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THE INSTITUTE FOR  
WISCONSIN'S FUTURE

**W-2 (WISCONSIN WORKS):**  
**An Analysis of Impact on Families and Children**



November, 1995

by

**Professor Anne Statham**

University of Wisconsin–Parkside

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### BACKGROUND

As of January 1999, Aid to Families with Dependent Children will no longer exist in Wisconsin. AFDC currently provides for approximately one quarter of a million very low-income people in Wisconsin, 70% of whom are children. The program Governor Thompson is proposing as a replacement is called *W-2 (Wisconsin Works)*. The key change under W-2 is that cash assistance will no longer be an entitlement for families with needy children. Instead, low-income parents can choose to participate in the W-2 system, which offers four employment options including private employment, subsidized private employment, community service jobs, and supervised transitional work.

Those persons unable to find private employment would participate in one of three time-limited employment programs. The community service and supervised transitional employment would provide the head of household with a monthly subsidy, roughly equivalent to previous welfare payments, which the person would “work off” doing 40 hours of community service or supervised transitional labor. Because these programs would be considered service for the subsidy, participants would not be covered by minimum wage requirements and would not be eligible for the Earned Income Tax Credit which provides economic assistance to the working poor.

Because W-2 is a significant shift in social policy and will have serious consequences for the 76,000 families on AFDC in Wisconsin, the Institute for Wisconsin’s Future (IWF) has conducted a two-part study of the feasibility and potential impact of the W-2 proposal.

**The findings of the first IWF study of plans for W-2 were as follows:**

- 1. Statewide, there are less than half the jobs necessary to employ the total number of current AFDC recipients and unemployed persons.**
- 2. Without funded training programs, there will continue to be a serious mismatch between the skill levels of AFDC recipients and the skills required for most openings.**
- 3. Crucial support systems for newly employed parents including child care and public transportation are not available to substantial numbers of persons in designated counties.**
- 4. The influx of even a portion of current welfare recipients into the low-wage labor market will result in a substantial reduction in wages to those currently employed in low and moderate wage jobs.**

Cover Illustration: **Brother and Sister**; oil painting  
by Paula Modersohn-Becker.  
Collection of Esther Leah Ritz.

## EXECUTIVE SUMMARY

The W-2 Program proposes to replace the current system of Aid to Families with Dependent Children (AFDC) with a work program designed to increase economic self-sufficiency and build stability among low-income families currently receiving public assistance.

The Institute for Wisconsin's Future (IWF) has examined the impact of the W-2 Program on the potential for economic self-sufficiency and family stability among current AFDC households in Wisconsin as the second component of a two-part study on the feasibility and impact of the W-2 proposal.

According to the results of this analysis, there are four primary findings:

- 1) Over one quarter of the families participating in the W-2 program (and 43% of all persons impacted) will experience a drop in income. This will leave an estimated 47,886 children living deeper in poverty.
- 2) The combined impact of reduced incomes for 15,000 families and the removal of all supports for an estimated 2,600 families due to sanctions could generate at least a 15% increase in the number of children who will be removed from their homes due to abuse or neglect.
- 3) The costs for out-of-home care for Wisconsin children compared to AFDC increases public assistance levels 135% to 2500% per child per year.
- 4) W-2 has the greatest negative impact on 17,800 high-risk families, including families with three or more children, families headed by a disabled parent and families with special needs children. These families face the largest reduction in income and/or the greatest difficulty in meeting work requirements necessary to secure even basic supports such as Food Stamps and Medicaid.

The results of this research demonstrate that W-2 does not assist the majority of families to achieve self-sufficiency and will contribute to an increased level of family disintegration as additional children are taken from the home and placed in state custody.

While some households may benefit from W-2, too many will not. The current program design does not provide the long-term structure or short-term flexibility necessary to meet the widely varied needs of AFDC families. *Without substantial changes, W-2 will increase the level of crisis in many fragile families and lead to severe and sustained hardship for thousands of Wisconsin children.*

## INTRODUCTION

W-2 (Wisconsin Works), Governor Thompson's welfare replacement plan, eliminates public assistance to families with dependent children and institutes a work-based program for parents. Satisfactory participation in W-2 determines access to financial support and support services for recipients and their families. The goal of W-2, according to proponents, is to remove the government from the role of "the other parent in single parent households"<sup>a</sup> by:

- 1) Increasing economic self-sufficiency among AFDC recipient families; and,
- 2) Strengthening AFDC families by reinforcing "appropriate behavior."

These goals establish clear criteria for evaluating the W-2 program design. In order to assess how well the Governor's plan could meet these goals, this study by IWF examines the economic impact of the W-2 program on families and the effect of new regulations on family stability and well-being.

## FINDINGS:

**1. W-2 Results in a Reduced Standard of Living for 25% of the Families Enrolled Impacting Over 68,000 Low-Income Parents and Children.**

The stated goal of W-2 is to promote personal responsibility and financial independence for current and potential welfare recipients in Wisconsin. Many economic assumptions are made about how low-income people will progress up the self-sufficiency ladder that is outlined in W-2. The governor's introduction says the plan "will demand more of participants, but in the long run it will provide independence and a future."<sup>b</sup> Is W-2 a plan that will lead to better futures for Wisconsin's poor?

