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INCOME-TESTED SOCIAL BENEFITS IN NEW YORK: ADEQUACY, INCENTIVES, AND EQUITY

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

A Study By

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LETTERS OF TRANSMITTAL

JUNE 28, 1973.

To the members of the Joint Economic Committee:

Transmitted herewith is a study entitled "Income-Tested Social Benefits in New York: Adequacy, Incentives, and Equity." This study was submitted to the Subcommittee on Fiscal Policy in connection with its studies of the Nation's welfare-related programs released under the general title of *Studies in Public Welfare.*

The views expressed in this volume do not necessarily represent the views of members of the Joint Economic Committee, the Subcommittee on Fiscal Policy, or the subcommittee's staff.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

JUNE 26, 1973.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "Income-Tested Social Benefits in New York: Adequacy, Incentives, and Equity." The study was written by Blanche Bernstein with Anne N. Shkuda, Center for New York City Affairs, New School for Social Research, and Eveline M. Burns, Consultant. This is Paper No. 8 in the subcommittee's public welfare study series.

This is a case study of public welfare programs in one city. It examines the eligibility criteria, benefit amounts, and work incentive features of the following programs: public assistance, food stamps, school lunch, medical assistance, housing, day care, dental care, foster care, homemaker service, and veterans pensions. The programs are examined as they operate individually and in various combinations in New York City.

Case studies and facts on specific areas are valuable to Federal policymakers if we are to understand how laws and regulations adopted at the national level are implemented locally. New York City is especially interesting for several reasons. First, New York City and New York State have made full use of various Federal programs available at State option. And, they have set eligibility standards and benefits at high levels. Some benefits or directly subsidized services such as day care, health care, and housing are extended to persons above the median income level ($11,286 for four-person families in New York City in 1970). Second, the city and State have developed many programs to fill identifiable gaps in Federal programs. For example, New York City had a day care program before Federal funds were widely available or used for this purpose. The State has a catastrophic illness program which helps to finance health care costs which are large relative to family income. Both the city and the State fund and operate public housing programs in addition to federally subsidized housing programs. And, a State general assistance ("home relief") program provides cash aid to families and individuals who are excluded from the federally matched public assistance program. Third, because of the level and number of these programs, a substantial share of New York City's population receives some benefit from public social programs.

These three factors have obvious implications for reform of public welfare programs at the Federal level. It would, of course, be extraordinarily costly and probably undesirable in the short run to attempt to assure that residents of all the other States have access to benefits potentially available to New York City residents. No serious welfare reform proposal has yet urged that benefits at or above the New York City level be provided everyone. Indeed, even assuring that benefits available to some residents were equitably distributed to all residents within New York City itself would involve a major extension of program costs and coverage. Yet, leaving States and cities such as New York to their own devices in implementing public welfare programs on top of basic Federal programs means that efforts to reform elements of the Federal programs to increase work incentives and enhance equity can be undermined. Overlaying existing State and city social programs on a Federal cash welfare reform plan, for example, could reintroduce work disincentives and unequal treatment of different population groups. So, the role and structure of these local programs must be considered carefully by Federal planners.

Dr. Bernstein and her colleagues note that the social programs in New York provide relatively generous benefits and that the level of benefits alone can constitute a work disincentive, especially for families of four or more. Additional disincentives arise because as earnings or other income rises, benefits are either scaled down or service fees are scaled up so as often to leave the family less well off. In combination and sometimes even individually, these programs can make it extraordinarily unprofitable to work. The authors note the heart of the problem: How can generous benefits be provided on an equitable basis to everyone in similar need while still making recipients' efforts to work worthwhile? They argue for keeping most benefits at current levels but for stricter administration, including enforcement of work requirements, rather than for more costly financial incentives to work.

Their study makes a compelling case for some type of reform: the programs are shot through with disincentives and inequities. For those who doubt that the system is overly complex, I urge a reading of the medical assistance chapter. Here are programs which cannot be described in simple terms, and one wonders how they can be administered. It certainly seems clear that the nonexpert New Yorker could not possibly understand his medical entitlement.

Staff member Alair A. Townsend prepared this volume for publication.

The views expressed in this volume are those of the authors only and do not necessarily represent the views of members of the Joint Economic Committee, the Subcommittee on Fiscal Policy, or the subcommittee staff.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

Acknowledgments

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Numerous documents from the public agencies concerned with the different social programs were required for this study and frequently it was impossible to find our way through them without the expert guidance of responsible officials. We would like to express our deep appreciation to the following officials who helped us gather and understand the basic material or who commented on the draft chapters on individual programs.

These include in the New York City Human Resources Administration or its constituent agencies: Abraham C. Burstein, Charles Dean, Arthur Schiff, and Nina Solarz (Human Resources Administration); Henry J. Rosner (Department of Social Services); Seymour L. Budoff and Johanna M. Rodgers (Medical Assistance Program); Sidney Brooks (Division of Food Stamps); Pearl Rowe (Division of Homemaker Services); Barbara B. Blum and Clara A. Richmond (Special Services for Children); and Dolores Kasanjian (Agency for Child Development).

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We should also like to thank Rowena Friedman (Department of Public Affairs, Community Service Society of New York) who led us to some useful sources of information.

Miriam Kerpen, Assistant for Subsidy Programs to the Commissioner of Development, New York City Housing and Development Administration, acted as consultant to the study in the preparation of the chapter on Public Housing Programs and in particular undertook the arduous task of developing the tables on rents and subsidies in each of the housing programs.

CONTENTS

INCOME TESTED SOCIAL BENEFITS IN NEW YORK: ADEQUACY, INCENTIVES, AND EQUITY

By BLANCHE BERNSTEIN *with* ANNE N. SHKUDA *and* EVELINE M. BURNS, *Consultant*

SUMMARY

Most families in the United States provide for most of their needs for goods and services through income earned from present or past work efforts or through the social insurance systems established during recent decades. But many families and individuals cannot provide for their needs for reasons of age, illness or disability, prolonged unemployment, inadequate income even if working full time, or family responsibilities which make employment difficult, if not impossible. In response, Federal, State, and local governments have developed a wide variety of programs to help families or individuals without adequate income or resources of their own but who meet specified income and resource tests. These income-tested programs provide either cash, as in the public assistance programs, or inkind benefits, as in the case of food stamps, medical assistance, day care, and other programs.

In general, over the years, the level of benefits under the social programs has been raised, reflecting the humanitarian goal of providing a reasonably decent standard of living for those in need. This led, however, to concern about the impact of the benefits on incentives to increase income through work, especially with regard to female-headed families in the aid to families with dependent children program (AFDC). The 1967 amendments to the Social Security Act sought to provide incentives for AFDC mothers by allowing a substantial portion of earnings to be disregarded in calculating public assistance benefits. The effect of the incentives was disappointing and, in addition, raised questions of equity regarding the preferential treatment given female-headed families. The combined issues of adequacy of benefits, incentives, and equity were highlighted during Senate consideration of the family assistance plan. The need for further study became clear.

