STUDY OF
THE ADEQUACY OF HAWAII'S
PUBLIC WELFARE ALLOWANCES

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by the

Legislative Auditor of the State of Hawaii
Honolulu, Hawaii

Report No. 88-12
January 1988

FOREWORD

This study was conducted in response to a request from the 1987 Legislature for our office to assess the basic needs and shelter allowances of the State's public welfare program.

Our report compares the current levels of public assistance allowances with several economic indicators reflecting changes in living costs and wage levels in Hawaii, provides estimates of the cost impact if assistance allowances were to be increased to various levels, and concludes with a review of alternatives to encourage welfare recipients to be self-sufficient.

We wish to express our appreciation for the cooperation and assistance extended to us by personnel of the Department of Human Services, the Hawaii Housing Authority, the Honolulu office of the U.S. Department of Housing and Urban Development, all four county housing departments, representatives of the Legal Aid Society of Hawaii and the Ad Hoc Committee on Welfare Concerns, and other public officials and private individuals we contacted during the course of the study.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

January 1988

TABLE OF CONTENTS

Chapter 1

INTRODUCTION

This report on the State's public welfare allowance was prepared in response to a 1987 request made in Senate Concurrent Resolution No. 81 asking the Legislative Auditor to assess the adequacy of the basic needs and shelter allowances of the State's public welfare program, to make recommendations on whether the allowances should be raised, and to report on alternative ways of implementing increases in the allowances.

Senate Concurrent Resolution No. 81

The resolution requires the study to include the following:

1. An examination of the 1987 report on the adequacy of welfare allowances by the Department of Social Services and Housing, now the Department of Human Services (DHS).

2. An analysis of the actual housing and utility expenses of welfare recipients with recommendations on an appropriate level for the shelter allowance.

3. An analysis of the components of the basic needs allowance, the cost of obtaining the basic needs, and recommendations on an appropriate level for the basic needs allowance.

4. If increases in the basic needs and shelter allowances are recommended, an analysis of the fiscal impact of changes in the levels of the allowances.

5. The identification of alternative means of implementing increases in financial aid that would encourage self-sufficiency among welfare clients and that

would not reduce clients' benefits from other welfare programs, such as Medicaid, food stamps, public housing, section 8 housing, and low income energy assistance.

6. A proposal for a mechanism to assure that the level of the allowances will follow changes in the cost of living.

The resolution also directed the Auditor to consult with agencies working with welfare clients "for input in preparing this study."

The Issue of Adequacy

The State's welfare allowance consists of two parts, a basic needs allowance and a shelter allowance. From 1978 to 1987, no increases were made in either the basic needs or the shelter allowances. Then, in July 1987, the basic needs allowance was increased by 10 percent,[1] and in January 1988, the shelter allowance went up by 10 percent.[2]

These adjustments were based on recommendations made by the DHS in its 1987 report to the Legislature on the adequacy of the welfare allowance. The DHS reported an increasing gap between the allowances and the cost of living. The allowances stayed the same but the overall cost of living based on average weekly wages and the U. S. Department of Labor's Consumer Price Index increased by 40.08 percent between 1978 and 1984. The DHS recommended a 10 percent increase in both allowances saying, in part, that the discrepancy was compensated for by increases in other welfare benefit programs such as food stamps and Medicaid. The primary reason given for the recommendation for a 10 percent increase was that the estimated cost of raising the allowance to match the increase in the cost of living would be prohibitive.[3]

Representatives of organizations working with welfare recipients, such as the Legal Aid Society,[4] the Hawaii Centers for Independent Living,[5] the Founders Groups of Kokua Council,[6] and others, testified before the Legislature that the 10 percent increase was insufficient. They stated that the diminished purchasing power of the allowance was creating severe hardships for low-income persons because the allowance was no longer adequate to meet the cost of the basic necessities of living—food, shelter, and clothing.

The department's position was that "adequacy" is relative, depending on the criterion against which the allowances are measured. Instead of focusing on adequacy, the department suggested that consideration be given to what is "appropriate and affordable."[7]

The Legislature adopted the 10 percent increase, but asked for this study on the adequacy, cost, and implications of increases in the public welfare allowance.

The issue of adequacy goes to the heart of the welfare payments issue, and is linked to many other issues that are currently being discussed at the national level in a resurgence of interest in welfare reform. This report examines the issue of the adequacy of the welfare allowance and discusses its relationship with one of the controversial welfare issues—how to provide adequate welfare cash assistance and also encourage welfare recipients to become self-sufficient.

Objectives of the Study

The objectives of the study are to:

1. Assess the "adequacy" of the basic needs and shelter allowances and present alternative levels for the public welfare allowance.

2. Estimate the costs of adopting higher levels for the allowance and their impact on the state budget.

3. Determine the impact that increases in the allowances would have on benefits received by clients from other programs.

4. Identify alternative means of implementing increases in the allowances that would encourage welfare clients to be self-sufficient and that would not result in reductions of other welfare benefits.

Organization of the Report

This report has five chapters. The first is this introduction. The second is a description of the basis for the public welfare allowance. The third is our assessment of the adequacy of the welfare allowance, alternative levels for the allowance, and our cost estimates for the alternative levels of the allowance. The fourth describes some effects that increases in the allowance would have on the major welfare programs and welfare clients' benefits. The fifth and last chapter contains information on various proposals for increasing the self-sufficiency of low-income individuals and families.

Chapter 2

THE BASIS FOR WELFARE PAYMENTS

The State's public welfare allowance is the State's standard of need—the income threshold that is used to determine who may qualify for cash welfare assistance and the amount of the assistance payment.

In this chapter, we provide background information on state standards of need, the development of Hawaii's standard of need, other programs using the standard of need, and the 1987 assessment of the State's standard by the Department of Human Services (DHS).

Aid to Families With Dependent Children

The parameters for state standards of need are set by the federal government as part of its Aid To Families With Dependent Children (AFDC) program. The AFDC program is the major welfare cash assistance program in this country. It is a federal program, established by the Social Security Act of 1935, that is administered by the states. In Hawaii, it is administered by DHS. The federal government pays for slightly more than half of AFDC expenses. The current federal financial participation rate for Hawaii is 53.7 percent.

The program provides cash assistance to low-income families with children under 18 who lack the support of one or both parents because of death, disability, or continual absence from the home. In Hawaii, AFDC eligibility has been extended to several optional groups including certain 18-year old students, women pregnant for the first time, and two-parent families in which the principal earner is unemployed.

The typical AFDC family in the United States and in Hawaii consists of a mother and two children.

The federal government sets the conditions for state administration of the program, including eligibility guidelines on family composition, income and asset limitations that the states must follow in order to receive federal matching funds, and a requirement that each state set its own "standard of need"—a specific income level that is used to determine eligibility for AFDC.

The standard of need. The federal government gives the states a great deal of latitude in setting their standard of need. Federal regulations require that the standard be expressed in dollar amounts, that it be applied uniformly throughout a state, and that it reflect the cost of living.[1] The cost of living provision is no longer enforced, however, and the states have the discretion to determine the level of their standards of need, using their own methods.

The standard of need is used to determine whether a family qualifies for AFDC payments. It may or may not be used to determine the amount of cash payments to welfare recipients. Maximum payment levels (the benefit payment standard) may be set at a level lower than the standard of need.[2] A majority of states have benefit payment standards that are lower than their need standards.[3] In Hawaii, the two are the same. Thus, the income level for determining eligibility for assistance is also the maximum amount of cash assistance that the State will pay.

To be eligible for AFDC, a family's gross income may not exceed 185 percent of the need standard, and its net countable income (gross income less certain allowable deductions for items such as child care and earned income) may not exceed the need standard. The welfare payment is the difference between the net income and the payment standard. Families with no income would get the full amount of the standard, and families with some income would get lesser payments.

Because there are few federal restrictions on how states set their standard of need or payment levels, there are wide variations in the need and payment standards among the states. A study on the AFDC standard of need found: "For the overwhelming majority of states, current need standards—regardless of their amounts—are essentially arbitrary numbers."[4]

As of February 1987, need standards for a family of four ranged from a low of $246 per month in Kentucky to a high of $963 in Vermont. Hawaii's need standard of $546 for a family of four ranked 25th among the states.

