANF benefits by household size.
2. Second, I make some adjustments to the labor supply. Households with up to three members are left with one worker. Households with 4 members have a 1.25 labor supply. Households with 5 and 6 members have 1.5 labor supply, and households with 7 and 8 members have labor supply of 2.0. Changes in labor supply assumptions for larger households follow empirical trends in labor supply by household size.
3. I am so added data on TANF participation from the case load data for June 2015. In June 2015, there were 65,733 TANF cases out of over 1.6 million persons in poverty (estimated using 2013 PRCS data).

Adjusted TANF Payment and Work Supply Estimates

TANF Data
June 2015

Family Size	Ayudas	TANF	house	total original	tanf real	adi total	worker	orig	adi	adi worker	adi diff	% of cases	cases TANF	Cumulative Percent
1	\$ 296	\$ 166	\$ 409	\$ 871	\$ 67	\$ 772	\$ 1,159	\$ (288)	\$ (387)	\$ 1,159	\$ (387)	54.2	35657	54.2
2	\$ 556	\$ 290	\$ 409	\$ 1,255	\$ 139	\$ 1,104	\$ 1,159	\$ 96	\$ (55)	\$ 1,159	\$ (55)	16.8	11045	71.0
3	\$ 829	\$ 414	\$ 500	\$ 1,743	\$ 210	\$ 1,539	\$ 1,159	\$ 584	\$ 380	\$ 1,159	\$ 380	16.5	10876	87.6
4	\$ 924	\$ 538	\$ 500	\$ 1,962	\$ 267	\$ 1,691	\$ 1,159	\$ 803	\$ 532	\$ 1,449	\$ 242	8.9	5852	96.5
5	\$ 1,013	\$ 662	\$ 679	\$ 2,354	\$ 320	\$ 2,012	\$ 1,159	\$ 1,195	\$ 853	\$ 1,739	\$ 273	2.8	1833	99.3
6	\$ 1,113	\$ 786	\$ 679	\$ 2,578	\$ 378	\$ 2,170	\$ 1,159	\$ 1,419	\$ 1,011	\$ 1,739	\$ 431	.6	378	99.8
7	\$ 1,193	\$ 910	\$ 780	\$ 2,883	\$ 374	\$ 2,347	\$ 1,159	\$ 1,724	\$ 1,188	\$ 2,318	\$ 29	.1	84	100.0
8	\$ 1,290	\$ 1,034	\$ 780	\$ 3,104	\$ 617	\$ 2,687	\$ 1,159	\$ 1,945	\$ 1,528	\$ 2,318	\$ 369	.0	8	100.0
													65733	

Adjusted TANF
Adjusted work supply
Adjusted difference

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Dr. Hector Cordero-Guzman
(hcordero@aol.com)