Objectives of the Study

This study examines a variety of federally, State, and locally funded income-tested programs available to individuals and families in New York City to assess their impact on equity and on incentive to increase income. The programs include public assistance, food stamps, school lunches, medical assistance, subsidized housing, day care, dental clinics and dental rehabilitation, foster care and homemaker services, and veterans' pensions for nonservice-connected disabilities. While this list is not exhaustive of all income-tested benefits available in New York City, it includes the major programs and those most important to a family's economic well being.

For each program the following elements are examined: the role of different levels of government in determining policy and operating rules and regulations; the income eligibility criteria; the value of benefits and how they are reduced as income increases; the definition of income for purposes of eligibility and how this relates to gross income as it is generally understood; and how eligibility criteria are administered.

The examination of these factors reveals where notches occur, that is, points at which increases in income result in a loss of benefits in excess of the gain in income after taxes and work expenses or where there is little or no net gain; whether there is equity of treatment of different types of families; and how reasonable the benefit schedules are in determining need and ability to pay for services. Finally, an overall evaluation is made of the adequacy of benefits available from different combinations of social programs to families at various income levels; the resulting impact on equity and incentive is assessed. Throughout the study the four-person family is used as the basis for analysis.

Relative Roles of Federal, State, and Local Governments

The programs examined illustrate a wide variety of relationships among Federal, State, and local governments in the determination of program policy and regulations. The most familiar of these is represented in the public assistance program in which States establish their own benefit standards subject to Federal regulations with respect to the federally aided categories of recipients; in addition, assistance to families and individuals not meeting Federal requirements is financed exclusively from State and city funds. This basic relationship is also maintained in the medicaid and day care programs.

The result in New York with respect to public assistance and more specifically medicaid is a highly complex system, incomprehensible except to the expert, which results in different eligibility criteria for different types of families and different levels of benefits for families with the same income from earnings and other sources. The availability in New York of medical assistance programs financed exclusively from State and city funds further deepens the mystery of who is eligible for what type and amount of medical care under what circumstances. The day care program in New York represents a variant of the Federal, State, local relationship in public assistance and medicaid. Since for some years it was funded exclusively from New York City funds, the role of local government in setting eligibility criteria has been paramount, setting the stage for ongoing conflict between State and local officials regarding eligibility, levels of benefits and basic program policy. In the 12 subsidized programs for rental housing in New York City, a variety of relationships are found among the various levels of Government; five programs are jointly subsidized from Federal, State, and city funds, three are exclusively State and city subsidized, and four are exclusively city subsidized. Again, the result is considerable variety in eligibility and benefit levels.

In contrast, the food stamp program is unique. The program has federally designated and nationally uniform benefit levels and eligibility requirements. Nevertheless, while food stamp benefits are based on national standards, they are also tied to State public assistance benefits. The school lunch program also has Federal standards but in this case higher State standards may be established. Even nationally uniform veterans' pensions are affected by State public assistance standards and policies toward the veteran.

The Value of Benefits in Different Social Programs

For the four-person family with no income, the annual public assistance grant including rent is $3,912, equivalent to a gross income of $4,700 taking account of taxes and work expenses. These benefits are reduced as income increases but the rate of reduction varies by family type. The cutoff points range from $4,700 for the intact family to as high as $9,400, for an AFDC mother who is working and benefiting from the $30 plus one-third of earnings disregard.[1] Families on welfare are automatically eligible for food stamps, school lunch, medicaid, dental clinic, and day care benefits, as long as they receive some public assistance grant.

The annual food stamp benefit for nonwelfare families ranges from $312 for the four-person family whose income is just at the welfare level down to $288 for the family whose gross income reaches the eligibility maximum of $6,000 a year. Free school lunches, valued at $95 a year per child, are available to all families whose gross income is no more than $5,000, while free care in a school dental clinic, valued at around $100 per child, is available to children from families with gross incomes up to $10,000 annually.

The family whose gross income is no more than $5,700 is considered medically indigent and eligible for medicaid, but the level of benefits depends on family type. Some benefits are available for families whose incomes are above the medical indigency level, but the amount depends on the size and type of the medical expense in relation to the amount of the family's income.

The value of housing subsidies ranges from $156 to $2,100, but in the main they fall between $540 and $1,200 per year. Families with gross incomes of up to $25,000 a year may obtain annual housing subsidies of as much as $540.

Day care, valued at $2,600 a year per child, is available at minimal cost (about $115) to families with annual gross incomes up to $8,500, at $640 to families with incomes of $10,000 and at $1,313 to families with incomes of $12,000 or more.

The benefits provided from dental rehabilitation, foster care, and homemaker services are also valuable—approximately $1,500 for complete dental rehabilitation and $5,100 and $2,400 a year for some types of foster care and homemaker service respectively. But, while the income limit for dental rehabilitation subsidies is around $11,400, families may continue to receive subsidized foster care and homemaker services with incomes as high as $20,000. Subsidies for more expensive types of foster care or homemaker services may be given to families with incomes substantially in excess of $20,000 per year.

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[1] AFDC rules permit a recipient who goes to work to deduct the first $30 of monthly earnings plus one-third of the remainder for purposes of computing her grant. A working woman who applies for AFCD is not eligible for these deductions, however.

It is difficult to find any clear rationale for the varying cutoff points for eligibility for each of the programs or for the fees charged at different income levels.

The Definitions of Income

The eligibility standards described above have been simplified greatly by converting all criteria into gross income. In fact, each program states eligibility in terms of its own definition of income either "net," "adjusted," "countable," or "surplus," allowing different deductions from gross income. Net income under public assistance allows work expenses, income and social security taxes to be deducted from gross income as well as different earnings disregards which vary by type of family. The foodstamp definition of net income, however, does not allow deductions for work expenses but certain medical costs, "excess" shelter costs and "unusual" household expenses may be deducted. Medicaid defines net income as gross income minus income taxes, health insurance premiums, and court-ordered support payments but does not allow social security taxes to be deducted. In contrast, several of the housing programs allow a deduction to cover social security taxes or contributions to private pension funds, but none allows a deduction for income taxes. Among the 12 housing programs in New York City, however, we found no less than nine patterns of definitions of income for purposes of determining eligibility.

The New York City day care, dental rehabilitation, foster care, and homemaker programs base eligibility and fees on a budget standard, developed by the Community Council of Greater New York, which is between the Bureau of Labor Statistics (BLS) lower and moderate levels of living but much closer to the latter. But in none of these programs is the current pricing of this budget used and, indeed, there is considerable variation as to which year's prices are used. In addition, the dental program allows deductions for such varied expenses as parochial school education and repayment of loans. The veterans pension program allows the most generous deductions of all—all earnings of the veteran's spouse, the gift or inheritance of property, and 10 percent of income from social security and other retirement programs, among others.