Contrary to the claim of proponents, W-2 will not lead to self-sufficiency for all families. The State estimates that 85% of current AFDC clients will be placed in subsidized employment which leaves most recipient households at or below the AFDC income level. In fact, more than 25% of participating households with children will experience a reduction in income. This will impact over 68,000 persons, 70% of whom are children. Those hit hardest will be large families, who could see their income reduced by as much as \$334 a month. W-2 has been proposed as a ladder to financial independence, but its bottom rungs represent a form of Workfare which will leave thousands of participants in greater poverty than before.

The failure of the program to generate self-sufficiency is rooted in five components of the W-2 design:

- insufficient numbers of private jobs available in the employment market;
- substandard wage levels in the majority of subsidized job placements;
- lack of access to worker rights, such as the minimum wage and the Earned Income Tax Credit;
- substantial reductions in the income of large families;
- lack of training provisions or career ladder into improved working conditions.

Below, each of these factors is reviewed in greater detail.

### **Employment Projections for W-2 Participants**

According to the first study of W-2 conducted by IWF, there are fewer than half the jobs necessary to employ present jobseekers, current AFDC recipients and the unemployed population in Wisconsin. Despite a strong economy, conditions in the state labor market show there are still substantial structural barriers to private sector employment for AFDC recipients.

The state fiscal estimate for W-2, prepared by the Wisconsin Department of Health and Social Services, concurs with this finding. According to projections from the fiscal estimate, only 15% of the current AFDC population will secure jobs in the private market. All other recipients will be placed in state subsidized jobs: 10% in Trial Jobs, which pay the minimum wage; 50% in Community Service Jobs which pay 75% of the minimum wage; and 25% in W-2 Transitions Jobs which pay only 70% of the minimum wage.<sup>c</sup>

These projections, which show 85% of participants in subsidized jobs, appear at odds with the overall approach of the W-2 plan, which stresses placing participants in private sector jobs as quickly as possible. The costs associated with the wages and administration of 45,000 subsidized jobs will be very expensive for the state. Placing such a large number of families in jobs that pay the minimum wage or less will severely limit the capacity of these families to achieve financial independence.

### **Income Level Projections for W-2 Participants**

State policymakers have stated that the W-2 program will generate earnings that surpass current welfare payment levels. However, a comparison of the income available under the current AFDC program and under the three subsidized employment options of the W-2 program shows that for many families, income levels will drop.

**Table 1**

Comparison of Monthly Income from AFDC and W-2 Subsidized Employment Options<sup>d</sup>

| AFDC Income | Family Size | W-2 Transitions<br>\$2.98 per hr. | Community Service Jobs<br>\$3.19 per hr. | Trial Jobs<br>\$4.25 per hr. |
|-------------|-------------|-----------------------------------|--|------------------------------|
| \$440       | 2           | \$496                             | \$532                                    | \$708                        |
| \$517       | 3           | \$496                             | \$532                                    | \$708                        |
| \$617       | 4           | \$496                             | \$532                                    | \$708                        |
| \$709       | 5           | \$496                             | \$532                                    | \$708                        |
| \$766       | 6           | \$496                             | \$532                                    | \$708                        |
| \$830       | 7           | \$496                             | \$532                                    | \$708                        |

Shaded cells show families experiencing a decrease in income under W-2.

**Table 2**

Number of W-2 Households: Projections by Employment Category and Family Size<sup>e</sup>

| Family Size | W-2 Transitions<br>\$2.98/hour | CS Jobs<br>\$3.19/hour | Trial Jobs<br>\$4.25/hour | Unsubsidized Employment |
|-------------|--------------------------------|------------------------|---------------------------|-------------------------|
|             | 25% of Families                | 50% of Families        | 10% of Families           | 15% of Families         |
| 1           | 1,369                          | 2,739                  | 547                       | 821                     |
| 2           | 4,808                          | 9,612                  | 1,922                     | 2,882                   |
| 3           | 3,519                          | 7,035                  | 1,408                     | 2,109                   |
| 4           | 2,015                          | 4,028                  | 806                       | 1,207                   |
| 5           | 846                            | 1,691                  | 338                       | 507 *                   |
| 6           | 430                            | 859                    | 172                       | 258 *                   |
| 7           | 443                            | 886                    | 177                       | 266 *                   |
| Total       | 13,430                         | 26,850                 | 5,370                     | 8,050                   |

Shaded cells show number of families experiencing a loss in income under W-2

\* Families of five or more in the unsubsidized employment category will only be better off if they obtain jobs at \$5.00 per hour or above.

