Temporary Assistance for Needy Families Pennsylvania and Arizona

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The Temporary Assistance for Needy Families (TANF) program helps families to overcome burdens with financial aid. Requirements and benefits are established at the federal and state level; therefore, each state TANF policy is different. I will first compare the TANF policies of Pennsylvania and Arizona. Then I will analyze how Arizona's policy will affect a household of a single parent with two children if Pennsylvania switched to Arizona's policies.

Requirements

To qualify for TANF, applicants must pass nonfinancial assessments and financial assessments.

Pennsylvania mandates that the applicant must apply to three jobs per week to remain eligible for the TANF program. Hence, Pennsylvania's application process acts as an incentive for applicants to find a job and be less reliant on the government aid. As a result, the labor force participation rate increases. In comparison, Arizona does not require a mandatory job search at the time of application. Based on the income effect, if the applicant can receive TANF benefits without a job search requirement, he will have less incentive to enter the labor market, given that leisure is a normal good because their total income increases due to TANF benefits.

To satisfy the financial assessment, both Pennsylvania and Arizona have restrictions regarding the monetary value of the assistance unit's assets and limits on income. An assistance unit is a group of people being considered in the calculation for benefits. Pennsylvania limits the value of assets to $1000 and exempts one vehicle per household from the calculation. Arizona limits asset value to $2000 and all vehicles are exempt. Concerning income, Pennsylvania

utilizes a net income test where income must be lower than 100 percent of the standard of need of \$587. Net income is earned income after all expenses like taxes are deducted. Arizona requires a gross income test where income must be lower than 185 percent of the standard of need of \$964. Gross income is calculated by multiplying the number of hours worked by the hourly wage. The standard of need is based off of a family of three (one parent and two children).

Pennsylvania Eligibility: Net Income -90 <Standard of Need.

Arizona Eligibility: .30(Gross Income -90) <1.85 Standard of Need.

Maximum earnings are a function of the assistance unit composition for initial eligibility, benefit determination and on-going eligibility. Specifically, the maximum earnings that a family of three (one parent and two children) in Pennsylvania can receive and still be eligible for TANF is \$677 while Arizona's maximum earning restriction is \$585.

Analysis

The analysis will examine a household with an assistance unit of three people: a single parent and two children. The parent will earn \$20 per hour if employed. The reservation wage is lower than \$10 in Pennsylvania. Values reported in graphs or analysis are noted per month. Earnings and government assistance are the only means of income. Leisure is a normal good. The time constraint is 16 hours per day for leisure or working. The parent of the household is not a stepparent or parolee. The parent nor the minors are pregnant nor do the minors have children. All members of the assistance unit are legal citizens and are not reported with a disability. There are no work hour requirement minimums. The analysis occurs in any given month within Pennsylvania's and Arizona's time cap of 60 and 12 months respectfully. Total income is defined as earned income plus the TANF benefit.

Benefit Determination

Generally, the benefit received is determined by the state determined payment standard which is based on the size of the assistance unit and net income. In Pennsylvania, the benefit determination policy equates to the family size allowance minus net income. Pennsylvania disregards 50 percent of earned income, and the family allowance is \$403. Arizona's benefit determination policy

is 80 percent of the payment benefit minus net income. Arizona disregards $90 and then 30 percent of the remainder of earned income. The payment benefit is $347.

Pennsylvania Benefit Determination :Family Size Allowance − 0.5(Net Income)

Arizona Benefit Determination :0.80 [Payment Benefit − 0.3(Net Income-$90)]

Budget Constraint Comparisons

According to the PA Budget Constraint represented in Figure 1, the recipient can earn a maximum $403 of TANF benefit and a maximum total income of $806. Once the recipient begins earning TANF benefits, he will earn an effective wage of $10 until working 40.3 hours or more. Because net income is a function of the benefit, for every $1 that the recipient earns, $0.50 is deducted from the benefit. The deduction of $.50 in benefit per $1 of earned income will continue until the recipient earns a total income of $806, the maximum total income for on-going eligibility in Pennsylvania. At 40.3 hours of work, the net benefit is zero. Because of the decrease in the effective wage, the recipient will feel poorer due to the substitution effect and will incentivize the recipient to work less because leisure is a normal good. Regarding the income effect, the recipient will feel richer because he is receiving an increase in total income with the TANF benefit and will also be inclined to work less. At 40.3 work hours or more, the recipient is no longer eligible to receive TANF benefits, and his wage will be $20.