Notches in Individual Social Programs

There are serious notches for the intact family on home relief or the AFDC household in which the mother is working when she applies for welfare and thus is not entitled to generous earnings disregards. When the intact family's gross income increases from $3,000 to $4,000, equal to a $691 gain in disposable income when taxes and work expenses are taken into account, welfare benefits are reduced by $922. A further income increase to $5,000, a $773 gain in disposable income, results in the loss of a $632 welfare grant. The AFDC family not benefiting from the large disregards is only slightly better off. Its benefits decline by only $571 when gross income increases from $3,000 to $4,000 (a $691 increase in disposable income), but another increase to $5,000, adding $773 to disposable income, is totally absorbed by a $773 reduction in the welfare grant. It is only the AFDC mother who has been receiving welfare and then becomes employed, entitling her to disregard the first $30 plus one-third of the remaining monthly gross income, who always has a net gain for each increase in income. The general disincentives found in the structure of welfare benefits are compounded by the fact that the family will continue to receive medicaid, food stamps, free school lunches, and day care as long as it remains on welfare.

Serious notch problems also exist under medicaid. As the female-headed family moves from the medical indigency level of $5,700 gross income to $7,000 gross income, even $500 of medical expenses will absorb over 50 percent of the family's additional disposable income and medical expenses of $1,000 would absorb the entire increase. Matters are worse for the intact family since they must pay a greater portion of medical bills. For the welfare family receiving full medicaid benefits, the complexity of the regulations may in itself create disincentives to increase income in that the family may seek to retain its welfare status rather than face the incredibly complex eligibility criteria for the medically indigent.

Other notches and disincentives are found throughout the programs. An increase of $372 in disposable income when gross income increases from $5,500 to $6,000 results in the loss of a food stamp benefit of $288. Families living in subsidized housing face significant notches once income exceeds the maximum limit for continued occupancy in a particular program, since even if the family remains eligible for another program, an apartment may not be available; rentals in the private housing market are substantially higher. At the present time, however, families are not being required to move when incomes exceed maximum limits. The dental rehabilitation program also contains a serious notch; a small increase in gross income from $11,400 to $11,500 results in a loss of potential benefits worth close to $1,000. Notches are less severe in the dental clinic and school lunch programs since the benefits are fairly small and eligibility procedures are flexible. In the day care, foster care, and homemaker programs, notches are largely avoided because of the gradual increase in fees and the provision of subsidies at higher income levels.

Equity in Individual Social Programs

Serious questions of equity are also evident in many of the social programs. Perhaps the most dramatic is the inequity of the treatment of the intact and female-headed families in the public assistance program (where the latter is entitled to greater public assistance benefits because of more generous earnings disregards), followed closely by medicaid which offers more complete coverage of medical expenses to the female-headed than to the intact family.

The study also questions the equity of providing large subsidies in the day care, foster care, and homemaker programs to families well above the median income level in New York. This is especially questionable in day care, a service that is attractive to an increasing number of families, particularly since welfare status, regardless of the level of income, entitles the family to free day care, whereas the nonwelfare family at the same income level is required to pay a substantial fee.

The major inequity raised by subsidized housing is between those families benefiting from these programs and those who are not. Meeting the criteria for eligibility does not guarantee that a family will find an apartment in the limited subsidized housing stock. Further, present maximum admission limits in low- and low-middle-income housing in conjunction with the high rentals in new middle-income programs effectively bar families with incomes of about $13,000 to $16,000 from admission to any of the housing programs.

One may also question the equity of the veterans pension program in New York; it does not help the veteran without income or with only his social security benefit, since the pension is lower than the welfare grant. But it is a bonanza for the veteran whose wife is working.

Problems of Administration

Income-tested benefits by definition are supposed to be made available only to those who meet the income tests and other criteria for eligibility. The administration of these tests varies, however, from lax to stringent, and not always in relation to the size of the benefit involved. Until the end of 1972 initial eligibility for public assistance had been based on a self-declaration without significant verification of income and resources; continuing eligibility is, as of March 1973, still based on a self-declaration. Eligibility for day care and the determination of the appropriate fee continues to rest mainly on a self-declaration without verification. The eligibility requirements for food stamps, a relatively small benefit, are complex in contrast to the simple, flexible procedures used in the school lunch and dental clinic programs, and appear somewhat incongruous when compared to the loose procedures for the large subsidies in public assistance and day care. Verification of incomes for both initial and continuing occupancy in low-income housing projects has been fairly strict. In contrast, eligibility for continuing occupancy in middle-income housing programs has been based on a self-declaration, and will continue to be so based in middle-income projects subsidized by New York City. Only the dental rehabilitation program, among the more valuable benefits, has detailed and carefully enforced regulations for determining eligibility and fees.

The Package of Social Benefits—Adequacy, Incentives, and Equity

What happens when families benefit from a combination of programs? What is the total level of benefits to which a family may be entitled? Are disincentives and inequities eliminated or intensified when benefits from various programs are combined? In order to answer these questions realistically it is most useful to consider different combinations of social programs reflecting universality of need and the relative numbers benefiting from them. The most frequent combination is public assistance, food stamps, and school lunches, followed by these programs plus medical care. Less frequent is the combination of these benefits plus subsidized housing and least frequent is the combination including day care.[2] Omitted from the analysis of combined

[2] The day care here refers to care in a center or family home facility, not to care which is subsidized indirectly through deduction of child care expenses from income in computing AFDC benefits.

benefits are dental rehabilitation, foster care, and homemaker services since these involve only a small number of families, and veterans pensions which are usually less generous than public assistance in New York.

For the four-person family with no income, benefits from public assistance, food stamps, school lunches, and medical assistance are valued at $5,500. The gross income equivalent is $7,000—equal to 89 percent of the BLS lower level of living standard, sometimes known as the city wage earners budget. It represents the gross earnings of a worker earning about $3.80 per hour for a 35-hour week. Housing subsidies bring the gross income equivalent to $8,000 and day care to as high as $11,500.

While the value of full benefits is approximately the same for all types of families without income from other sources, differences exist once the family has income and so the impact on incentive also varies. When disposable income (after taxes and work expenses) plus benefits available at various income levels are considered, it is clear that in relation to the basic social programs including medical care there is no advantage to the intact family in increasing earnings from zero to $7,000, and at various points in the income scale it is worse off.[3] Such a family ends up with only $180 more disposable income per year if it earns $3,000 than if it has no earnings; a further increase to $4,000 results in a decline in disposable income, leaving the family with less than it has at zero earnings. The medicaid notch at $5,000 results in a potential net loss of about $200 for a family whose earnings increase from zero to $5,000; at $7,000 of earnings it is only $200 better off than at zero earnings.

The female-headed family of four not entitled to the $30 plus one-third disregard is in only a slightly better position as income increases. If earnings rise from zero to $4,000, the family has $480 more in disposable income plus benefits from any combination of programs; this sum is larger than at earnings of $2,000 or $3,000 but above this point the gains are minimal or nonexistent until earnings reach $8,000 or more.