The state fiscal estimate for W-2 projects that AFDC recipients will be placed in employment categories in the following manner when the W-2 program begins:

- **13,430 households will be in W-2 Transitions.** The wage level set for this category of employment is \$2.98 per hour. At full-time employment, the annual income for the W-2 Transitions program will be \$5,960. For any W-2 Transitions family with more than 1 child, this income level will be less money than was received through AFDC. *This means 54% of those expected to enter employment as W-2 Transitions will be financially worse off under W-2.*
- **26,850 households will be in Community Service Jobs.** The wage level set for this category of employment is \$3.19 per hour. At full-time employment, the annual income for the Community Service Jobs component will be \$6,380. For any Community Service Job family with more than 2 children, this income level will be less money than was received through AFDC. *This means 27.8% of those expected to enter employment in a Community Service Job will be financially worse off under W-2.*
- **5,370 households will be in Trial Jobs.** The wage level set for this category of employment is \$4.25 per hour, the minimum wage. At full-time employment, the annual income for Trial Jobs will be \$8,500. For any Trial Jobs family with more than 3 children, this income level will be less money than was received through AFDC. *This means 12.8% of those who are Trial Jobs participants will be financially worse off under W-2.*
- **8,050 households will be in Unsubsidized Employment.** The administration notes that many entry level jobs in Wisconsin currently pay more than the minimum wage. This may not be true in the future if the influx of new workers depresses wages, as has been predicted by some economists.<sup>f</sup> The pay rate at which a W-2 family of any size would have more income working than they did when receiving AFDC is \$5.00 per hour.

It should be noted that this analysis employs a simple, yet strict definition of income as the amount of the AFDC grant, the W-2 grant (for Transitions or Community Service Jobs participants) or the gross wages (for Trial or private jobs). An important change under W-2 is that participants will now be required to pay for a portion of their child care and health care costs, based on a sliding scale which has not yet been made public. So while a \$5.00 per hour job technically means more income than received through AFDC, the increased costs to the participants in W-2 will mean less disposable income for these families.

**In total, 15,403 families (28% of all families in the program) are projected to experience a reduction in income under W-2. This will result in a lower standard of living for 68,408 persons — 47,886 of whom are children.** (See Appendix 2 for a table showing the effects of W-2 on individuals in families.)

Of the 15,403 families who will be financially worse off under W-2, the biggest change in income will occur for larger families who lose up to \$334 per month. Under W-2, parents of needy children will be placed in employment categories with set pay rates which are the same regardless of family size. W-2 in effect imposes a family cap by standardizing the grant amount for all family sizes under the work program format. However, although participants will be called employees, they will have none of the legal rights of workers. Although the employment options in W-2 are referred to as jobs, the fiscal estimate notes the reality is that “recipients must work off their grants.”<sup>9</sup> By maintaining participants under grant recipient status, it is legal to have employees working for less than minimum wage. In effect, W-2 lowers the amount of public assistance to families under stringent work conditions.

### **W-2 Impact on Participant Standard of Living**

Under W-2, as noted above, 15% of the AFDC population is projected to find private employment, primarily in entry level jobs which pay \$4.25 to \$ 6.00 per hour. They are the “highrollers” of this program. The remaining 85% will earn from \$2.98 to \$4.25 per hour, which results in a maximum annual income of \$8,500. Data from the 1992 Consumer Expenditure Survey shows average annual expenditures for all Midwest families to be \$28,445.<sup>h</sup> An analysis of the annual expenditures of single-parent families shows a much lower standard of living. Average annual expenditures for a rural single-parent family were \$15,660; while an urban single-parent family spent an average of \$19,530 per year.<sup>i</sup> It is clear that even single parent families, who are accustomed to living on incomes much lower than the rest of society, will face difficult choices on how to allocate the consistent shortage of dollars that will result from participation in W-2.

### **Lack of Earned Income Tax Credit Support**

Statements in support of W-2 are written as if the Earned Income Tax Credit (EITC) is part of the “basic income package”<sup>j</sup> for W-2 participants. There are a number of problems associated with counting this tax credit as income.

1. Under W-2's current design **75% of participants will not be eligible for EITC, the very families who will have the lowest incomes.**<sup>k</sup>
2. The EITC is not a new benefit under W-2. The EITC is already available to any AFDC recipient with wages. Wisconsin data from 1992 shows that 13% of Wisconsin AFDC families had earnings which averaged \$371 per month. All of these recipients are already eligible for the EITC.<sup>l</sup>
3. In order to function as a wage supplement, the credit can be received in payments in the employee's paycheck year round. A recent report from the General Accounting Office shows, however, that less than 1% of eligible workers nationwide took advantage of the EITC advance payment option.<sup>m</sup>
4. The amount of the EITC may soon be lowered \$23 billion by Congress in order to reduce federal budget costs.