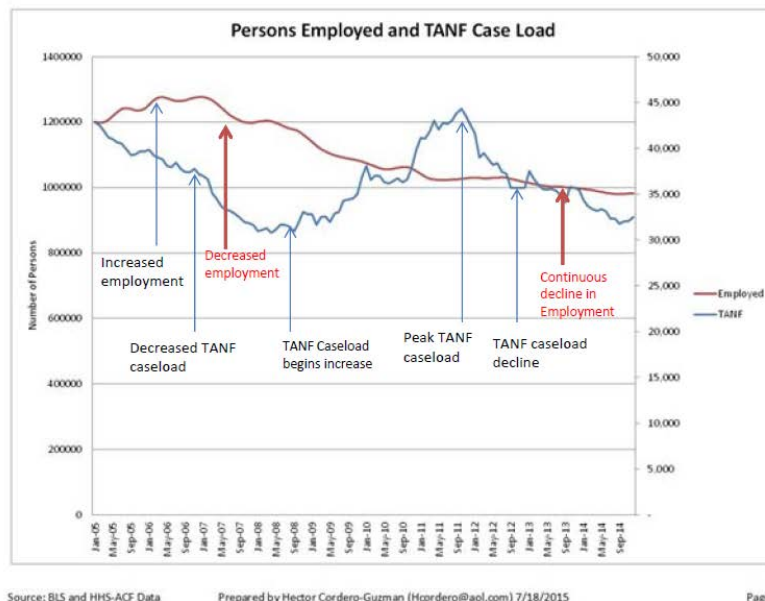
24

- Making adjustments using actual TANF benefit amounts and modifying the labor supply estimates for larger households reduces the purported advantages of “welfare” (subsidies) over work significantly. It is also important to keep in mind that not all those eligible receive aid and that not all aid ends with paid work.
- Data shows 71% of cases are 1 or 2 person households (where the economic advantage of work over program benefits are largest).
- 16.7% of all TANF cases (or close to 10,876 cases) are in 3 person households where there is presumably some advantage of program participation over work.
- For discussion purposes, 3 person households are assumed to include one female adult and two minor children. For those limited number of households, there may be a small advantage of program participation over work. There should be discussion about the costs and desirability, from a social and public policy perspective, of reducing benefits for low income women with small children.
- If we assume a 3 person household with two working adults and one child, the advantages of work over welfare are clear [$\$1,159 \times 2 = \2318 compared to between $\$1,539$ (my estimate) and $\$1,743$ (the report’s estimate) of the value of benefits].
- The revised data in the report, particularly when compared to the actual case-load data by household size, suggest that for 71% of TANF cases the value of benefits and subsidies is lower than what they could receive from work. For close to 27% of TANF cases in households between 3-6 members there could be (assuming the household can get all subsidies) some advantage of

the value of subsidies over full time minimum wage work. Note that this includes less than 20,000 persons out of an estimated poverty population of 1.6 million persons.

Some additional observations on the relationship between TANF caseload and employment in Puerto Rico:

- Looking at the historical trend of employment levels and TANF caseloads in Puerto Rico helps clarify the relationship between employment and TANF participation.
- The data show that as employment grew, TANF participation declined but about a year after employment started to collapse there was an increase in TANF use until the rate of employment decline leveled off--and time limits started to kick in--starting a reduction in the TANF case load.
- The timing of the data is clear that changes in the TANF caseload follow changes in employment and not the other way around. Declines in employment drive TANF use and it is clear that TANF use is not what drives employment levels in Puerto Rico.



The **ABC Consulting report: “Beneficios de las Personas Elegibles al Tanf Vs. Escenario de Salario Mínimo Federal”** concludes with a series of recommendations. My sense is that the comments in the first two paragraphs of the recommendations are not sustained by the data. The employment collapse in Puerto Rico is not due to TANF or welfare programs and there is abundant labor supply and people willing to work in Puerto Rico with an unemployment rate consistently over 10 percent and over 100,000 people looking for work. As was stated, the employment pattern in the table above is not explained by patters of use of the TANF program.

The third and fourth paragraphs of the recommendations on a work credit through the tax code seem sensible as does the recommendation that the head start program adjust to work schedules.

The list of recommendations offered on TANF about re-design are not clearly spelled out and the reader has no idea what the authors mean by 'Re-evaluate and re-design the TANF program.' In what ways? How? Exactly why?

Many of the recommendations focus on Head Start which is not a program that was analyzed in the report. It is not clear where many of these recommendations come from and what they have to do with the materials presented in the report.

In sum, this report is interesting but has a number of challenges that compromise its conclusions:

1. The demographic analysis is confusing and limited.
2. It does not present precise estimates and information on the size and composition eligible populations by program including TANF, the PAN program, section 8, the health subsidy program (Mi Salud), telephone, electricity, and water subsidy.
3. It does not present information on take-up rates and access to the various programs and subsidies [including TANF, the PAN program, section 8, the health subsidy program (Mi Salud), telephone, electricity, and water subsidy] and the proportion of eligible persons that actually receive each subsidy. In fact, the only table that helps us understand eligibility and access is on health insurance (p.7) and it provides evidence that not all eligible persons receive the health care subsidy (Mi Salud).
4. The report does not distinguish between the labor supply of men and the labor supply of women and how they are affected by access to subsidies and household composition and sizes. The report also does not consider how disability status impacts both program participation (particularly in TANF) and work status.
5. Some of the subsidy estimates included and used in the report are theoretical and therefore inflated and not derived from actual program data. Actual TANF program data shows that average TANF payments are lower than those used in this report.

The study provides a lot of valuable information and a very useful framework that should be discussed and can be revised, updated, and improved but, as is, the report is fine for academic discussion but without an analysis of the actual population eligible and participating in the various programs and subsidies considered, and without more accurate estimates of the size and availability of the subsidies to the actual population, it is of limited use and applicability for public policy making.

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