It is only the female-headed family in which the mother is on welfare and then obtains employment, entitling her to the large earnings disregards, that there is always something to be gained from increasing earnings. This type of family with earnings of $4,000 has $1,500 more than with zero earnings while at $6,000 it is $2,168 better off than at zero and $667 better off than at $4,000. But marginal benefit-loss rates [4] on each $1,000 increase in income are still high, almost 70 percent, and the "notch" at $9,400 is severe since at one swoop, welfare, food stamp, school lunch, medicaid, and some day-care benefits are lost.

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[3] This and subsequent discussions of work incentives assume that benefits are adjusted to income changes in a timely and accurate fashion. This assumption of administrative rationality and efficiency is necessary for exposition purposes but there is ample evidence that programs in fact, are not operated this way. The result is that costs and caseloads are higher than they need be and that recipients whose incomes increase do not always have their benefits reduced (and, therefore, do not, in every case, face the work disincentives which theoretically result from program rules).

[4] The marginal benefit-loss rate is the rate at which benefits are reduced for each additional $1 of income. Thus, a 70-percent benefit-loss rate means that an added dollar of earnings reduces benefits by 70 cents.

In brief, the package of social programs constitutes a disincentive to accepting work unless the family can achieve an income of at least $8,000. This is especially true for the intact and female-headed family not benefiting from the "$30 and one-third" disregards, but disincentives exist, even for the $30 and one-third family.

The package of social programs also intensifies the inequities found in the individual programs with respect to the treatment of different types of families. When public assistance, food stamps, school lunches, and medicaid are combined, the intact family with $5,000 gross earnings has a disposable income plus benefits of $5,363 while the "regular" female-headed family has $5,892 and the $30 and one-third female-headed family has $7,246. Differences among the types of families, though smaller, persist with other combinations of programs.

Inequities are also striking between those who are and those who are not benefiting from the programs. Again, the $30 and one-third family is in the most favorable position. The nonwelfare family would need $10,500 in gross earnings to achieve the same standard of living as this welfare family earning $7,000 and benefiting from food stamps, school lunches, and medicaid.

In summary, the present package of social programs provides neither equity among different groups in the population nor incentive to increase income. The bewildering variety of eligibility criteria, definitions of income, income disregards, and procedures for verifying income fails to assure either that those who are eligible will understand what they are entitled to receive or that those not eligible will be denied benefits. In addition, the variety of policymaking bodies involved has led to serious inconsistencies regarding who should benefit and to what degree from various programs.

Implications for Governmental Policy and Action

How then can a decent level of benefits for those in need be maintained while preserving incentives and enhancing equity? One solution recently offered is the demogrant but, apart from its dubious political acceptability, little is known about how it would work. Another alternative is to rework and coordinate the eligibility criteria for all programs to allow more incentives at lower income levels; for example allowing the $30 and one-third disregard for all families. However, this would involve high costs and could make more than a third of New York City's population eligible for welfare. A third alternative would be to modify the present system by making eligibility requirements and definitions of income for the basic programs uniform and by substituting a work requirement in place of income incentives for both male and female heads of families who can work and by instituting rigorous procedures for assuring initial and continuing eligibility. This would, in effect, substitute a fiat for incentive to increase income.

In view of the known difficulties of operating exclusively by fiat, a fourth alternative is suggested as having the most merit. It involves (1) a reduction of the number of income-tested benefits, notably by replacing medicaid with a system of health insurance and merging the food stamp and public assistance programs; (2) a reduction of the burdens of income and social security taxes on lower-income families; (3) changes in remaining income-tested programs to remove existing notches and to rationalize eligibility criteria. In particular, eligibility criteria and definitions of income for the basic programs should be made uniform.

It is realized that the effect of tax reform on increasing incentives is limited. Cutting rates in half adds only from $125 to $500 to disposable income as earnings increase from zero to $7,000. It would make some difference, however, especially if combined with some earnings disregards which should be stated as some percentage of income. The shift of medical care to an insurance system removes a major disincentive to moving off welfare and increasing income.

Coordination and simplification of criteria for eligibility, benefit levels, and so forth, is also required to enhance equity, especially to enable those who are eligible to know their rights. Diverse criteria for eligibility, treatment of income, and fee scales can be rationalized; the preferential treatment of female-headed families can be eliminated and the inequity which results from conferring benefits based on public assistance status can be removed by relating benefits to income, no matter what the source. But while equity can be enhanced, the problem of incentives remains.

If a decent level of social benefits is to be provided with only modest built-in income incentives, it will have to be accompanied by effective procedures for determining initial and continuing eligibility, including the enforcement of work requirements for those who are judged to be employable. The difficulties of implementing such procedures are recognized, particularly if an adequate number of jobs is not available, but they should not be exaggerated. Recent administrative reforms in public assistance and medicaid in New York City are expected to have significant impact on ineligibility, and simplifying eligibility criteria for all programs would also make effective administration easier. But a job creation program is clearly an essential element in making the system work.

Effective verification procedures are required to insure equity between those who are and those who are not eligible for benefits. This is especially important in public assistance, medicaid, day care, and housing, where substantial subsidies are involved.

The proposals made with respect to incentives and equity will not be easy to accomplish but the power lies with Congress and the President to effect the changes. Cooperation among congressional committees, as well as between the Federal, State, and local governments is required. Achievement of a more effective and equitable system of social programs requires the cooperation of all levels of government, but clearly the Federal Government must take the lead.

INTRODUCTION

In the mixed economic system which prevails in the United States, it is assumed that most people will obtain most of the goods and services they need through purchase in the private market from income earned through present or past work efforts. But, of course, there have always been major exceptions in the form of the free provision, not only of such services as police or fire protection but also of education, certain types of health services, and a variety of recreation services, among others. Further, over the decades, the list of services provided free has expanded as society has recognized additional claims on it; education is perhaps the best example as free education expanded from the elementary school to the college level. In the coming decades, it is possible that free education will be expanded to all children from 3 to 6 years of age. In addition, starting in the mid-1930's, social insurance programs were developed to cover income needs of the aged after retirement from the work force, and the needs of surviving children and widows of covered workers, as well as those who lost their income as a result of disability or unemployment. Some type of public health insurance, already available to the aged and totally disabled, may be established within the next few years to help finance the cost of medical care for the individual family.

Despite these trends, however, the underlying assumptions of the society are such that most of the basic goods and services required by all families and individuals are not automatically made available at no cost or through social insurance systems. On the other hand, when families or individuals are not able to provide for their own basic needs, society is prepared to do so if specified income or means tests are met. Indeed, a whole series of programs has been developed, some at the Federal level, some at the State and local levels, and some jointly, to meet a variety of needs for families and individuals with insufficient income or resources. These programs have been developed at different times, at different levels of Government, by different committees in the Congress or the State legislature and with little, if any, effort to relate the programs to each other.

