



February 21, 2019

To: The Honorable Joaquin Arambula
Chair, Assembly Budget Subcommittee No. 1

Honorable Members
Assembly Budget Subcommittee No. 1

From: Frank J. Mecca, Executive Director

RE: **CALWORKS – STRENGTHEN THE EARNED INCOME
DISREGARD**

The County Welfare Directors Association of California (CWDA) respectfully requests your support for strengthening the Earned Income Disregard (EID) for the CalWORKs program. The EID is the amount subtracted from a CalWORKs recipient's income to determine initial eligibility for assistance and, once on the program, monthly grant amounts. A different EID amount is used at the time of application and for purposes of determining ongoing eligibility. By allowing a certain amount of income to be excluded from grant calculations, the EID is intended to facilitate and encourage paid employment. However, the EID has not been changed since it was first established when the CalWORKs program was created in 1997. At that time the state minimum wage was \$5 per hour. As of January 1, 2019, the state minimum wage is \$12 per hour and is scheduled to increase to \$15 per hour (three times the original amount) by January 1, 2022. We are proposing to recalibrate both the applicant EID and the recipient EID to catch up and keep pace with increases in the state minimum wage increases.

Applicant EID Puts Families in Deeper Poverty to Access CalWORKs

Many working poor families already live on the cusp of needing social services and safety net resources. But the amount of earned income that is excluded to determine CalWORKs eligibility is so low that parents must choose between reducing their work hours or working at all in order to access CalWORKs benefits. And for new CalWORKs applicants, the EID is even less generous than that for families already on the program. The policy rationale for that difference seems to have been to establish a barrier to entry to the program to keep the numbers of recipients down. But the result of the current applicant EID is that families are forced to deepen their already precarious financial circumstances, abandoning employment and jeopardizing stable housing if they want to access the vital services and supports that CalWORKs provides,

Current EID Creates Steep “Cliff Effect” for CalWORKs Families

As the state minimum wage has gone up over time, the value of the fixed EID has declined. Even though poor working families' incomes have gone up as a result of increases in the state minimum wage, proportionally less of that income is disregarded by the EID and more of it counts as an offset to the CalWORKs grant or in determining overall CalWORKs eligibility. The result is a “cliff effect” where fewer working poor families are able to get on the CalWORKs program and increasing numbers of working poor CalWORKs recipients are losing eligibility for CalWORKs benefits, which include access to services and benefits such as child care, transportation, etc. that help them achieve self-sufficiency. Due to the cliff effect resulting from the increasing state minimum wage and the fixed EID, the current CalWORKs EID disincentivizes work and has negative consequences for both CalWORKs families and the state.

Current EID Results in Negative Consequences for CalWORKs Families and the State

Encouraging people to get poorer in order to obtain and maintain services is counterproductive to the work incentive of the CalWORKs program and is detrimental to families in their path to self-sufficiency. CalWORKs recipients who are forced to reduce working hours to maintain benefits or who lose eligibility because of the income increases associated with the state minimum wage often lose housing, as even working families struggle to afford high rental costs in California. On the other hand, families who chose to maintain their employment not only lose access to the additional income support provided by CalWORKs, they lose access to the other supportive services that make employment possible in the first place. The result is a catch 22 for families that disincentivizes and jeopardizes employment, which is ultimately the surest path to self-sufficiency.

Additionally, the current EID makes it more difficult for the state to achieve the required Federal work participation rate (WPR). Due to the imbalance between the current fixed EID and the increasing state minimum wage, many families who are working sufficient hours to meet the federal WPR are forced off the program due to their minimum wage income. Removing vulnerable Californians from the CalWORKs program is not only risky for the families, but also subjects California to tens of millions of dollars in potential annual WPR penalties.

Strengthening EID Is Long Overdue

We are working to develop our specific proposal and cost estimate for updating both the applicant and recipient EIDs and linking them to future minimum wage increases and will have those details available soon. In the meantime, we ask for your support for strengthening the outdated EID for the CalWORKs program. By ensuring that the income limits keep pace with increases to the state minimum wage, we will maintain access to critical CalWORKs

benefits and services for poor working families, promote self-sufficiency and housing stability by ensuring continued and increasing participation in the labor market for CalWORKs participants, and improve the state's WPR.

cc: Gail Gronert, Office of the Assembly Speaker
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Cyndi Hillery, Assembly Republican Fiscal Office
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