### **Limits to Self-Sufficiency under W-2**

The federal poverty line for a family of three (the average size family in Wisconsin) is \$12,590. Few, if any, of the families participating in the W-2 program will have incomes high enough to even approach the poverty level. A job paying \$6.00 an hour yields an annual income of \$12,000. It is clear that W-2 does not really present an opportunity for families to escape poverty. How then should self-sufficiency be defined? The General Accounting Office addressed the issue of economic self-sufficiency in a 1993 report. The report states:

“Economic independence and self-sufficiency are elusive concepts that may incorporate 1) freedom from rental housing [assistance] and public assistance, 2) earning adequate income to provide for basic needs, and 3) having enough earnings stability to prevent becoming dependent on government benefits. There is disagreement on what constitutes adequate income; although the poverty threshold is often used as an indicator of well-being, some researchers believe it is too low. Income stability is also an elusive concept for public policy purposes. We used the concept of economic independence from (no longer eligible for) direct, means-tested transfers as a measure of self-sufficiency.”<sup>n</sup>

The report calculates a “break-even” level for three major government assistance programs: AFDC, Food Stamps and Section 8 Rental Housing Assistance. A family is economically independent from that program when they reach the earning level above which they are no longer eligible for it. The AFDC break-even level for Wisconsin family of three is reached when they have income of \$782 per month.<sup>o</sup>

None of the income levels attainable by families through Trial Jobs, Community Service Jobs, or W-2 Transitions would be considered adequate to define them as self-sufficient from AFDC.

**Another way of presenting this is to note that if AFDC and W-2 co-existed, most W-2 families would still be eligible for AFDC given the low income levels provided under the plan.**

### Summary

W-2, as currently proposed, will fail to create the conditions for economic self-sufficiency among over 40 % of the participants and their families and will create conditions of economic deprivation for a substantial number of households.

- 85% of the W-2 participants will be placed in subsidized jobs.
- 75% of those in subsidized jobs will be paid sub-minimum wages.
- The persons working for wages ranging from \$2.98 per hour to \$3.19 per hour will not be eligible for the Earned Income Tax Credit or any other workers' benefits.
- More than 15,000 households will experience a reduction in income which impacts 68,408 persons, of whom 47,886 are children.
- Over 11,800 families with three children or more will experience a drop in income ranging from \$85 to \$334 per month.
- None of the 45,650 families participating in the subsidized employment options of W-2 will achieve an income level that would make them self-sufficient from AFDC and all will be living on incomes well below the poverty level.

Given the lack of training dollars and the short-term nature of the subsidized job programs, heads of households participating in the program are likely to remain in substandard employment positions throughout their tenure in W-2, and no plan is in place for transition to private employment once participants have reached the time limit for participation in W-2.

**2. W-2 Threatens Family Stability in Low-Income Communities.**

Governor Thompson proposes to place significant value on the family. Wisconsin's Parental and Family Responsibility Program (Bridefare) was designed to enhance the two-parent family structure among low-income people. Many state policymakers have testified in public hearings on W-2 that the program will eliminate the need for public assistance by creating the conditions for people to: build self-esteem through employment, maintain a marital bond, and reduce the factors that lead to poverty and family dissolution. While this a laudable goal, data indicates that W-2 may in fact have the opposite effect on families already struggling to maintain physical and emotional stability.

Based on the findings of previous studies, it is probable that the additional economic deprivation inherent in the implementation of W-2 will lead to greater family problems, increased incidence of neglect and abuse and heightened risk of necessary intervention by Child Protective Services. In addition, cuts in grant amounts for kinship care, subsidies for disabled parents and mandated work for parents of special needs children will threaten the tenuous stability of fragile households already overwhelmed by economic, social and physical pressures.

The W-2 proposal will increase risk of family dissolution by:

- reducing family income for participating families already living at or below poverty.
- eliminating income and support service resources for families where parents are not included in the W-2 system.
- reducing supports for disabled parents and family caretakers who are already facing significant barriers to maintaining household stability.
- removing parents of special needs children from the home and creating the need for expensive and specialized care programs for the children they leave at home.

The following presents an analysis of each of these risk factors in some detail.

**Relationship between Poverty and Child Abuse/Neglect**

Under the new W-2 system, approximately 15,403 households will experience a drop in income. At current levels, AFDC families with no other sources of income are well below poverty level. A reduction in income under W-2 will make thousands of families destitute. Child neglect is strongly correlated with poverty. Children in families with incomes below \$15,000 are five times more likely to have been abused or neglected than children in families with incomes over \$15,000.<sup>P</sup> Child neglect reports account for approximately 50% of all reports to Child Protective Services in Wisconsin.<sup>Q</sup>

Both the National Incidence Studies and the American Humane Association surveys reveal a dramatic funneling effect in regard to income, with poorest children being at greatest risk of child abuse and neglect and the wealthiest children being at least risk. This funneling effect is very fine tuned. The AHA data, for example, revealed a perfect inverse relationship between income bracket and the percentage of validated reports an income bracket accounted for, moving up the income scale through a dozen brackets, most of which were not more than \$2,000 to \$3,000 in width. Such a finding would be truly difficult to explain in terms of personal biases in the identification and reporting of child abuse and neglect.<sup>f</sup>

With the further loss of income probable under W-2, local social service providers are predicting that a substantial number of parents will be unable to meet the most basic needs of their children. According to Wisconsin State Law, children cannot be removed from the home for reasons of poverty alone; but the inability to provide shelter, heat or food to children is grounds for removal from the home. State policymakers have already linked the implementation of W-2 to the possibility of more interventions. The Financial and Employment Planners would be expected to monitor the family and “refer child neglect cases to social services should the family situation deteriorate,”<sup>s</sup> according to Jean Rogers, Director of Wisconsin Department of Health and Human Services. Administrators from Milwaukee County Children’s Court and Milwaukee County Department of Social Services are already anticipating an increase in the number of children referred to Child Protective Services due to the inability of parents to meet basic needs.