Benefit payment levels for a family of four ranged from a low of $144 per month in Mississippi to a high of $823 in Alaska. Hawaii, with its payment level of $546, ranked tenth.[5]

During the period from 1970 to 1987, all but one state increased the dollar value of their standards, but the value of the increases in constant dollars decreased by an average of 38 percent. Hawaii's need standard decreased in constant dollars by 29.3 percent during this time.[6]

Development of Hawaii's Standard of Need

Hawaii's standard of need stems from a "minimum content of living" which was defined by the Honolulu Council of Social Agencies in 1949 as a "living standard below which the health and morals of families would be endangered if continued for an extended period of time." The Council included a list of goods and services which were considered to be essential at the time.[7]

Over the years, DHS changed, subtracted, and added to the kinds of goods and services deemed essential; consolidated various components of the allowances; and used various methods for repricing the components. The last major repricing and consolidation of components of the allowances was done in 1972 when the department surveyed the actual expenditures of welfare households.

Today, the standard of need (and the benefit payment) is a consolidation of the basic needs allowance and the shelter allowance. The basic needs allowance is for food, clothing, personal essentials, household supplies, laundry, transportation, education and community activities, telephone, household equipment and repairs, and pregnancy diet expenses. The shelter allowance is for housing and utility expenses. Both allowances vary according to family size. The development of these allowances is summarized in the following sections.

The basic needs allowance. The basic needs allowance was established in two phases. **First**, in 1965, the department combined the separate allowances for basic items—food, household supplies, personal essentials, education and community activities, transportation, and laundry—into one lump sum amount called the "monthly standard allowance."

Second, in 1972, the department combined separate allowances for special circumstance needs—household equipment, furniture repair, pregnancy or TB diets, laundry, clothing replacement, telephone, connecting utilities, infant supplies, life insurance, school attendance, restaurant food, various fees, and "other requirements." The department had been paying fixed allowances for some of these items and the actual costs for others. The department consolidated the average payments for these items, then combined the amount with the monthly standard allowance to produce what is now called the basic needs allowance.

This method of payment was called the modified flat grant system since each welfare family was given a uniform, lump sum amount, instead of varying amounts at the time of need. The term "modified" was used because the flat grant did not include payments for shelter expenses which were still variable.

Between 1975 and 1978, the basic needs allowance was adjusted to reflect cost-of-living increases: 7.6 percent in 1976, 7.6 percent in 1977, and 5.0 percent in 1978. From 1978 to 1987, no increases were made in the allowance. In July 1987, a 10 percent cost-of-living increase went into effect.

The shelter allowance. Housing and utility expenses have been handled differently from basic needs expenses. Until 1975, the State paid the actual cost of housing expenses. Housing allowance ceilings that were then in effect were regularly exceeded.

In 1975, the State established the current shelter allowance by raising the ceiling on the housing allowance, combining the allowances for housing and utilities, and placing a cap on payments for rent or mortgage and utilities. The 1975 shelter allowance was in effect until January 1988—when a 10 percent increase went into effect.

Flat grant need standard. In January 1988, the state discontinued its longstanding practice of paying for actual shelter costs up to the level of the shelter allowance. Instead, depending on family size, specified amounts are paid to all families regardless of their actual shelter expenses. Payments for the basic needs allowance are now combined with the shelter allowance, resulting in a uniform standard of need and payment, varying only according to family size.

Current welfare allowance. The rates for the public welfare allowance, effective January 1988, are shown in Table 2.1.

Table 2.1

The Public Welfare Allowance
January 1988

Family Size	Basic Allowance	Shelter Allowance	Total Welfare Allowance
1	$134	$193	$327
2	193	237	430
3	251	264	515
4	309	292	601
5	370	319	689
6	428	352	780
7	486	396	882
8	546	396	942

Other Programs Using the Standard of Need

The standard of need is also used, in slightly different ways, as the eligibility criterion for two smaller state–funded cash assistance programs: the Aid to the Aged, Blind, and Disabled (AABD) and General Assistance (GA) programs. It is also used as the criterion for Medicaid, the federal–state health care program for low–income persons. The need standard is not used as the eligibility criterion for food stamps, but it does affect food stamp benefit levels. Brief descriptions of these programs follow.

Aid to the aged, blind, and disabled. The state funded AABD program provides cash assistance to persons who are aged, blind, or disabled whose income falls below the state standard of need. This program essentially supplements federal Supplemental Security Income (SSI) aid to these same categories of people. (The SSI program is discussed in Chapter 4.)

General assistance. The GA program is a state–funded program that provides cash assistance to low–income individuals or families who are not eligible for federal cash assistance programs, who are unable to support themselves or their dependents, and who are disabled, 55 years or older, or two-parent families with dependent children. It also uses the state need standard for its income eligibility standard.

Medicaid. Medicaid is a federal-state matching program that provides health care benefits for low-income persons. The federal government mandates the coverage of certain groups like AFDC families and offers states the option of covering others. In Hawaii, AFDC, AABD, and GA recipients are automatically eligible for Medicaid. Others may be eligible under the State's "medically needy" program.

The medically needy program provides Medicaid coverage to individuals and families meeting the categorical or family structure requirements for AFDC, AABD, or GA, but whose incomes exceed the standard of need. If they incur medical expenses that lower their income to the income threshold set for the medically needy program, they may qualify for Medicaid.

The federal government gives states the option to set their income eligibility threshold for the medically needy program anywhere between 100 and 133 1/3 percent of the state standard of need. Hawaii's threshold is set at 100 percent.

Food stamps. The food stamp program provides aid to low-income individuals and families to increase their food purchasing power and to ensure adequate nutrition. It is 100 percent federally funded. The income eligibility criterion for households without elderly or disabled members is set at 130 percent of the federal poverty level for gross income, and at 100 percent of the poverty level for net income after certain allowable deductions have been subtracted. Households with an elderly or disabled person need not meet the gross income test, only the net income test.

The lower the income, the greater the benefits. As income rises, food stamp benefits decline. Generally, each dollar increase in income results in a loss of about 30 cents in food stamp benefits.[8]

Most individuals and families eligible for AFDC, AABD, and GA, as well as SSI recipients are also eligible for food stamps.

A summary of the eligibility criteria for these programs are in Appendix A, and further descriptions of these programs and some potential effects of raising the need standard on all five programs—AFDC, AABD, GA, Medicaid, and food stamps—are contained in Chapter 4.

Department of Human Services' 1987 Adequacy Report

The department has submitted reports to the Legislature on the adequacy of the public welfare allowance. It reported in 1987 that the public welfare allowance had not kept pace with increases in the cost of living that have occurred since the allowance was last raised in 1978. The department provided cost estimates of raising the allowances to several different levels, concluded that the cost of increasing the allowances to match the cost of living increases was prohibitive, and recommended 10 percent increases in both the basic needs and shelter allowances as a first step toward higher allowances.

The basic needs and shelter allowances were two separate allowances. The law specified the criteria for evaluating the basic needs allowance but it did not say how the shelter allowance should be evaluated. The department's evaluation of each allowance is discussed below.

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The basic needs allowance. The department used two measures to assess the basic needs allowance: (1) increases in the cost of living, and (2) the federal poverty income standards.

Cost-of-living measures. Since 1978, state law has required the department to assess biennially the cost of increasing the basic needs (not the shelter) allowance by the lesser of the annual percentage increase in (1) the average wage in employment covered by the State's unemployment insurance program or (2) the Consumer Price Index (CPI) for Hawaii as computed by the United States Department of Labor.

In 1984, the annual increase in the average wage rate was 4.12 percent, the annual increase in the CPI was 4.13 percent. The cumulative increase (the sum of the lower indicator for each year), from 1978 to 1984, was 40.08 percent.

The department estimated the additional cost of implementing a 40.08 percent increase for Fiscal Year 1987-88 to be $20 million.

Adjusted federal poverty standard. In the second measure, the department added the average food stamp benefit payment to the basic needs allowance, then compared this combined benefit package with an adjusted federal poverty income standard. The poverty standard was adjusted by excluding an estimated amount for rent (because shelter costs were paid separately), and an estimated amount for medical expenses (because Medicaid pays for medical expenses).

According to this measure, welfare benefits were 78 percent of the adjusted poverty income standard in 1986. To meet the adjusted poverty income standard, the basic needs allowance would have to be increased by 61.9 percent, at an estimated cost of about $31 million.

Recommendation on basic needs allowance. The department deemed the 61.9 percent increase needed to bring the basic needs allowance to the adjusted poverty level to be economically prohibitive and recommended instead a 10 percent increase, with an estimated cost of $5 million, as a first step toward upgrading the basic needs allowance.

The shelter allowance. The department used two indicators to evaluate the shelter allowance.

Increases in rental market and utility prices. Between 1978 and 1985, rental prices for a family of four on Oahu increased at an average annual rate of 7.16 percent, and fuel and utility prices increased by 8.49 percent annually. The cumulative increase in rental prices since 1975, when the last increase in the shelter allowance went into effect, was well over 60 percent.