These income-tested programs may provide cash, as in the case of the public assistance program, or goods or services inkind as in the case of food stamps, school lunches, medical care, housing, day care foster care of children, homemakers, and others. The reasons for the inkind programs can generally be found in dual goals. For example, in the food stamp program the goals are to improve the level of living of the recipient and to help expand the market for agricultural products or, as in the case of housing, "to alleviate present and recurring unemployment and to remedy the unsafe and insanitary housing conditions" (U.S. Housing Act of 1937). Sometimes the program is inkind to insure that the funds allocated for medical care, for example, are in fact used for medical care.

Whether it is or is not necessary to utilize the inkind approach instead of providing cash for all needs of those with no income or insufficient income, it is essential to take both cash and inkind programs into account in considering the level of social benefits which society makes available to those in need, for as this study will show, the inkind benefits have a very substantial cash value. The four-person family with no earnings receiving public assistance, food stamps, school lunches, and medicaid obtains 70 percent of the benefits in cash and 30 percent inkind. If the family has some earnings and is receiving a supplement from public assistance as well as the other benefits, the ratio of inkind benefits is even higher.

In New York City the total value of the benefits from public assistance, food stamps, school lunches, and medicaid is approximately $5,567, equivalent to a gross annual income of about $7,000 when taxes and work expenses are taken into account. The level of benefits provided in New York and in many other States, through Federal, State, and locally aided programs, reflects the humanitarian goal of insuring some reasonable level of living for people in need. Pursuit of this goal, however, has led to a concern about the impact of the level of benefits on another important goal: an increase in the volume of goods and services available to the society as a whole. More specifically, it has caused concern about the impact of the level of benefits on initiative or the incentive to increase income from work.

The rapid increase in public assistance caseloads during the 1960's in New York and throughout the country, mainly in the category of aid to families with dependent children (AFDC), led the Congress in 1967 to introduce amendments to the Social Security Act which for the first time provided an incentive to work by allowing a disregard [1] of a portion of the earnings of AFDC mothers in calculating public assistance benefits. The effect of this incentive, however, fell far below expectations. At the same time, it opened up questions of equity since clearly it provided much more favorable treatment for female-headed families on welfare than it did for low-income working families.

The combined issues of incentives and equity became of prime concern during Senate consideration of the family assistance plan, itself an effort to provide incentives and enhance equity between the welfare clientele and the working poor. In the end, the proposed legislation was voted down at least in part because no satisfactory resolution was found which incorporated incentives and equity without, at the same time, increasing enormously the number of families who would be entitled to public assistance and other benefits.

The need for further study was evident—indeed the Senate debate inspired and provided the justification for this study—for the problem remains. New York City provides an excellent laboratory for analysis of the impact of the benefits of social programs on initiative and equity because of the range of programs available. Some, as in other States are funded jointly by the Federal, State, and local govern-

[1] The phrase "income disregards" is used frequently in this study. It means simply that a portion of income, sometimes a flat sum such as $30 per month, sometimes a flat sum plus a proportion, such as $30 plus one-third of remaining earnings, is not taken into account in determining whether the potential recipient meets the income test for eligibility or in calculating benefits.

ments, some are funded exclusively by the State and city, and some exclusively by the city. Among other things, a study of the social programs in New York City permits analysis of how the programs mesh—whether congruously or incongruously, and we shall see both.

Our analysis covers nine income-tested types of programs: public assistance, food stamps, school lunches, medical assistance (including State and city financed medical and dental care, as well as medicaid), subsidized housing, day care, foster care and homemaker services, veterans' pensions and a dental rehabilitation program. There are others in New York but these are the main ones. It should be noted, however that we have not tried to cover the field of education or, therefore, the Federal and State programs for income-tested scholarships.

It is not possible to come to grips with the problem of the impact of social benefits on incentives to increase income or on equity without examining certain crucial elements of each of the programs. These include—

(1) the sources of funding, location of responsibility for administration, and the roles of the Federal, State, and local governments with respect to policy issues;

(2) the criteria for eligibility for each of the programs including the level of income which permits full or partial benefits to be obtained and the level of income at which benefits are cut off;

(3) the amount of the benefit provided by each program and the schedule of fees which may be charged those whose income exceeds some stated limit, as in day care, or conversely the loss in benefits as income increases, as in public assistance or medicaid;

(4) the definition of income and the income disregards to permit a translation of the adjusted or net or countable income governing eligibility to gross income as it is generally understood; that is, income from wages or salaries, interest, dividends, rents, or profits; and

(5) the procedures for insuring initial and continuing eligibility of beneficiaries including procedures for verifying income and resources, guarding against duplication of benefits, and other aspects of eligibility.

With these data in hand, it is possible to determine where the notches [2] are, if any, in each of the programs, and to add the programs together to see what level of benefits is provided to those in need and the impact on beneficiaries and nonbeneficiaries alike of various combinations of programs in terms of incentives and equity.

We shall find a bewildering variety of criteria for eligibility, definitions of income, income disregards, and administrative procedures. Complexity and ambiguity are the operative words in the description of almost every one of the programs. Eligibility criteria for medical care in outpatient clinics in municipal hospitals funded by the State and city are utterly different from criteria for outpatient care under medicaid. Inconsistencies in the pattern of work incentives abound.

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[2] The "notch" means a loss in benefits in excess of the gain in income less taxes and work expenses. For example, an intact family of four with medical expenses which raises its gross earnings from $4,000 to $5,000 ends up with $150 less in disposable income plus benefits because of the notches in the public assistance and medicaid programs. In this study the term "notch" is also used when there is little gain in disposable income relative to the benefit loss.

Procedures for verification of income and resources are sometimes rather loose when large benefits are involved, as has been the case in public assistance until recently, and as continues to be the case in day care. Conversely, verification procedures can be stringent when relatively small benefits are obtained as in the food stamp program.

A word about methodology is in order. This analysis of the adequacy of income-tested social program benefits in New York City and their impact on incentive and equity is based on the ubiquitous four-person family. But the four-person family though "present or seeming to be present everywhere" (the dictionary definition of ubiquitous) is not in fact the average size family at any point in time, and any particular family which is for some years a four-person family is for even more years a two- or three-person family. This fact has particular relevance to the question of incentives to work rather than to adequacy of benefits or equity. For the smaller size family, the difference between the benefits available from social programs and the amount of potential earnings from unskilled or semi-skilled jobs is larger than for the four-person family. For the larger size family of five or six persons, potential benefits exceed earnings from low-level jobs.[3]

The analysis raises a series of questions: should the criteria for eligibility vary as much as they do? To the extent that variation is desirable, are the current criteria reasonable in terms of the cost of service (e.g., housing or day care), its availability, the extent of need for it, and the distribution of families in New York City by income level? Should definitions of income and income disregards be standardized for all programs—or at least be more standardized than they now are?