According to the AZ Budget Constraint, represented in Figure 2, the recipient can earn a maximum $277.60 of TANF benefit and a maximum total income of $1246.67. The recipient will continue to earn a wage of $20 until working 4.5 hours and when $90 of earned income is acquired. Because it is assumed that leisure is a normal good, when total income increases due to the TANF benefit, the recipient will want to work less hours because he feels richer due to the income effect. Since the benefit is not a function of net income until the 4.5th hour of work, the benefit remains at a constant of $277.60 and no substitution effect is present. Conversely, after working more than 4.5 hours, $90 and 30 percent of the remaining income will be disregarded from net income. As the recipient approaches the 417.67th hour of leisure, he will feel a substitution effect as a

result of the change of the effective wage to $15.20. The benefit will decrease by $.24 for every dollar of earned income and is characterized as the phasing out from the utilization of the benefit. The decrease in benefit will occur until the 417.67th hour of leisure where the TANF benefit will terminate because the recipient will have exceeded the total income limit of $1246.67. Additionally, due to the increase of total earnings, the recipient will feel the income effect. Hence, the income and substitution effects both signal that the recipient will work fewer hours. When reaching the 417.67th hour of leisure, the recipient will receive an effective wage of $20 and will decrease the hours worked so that he is able to move to a higher indifference curve, defined by IC1 in Figure 3, to maximize utility and still receive the TANF benefit. Additionally, the individual, based on his specific preferences, would be able to increase his leisure hours and maintain the same amount of utility while staying on the same indifference curve; the market signals that to gain one more hour of leisure, the recipient would be required to give up less income to remain on the same indifference curve than the market requires; the marginal rate of substitution is greater than the price ratio.

Policy Comparisons

Figure 3 is Pennsylvania's (represented in green) and Arizona's (represented in purple) TANF policies with respect to the original budget constraint (represented in black) when the policies are not in effect. Suppose Pennsylvania switches to Arizona's policy. After the switch in policies, it will be easier to incentivize the recipient to work the 1st hour because there is a greater magnitude between the reservation wage and Arizona's effective wage of $20 than Pennsylvania's effective wage of $10 and the reservation wage; the labor force will increase because the oppertunity cost of leisure increased. Per the substitution effect, the effective wage increases from $10 to $20 causing the recipient to increase hours worked. Per the income effect, total income decreases and the recipient will work more hours. By setting the benefit determination formulas equal to one another, I was able to calculate that Pennsylvania and Arizona's earned incomes are equal at $565.38. If the recipient worked 28.27 hours or less before the switch, the income and substitution effects both denote that the recipient will increase their hours worked. Similarly, if the recipient worked between 28.27 and 40.3 (the maximum number of hours able to work in Pennsylvania and still receive TANF benefits), the substitution effect would also influence

4

the recipient to work more. At 28.27 hours, based on this recipient's specific preferences, he will increase his working hours to move to a higher indifference curve and optimize utility while still being able to receive the TANF benefit and maximize income, defined by IC2. If the recipient increases his working hours, beyond the point of intersection, total income in Arizona surpasses total income in Pennsylvania under the TANF benefit causing the income and substitution effects to act in opposition. The increase in total income causes a decrease in hours worked while the substitution effect implies an increase in hours worked due to a higher effective wage (\$15.2 >\$10). However, the substitution effect dominates and the number of working hours increase because I can assume that the labor supply curve is upward sloping; most economists agree that a worker's supply curve for labor slopes upward at lower wages.