The percentage of welfare clients with actual shelter (rent and utilities) costs at or exceeding the State's maximum shelter allowance. Between 1978 and 1986 the percentage of welfare clients in private rentals whose shelter costs met or exceeded the maximum shelter allowance increased from 48.4 percent to 73.5 percent. For those in shared rental arrangements, the percentage increased from 22.1 percent to 57.8 percent.

Recommendation on shelter allowance. As in the case of the basic needs allowance, the department considered it too costly to raise the shelter allowance to match increases in shelter costs, and suggested instead, a 5 or 10 percent increase in the shelter allowance "as a slower movement" toward an upgraded allowance.

Report's conclusion. The department pointed out that the adequacy of the allowances is relative to various criteria that may be used to assess adequacy, and that instead of examining the allowances from the perspective of adequacy, perhaps it would be more suitable to examine the allowance in terms of "what is deemed appropriate and affordable."[9]

The department's recommendation to increase both the basic needs and shelter allowances by 10 percent was based on this perspective. The estimated additional cost of the 10 percent increase was $26.3 million for fiscal year 1987–88. The State's share was estimated at $15.7 million.

Chapter 3

ADEQUACY OF THE PUBLIC WELFARE ALLOWANCE

There is no single benchmark for assessing the "adequacy" of welfare allowances. A state may use any method in setting or assessing the allowance. This chapter presents one way of looking at allowances. It includes a framework for evaluating the welfare allowance that is consistent with the State's history of linking the allowance to cost-of-living indicators. It also reports the results of our assessment and their cost implications.

Framework

There are many differing and opposing views on who should receive welfare assistance and the extent of the assistance. Agreement on these issues at any point in time evolves through the participation of many in our community's decision making processes. The result reflects contemporary community values, economics, and other circumstances.

In Hawaii, the concept of adequacy was originally based on the belief that the welfare allowances should be sufficient to maintain a minimum standard of living that would not harm recipients. Measures of adequacy have therefore been based on estimates of current costs of a minimum standard of living in Hawaii.

Cost estimates for a minimum standard of living may be based on market basket studies, surveys of the actual expenditures of low-income households, the federal poverty income standard, the U.S. Bureau of Labor Statistics' Consumer Price Index (CPI), or other national or local cost studies.

Comparisons of the welfare allowance with various estimates of the cost of a minimum standard of living may serve as indicators of the adequacy of the allowance. They may also serve as reference points for discussions to set public policy on appropriate levels for the allowance.

Our approach consists of four indicators. They are as follows:

- A comparison of the welfare allowance with the federal poverty income standard.
- A comparison of the combined value of the allowance and the food stamps benefits with the federal poverty standard.
- A comparison of the allowance with increases in the CPI since 1978.
- A comparison of the welfare allowance with increases in the average weekly wage (AWW) of employment covered by the State's unemployment insurance program.

The individual components of the welfare allowance were not identified and priced separately. Instead, we evaluated the welfare allowance as a whole, that is, the combined value of the basic needs and shelter allowances. This was done for several reasons.

First, sufficient, specific, and current data on the quantity and quality of the goods and services intended to be covered by the separate allowances are lacking. In addition, basic necessities vary according to individual circumstances and preferences.

Second, acceptable assessments of adequacy can be done without analyzing and pricing the individual components of the allowance.

And *third*, dealing with the allowance as a whole, rather than individual components or as two separate allowances, is consistent with the State's current procedure of administering the allowances as one consolidated flat grant.

Under the flat grant system, the monthly allowance varies according to family size, regardless of variations in shelter or other expenses. We compared these monthly allowances with cost estimates that are also aggregate amounts. The federal poverty guideline does not itemize the cost of food, shelter, clothing, household supplies, toiletries, and other essentials; it is a lump sum amount intended to cover all necessary expenses. The CPI and AWW rates that we use are also for aggregate amounts.

Relationship of the Welfare Allowance to Cost of Living Indicators

The first two comparisons are based on the federal poverty income standard, the third uses the CPI, and the fourth uses the average weekly wage. Each of these produces an alternative level for the welfare allowance.

The federal poverty income standard. The federal poverty income standard identifies the income levels below which a family is considered to be living in poverty. It is not absolute but relative to current living standards. It is based on the price of the U. S. Department of Agriculture's lowest cost economy food plan that meets the department's nutritional requirements. Based on a finding that families spent approximately one-third of their income on food, the poverty level is set at approximately three times the cost of the economy food plan.[1]

There is a national poverty standard for all states, except Hawaii and Alaska which have separate, higher standards. The U.S. Department of Health and Human

Services annually issues and updates the poverty income standard to incorporate increases in the CPI. The index for Hawaii is shown in Table 3.1.

Table 3.1

Poverty Income Standards for Hawaii

Family Size	Annual Income
1	$ 6,310
2	8,500
3	10,690
4	12,880
5	15,070
6	17,260
7	19,450
8	21,640

For family units with more than 8 members, add $2,190 for each additional member.

Source: Federal Register, Vol.52, No. 34, February 20, 1987, p. 5341.

The federal poverty income standard is the only officially recognized national poverty standard. It is used as an income eligibility criterion by several federal programs for low-income families, such as food stamps.[2] It is also commonly used in assessing state standards of need.

Comparison of welfare allowance with the poverty income standard. We compared the welfare allowance as of January 1988 with the poverty standard. All other non-cash welfare benefits, such as food stamps and housing subsidies, are excluded. This approach is based on the method used by the U.S. Census Bureau which counts only the cash income of households and excludes non-cash benefits such as food stamps. Since the poverty income standard represents only disposable cash income, we compare it with only the cash welfare allowance.

Table 3.2 compares the welfare allowance with the poverty income standard. For most family sizes, the welfare allowance is slightly more than half of the poverty income standard. The welfare allowance is 62 percent of the poverty income standard for a single person, 56 percent for a family of four, and 52 percent for a family of eight.

The difference between the welfare allowance and the poverty income standard widens with increasing family size, ranging from $199 for a single person to $861 for a family of eight.

Table 3.2

Comparison of Current Monthly Welfare Allowance with Poverty Income Standard

Family Size	Current Welfare Allowance	Poverty Income Standard	Allowance as % of Standard	Standard Minus Allowance
1	$327	$ 526	62	$199
2	430	708	61	278
3	515	891	58	376
4	601	1073	56	472
5	689	1256	55	567
6	780	1438	54	658
7	882	1621	54	739
8	942	1803	52	861

The welfare allowance plus food stamps compared with the poverty income standard. The second measure of adequacy combines the allowance with the food stamp benefit entitlement for that income level and compares this larger benefit package with the federal poverty standard. This method is used by the U.S.

Department of Health and Human Services, Congressional research services, and others in reporting on public welfare programs.

Some say that the value of all major non-cash benefits, like food stamps, Medicaid, and housing assistance, should be added to the allowance. But there is considerable disagreement over the benefits that should be included and the methods to value these benefits.[3] Food stamps pose the least problems since it comes closest to cash assistance, is available to almost all recipients of financial aid,[4] and benefit amounts can easily be standardized.

If food stamp benefits are included, the purchasing power of welfare families increases significantly. In the decade from July 1977 to January 1987, the value in constant dollars of the allowance for a family of three declined by 43.9 percent. If food stamp benefits are added, the decrease in constant dollars is 20.8 percent.[5]

Table 3.3 compares the welfare allowance and food stamp benefits with the federal poverty income standard. The addition of food stamp benefits to the allowance results in a combined benefit package for each family size that is 85 percent or more of the poverty income standard. The benefits are 87 percent of the poverty income standard for a single person, 89 percent for a family of four, and 85 percent for a family of eight.

The difference between the benefit package and the poverty standard ranges from $71 for a single person to $270 for an eight-person family.

Table 3.3

Comparison of Monthly Welfare Allowance and Food Stamps Benefit Package with the Federal Poverty Income Standard

Family Size	Current Allowance	Food Stamps*	Total Benefit Package	% of Poverty Standard	Standard Minus Package
1	$327	$128	$ 455	87	$ 71
2	430	210	640	90	68
3	515	287	802	90	89
4	601	351	952	89	121
5	689	405	1094	87	162
6	780	479	1259	88	179
7	882	513	1395	86	226
8	942	591	1533	85	270

*Food stamp benefits calculation is based on August 1987 rates. It assumes $0 other income, standard deduction of $140, excess housing allowance of $213, for total deductions of $353, which is subtracted from the monthly allowance to identify the food stamp benefit.

Each dollar increase in income generally results in about 30 cents reduction in food stamp benefit entitlement. Therefore, to meet the poverty income standard, the welfare allowance must be raised by more than $1.00 to achieve a $1.00 net increase in the benefit package. (See Appendix B for calculations on adjusting the allowance to compensate for the reduction in food stamp benefits)

Table 3.4 shows what the welfare allowance would be for families of various sizes if the combined benefits were to be equal to the poverty standard. The adjusted allowances would be $418 for a single person, $774 for family of four, and $1,328 for a family of eight.