It is of course, always easier to ask questions than to answer them. This analysis shows that the income-tested programs as they operate in New York City under Federal, State, and city policies and regulations constitute a disincentive to increase income among families whose earning capacity because of limited education or skills or because of discrimination is unlikely to exceed $6,000 to $7,000 per year at current wage and price levels. Further, it results in serious inequalities among different types of families eligible for public assistance and related benefits and between those who are and those who are not eligible for public assistance or other benefits. It turns out that there are no easy answers to the questions posed by the disincentives which adhere to a fairly high standard of social benefits. Enhancement of equity is somewhat easier to achieve. The concluding chapter suggests some prescriptions for at least ameliorating both ailments.

[3] For example, a head of a family working a 35-hour week at $2.50 per hour would earn a gross income of $4,450 per year; this may be compared to the gross income equivalent of the public assistance allowance of $3,500 for a two-person family and $5,400 for a five-person family.

CHAPTER I. PUBLIC ASSISTANCE

The Social Security Act of 1935 and subsequent amendments established federally aided cash assistance programs for certain categories of individuals and families: old age assistance, aid to the blind, aid to the disabled (AABD); aid to dependent children (ADC) now entitled aid to families with dependent children (AFDC); and more recently (in 1961) aid for intact families with a temporarily unemployed father (AFDC-UF).[1] In addition, in New York State as in many other States, a general assistance program (often referred to as home relief (HR)) for needy families or individuals not meeting requirements for Federal categories is financed by State and city funds. A veterans assistance (VA) program, also financed entirely by New York State and city funds, provides assistance to veterans and their families who meet State assistance standards but who are not eligible for aid from a Federal assistance program.

The Federal programs are administered on the Federal level by the Social and Rehabilitation Service of the Department of Health Education, and Welfare. On the State level, all of the assistance programs are administered by State departments of social service (or departments of welfare) which are responsible for developing State plans for providing assistance, for supervising local administrative agencies, and for insuring compliance with State and Federal regulations. In New York State, the social services law places this responsibility in the New York State Department of Social Services which is charged with carrying out State policy and supervising local administration of State programs in the State social services districts. In the New York City Social Services District, public assistance programs are administered by the Department of Social Services of the Human Resources Administration.

Public assistance, or the program of cash assistance to the needy, is both the largest single social welfare program in the country as well as in New York City, and the foundation, in a sense, for all other social programs. It is designed to cover the basic needs—food, clothing, shelter, and other essential items—for those unable to provide for themselves, in whole or in part. At the same time, because of the large growth in welfare caseloads during the 1960's, this is the program which has drawn the most criticism on the ground that it has impaired the incentive to work. It is on this problem that the present analysis will focus.

[1] A family is eligible for AFDC-UF if the father has been unemployed for 30 days, has not refused an offer of employment or training during that period, has six or more quarters of work in the 2- to 3-year period prior to the application, or has received or been qualified for unemployment insurance benefits within the year. The family is also eligible if the father is employed less than 100 hours a month.

The answer to the question of whether the present system of welfare grants acts as a disincentive to increasing income from work is not simple or uniform for the various programs covered under the rubric of public assistance, because the welfare standard (the level of living which the system aims to guarantee) is not simple or uniform. It varies not only by size but also by type of family or individual, and it varies by the amount of rent the family is paying, as well as by other special needs. The actual welfare grant the family receives in relation to the applicable welfare standard depends on the amount of its income from other sources and the nature of this income. For example, income from work has a different impact than income from Federal old age or survivors benefits or disability insurance (social security). It depends also on the amount and the nature of assets the family has. An owned home is treated differently from cash savings, stocks, or bonds. Further, income from work may be treated differently for the same type of family depending on whether the family head obtained work after being on public assistance for some time or is making an initial application for supplementation, or on whether he obtained the work through a training program or on his own.

In order to clarify these issues, we shall first describe the current welfare standard in New York State for different types of families and, second, describe how income and resources are treated in determining eligibility for public assistance.

The Current Welfare Standard

The welfare standard consists of three parts, (1) a basic allowance, (2) payment for rent and fuel, (3) grants in special circumstances.[2]

1. THE BASIC ALLOWANCE

The most important of the three parts is the basic allowance which represents a minimum level of living; it includes an amount allocated for food designed to provide a nutritionally adequate diet and minimum allowances for clothing and other essential needs. Over the years, however, and particularly during the 1960's, the level of the standard was raised. In part, these increases reflected changes in the food standard based on the findings of studies on nutrition and the recommendations of the National Research Council on Nutrition but, more importantly, the increases resulted from more generous Federal financing.[3]

Since 1971, the welfare standard covering basic needs other than rent and fuel has been fixed by the New York State Legislature and is uniform for all subdivisions of the State. The basic standard of need is also uniform for each size family unit of whatever type—aged, intact family, or female headed household. But in April 1971, the State Legislature reduced the maximum grants for AFDC, veterans'

[2] Although most "special grants" were incorporated into the standard in 1969 a few still exist. These grants in "special circumstances" are explained more fully later on. They are not major additions to the standard.

[3] The history of the changes in the welfare standard in New York State during the last two decades and the reasons for these changes are presented in detail in the supplement.

assistance and home relief families to 90 percent of the official standard of need, the first such reduction in the history of the New York State program. The maximum grants (exclusive of rent and special grants) to which AABD recipients are entitled are 100 percent of the standard of need.

These basic figures are the one uniform component of the welfare standard. According to the New York State Social Services law (as amended in 1971 and still in effect as of December 1972) standards and basic maximum grants based on those standards are as follows:

Statewide monthly standard of need and maximum monthly grants, by size of family (exclusive of rent, fuel, and special needs)

Number of persons	Monthly standard of need	Maximum monthly grant	
		AABD	VA-HR-AFDC
1	$84	$84	$76
2	134	134	121
3	179	179	161
4	231	231	208
5	284	284	256
6	329	329	296
Each additional person	45	45	41

2. RENT AND FUEL

The basic monthly standard of $208 for a four person AFDC, HR, or VA family is based on regular recurring needs exclusive of shelter and fuel for heating. Rent is, in fact, an important part of the total welfare standard, accounting for an average of approximately 40 percent of the total welfare grant.[4] Meaningful analysis of the welfare standard in New York must, therefore, take rent into account, but this is not easy to do since rent payments vary not only from one welfare district to another but from recipient to recipient since, in principle, the actual amount paid for rent is added into the grant (subject to certain maximum limits.) No one schedule of rents payable to families of different sizes has been established in New York City. Instead, rent payments are governed by a schedule of maximum rents which must be approved at different administrative levels. For example, monthly rents for a four-person family of up to $125 may be approved by the income maintenance supervisor but rent between $125.01 and $140 must be approved by the assistant office manager, and rent between $140.01 and $180 by the office manager. Rents higher than $180 must be approved by higher officials.[5]

[4] Policy for the payment of rent is not uniform throughout the State. Nassau County, for example, has a strict system of maximum rents payable to families of different sizes. The State Department of Social Services is now trying to develop a uniform rent standard for use throughout the State. According to department staff estimates, rent payments now constitute 40 percent of most assistance grants.

[5] Unpublished schedule entitled "Allowable Rent Per Month From November 1959 to January 1971 by Case Size," New York City Human Resources Administration.