I can conclude from the analysis that if Pennsylvania switched to Arizona's TANF policies, the number of hours worked would increase for Pennsylvania residents who are subjected to the TANF policies. Based on the analysis of the effects of the TANF benefit on the number of hours worked in Pennsylvania in Figure 1, the income and substitution effects reflect a decrease in hours worked. Furthermore, enforcing a change from Pennsylvania to Arizona TANF policies could influence an increase in the work force in addition to an increase in hours worked for Pennsylvania TANF recipients.
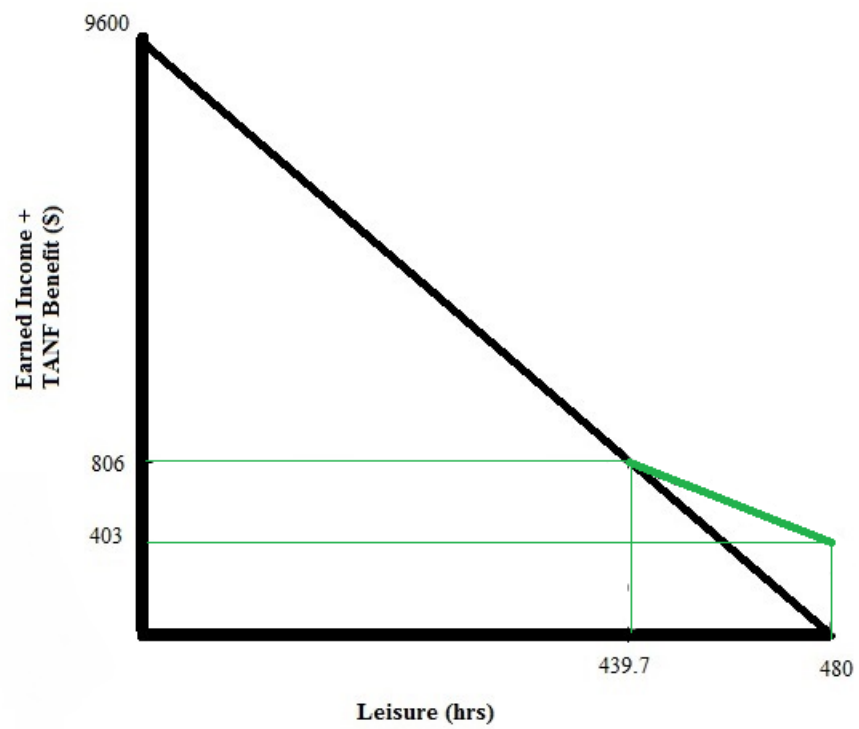
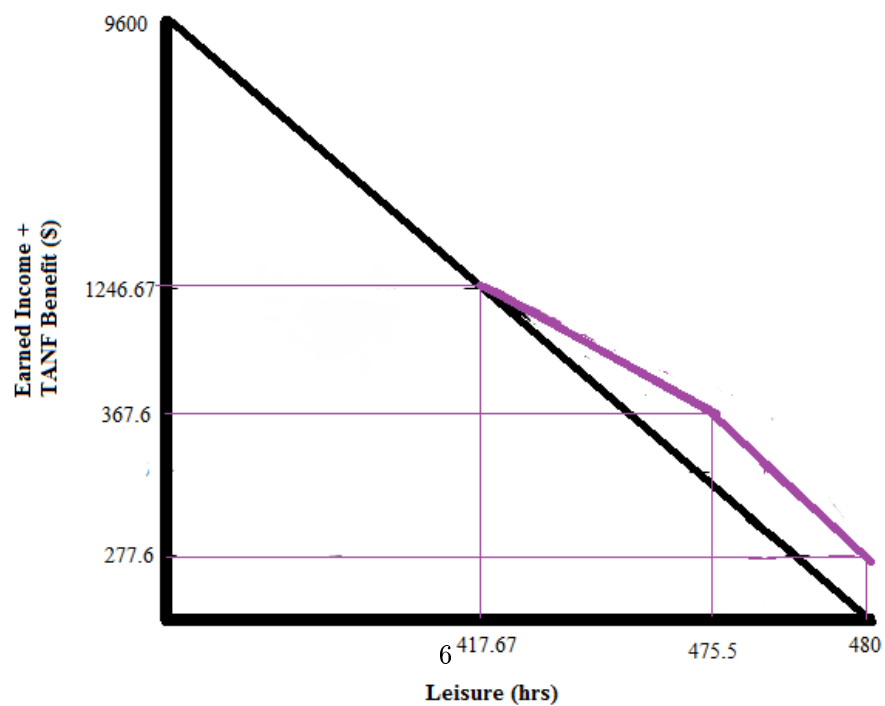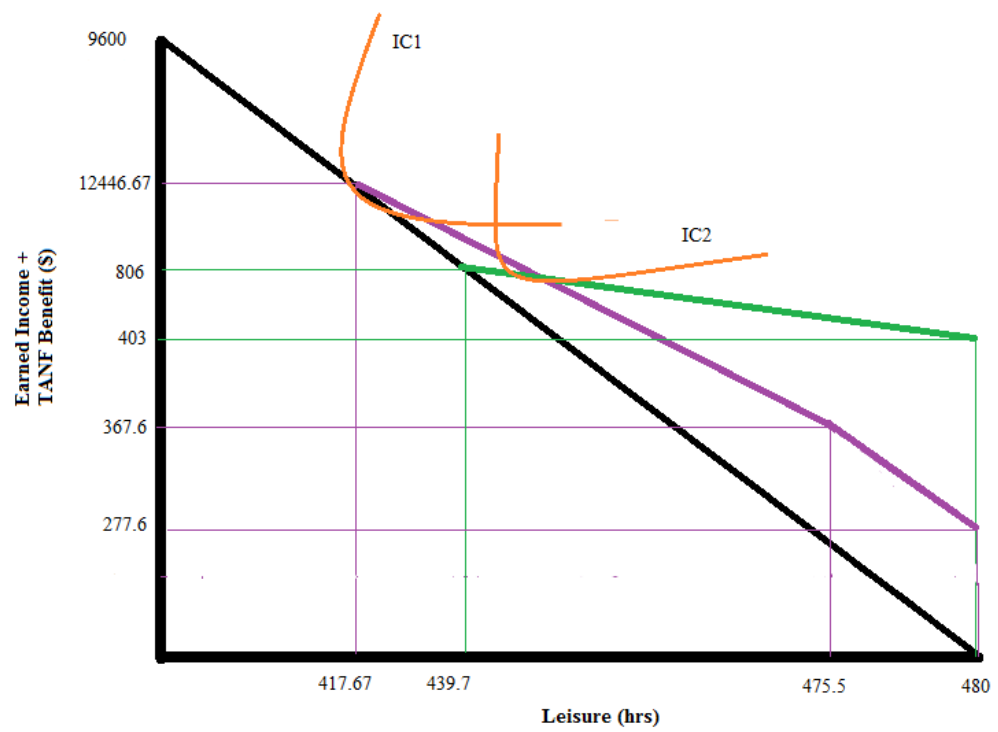Figure 1: Pennsylvania Budget Constraint

Figure 2: Arizona Budget Constraint

Figure 3: Pennsylvania and Arizona Policy Comparison