Table 3.4

Adjusted Monthly Allowance and Food Stamps Benefits
to Meet the Federal Poverty Standard
by Household Size.

Family Size	Adjusted Allowance*	Percent Increase	Adjusted Food Stamps	Total & Poverty Standard
1	$ 418	28	$108	$ 526
2	527	23	181	708
3	642	25	249	891
4	774	29	299	1073
5	921	34	335	1256
6	1035	33	403	1438
7	1205	37	416	1621
8	1328	41	475	1803

*The method for adjusting the allowance is contained in Appendix B.

Comparison with the Consumer Price Index. The third measure assesses adequacy by comparing increases in the welfare allowance with increases in the CPI that have occurred since 1978.

The CPI, produced by the U.S. Bureau of Labor Statistics, measures the average change in the prices paid by urban consumers for a fixed market basket of goods and services consisting of items in seven categories: food and beverages, housing, apparel and upkeep, transportation, medical care, entertainment, and other goods and services.

Assuming that the former public welfare allowance (before the 10 percent increase) represented the amount needed to maintain a minimum standard of living in 1978, when the last cost-of-living adjustment was made, then increasing the former allowance to match increases in the CPI since 1978 would give welfare recipients the same purchasing power they had in 1978.

Between 1978 and June 1987, the CPI increased by 69 percent. (See Appendix C for our calculations.) We compared the current allowance (the former allowance plus the 10 percent increase) with a hypothetical allowance that would raise the former allowance by the 69 percent CPI increase. Table 3.5 shows our comparison of the CPI adjusted allowance with the current allowance.

The difference between the current allowance and the allowance that incorporates the CPI increase ranges from $175 for a single person to $505 for a family of eight.

Table 3.5

Comparison of the Welfare Allowance with
an Allowance that Incorporates Cost-of-Living Increases
by Family Size

Family Size	Current Allowance	CPI Increased Allowance	Difference
1	$327	$ 502	$175
2	430	659	229
3	515	791	276
4	601	923	322
5	689	1058	369
6	780	1198	418
7	882	1355	473
8	942	1447	505

Comparison with the average weekly wage. The fourth measure compares increases in the welfare allowance with increases in the average weekly wage in Hawaii between 1978 and 1987.

The average weekly wage is calculated by the State Department of Labor and Industrial Relations' unemployment compensation program pursuant to the Hawaii Employment Security Law. It is based on employers' reports to the State on their total wages paid and average number of employees during a specified period of time. It is used by the State as a basis for calculating unemployment and workers' compensation benefits.

The average weekly wage in covered employment has been increasing at the following annual rates:

FY 1978	6.2%
FY 1979	7.4%
FY 1980	9.1%
FY 1981	7.5%
FY 1982	5.3%
FY 1983	5.7%
FY 1984	3.6%
FY 1985	2.9%
FY 1986	6.1%
FY 1987	5.2%

In FY 1978, the average weekly wage was $230, and in FY 1987 it was $334.24. Between 1978 and 1987 there was a 67 percent increase in the average weekly wage.

Table 3.6 compares the current allowance with an allowance adjusted by the 67 percent increase in the average weekly wage. The average weekly wage adjusted allowance was calculated by adding a 67 percent increase to the former allowance that was in effect from June 1978 to June 1987.

The difference between the current allowance and the allowance adjusted by increases in the average weekly wage ranges from $169 for a single person to $488 for a family of eight.

Table 3.6

Comparison of the Welfare Allowance
With An Allowance That Incorporates
The Increase in Hawaii's Average Weekly Wage

Family Size	Current Allowance	AWW Allowance*	Difference
1	$327	$496	$169
2	430	651	221
3	515	782	267
4	601	912	311
5	689	1045	356
6	780	1184	404
7	882	1339	457
8	942	1430	488

*Allowance based on increase in average weekly wage.

The Problem of Shelter Costs

The welfare allowance falls below each of the preceding indicators of the cost of living. This is primarily because of the high cost of shelter, or housing in Hawaii, which consumes a large share of the welfare allowance.

Estimates of shelter costs in Hawaii by the U. S. Department of Housing and Urban Development show that current market rental rates on Oahu are as follows:

$404 for 0 bedrooms
$491 for 1 bedroom
$578 for 2 bedrooms
$726 for 3 bedrooms
$813 for 4 bedrooms

Nationally, eight out of every ten households with welfare assistance but without housing subsidies have one or more of the following problems: they pay more than half of their income for housing, live in overcrowded conditions, or live in physically substandard units.[6]

In Hawaii, data reported to DHS by welfare recipients indicate that even with the 10 percent increase effective in January, about 35 percent of the welfare families will be paying more for shelter than provided in the allowance. The average amount by which actual shelter costs will exceed the new allowance ranges from $81 for a single person, to $215 for a family of eight. (See Appendix D for more details on actual shelter costs.)

Several social workers and administrators in the department acknowledge that many welfare families have to use part of their basic needs allowance to pay for shelter costs and turn to friends, relatives, or private charitable organizations, for money to purchase food, paper goods, toiletries, and other necessities for the remainder of the month.

This kind of accommodation is illegal under welfare rules. Financial aid from family, friends, or others must be reported to the department as income which must then be subtracted from the welfare allowance. If the additional income is not reported to the department, the welfare family is technically violating the welfare rules and, upon discovery, may become ineligible for any welfare benefits and charged with fraud.

Recap of Comparisons

The current welfare allowance and the four alternative levels that would match the indicators of a minimum standard of living are shown in Table 3.7. These are: (1) the monthly amount that would meet the federal poverty income standard; (2) the adjusted allowance that together with food stamps would match the federal poverty income standard; (3) the amount that would incorporate increases in the CPI that have occurred since 1978; and (4) the amount that would match increases in the average weekly wage since 1978.

Table 3.7

The Current Allowance and Four Alternative Allowances by Family Size

Family Size	Current Allowance	Poverty Income	Allowance & Food Stamps	CPI*	AWW**
1	$327	$ 526	$ 419	$ 502	$ 496
2	430	798	527	659	651
3	515	891	642	791	782
4	601	1073	774	923	912
5	689	1256	921	1058	1045
6	780	1438	1036	1198	1184
7	882	1621	1205	1355	1339
8	942	1803	1328	1447	1430

*Allowance based on increase in Consumer Price Index.

**Allowance based on increase in average weekly wage.

The State may link the public welfare allowance to any one of these indicators in different ways. *First,* it may index the allowance to the full amount needed to match the indicators. *Second,* it may index the allowance to a percentage of any of the indicators. *Third,* it may index the standard of need to an indicator and set a lower benefit payment level that is a percentage of the indicator. Other variations are possible.

Estimated Costs of Raising the Allowance

The estimated additional cost of raising the allowance to match each of the above four alternatives in 1988 would be as follows:

Option 1

Allowance Equal to Poverty Standard

Federal share	$30.7 million
State share	$43.0 million
Total	$73.7 million

Option 2

Allowance Plus Food Stamps
Equal to Poverty Standard

Federal share	\$11.3 million
State share	\$16.7 million
Total	\$28.0 million

Option 3

Consumer Price Index Adjustment

Federal share	\$22.3 million
State share	\$32.4 million
Total	\$54.7 million

Option 4

Average Weekly Wage Adjustment

Federal share	\$21.6 million
State share	\$31.2 million
Total	\$52.8 million

These figures would include payments to the current AFDC, AABD, and GA financial assistance cases. The federal AFDC program would pay for about half of the costs of the State's AFDC program which has about three-fourths of the current welfare payments caseload.

The first option, with the highest estimate of \$73.7 million would increase the cost of the financial assistance program by 79 percent.

The second option, with the lowest estimate of \$28 million, would increase the cost of the financial assistance program by about 30 percent.

The third option, with the second highest estimate of \$54.7 million would increase the cost of the financial assistance program by about 59 percent.

The fourth option, with the third highest estimate of \$52.8 million, would increase the cost of the financial assistance program by 56 percent.

Chapter 4

SOME EFFECTS OF RAISING THE STANDARD OF NEED

Raising the State's standard of need would increase the cash benefits for welfare families. Although some welfare families will experience a reduction in some other welfare benefits, like food stamps, an increase in the standard would result in a net financial gain for these families. This chapter discusses these potential effects and the possible changes in caseloads. We review, *first*, the effects on the various welfare programs and *second*, the effects on clients' benefits.