Because rent payments vary, it is necessary to know average rents for welfare families of different size in order to present a realistic picture of the total welfare standard. Inquiries to various offices in the New York State and New York City Departments of Social Services yielded data for New York City public and private housing (both furnished and unfurnished) for 1971 which indicate that the average rent for a four-person family is $115 per month.[6] This figure, however, gives the same weight to the average rent paid for the four-person family in Staten Island and Queens, $135 and $137 a month respectively, as it does to the average paid for the same size family in Brooklyn, the Bronx, and Manhattan where average monthly rents for the four-person family are $111, $102, and $89 respectively. Since the majority of welfare recipients live in the boroughs where rents are lower, a more typical rent figure for the four-person family would seem to be closer to $100 a month. However, data obtained from officials of the Human Resources Administration showing the welfare standard in New York City at different periods in the last decade include the sum of $118 as the rent and fuel component for a family of four in 1970.[7] Since these figures are often cited by the New York City Department of Social Services, they are used in this analysis, but they may overestimate the welfare standard by as much as $220 per year.

As of July 1970, the welfare standard in New York for a family of four, including rent, was thus $349 per month or $4,188 per year. After the 10 percent cut in maximum grants for AFDC, HR, and VA families, beginning May 1971, the maximum payment was $326 per month or $3,912 per year for such families, while remaining at the higher level for AABD cases.[8] The annual welfare allowances for families of varying size in the AFDC, HR, or VA category are as follows:

Number of persons	1972 net welfare allowance (including rent)	
	Annual	Monthly
1	$1, 896	$158
2	2, 676	223
3	3, 348	279
4	3, 912	326
5	4, 488	374
6	5, 052	421
7	5, 544	462
8	6, 024	502

[6] Unpublished shelter cost study, New York State Department of Social Services, 1971.

[7] Unpublished tables provided by officials of the Human Resources Administration entitled "Basic Monthly Allowances, New York City," Department of Social Services, 1958–71; and Department of Social Services, "Basic Monthly Allowance, June 1, 1970."

[8] In most of this paper, this $3,912 maximum grant is referred to as the welfare standard, for convenience. It is, in fact, the maximum monthly grant, 10 percent below the State-set standard of need.

Among AFDC families, all income of a minor employed part time and in school full or part time is excluded. In addition, the 1967 Social Security Amendments provided for work incentives for AFDC mothers. The first $30 of monthly gross earned income plus one-third of the remainder is disregarded in determining the assistance grant for a mother who has been an AFDC recipient at any time during the 4 months previous to her employment; no maximum limit is placed on the amount that may be disregarded. To be eligible for the disregard, the recipient must not have reduced her earnings, quit her job, or refused to accept a job within 30 days before the application. Thus, the woman who has been receiving public assistance and becomes employed is in a far more favorable position than the woman who is employed and is initially applying for supplementary assistance. The working woman who is applying for supplementary assistance is entitled to deductions for work expenses but is not entitled to the $30 plus one-third earned income disregard.

In contrast to the large income disregards allowed the AFDC recipient, the HR recipient may disregard only the first $30 of monthly gross earned income if the family has been on welfare during the preceding 4 months. The HR disregard, however, applies only to income from employment that resulted from a training program approved by the Department of Social Services. An HR recipient who obtains employment without going through a program does not benefit from the income disregard provision.[15]

In addition to the work expenses and income disregards described above which are deducted in determining eligibility, an incentive to work is supplied through special work expenses automatically allowed aged (OAA), disabled (AD) and HR recipients to meet additional food, clothing, and incidental expenses required by an employed person. (This allowance is not given to the blind since they receive a large earnings disregard.) Thus, a disabled or aged employed person may deduct $40 a month for such special expenses, as can a minor in an HR household or the mother of the HR family if she becomes employed; the latter is referred to as the employed homemaker allowance. The AFDC mother not eligible for the $30 plus one-third earned income disregard would also be entitled to deduct the $40 a month employed homemaker allowance. The father of the HR family may deduct up to $20 a month for special work expenses but total deductions for "regular" and "special" work expenses cannot exceed $60 a month.

For those participating in approved training programs there are other exemptions. HR or AABD recipients in Manpower Development and Training Act programs receive an exempt incentive payment of up to $20 per week and an additional expense allowance of $10 per week from the New York State Department of Labor. Participants in

[15] The HR disregard was designed to encourage participation in training programs by workers with only marginal skills. The theory is that these workers need greater assistance to enter the labor market than do more highly skilled workers who may be only temporarily unemployed.

New York State vocational rehabilitation programs are entitled to disregard the first $25 per week of their training allowance. A Job Corps allotment of $50 a month is also exempt.

2. TREATMENT OF OTHER RESOURCES

Resources as well as income are taken into account in determining eligibility. All welfare recipients may maintain a reserve totaling $500 for each member of the family. This sum, referred to as a "burial reserve," may be in the form of bank accounts, stocks, bonds, mortgages, other securities, or life insurance policies. Resources in excess of this amount must be used up before the family can become eligible for public assistance.

Ownership of real property does not disqualify an individual or family for assistance.[16] Such property may be assigned to the Department of Social Services and its income applied in determining an applicant's current need.

Illustrative Welfare Grants

Most families on welfare are not working though they may have some other sources of income such as social security payments, support payments from the father, unemployment insurance, and so forth. If the family obtained its income from work, it would of necessity incur certain work-related expenses. As we have seen, work expenses—including various taxes, lunch, fares, and so forth—amount to about $800. Thus, the gross income equivalent of the welfare standard for the AFDC, AFDC–UF or HR four-person family with no employed person is a minimum of $4,712 per year (i.e., $3,912 plus $800) excluding the value of noncash benefits. If the head of the family is working full or part time, the gross income equivalent will be higher because of various income disregards allowed the welfare family. The income equivalent will also vary depending on whether it is an intact or female-headed family and on other factors.

The effect of these various provisions on the amount of the welfare grants for different family types is shown in table 1[17] which assumes a yearly income from work of $4,160,[18] and no resources beyond the minimum permitted to be retained.

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[16] If property is not used as a home and its equity is above the allowed "burial reserve" the owner is ineligible unless the property is not marketable at a reasonable price or it is probable that its value will increase in the future or that it will be used as the applicant's home in the near future or because illness or other factors make liquidation impracticable.

[17] The income disregards are different for the aged and disabled and more generous for the blind than for the AFDC or HR families. But since the former groups constitute only about 15 percent of the welfare caseload, it has not been considered essential to work out the gross income equivalents in detail. Moreover, they constitute a group whose members, in most cases, are not regarded as employable and about whose "incentive to work" there is less public concern.

[18] Employment at $2 per hour for 40 hours a week, 52 weeks a year.