### W-2: Loss of Income and Services Among High-Risk Families

While more than 15,000 families face a substantial reduction in income under W-2, up to 8,000 families face the possibility of losing all financial aid, Food Stamps and Medicaid benefits due to program non-compliance. These are families who will be “sanctioned” (denied benefits) for failure to comply with W-2 regulations. Sanctions will be imposed for the following reasons:<sup>t</sup>

- 1) recipient’s children do not attend school;
- 2) recipient refuses to participate three times in any W-2 employment position; and,
- 3) recipient refuses to cooperate with the establishment of a child support order.

The state has projected a 3.5% sanction rate under W-2. The sanction level is said to be “based on sanction experience of the current Learnfare, JOBS and child support programs.”<sup>u</sup> However, a 3.5% sanction rate is not consistent with current and recent non-compliance rates in the JOBS, Learnfare or General Assistance programs.

1. 15% of General Assistance recipients were denied checks for not working.<sup>y</sup>
2. Sanctions for the Learnfare program during the first two years of study by the Employment and Training Institute show a sanction range from 15-63%.<sup>w</sup> Subsequent evaluations of Learnfare by the Legislative Audit Bureau reveal sanction rates between 16 and 59%.<sup>x</sup>
3. JOBS sanctions are currently at 14% in Milwaukee County.<sup>y</sup>

Currently 26% of Wisconsin female AFDC recipients are listed as “mandatory, but not participating” in the JOBS program. Another 36% are exempt for child care reasons and 20% are exempt for other reasons.<sup>z</sup> This totals 82% of female AFDC recipients in Wisconsin who are not participating now in work requirements. Since the program rules under W-2 will require work for all participants, it is very likely that the sanction rate would be higher. Below are projections for the number of children at-risk based on a range of potential sanction rates.

**Table 3**  
Number of Children Affected Under Different Sanction Projections

| Percent Sanctioned | Number of Cases | Number of Children |
|--------------------|-----------------|--------------------|
| 3.5%               | 1,879           | 4,133              |
| 5%                 | 2,685           | 5,907              |
| 7%                 | 3,759           | 8,269              |
| 10%                | 5,370           | 11,814             |
| 15%                | 8,055           | 17,721             |

These estimates show the potential number of families who could experience not only a loss of income through sanctions, but denial of access to Food Stamps, Medical Care and other services tied to W-2 participation as well. The resulting impact on children is either sustained deprivation within the family or removal of the children from the home to state custody.

**Increased Budget Impact of Out-of-Home Care**

A conservative increase of predicted sanctions at 5% would leave 5,907 children at risk of needing Child Protective Services. If even 20% of these at-risk children were removed from the home for neglect, 1,181 more children would need substitute care. This is a 15% increase over the current number of children in out-of-home care.

If W-2 in any way contributes to an increase in the number of children in out-of-home care, the costs associated with the plan will be much higher than under the current system. The costs for substitute care options are compared to the costs for the current AFDC caseload below. The data clearly shows that increasing the use of substitute care arrangements for Wisconsin children would not be cost-effective.

**Table 4**

Out-of-Home Care for Children in Wisconsin in 1992<sup>aa</sup>

| Type of Care                      | Annual per capita cost | Number Children in care |
|-----------------------------------|------------------------|-------------------------|
| Kinship Care<br>(proposed in W-2) | \$2,580                | 9,700                   |
| Foster Homes                      | \$5,475                | 9,075                   |
| Group Homes                       | \$31,390               | 1,325                   |
| Child Caring Institutions         | \$46,607               | 1,575                   |
| AFDC                              | \$1,860                | 222,453 total persons   |

**Families Excluded from W-2**

Over and above the incidence of noncompliance by heads of households, there exists another group of recipients who are at-risk of being “excluded” from the program because they are not cost-effective in the placement system. These clients, who may have limited intellectual capacity, emotional problems or an alcohol or drug problem, will be difficult to place in employment sites, require long periods of case management and become a financial liability to W-2 agencies, who will be paid according to “performance-based incentives established by the department by rule.”

These heads of households, already marginal in their capacity to maintain homes, could be waived out of the W-2 caseload for anything from an attitude problem to a misunderstanding of instructions. The W-2 plan gives the agencies authority over these decisions.<sup>bb</sup> The results of the pay-for-performance job placement design of W-2 may well be more families who are left without resources. This “unrecorded” population of households will have no recourse for aid. Without a safety net to accommodate them, they represent an additional group at-risk for child deprivation, neglect and abuse that would need intervention by Child Protective Services.

### **Detrimental Impact of W-2 on Fragile Families**

There are three categories of families that are especially vulnerable in the face of W-2 regulatory changes: kinship care families, households headed by disabled adults and families with special needs children. Although adults receiving SSI and the non-legally responsible relatives of AFDC children are not expected to work under W-2, the plan will have a negative effect on their economic situation.