Effects on Major Programs

The five major welfare programs are the three financial assistance programs—Aid to Families With Dependent Children (AFDC); Aid to the Aged, Blind, and Disabled (AABD); and General Assistance (GA); and the two principal non-cash assistance programs—Medicaid and food stamps. If the standard of need were raised, the income eligibility criteria of the AFDC, AABD, GA, and Medicaid programs would rise, and the caseload would probably rise also. However, the cost of the food stamp program would decline.

Financial assistance programs. Raising the standard of need would raise the income eligibility criteria for the AFDC, GA, and AABD programs. The combined caseload of 18,878* (June 1987) may increase as a result of the higher income

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*All 1987 caseload data are for June 1987 from Hawaii, Department of Human Services, "Financial Assistance Quarterly Report, Quarter ending June 1987."

threshold for eligibility. Any increase in caseload depends on a variety of factors, including the amount of increase in the income threshold, federal regulations, and the availability of jobs in the community.

A small increase in the threshold may not raise the caseload. The 10 percent increase in the basic needs allowance that went into effect in July 1987 did not result in more cases. In fact, the welfare caseload continued its decline. The precise reasons for this decline are not known. However, stricter federal eligibility requirements as well as the availability of jobs in the State, increases in federal Supplemental Security Income (SSI), or other benefits in the State are believed to be contributing to the decline.

Aid to families with dependent children. Federal law prescribes the family composition, income, and assets criteria for AFDC eligibility. (A summary of the eligibility criteria for the AFDC and other welfare programs is contained in Appendix A.) Income thresholds are set by states in their standard of need, but federal regulations specify how the applicant's income is to be calculated in determining eligibility. To be eligible, a family must have gross income of not more than 185 percent of the state standard of need and net income not more than the standard of need or payment standard. The amount of financial assistance given is generally the difference between the net income and the need or payment standard.

The current AFDC caseload for the State is 13,881 cases, including 13,103 families in the regular AFDC program and 778 families in the Aid to Families with Dependent Children–Unemployed Parent program. There has been a drop of 38 percent since 1980 when there were 19,227 cases. Three–fourths of the cases are families with one parent only, generally the mother. Of the total 40,935 individuals in this program, 65 percent are children.

If the standard of need is raised, these families will receive increases in their cash payments equal to the increase in the standard for their family size. Additional families, with incomes exceeding current standards but who would become eligible under a higher standard, would receive supplements to their current income.

Since AFDC eligibility automatically entitles a family to Medicaid assistance, additional families would be receiving assistance for their health care needs also.

Aid to the aged, blind, and disabled. The AABD program provides supplementary payments to a small percentage of individuals receiving or awaiting aid from the SSI program which provides cash assistance to low income individuals and couples who are aged (65 years or more), blind (20/200 vision or worse), or disabled (serious long term or terminal conditions).

The SSI is administered by the Social Security Administration and is funded largely by the federal government with supplements from the State. Eligibility and benefit levels for the program are federally set. Regular cost-of-living increases have raised the benefit levels for SSI such that the program generally provides higher benefits than the State's financial assistance programs.

However, for those SSI recipients living in a household with others (e.g., a disabled person living with his family), the federal benefits are lower than the state need standard. In these instances, the State makes up the difference. For example, the SSI payment level for an individual living in the household of another is $226.67. The State's AABD payment level for an individual is $309. The State would pay $82.33 ($309 – $226.67) to an individual living in the household of another (with no income other than SSI benefits) to bring that person up to the state standard of need of $309.

Table 4.1 shows selected SSI and state AABD payment levels.

Table 4.1

Comparison of Selected SSI and AABD Payment Levels

	Individual	Couple
SSI payment level		
- Living Independently	$344.90	$518.80
- Living in Household of Another	$226.67	$340.00
State AABD payment level	$309.00	$408.00

Source: DHS, Standard of Assistance, Revised, June 1987.

The number of AABD cases has been declining steadily. Between 1980 and 1987, the program's caseload dropped from 2,090 to 184. This is because the state need standard stayed the same while federal SSI payments were raised, disqualifying many SSI recipients from receiving state AABD supplements.

Raising the need standard would increase the benefits to the current 184 AABD cases by the amount of the increase in the need standard.

If the need standard were raised above SSI payment levels, state supplemental AABD benefits may be extended to SSI recipients who do not currently receive state assistance.

General assistance. Some GA cases are single individuals, others are families. Of the individuals in this program, 76 percent are adults. The caseload of this program has also been declining from 5,923 in 1980 to 4,813 in 1987.

Raising the need standard would increase the cash assistance to these cases by the amount of the increase, and extend GA aid to others with incomes above the current need standard.

Non-cash programs. Raising the standard of need would lead to changes in the principal non-cash welfare benefits programs—Medicaid and food stamps.

Medicaid. In Hawaii, Medicaid coverage is automatically extended to those eligible for AFDC, AABD, and GA financial assistance. Although most states automatically cover SSI recipients, Hawaii is one of 14 states that does not. Only aged, blind, and disabled persons who receive AABD benefits are automatically eligible for Medicaid in Hawaii.

Individuals receiving SSI payments only, and others meeting the categorical requirements for AFDC, GA, or AABD but who are not eligible for financial aid because their income or assets are too high, may qualify for Medicaid as "medically needy."

Some exceptions to this rule are children under six and pregnant women. The federal government mandates coverage of these groups and does not require them to meet the AFDC family composition requirements, only the financial requirements for the medically needy. States have the option of covering additional children up to the age of 21 under similar standards, and Hawaii offers such coverage to children up to the age of 18.

States may set the income criterion for the medically needy anywhere between 100 and 133 1/3 percent of the state's AFDC standard of need. Hawaii's income criterion is set at 100 percent of the State's AFDC standard of need. An individual or family with income exceeding the standard may be eligible for

Medicaid only if their income, after deducting incurred medical expenses, falls at or below this standard.

Raising the standard of need will make Medicaid coverage automatically available to more low-income persons because of the increased numbers who would become eligible for financial assistance under the AFDC, AABD, and GA programs. Individuals and families with higher incomes would have less to "spend down" in medical expenses to meet the higher medically needy income eligibility criterion.

Because Medicaid eligibility is directly tied to the financial assistance programs, the decline in AFDC, AABD, and GA cases has led to a decline in Medicaid cases, from 54,975 in 1980 to 47,796 in 1987. Raising the need standard may reverse this trend.

Food stamps. The income eligibility requirement for food stamps is set by the federal government and tied to the federal poverty income standard.

Most individuals and families eligible for AFDC, AABD, and GA as well as SSI recipients are also eligible for food stamps. Raising the state standard of need will not directly affect the food stamp program caseload. It will, however, reduce the amount of food stamp benefits going to individuals and families receiving financial assistance, because increases in household income reduce food stamp benefits.

Effects on Clients' Benefits

Welfare clients have expressed concern that raising their cash welfare assistance payments would reduce or eliminate other welfare benefits, such as Medicaid, food stamps, and housing and energy assistance. We examined this issue by focusing on these major non-cash benefit programs.

We found that raising the welfare cash assistance payments will not adversely affect a welfare family's Medicaid or energy assistance benefits. However, it will reduce food stamp benefits and increase a family's rental cost if they are in public housing or HUD Section 8 rental subsidy programs. Overall, the net effect will be a financial gain for welfare families and individuals.

Medicaid. Persons qualifying for cash assistance under the AFDC, AABD, and GA programs are automatically eligible for Medicaid. Raising the standard of need will not change this. It will permit more families to qualify for Medicaid under the State's medically needy program and allow these families to keep more of their income.

Food stamps. Raising the welfare allowance will result in a reduction in food stamp benefits, but there will be a net overall gain for a welfare family. Food stamp benefits vary according to a family's income less certain allowable expenses. As family income goes up, food stamp benefits go down. For each dollar increase in income, there is approximately 30 cents decrease in food stamp benefits. Although the family will lose 30 cents, it will have a net gain of about 70 cents for each dollar increase and a gain in discretionary funds.

There is a legitimate way to avoid a reduction in food stamp benefits should the welfare payments be raised. Food stamp regulations exclude vendor payments from countable income. This means that if the State were to pay landlords and utility companies directly, on behalf of welfare clients, these funds would not be counted as family income. As a result, family income would be lower, and food stamp benefits would be higher.

But this alternative would probably create more paperwork and reporting requirements for welfare clients and department staff and increase administrative expenses. It would also be inconsistent with the State's intention to provide welfare families with a lump sum amount to give them the discretion and responsibility to manage their money.

Housing assistance programs. Welfare families are involved with two major housing assistance programs: public housing and rental assistance payments.

