# MAJOR BENEFITS POSSIBLE FROM NEW ACCOUNTING PROCEDURES IN WELFARE

by

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Implicit in any income-tested transfer program is some time period over which income, or need, is to be measured for the purpose of determining program benefits. Far from being a minor technical detail of the administration of assistance programs, the income accounting period—and associated administrative procedures for income reporting—can be a major determinant of the cost, distributional equity, target efficiency, and social acceptability of income transfers. Unfortunately, in most of our existing transfer programs income accounting and reporting procedures are ill-defined in statute and in practice. This situation is a root cause of much of the discontent—among recipients and taxpayers alike—with current welfare programs.

## Monthly Retrospective Reporting

A spin-off of the income maintenance experiments conducted by the Institute for Research on Poverty has the potential of saving upwards of one billion dollars in the existing welfare programs, if the results of preliminary tests conducted by the Department of Health, Education, and Welfare prove accurate. This spin-off is a system of monthly retrospective income reporting and accounting first developed for the income maintenance experiments and subsequently implemented on a test basis in the regular AFDC and AFDC-UP programs in Colorado. Preliminary results of the Colorado tests indicate that the administrative system developed for the experiments could save as much as 10% of the $10 billion annual cost of cash transfers in these programs through reduction in overpayments and payments to ineligible recipients, while providing more accurate, responsive payments to eligible families. Encouraged by these results, the Carter Administration has incorporated the system into its Better Jobs and Income Program for welfare reform, and is planning further tests of the system with the goal of implementing it in a number of states even before national implementation of the new welfare system.

Under monthly retrospective reporting, welfare recipients are required to complete and file reports of income and family circumstances at the end of each month. Benefits are computed on the basis of these reports by a highly automated information processing system and, in the Colorado test, paid by the middle of the succeeding month.

Benefit computation procedures in the existing welfare programs stand in marked contrast to the monthly retrospective system. In AFDC and AFDC-UP, initial benefits for new applicants are based on a forecast of income and family composition for a one-month period. This monthly benefit remains unchanged until the recipient voluntarily reports a change in income or circumstances, or until eligibility is redetermined at six-month intervals (three-month intervals for AFDC-UP). In general, there is no systematic reconciliation of income forecasts with income actually received, and little attempt to recoup benefits paid in error.

Not surprisingly, the existing system gives rise to substantial payment errors, both because of errors in the initial forecasts of income and because of failure to report changes that occur between the six-monthly redeterminations of eligibility. Recent HEW quality control statistics indicate that over 25% of all AFDC payments are in error, and 80% of these errors are overpayments. Net overpayments and payments to ineligibles account for about 10% of total AFDC transfers.

## The Colorado Monthly Reporting Experiment

To test whether more frequent, routinized reporting of income and family composition and computation of benefits on the basis of actual income rather than forecasts could reduce these errors, HEW implemented a two-part experiment in Colorado in 1976. A randomly selected 10% sample of the AFDC caseload (about 1200 families) in Denver was placed on a monthly retrospective reporting system, and a randomly selected 10% sample was selected as a control group for comparison. In Boulder County, the entire AFDC caseload of 1200 families was placed on a monthly retrospective reporting system to test the effects on administrative costs and functioning. The Colorado project was administered by Mathematica Policy Research, the private research firm that performed the field work for the Poverty Institute's income maintenance experiment in New Jersey. The results of the first year of operations in Colorado indicate that such a system:

- Responds more quickly and accurately to changes in need. Changes in benefits—both increases and decreases—were two and one-half times as frequent under monthly reporting.
- Saves 8 to 10% of AFDC transfer costs by eliminating overpayments and payments to ineligibles. If implemented nationally, this would correspond to a savings of $800 million to $1 billion annually. Money saved through error reduction could be used to raise AFDC benefits for recipients with the greatest needs.
- Saves comparable amounts in Medicaid and food stamp benefits through elimination of ineligible AFDC recipients, who currently are automatically eligible for these programs.
- Results in only a negligible increase in administrative cost.
- Reduces administrative lags and improves the overall administrative functioning of the program, by providing more accurate, up-to-date information to administrators.
- Can be administered by existing program personnel with only minimal retraining; and can be mastered by

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recipients, 90% of whom file the required information on time.

While further testing of the monthly retrospective system is clearly desirable, its potential for improving the administrative efficiency, equity, and responsiveness of the AFDC program appears to be great. Its advantages may be even greater in any extension of income-tested cash assistance to male-headed families, for whom short-term income fluctuations are likely to be even more prevalent.

Beyond the savings in dollars, reform of the reporting and accounting system in AFDC might go far toward restoring public confidence in the welfare system. Much of the public concern about welfare is based not on an antipathy toward income redistribution *per se,* but on a growing belief—and hard statistical evidence—that large amounts of money are being distributed in an almost quixotic fashion to recipients who are not really eligible for assistance. Public confidence in the welfare system will only be restored when the public is convinced that payments are based on clear, objective rules and procedures, and that the need for assistance is being carefully monitored by the system. The need for better administrative procedures will be all the more urgent if a welfare reform plan is adopted that extends cash assistance to the working poor, whose incomes are even more volatile than those of the AFDC population.

Over the next two years, HEW plans to conduct additional tests of the system in up to six other sites, and to extend the Colorado system state-wide. These tests will serve as models both for other states that wish to reduce error costs in the existing programs and for the administrative component of the Better Jobs and Income Program.

More detailed descriptions of the Colorado project and of the monthly retrospective reporting system are available in: *Colorado Monthly Reporting Experiment and Pretest: Preliminary Research Results,* by Alan Hershey, Jeffrey Morris, and Robert Williams, Mathematica Policy Research, Denver, Colorado; and *Income Reporting and Accounting for Income-Tested Transfers,* by Larry Orr, Office of Income Security Policy Research, DHEW, 200 Independence Avenue, S. W., Washington, D. C. 20201.

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## RECENT INSTITUTE SPECIAL REPORTS

SR 14 *Demographic Trends Affecting the Future Labor Force,* by Karl E. Taeuber

A multitude of governmental policies affect labor force behavior, and these policies form only part of the complex mixture of social and economic forces that influence manpower. Few of these forces, however, can be projected with confidence into the future and no single manpower projection can engender careful assessment of the likely impact of the many alternative policies that might be adopted. Yet the need for several alternative projections conflicts with the need of the policy analyst, government, and the public for a single best forecast.

This report, prepared for the National Commission for Manpower Policy, provides discussion of the narrowness of the effort of the current national manpower projection, and describes the problems related to this effort. The author relates fertility, labor force participation rates, distribution of residences and of employment among cities, suburbs, and nonmetropolitan territory, and organization of the projection process to labor force projection.

SR 16A *The Administration of a Wage Rate Subsidy,* by John Bishop

The wage rate subsidy—a government supplement of a worker's hourly wage—is one proposed method for raising the income of working poor families without weakening incentives to work. This report outlines a procedure for administering a wage rate subsidy whereby vouchers and companion identity cards would be issued to beneficiaries, certifying their eligibility to employers. The employer would make the wage subsidy payment to the worker and, upon presenting the vouchers received from the worker, would be reimbursed by the government. A wage rate subsidy has several administrative advantages over food stamps, AFDC-UF, a negative income tax, and an earnings subsidy. For example, there is no need to enforce asset or work tests, or to obtain timely and accurate reporting of other sources of income and earnings; and because it is conditioned on hours worked, it is inherently less subject to multiple filing abuse.

This report was prepared as written testimony to the Welfare Reform Subcommittee of the Committees on Agriculture, Education and Labor, and Ways and Means of the U.S. House of Representatives.