#### Kinship Care Families

Kinship care is a type of foster care for children taken out of the birth home for reasons of neglect or abuse and then placed with relatives, often grandmothers. There are 5,600 kinship care households in Wisconsin, caring for 9,700 children. Kinship care has provided a safety valve for the Child Protective Services system. With an increasing shortage of regular foster homes, protective service caseworkers have come to rely on placements with relatives.

Under W-2, financial support for kinship care is reduced from standard AFDC payments to \$215 per month. The reduction in funding could affect the stability of the caretaking arrangement. A recent article which compares kinship foster care to regular foster care noted that kinship caregivers are generally “an older population and one heavily represented by single women of color who are struggling themselves with limited incomes.”<sup>cc</sup> The article also noted that “over four-fifths of both kinship foster parents and foster parents used their own money, above and beyond payments, for the children in their care.”<sup>dd</sup>

Often, the kinship care arrangement is a voluntary one, in which the child is removed from the home by a protective service worker and placed with a relative. If the relative agrees to keep the child and the parent(s) agrees to the arrangement, then Children’s Court is kept out of the arrangement. These voluntary placements save money and staff time in both the Department of Social Services and in the court. It is possible that a reduction in the income available to kinship caregivers would discourage them from taking on that added responsibility, and would mean that more children would be in need of regular foster homes.

#### Supplemental Security Income Families

There are 5,400 families where the parent is disabled and receiving Supplemental Security Income (SSI) payments. The standard payment for a parent receiving SSI is \$541. Under the W-2 program, the 12,000 children in these households who had previously received regular AFDC payments will see their monthly subsidies drop to \$77 per child. For a family with more than two children, the drop in monthly income will be approximately \$300 per month.<sup>ee</sup>

In addition, there are an estimated 600 special needs children in Wisconsin who receive Supplemental Security Income payments whose families also receive AFDC for siblings or for a caretaking parent. These parents have been exempt from AFDC work requirements so that they can care for their children. The majority of these children are mentally retarded, others have debilitating diseases and some are blind. If these parents are subject to work requirements under W-2, this will result in the need to fund costly childcare arrangements to accommodate the children's special needs.<sup>ff</sup> Or, alternatively, families could be denied income and service assistance if parents don't work and are then sanctioned under the W-2 system

### Summary

W-2 in its current form will have a negative impact on more than 25% of participating households, which will threaten family stability and the well-being of children and the disabled. There is an increased risk of family problems rooted in financial deprivation and stress that will likely lead to greater incidence of child neglect, abuse and family disintegration. Findings leading to this conclusion are:

- Studies show that there is an inverse relationship between income and incidence of child abuse. The reduction in income in over 15,000 homes generated by W-2 is predicted to increase cases of child neglect and abuse.
- Between 4,100 and 5,975 children will be at high-risk for neglect given the removal of all income and service benefits for the 3.5% to 5% of families expected to be sanctioned for non-compliance with W-2 regulations.
- The cost of out-of-home care for children removed from the home will range from 135% - 2500% higher than AFDC, with foster care costing 300% more than AFDC.
- In a significant number of kinship care homes, families will experience a reduction in support, jeopardizing household income stability and reducing home care resources for Child Protective Service providers.
- The 5,400 families headed by disabled adults caring for over 12,000 children will see a drop in child support from \$249 per child to \$77 per child resulting in financial hardship for the most vulnerable of families.

## CONCLUSION

If the goal of W-2 is to increase family self-sufficiency and strengthen family stability, the program is likely to fail. The analysis of state data indicates the following:

- In total, W-2 will leave more than 40% of its parents and children in a financially worsened situation, reducing income levels for 25% of the families. In addition, W-2 introduces stringent work requirements in environments lacking the basic supports for working parents.
- Criteria for family stability include the capacity of family heads to provide for the basic needs of dependents, the ability of caretakers to sustain secure supervision of young children and the long-term ability of the family to remain intact as a unit until children are mature and ready to form their own families.

Using these very fundamental criteria, W-2 will introduce severe economic insecurity into already impoverished households; increase stress on supervisory structures for children and heighten the probability of neglect and abuse incidents precipitating the potential removal of children from their homes. In addition, the program decreases incentives to family members who are taking care of children in need of protective custody by reducing some kinship care subsidies.

- By reducing assistance to households headed by disabled persons and introducing work requirements to families with special needs children, W-2 will add to the financial and functional burden facing families already at a severe disadvantage in this highly competitive society.

*These families will be shattered, not strengthened by the implementation of W-2.*

Notwithstanding the good intentions of the planners and proponents of W-2, the legislation must be thoroughly reviewed and restructured lest Wisconsin enact a policy that could be viewed as unwarranted and unusually cruel punishment for the most vulnerable of its citizens.