Welfare families' eligibility for these programs is not likely to be affected because the income eligibility criteria for the various housing assistance programs exceed the State's current standard of need and exceed the federal poverty income guidelines. However, if the standard of need were raised, rental expenses will increase for those welfare families receiving housing assistance.

Public housing program. The State's public housing program provides low-cost rental units to certain categories of individuals and families with incomes falling below its income eligibility criteria. Different income criteria are used for housing units in each county and for those that were built with federal aid as opposed to state funds.

Generally, the income criteria is higher than the federal poverty standard. For example, to be eligible for public housing, a single person on Oahu must have income that is less than $11,500. The federal poverty standard for a single person is $6,310. Furthermore, the income tests apply only upon entry to public housing and any subsequent increases in income will not jeopardize tenancy in public housing.

Families living in public housing are paying less for rent since the State's new flat grant system went into effect in January 1988. Formerly, the housing authority's rental rates for welfare families were fixed amounts that were lower than the maximum shelter allowance. With the new flat grant system (which combines the basic needs and shelter allowances), there is a different method of calculating rents for welfare families, and welfare families are generally paying about 30 percent or less (because of certain allowable deductions) of their flat grant for rent. The new rental rates are generally lower than the former public housing rental rates.

If the standard of need were raised, the increased payments would result in an increase in rent equal to about 30 cents for each dollar increase in the allowance. Despite this additional amount for rent, tenants of public housing (an estimated 2,066 or 11 percent of welfare families) would have a net gain of about 70 cents for each dollar increase in the welfare payment.

U.S. Housing and Urban Development (HUD) Section 8 Program. The HUD has two types of Section 8 housing assistance programs. The New Construction program provides rental subsidies to low-income families in newly constructed or rehabilitated housing units. Depending on the age of the project, applicants must meet an income eligibility standard which is 50 or 80 percent of the area's median income. There are about 2,770 rental units in this program that are potentially available to welfare recipients. The number of welfare families in these units are unknown.

The Existing Housing program, administered by the State and counties, provides assistance through the use of certificates and vouchers to help low-income families defray the cost of rent. The HUD pays participating landlords the difference between 30 percent of a family's gross income less certain allowable deductions and the HUD Fair Market Rents (FMR). In the certificate program, families must find rental units in the private market with rents falling within HUD's FMR cost standards. In the voucher program, families may rent units exceeding the FMR standards, but the amount of assistance is limited to the difference between the FMR and the family's countable income. The average subsidy for the Section 8 Existing Housing program is about $310 per household.

The lowest income eligibility threshold for a single person seeking Section 8 assistance on Oahu is $11,950—higher than the federal poverty standard.

As with families in public housing, households receiving Section 8 assistance are paying less rent with the new flat grant system. Formerly, welfare families receiving Section 8 assistance paid the shelter maximum toward their share of rent. Under the flat grant system, they are generally paying about 30 percent of their flat grant.

The estimated 20 percent of welfare families receiving rental subsidies under the Section 8 Existing Housing program will pay about 30 cents more for rent for each dollar increase in the state need standard.

The public housing and Section 8 Existing Housing programs involve about 30 percent of the welfare cases. There are some smaller assistance programs, like the Farmers Home Administration (FHA) program rental supplements for about 270 FHA-constructed rural units. The impact of an increase in the standard of need on these was not assessed. The State's limited rent supplement program for low-income families will not be directly affected because welfare families are statutorily disqualified from this program.

Families receiving housing assistance and food stamps. Welfare families receiving both housing assistance and food stamp benefits will pay additional rent and lose some food stamp benefits if the allowance is raised. For each dollar increase in the allowance, about 60 cents will be lost from these two benefits, and about 40 cents will be the net financial gain.

Energy assistance. The Low-Income Home Energy Assistance Program is a federally funded program that provides annual lump sum standard payments to a utility company on behalf of eligible low-income households who apply for aid. Payments can be used to restore services, prevent termination, or simply offset regular electricity bills.

In 1987 each eligible family, regardless of size, received a flat amount of $254 for the year for regular electricity bills or variable amounts up to $200 to restore or prevent termination of service. In 1986, 4,077 welfare families, about 22 percent of the welfare cases, received energy assistance payments. By federal law, these payments are not counted as income or assets for the financial assistance and Food stamp programs.

Raising the standard of need will not reduce welfare families' benefits from this program and will probably not affect a family's eligibility since the income threshold for this program is much higher than likely increases---150 percent of the federal poverty income guidelines.

Chapter 5

INCREASING SELF-SUFFICIENCY

There are many diverse views on how government can provide welfare benefits to those in need and also encourage those who are able to work to become financially self-sufficient. The current debates over welfare reform at the national level center on this issue. There is no definitive answer. The many "solutions" being offered vary according to people's perception of the poor, their values and beliefs about the causes of poverty and welfare dependency, the economic system, the role of government, and so forth.

The federal government's current approach is based on the view that the provision of welfare benefits is in itself a disincentive to work. The Aid to Families with Dependent Children (AFDC) welfare program is designed to encourage self-sufficiency by reducing or eliminating cash benefits for working recipients and improving work programs and requirements.

Some critics of this approach believe that eliminating welfare benefits for the working poor has been more of a disincentive than an incentive to work. They suggest expanded benefits and other ways to help people make the transition from welfare to the working environment and to help the working poor who are not on welfare to stay off welfare.

In this last section, we briefly describe the welfare population in terms of their employability and participation in work programs, federal AFDC regulations relating to employable recipients, and alternatives for encouraging self-sufficiency among the working poor.

Employable Recipients

Most of the adults on welfare are women. The AFDC program was initially designed to help women with children whose fathers had died, were disabled, or absent for some other reason, at a time when women were generally not expected to work but to care for their children. As more women and mothers joined the labor force, society's expectations of women on welfare also changed.[1] Today, except for women who are incapacitated, who are caring for someone who is incapacitated, or who have children younger than six years, able-bodied women (as well as men) receiving welfare assistance are expected to work.

About 40 percent of adults receiving AFDC assistance in Hawaii are considered employable. A handful are working at least 30 or more hours per week. Some are working less. More than half are participating in a work program. The remainder are not because work programs are not available in their areas.

The State has five principal work-related programs for employable welfare and food stamp recipients which are intended to help participants become self-sufficient. Three are mandatory for employable recipients: (1) the Work Incentive (WIN) program for AFDC recipients, (2) the food stamp work program for food stamp recipients, and (3) the state Temporary Labor Force (TLF) program for all able-bodied General Assistance (GA) recipients. Two others are voluntary programs: (1) the Job Training Partnership Act (JTPA) for economically disadvantaged persons including welfare recipients, and (2) the State's new voluntary workfare program for those receiving financial assistance.

All except the TLF program provide a variety of employment services including skills assessment, career planning, job training, education, and other support services such as child care. The TLF program requires that GA recipients "work off" their benefits in public service jobs.

In recent years, there has been increased emphasis on encouraging employable welfare recipients to become self-sufficient. The following section describes federal efforts in this area.

Federal Reforms

The Omnibus Budget Reconciliation Act of 1981 (OBRA 81) marked a significant shift in federal policy regarding AFDC that has received mixed reviews, revitalized public interest in the working poor, and placed welfare reform back on the congressional agenda.

AFDC eligibility standards. The OBRA 81 imposed stricter AFDC eligibility and benefit standards for working families who were receiving partial AFDC assistance. These new standards were intended to eliminate many working welfare families from welfare on the theory that such families were being made dependent, in part, because of the availability of welfare assistance.[2]

The OBRA 81 placed a cap on the gross income of applicants of 150 percent of the state standard of need. This ceiling was subsequently raised to 185 percent of the need standard. Any family with gross income exceeding this threshold is ineligible for welfare assistance regardless of its work expenses.

The OBRA 81 limited and standardized work expenses at $75 per month, limited child care expenses to $160 per child per month, and reduced the amount of earned income that could be "disregarded" in calculating benefits. Previously, a working welfare family could disregard the first $30 of its earned income and one-third of the remaining earned income. This was changed to $30 of its earned income and one–third of *net* income after child care and other work expenses had been deducted. It also limited the duration of the $30 and one–third disregard to four months.

The purpose and result of these provisions was to reduce the number of working poor eligible for welfare assistance. The national monthly caseload dropped by 442,000 between 1981 and June 1984.[3]

AFDC work programs. At the same time that AFDC eligibility criteria were being tightened, the federal government placed increased emphasis on work–related programs for welfare recipients. In 1981, the administration proposed strengthening work requirements for AFDC recipients by eliminating the Work Incentive Program, and replacing it with mandatory workfare programs that would require able–bodied recipients to work in exchange for their benefits. Congress did not adopt the mandatory workfare program. Instead, it strengthened the flexibility of states to operate a wide range of work–related programs and to require participation of AFDC recipients.[4]

Some of the optional programs were demonstration programs that were alternatives to WIN, state mandatory workfare, state subsidies to employers to encourage their employment of AFDC recipients, and job search programs.

Twenty–six states currently operate WIN demonstration programs. The few evaluations available suggest modest gains for participants in employment and earnings. In half of the programs, 50 percent of those who found employment did not earn enough to be self–sufficient and continued to require financial assistance.[5]

According to a 1987 report by the U.S. General Accounting Office (GAO), the value of mandatory work programs in reducing welfare dependency could not be determined because the demonstration projects were in their infancy and useful evaluations of them were not yet available.[6] An earlier review of some of the projects showed some "encouraging interim results in enhancing employment and earnings of recipients, [but] their success depended partly on such factors as high economic growth and adequate financial support."[7]

Some effects of AFDC policies. In assessing the effects of certain AFDC provisions in OBRA 81, a 1985 GAO study found that most families who lost their AFDC eligiblity because of OBRA provisions did not quit their jobs and go back on assistance; that the "economic well-being" of many of these families had deteriorated, and many families in low-benefit states had no health insurance some one and a half to two years after they lost their AFDC benefits; and that recipients who work full-time in a low-wage job may not be able to become independent of welfare. The study noted that "independence from welfare is not simply a matter of increasing work effort and is constrained by available wages and opportunities for employment."[8]

Welfare reform bills. There are several welfare bills before the 100th Congress. The principal bill, HR 1720, which recently passed the House and moved to the Senate, emphasizes the development of self-sufficiency among AFDC recipients through work, education, and training programs for those most likely to remain on welfare for long periods. The bill also provides day care subsidies and Medicaid temporarily, up to 18 months for certain recipients, for those making the transition from welfare to work.[9] It would strengthen child support programs by requiring states to extend benefits to two-parent families (Hawaii already does), by allowing working welfare recipients to earn more before their welfare benefits are terminated, and by encouraging states to increase benefit levels.[10]

In the Senate, S 1511, the Moynihan bill, would also give long-term welfare recipients education and training and extend benefits to two-parent families. It would stress the responsibility of fathers to support their children by increasing efforts to establish the paternity of children and to collect child-support payments.[11]

The final outcome of congressional review of the welfare issue is uncertain.

Principal Alternatives to Encourage Self Sufficiency

The principal alternatives being considered by states and the federal government to increase the incentive of the working poor to become self-sufficient are (1) raising state standards of need to ensure that they retain more disposable income when working, and (2) expanding health insurance to ensure continued coverage. These two alternatives directly address the loss of benefits stemming from the AFDC regulations and ease the transition from welfare to independence.

Raise the need standard. Some believe that decreasing the amount of earned income that working welfare parents could retain, reducing or discontinuing their supplemental AFDC cash assistance, and discontinuing Medicaid constitute significant disincentives to work and to move off welfare. A working family losing AFDC and Medicaid assistance may end up with high expenses for taxes, transportation, child care, and health care that result in less disposable income than a nonworking family on welfare.

Raising the state standard of need would offset some of these effects of federal AFDC policy. It would allow more working parents to retain more earnings, be eligible for partial AFDC aid and Medicaid coverage, and presumably have more financial incentive to work.

In fact, soon after enactment of OBRA 81, several states intentionally raised their state need standards to overcome the effects of these AFDC changes to maintain at least partial AFDC and Medicaid assistance for some of their working welfare families.[12] Hawaii could do the same.

Expand health care coverage. The lack of health insurance and the inability to afford health care expenses is a significant problem for the working poor and may discourage some of them from becoming self sufficient. Many of them are in part–time, intermittent, or other kinds of employment that do not provide health insurance, or provide insurance that requires the worker to pay for part of the premiums, co–insurance, and the uninsured share of medical expenses. Extending Medicaid eligibility to the working poor who are not receiving AFDC cash assistance may help some of them to stay off welfare.[13]

The Medicaid program, adopted by Congress in 1965, was intended to provide health care coverage to the medically indigent population—those who are uninsured and unable to afford health care, including the working poor. However, in many states, including Hawaii, the program is largely limited to those receiving or qualifying for financial aid.

In Hawaii, an estimated 52,180 persons are medically indigent.[14] The health care expenses of these persons are being borne by public hospitals and other consumers paying higher hospital, physician, and health insurance costs. In 1986, 20 community hospitals in Hawaii incurred an estimated $22.6 million in costs for uncompensated care.[15] Some of these costs would be assumed by the federal government if the State chose to expand its Medicaid coverage.

The State could expand its Medicaid coverage in the following ways. *First,* it can raise the state standard of need. Since the income test for Medicaid is set at

100 percent of the need standard, raising the need standard would raise the income threshold for Medicaid, and allow more of the working poor and other needy persons to receive coverage. *Second,* it can raise the Medicaid income criterion from 100 percent to 133 1/3 percent of the state need standard—the maximum allowed by the federal government. This would allow low-income families to retain more of their earnings and "spend down" less to qualify for Medicaid. And *third,* it may elect to automatically cover Supplemental Security Income (SSI) recipients.

The State could also choose to alter and expand the parameters of the Medicaid program by using optional provisions offered under the Omnibus Reconciliation Act of 1986 (OBRA 86). The OBRA 86 gives states the option to eliminate the "spend down" requirement and to raise the income eligibility criterion to the federal poverty level for low-income pregnant and postpartum women, infants, young children, and elderly, blind, and disabled people who are living below the federal poverty threshold but who are currently ineligible for cash assistance and Medicaid. The income threshold for these groups may be set anywhere between the State's standard of need and the federal poverty levels.[16]

Congress is currently considering further expansion of Medicaid such as extending the period of coverage for welfare recipients moving off welfare and allowing payments for enrollment in an employer's health insurance plan, a state-sponsored plan, or a health maintenance organization.[17]

Instead of waiting for federal action, state legislatures across the county are considering new initiatives such as statewide insurance pools for people with high risk medical conditions who are unable to purchase coverage, state sponsored catastrophic health care programs for persons whose medical costs exceed a certain portion of their income, broader private sector coverage by employers, and state-sponsored and subsidized health care plans at reduced rates.[18]

Other alternatives. Other generally recognized alternatives to encourage self-sufficiency include improving and expanding job training and labor market opportunities, housing assistance, and child care services, as well as eliminating or reducing payroll taxes for families below the poverty standard.

Child care services are especially important. Households headed by women are four and a half times more likely to be poor than households with couples or male heads. For many of these women, the biggest barrier to work and self-sufficiency is the lack of adequate and affordable child care. The State could reduce this barrier through such approaches as training child care providers to increase their supply, providing low-cost child care services, subsidizing child care costs, and encouraging employers to provide or subsidize child care services.

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APPENDICES

APPENDIX A

Eligibility Requirements for Hawaii's AFDC, AABD, GA, Medically Needy and Food Stamp Programs

Aid to Families with Dependent Children (AFDC)

Categorical

Must be in one of the following categories:

1. A family unit with a child under 19 living with a specified relative and who is deprived of support because at least one parent is dead, absent or disabled;* or
2. A family unit with a child under 19 living with two parents but who is in need of support because the family's principal earner is unemployed;* or
3. A first-time pregnant woman in her last trimester of pregnancy.

Gross Income Limit

185 percent of the state need standard.
Family of four: $13,342; $1,112/month.

Net Income Limit

State need standard.
Family of four: $7,212/year; $601/month

Disregards to earned income:

From total gross monthly income, subtract:

$ 75	standard deduction
$160	maximum child care (per child)
$ 30	and 1/3 of remaining income for four months only and $30 only for the next eight months

Asset Limit

$1,000 in personal reserve (money in bank), regardless of family size.

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*Eligible 18-year olds must be attending school and expect to graduate by age 19.

Work Requirement

Unless exempt, at least one adult in the assistance unit must register with the WIN program for work or training.

Aid to the Aged, Blind, and Disabled (AABD)

Categorical

Must be in one of the following categories:
1. Aged (65 years old or more)
2. Blind (20/200 vision or worse)
3. Disabled (a disability which prevents gainful employment and is expected to last more than a year or result in death)

Gross Income Limit

185 percent of state need standard.
Individual: $7,260/year; $605/month

Net Income Limit

State need standard.
Individual: $3,924/year; $327/month

Disregards to earned income:

From total gross monthly income, subtract:

$ 75	standard deduction
$ 160	maximum deduction for care of an incapacitated adult in household

Asset Limits

$1,000 in personal reserve (money in bank), regardless of family size.

Work Requirement

None.