**Appendix 1**

| County      | Number of AFDC Children | Children At-Risk Due to W-2 Sanctions (5%) | Projected Increase in Out-of-Home Care | % Increase Over Current Foster Care Capacity |
|-------------|-------------------------|--|--|--|
| Brown       | 4,375                   | 218  | 44                                     | 25%  |
| Chippewa    | 1,235                   | 62   | 12                                     | 50%  |
| Dane        | 6,418                   | 321  | 64                                     | 14%  |
| Eau Claire  | 2,622                   | 131  | 26                                     | 40%  |
| Fond du Lac | 1,387                   | 69   | 14                                     | 20%  |
| Juneau      | 528                     | 26   | 5                                      | 18%  |
| Kenosha     | 4,708                   | 235  | 47                                     | 22%  |
| La Crosse   | 2,877                   | 144  | 29                                     | 23%  |
| Marinette   | 839                     | 42   | 8                                      | 40%  |
| Milwaukee   | 77,698                  | 3,885                                      | 777                                    | 18%  |
| Racine      | 6,416                   | 321  | 64                                     | 23%  |
| Rock        | 4,882                   | 244  | 49                                     | 20%  |
| Sheboygan   | 1,653                   | 83   | 17                                     | 22%  |
| Winnebago   | 2,470                   | 123  | 25                                     | 20%  |

This table uses a sanction rate of 5% for the W-2 program. It is estimated that 20% of children in households without income due to sanctions will be in need of protective service arrangements. The resulting impact on foster care capacity in Wisconsin is predicted from these numbers.

**Appendix 2**

Total Number of Persons in W-2 Families by Employment Category

| Family Size  | W-2 Transitions | CS Jobs       | Trial Jobs    | Unsubsidized Jobs |
|--------------|-----------------|---------------|---------------|-------------------|
|              | Persons         | Persons       | Persons       | Persons           |
| 1            | 1,383           | 2,765         | 553           | 821               |
| 2            | 9,616           | 19,224        | 3,844         | 5,764             |
| 3            | 10,557          | 21,105        | 4,230         | 6,327             |
| 4            | 8,060           | 16,108        | 3,219         | 4,828             |
| 5            | 4,230           | 8,455         | 1,690         | 2,535             |
| 6            | 2,580           | 5,154         | 1,032         | 1,548             |
| 7            | 3,101           | 6,202         | 1,239         | 1,862             |
| <b>Total</b> | <b>39,527</b>   | <b>79,013</b> | <b>15,807</b> | <b>23,685</b>     |

Shaded cells show number of individuals experiencing a loss of income under W-2.

Due to the disproportionate impact of W-2 on larger families, a higher percentage of individuals will be in families with lower incomes. The negative impact of W-2 will affect dependent children the most.

|             | Lower Incomes<br>Under<br>W-2 | Higher Incomes<br>Under<br>W-2 |
|-------------|-------------------------------|--------------------------------|
| Families    | 28%                           | 72%                            |
| Individuals | 43%                           | 57%                            |

**Notes**

- a. Governor Tommy G. Thompson. (1995) "W-2 Wisconsin Works," program summary page 3.
- b. *ibid*, page 2.
- c. Wisconsin Department of Health and Social Services. (1995) Fiscal Estimate to Assembly Bill 591, page 2.
- d. *ibid*, page 1-2.  
 W-2 Transitions annual income: \$2.98 per hour x 2,000 hours per year.  
 Community Service Jobs annual income: \$3.19 per hour x 2,000 hours per year.  
 Trial Jobs annual income: \$4.25 per hour x 2,000 hours per year.  
 Monthly incomes are calculated by dividing by 12.
- e. Wisconsin Department of Health and Social Services. (1995) Fiscal Estimate to Assembly Bill 591, page 2.

Calculations of how many recipients are contained in each AFDC family unit in Wisconsin are derived from: U.S. Department of Health and Human Services. (1993) "Characteristics and Financial Circumstances of AFDC Recipients," Table 3: "Number of persons in the assistance unit (family)."

| Family Size |         |
|-------------|---------|
| 1           | (10.2%) |
| 2           | (35.8%) |
| 3           | (26.2%) |
| 4           | (15.0%) |
| 5           | ( 6.3%) |
| 6           | ( 3.2%) |
| 7           | ( 3.3%) |

- f. Lawrence Mishel and John Schmitt. (1995) "Cutting Wages by Cutting Welfare," (DC: Economic Policy Institute), page 7. This paper predicts an 8% decrease in wages if 14,000 Wisconsin welfare recipients enter the state labor market.
- g. Wisconsin Department of Health and Social Services. (1995) Fiscal Estimate to Assembly Bill 591, page 1.
- h. U.S. Department of Commerce, Bureau of the Census. (1992) "Consumer Expenditure Survey," Table 8: "Region of residence: average annual expenditures and characteristics."
- i. Mark Lino. (1995) "Income and Spending of Rural Single-Parent Families," Family Economics and Nutrition Review, Vol. 8, No. 3. page 23. This study uses the 1990-1992 Consumer Expenditure Survey.
- j. Governor Tommy G. Thompson. (1995) "W-2 Wisconsin Works," program summary, page 7.

Food Stamps are considered part of the Basic Income Package as well. While it is true that W-2 families will be eligible for food stamps, it is also true that most AFDC families also receive food stamps (86.2% nationally, Green Book 1994), so this is not a new benefit or income source for W-2 families.

| Food Stamps<br>Maximum Benefit<br>By Family Size |
|--|
| 2 — \$212  |
| 3 — \$304  |
| 4 — \$386  |
| 5 — \$459  |
| 6 — \$550  |
| 7 — \$608  |

The actual benefit is derived from these amounts by subtracting 30% of net income.

<sup>k</sup>. Thompson, (1995) "W-2 Wisconsin Works," program summary, page 7.

<sup>l</sup>. U.S. Department of Health and Human Services. (1993) "Characteristics and Financial Circumstances of AFDC Recipients," Table 38. 10,454 Wisconsin AFDC recipients had wages.

<sup>m</sup>. U.S. General Accounting Office. (1992) "Earned Income Advance Payment Option," page 2 & 10. 40,000 workers out of an eligible 11.6 million took the advance payment option.

<sup>n</sup>. U.S. General Accounting Office. (1993) "Self-Sufficiency: Opportunities and Disincentives on the Road to Economic Independence," page 18.

<sup>o</sup>. *ibid*, page 25.

<sup>p</sup>. Leroy Pelton (1994) "Is Poverty a Key Contributor to Child Maltreatment?" Controversial Issues in Child Welfare, edited by E. Gambrell and T. Stein. (Boston: Allyn and Bacon) page 18.

<sup>q</sup>. WI Department of Health and Social Services, Bureau for Children, Youth and Families (1992) "1992 Child Abuse and Neglect Report," page 22. 21,197 neglect reports out of 44,963 total.

<sup>r</sup>. Pelton, page 18.

<sup>s</sup>. John-David Morgan. "W-2: No Panacea, No Safety Net" Shepherd Express, Aug. 31, 1995, page 5.

<sup>t</sup>. WI Department of Health and Social Services (1995) Fiscal Estimate to Assembly Bill 591, page 3.

<sup>u</sup>. *ibid*.

<sup>v</sup>. Gretchen Schultdt. Milwaukee Journal Sentinel "Official says county could deny support to thousands" Aug. 17, 1995, Section B, page 1.

<sup>w</sup>. J. Pawasarat, L. Quinn, F. Stetzer. (1992) "Evaluation of the Impact of Wisconsin's Learnfare Experiment on the School Attendance of Teenagers Receiving AFDC" (Milwaukee: Employment and Training Institute), pages 9-10.

<sup>x</sup>. Wisconsin Legislative Reference Bureau. (1994) "An Overview of AFDC in Wisconsin," Table 5 "Characteristics of Learnfare Teenagers with Reported Attendance Problems 1992-1993" page 23.

<sup>y</sup>. Wisconsin Department of Health and Social Services. Wisconsin CARES system report as of 10/31/95 lists 28,776 JOBS participants. 4,286 of these participants are at some level of sanctions.

<sup>z</sup>. U.S. Department of Health and Human Services. (1993) "Characteristics and Financial Circumstances of AFDC Recipients," table 24 "Female Adult Recipients by Employment Training Program Status."

<sup>aa</sup>. Wisconsin Legislative Audit Bureau (1993) "Child Caring Institution Costs," Table 1: "Out of Home Care Cost and Capacity, 1992" page 9.

<sup>bb</sup>. 1995 Wisconsin Assembly Bill 591: 49.1452)h The bill states as one of the non-financial eligibility requirements: "The individual has made a good faith effort, as determined by the Wisconsin Works agency on a case-by-case basis, to obtain employment." Current AFDC records do not include information on problems of exclusions, but a Milwaukee County administrator has noted that the creation of the Enhanced Job Centers in Milwaukee was in part a response to problems of placing some of the "harder" clients, i.e. those facing more severe employment barriers.

<sup>cc</sup>. J. Berrick, R. Barth, B. Needell. (1994) "A Comparison of Kinship Foster Homes and Foster Family Homes: Implications for Kinship Foster Care as Family Preservation," Children and Youth Services Review, vol. 16, nos1/2. page 36.

<sup>dd</sup>. *ibid*, page 56.

<sup>ee</sup>. WI Department of Health and Social Services (1995) Fiscal Estimate to Assembly Bill 591, page 4.

| Number of Children | Proposed SSI Children's Supplement | ADFC Income | Drop In Income for SSI Families |
|--------------------|------------------------------------|-------------|---------------------------------|
| 1                  | \$ 77                              | \$249       | - \$172                         |
| 2                  | \$154                              | \$440       | - \$286                         |
| 3                  | \$231                              | \$517       | - \$286                         |
| 4                  | \$308                              | \$617       | - \$309                         |
| 5                  | \$385                              | \$709       | - \$324                         |
| 6                  | \$462                              | \$766       | - \$304                         |
| 7                  | \$539                              | \$830       | - \$291                         |

<sup>ff</sup>. U.S. House of Representatives, Committee on Ways and Means (1994) Green Book: Overview of Entitlement Programs Table 6-22 "Number of Persons Receiving SSI Payments, by State," page 250. 106,198 total SSI recipients in Wisconsin. A conservative estimate of AFDC reciprocity rates is calculated for these families at the same rate for the rest of the state population: 4.5%. It is likely that families with special needs children receive AFDC at a higher rate. 13,380 of state SSI recipients are estimated to be children, based on the national figure of 12.6%.