General Assistance (GA)

Categorical

Must be in one of the following categories:

1. Disabled (mental or physical disability which is expected to last more than a month and which prevents the person from working 30 or more hours per week); or
2. 55 years old or more; or
3. A family unit with dependent children under age 19 who do not qualify for other federal financial assistance programs (may have two parents).*

Gross Income Limit

185 percent of the state need standard.
Individual: $7,260/year; $605/month.
Family of 4: $13,342/year; $1,112/month.

Net Income Limit

State need standard.
Individual: $3,924/year; $327/month.
Family of 4: $7,212/year; $601/month.

Disregards to earned income:

From total gross monthly income, subtract:

$ 75	standard deduction.
$ 160	maximum child care deduction (per child).

Asset Limit

$1,000 in personal reserve (money in bank), regardless of family size

Work Requirement

Unless disabled, at least one adult in the assistance unit must be diligently seeking work and registered with the Temporary Labor Force program.

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*Eligible 18-year olds must be attending school and expect to graduate by age 19.

Medicaid Medically Needy Program

Categorical

Must be in one of the following categories:
1. Individuals and families meeting the same categorical criteria set for any of the financial assistance programs (AFDC, AABD, or GA); or
2. Children up to age 18; or
3. Pregnant women, from the date of verification of pregnancy until 60 days after delivery.

Gross Income Limits

None. Medical expenses exceed income. Must "spend down" to medical assistance standard to qualify.

Net Income Limit

Medical Assistance Standard.*
Individual: $3,924/year; $327/month.
Family of 4: $7,212/year; $601/month.

Asset Limit

$1,800 per person
$2,700 per couple
$ 250 for each additional person

Food Stamp Program

Categorical

None. However, the definition of a household is different for food stamps than other programs. Generally, anyone living in a home who purchases food and prepares meals together is considered a part of the household. Income from the entire household is considered in determining eligibility.

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*Hawaii's medical assistance standard is set at 100 percent of the state need standard. Under federal law, a state can set its medical assistance standard up to 133.33 percent of the state need standard for AFDC.

Gross Income Limit

130 percent of the federal poverty guideline. For the aged or disabled, this limit does not apply.
Individual: $8,208/year; $684/month.
Family of 4: $16,752/year; $1,396/month.

Net Income Limit

100 percent of the federal poverty level.
Individual: $6,312/year; $526/month.
Family of 4: $12,888/year; $1,074/month.

Asset Limit

$3,000: for households with at least one member 60 years or older.
$2,000: for all other households.

Work Requirement

Unless exempt, each able-bodied household member between 16 and 59 years old must register for employment.

APPENDIX B

Our Method of Calculating the Increased Allowance that Combined with Food Stamps Would Match the Poverty Income Standard

The following steps were taken to raise the current allowance to a level where the sum of the adjusted allowance and food stamp benefits would be equal to the poverty standard

Our example consists of calculations for a family of four.

Step 1. Determine the difference between the sum of the current allowance and the food stamp benefit entitlement, and the poverty standard. The difference is the net increase in total benefits necessary to match the poverty standard.

```
Poverty standard..................$1073
Current allowance plus
    food stamp benefit...........- 952
Difference.......................$ 121
```

Step 2. Determine the increase in the allowance needed to obtain the difference. Multiply the difference ($121 from Step 1) by a factor of 1.43.*

Generally, an increase of $1.43 in the allowance is necessary to achieve a net increase of $1.00 in total benefits because food stamp benefits are reduced by about 30 cents for each dollar increase in income. In other words, a dollar increase in the allowance results in a net increase in combined benefits of 70 cents (1 divided by .7 = 1.43).

This factor was used for family sizes 2 to 8. A factor of 1.30 was used for a single person.**

```
Difference.......................$  121
Food stamp adjustment factor.....x 1.43
Increase in allowance............$  173
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*Source: U.S., Congress, Senate, *Data and Materials Related to Welfare Programs for Families With Children*, Washington, D.C., U.S., Government Printing Office, March 1987, p. 5.

**The additional factor was identified after 1.43 failed to produce an allowance equal to the poverty standard. The factor for family sizes larger than 8 was not determined.

Step 3. Determine the adjusted allowance. Add the amount needed to increase the allowance ($173 from Step 2) to the current allowance.

Current allowance	$ 601
Increase	+ 173
Adjusted allowance	$ 774

Step 4. Calculate the food stamp benefit entitlement for the adjusted allowance for a hypothetical family. Assume that there is no other income, only the allowance. Subtract a standard amount of $353 (the standard deduction of $140, plus the excess housing allowance deduction of $213) from the adjusted allowance. The balance is the net income that will be used to determine the amount of food stamp benefits for the allowance.***

Adjusted allowance	$ 774
Standard deductions	- 353
Balance or net income	$ 421

Step 5. Determine the food stamp benefits for the net income by using the food stamp program tables of income and benefits.****

Food stamp benefit entitlement for net income of $421 is $299.

Step 6. Add adjusted allowance and food stamp benefits, and compare with the appropriate poverty standard. The total benefits should be equal, or close to the poverty standard.

Adjusted allowance	$ 774
Food stamp benefits	+ 299
Total	$1073
Poverty Standard	$1073

***Source: U.S., Congress, "*Data and Materials*" p. 10, and LAO with assistance from DHS Food Stamp Program.

****Haw. Admin. Rules, sec. 17-718-15, (With varying dates) in effect on August 1987.

Step 7. Make additional adjustments, if necessary.

Because the food stamp adjustment factor is not precise, and apparently not consistent for all levels of income, some additional adjustments may be needed. If the total benefits are more or less than the poverty standard by a few dollars, a couple of dollars may be added or subtracted to match the poverty standard.

If the total benefits are more or less than the poverty standard by a considerable amount, the food stamp adjustment factor can be re-evaluated and changed, and the allowance can be re-calculated. This latter procedure was followed for the allowances for a single person, and it may be necessary for adjusting the allowances of families larger than eight.

APPENDIX D

Actual Shelter Costs

The Department of Human Services does not have current and complete information on the actual shelter costs of all financial assistance cases. The information in this appendix is from the food stamp program. It includes cases receiving financial assistance and food stamp benefits, about 80 percent of the financial assistance cases.

This information should be used with care. It is based on cost data reported to the food stamp program by recipients as a part of their eligibility calculations. The data is on cases that were active as of October 1, 1987. The data and collection methods were not designed to provide a precise picture of actual rent, utility, and total shelter costs of welfare recipients, and we had no means to verify the accuracy of the cost information. It is known to contain inaccuracies resulting from errors in reporting or recording actual rent and utility costs. Obvious errors, like extremely low and unlikely rental figures such as $7, $16, were excluded from the analysis, but the full extent and nature of inaccuracies in the data were not determined.

Also, the way the data is classified may be producing distortions, because for an unspecified number of cases, what is recorded as rent actually includes rent and utility costs that are paid as a lump sum. This means that the average rent may be overstated, and the utility cost may be understated. The shelter cost data, which combines both rent and utility costs, is probably the more reliable figure.

Despite these limitations, the information does provide sufficient information to confirm what the department has been reporting to the Legislature for several years—that actual shelter costs exceed the shelter allowance for many low-income families.

<u>Average Rent and Utilities for Cases Reporting Rent</u>. Using only cases reporting rental figures and excluding cases reporting only utility costs and no rent data, we found the following:

- average rent ranges from $208 for a single person to $364 for a family of 8.
- average utility costs range from $20 for a single person to $127 for a family of 8.
- average shelter (rent and utilities combined) costs range from $229 for a single person to $492 for a family of 8.
- average shelter costs are higher than current allowances.

Table D.1 provides details for family sizes 1 through 8.

Table D.1

Average Shelter Costs
Reported by Food Stamp Recipients

Family Size	Average Rent	Average Utilities	Average Total Shelter	Jan 1988 Shelter Allowance
1	$208	$ 20	$229	$193
2	246	41	287	237
3	277	58	336	264
4	292	80	373	292
5	314	88	402	319
6	326	105	431	352
7	331	124	454	396
8	364	127	492	396

Excess shelter costs. Again, using those reporting rent, we found the following:

- for each family size, a third to a half have shelter costs that exceed the shelter allowance.
- the average amount by which shelter expenses exceed the allowance ranges from $81 for single people to $215 for families of 8 or more.

Table D.2 provides details for family sizes 1 to 8.

Table D.2

Extent to Which Shelter Costs
Exceed the Current Shelter Allowances

Family Size	Jan. 1988 Shelter Allowance	Percent of Cases Paying More	Average Amount of Excess
1	$193	34	$ 81
2	237	43	109
3	264	52	130
4	292	50	146
5	319	48	164
6	352	51	171
7	396	47	173
8	396	48	215