TABLE 1.—*Calculation of the annual welfare grant, gross and disposable total income equivalents from welfare and work, and net gain from work in New York City, 1972, for a family of 4 with $4,160 total yearly earnings*

	AFDC family		HR family	
	Mother entitled to $30 plus ⅓ disregard	Mother not entitled to $30 plus ⅓ disregard	Father entitled to $30 disregard	Father not entitled to $30 disregard
Employment expenses:				
Total taxes	$302	$302	[1] $720	[1] $720
Union dues	91	91		
Lunches	240	240		
Car fare	168	168		
Total	801	801		
Special homemaker or employment allowances	0	480	0	0
Exempt earned income	1, 627	0	360	0
Total income deductions	2, 428	1, 281	1, 080	720
Calculation of welfare grant:				
Gross earnings	4, 160	4, 160	4, 160	4, 160
Income deductions	−2, 428	−1, 281	−1, 080	−720
Total net earnings for welfare purposes	1, 732	2, 879	3, 080	3, 440
Net welfare standard (including rent)	3, 912	3, 912	3, 912	3, 912
Annual welfare grant (net welfare standard minus net earnings)	2, 180	1, 033	832	472
Gross total income equivalents:				
Gross earnings	4, 160	4, 160	4, 160	4, 160
Annual welfare grant	2, 180	1, 033	832	472
Total	6, 340	5, 193	4, 992	4, 632
Disposable income (gross earnings minus employment expenses plus welfare grant)	5, 539	4, 392	4, 191	3, 831
Net income gain from employment over welfare standard	1, 627	480	279	0

[1] Actual expenses equal $801 as in the case of AFDC families, but only $720 can be deducted.

Clearly, both the welfare grants and the level of living assured public assistance recipients are far from uniform. For example, the family of four, depending on the category into which it falls, will be entitled to grants ranging from $472 to $2,180. The disposable income-earnings and grants minus taxes and work expenses—will range from $3,831 to $5,539. The AFDC mother entitled to the $30 plus one-third disregard will qualify for an annual welfare grant of $2,180, whereas the father in an HR family with identical earnings, who secures work on his own (not in a training program), is entitled to a welfare grant of only $472. His disposable income of $3,831 is actually below the welfare standard since the maximum deduction of $60 a month is below typical work expenses at this income level.

These variations are such significant elements of current welfare standards that the reader may find it worthwhile to look at some of the details of the calculations. As indicated above, an AFDC mother may be entitled to disregard the first $30 plus one-third of the balance of her monthly gross earnings.

The first column of table 1 indicates that, assuming full-time employment at $2 an hour, the annual exemption will amount to $1,627. Thus, allowing for employment expenses and income disregards, an AFDC four-person family with gross earnings of $4,160 will be eligible for an annual supplementary welfare allowance of $2,180. The gross total income equivalent of earnings and welfare is thus $6,340. The mother with three children employed at $2 an hour who is applying for assistance, who has not received assistance in the last 4 months, will be eligible for an annual payment of only $1,033 because her disregards are lower. An HR family of four with a father employed as a result of an approved training program will be eligible for an annual welfare grant of $832. If his employment (again full time at $2 an hour) was obtained without the training program, his family is eligible for only $472 in welfare a year. The annual gross income equivalent for a family of four thus varies from $4,632 (which is below the gross equivalent in earnings of the net standard of $3,912 for a family where no member is employed) to $6,340 for an AFDC family where the mother is employed full time at $2 an hour and receiving the full work incentive allowance.

The Problem of Work Incentive

The welfare caseload in New York City had been rising slowly through the early sixties. The pace accelerated between 1963 and 1965 to an average of about 13 percent a year, jumped to 16 percent in 1966, and then in the 2 full years after the increase in the welfare standard in 1966 rose by 27.8 percent in 1967 and 24.3 percent in 1968. It was at this point that concern about the impact of the welfare standard on the incentive to work came to the surface and found its way into congressional debate. This concern was reflected in the 1967 amendments to the Social Security Act which were designed to increase incentives for AFDC mothers to work by disregarding a certain portion of income earned from work. Other amendments offered such incentives to other types of welfare families.

Decisions about whether to accept paid employment[19] are, of course, not made solely in response to monetary inducements. Nevertheless, the monetary gains from employment exert an important influence—especially if the alternative is the receipt of a publicly guaranteed income, namely the public assistance allowance, rather than no income at all. Thus, it seems useful to examine the extent to which earnings of different amounts actually increase a family's income given the rules and regulations of New York's public assistance program.

[19] The words "accept paid employment" are used in preference to the more usual "work" because a mother caring for a home and children performs work, albeit unpaid. It becomes "work" in the accepted sense when it is done for pay for some other person and for other people's children.

The situation is very different for the previously non-AFDC mother who is working and seeks an AFDC supplement. In her case, earnings of $5,000 or $5,500 add only $480 to what she would get if dependent solely on welfare grants. Further, increasing earnings from $4,160 to $5,500 yields no improvement in her disposable income. The HR family of four is also in a disadvantaged position. When moving into employment (earning $4,160 annually) after training; it has a net gain of only $279 over the amount it would receive from welfare. Further, the family's disposable income does not increase as earnings rise from $4,160 to $5,000. In fact, as earnings increase from $4,160 to $5,000, disposable income declines from $4,191 to $4,002. The disincentive for the family head who has not gone through a training program and therefore does not benefit from the $30 disregard is even more severe; annual earnings of $4,160 would leave him with a disposable income of $3,831, or somewhat less than he would receive if wholly dependent on welfare. Further, earnings of $4,500 or $4,700 also yield less disposable income than complete dependence on welfare. At the $5,000 level, the HR family, whether benefiting from the $30 disregard or not, has only $90 more in annual disposable income than by relying solely on assistance; this compares to $1,906 for the AFDC mother with similar earnings benefiting from the $30 plus one-third disregard or $480 for the AFDC mother not entitled to this disregard.

It seems clear that only in the case of the AFDC mother entitled to the $30 plus one-third disregard is there any sizable gain to be secured from employment which yields annual earnings of $5,000 or less as compared with sole reliance on public assistance. Of course, once the family is no longer entitled to any supplement from welfare, it will benefit from increases in earnings subject only to Federal, State, and local tax rates.

b. Loss of welfare status and entitlement to other benefits

But there is a further financial consideration to be taken into account. The family that is technically receiving public assistance in any category, however small its welfare grant, is automatically entitled to a variety of other benefits which have a cash value—food stamps, free lunches for children in school, medicaid, and day care. Food stamps and school lunches alone have a value of approximately $560 per year. Hence it is important to know at what level of earnings the family no longer qualifies for a welfare grant and thus loses the right to these added benefits which may be of great importance to many families.

Here again we find from tables 2 and 3 the familiar differences between families of different types. The AFDC mother entitled to the $30 plus one-third disregard is technically eligible for some assistance plus these added benefits until her earnings reach $9,400. However, the HR family whose head accepts employment after training loses welfare eligibility when earnings reach $5,000, while the AFDC mother not entitled to these disregards reaches the welfare cutoff point at earnings of $5,600, and the HR family whose head finds employment without a training program loses welfare eligibility at earnings of only $4,700.

3. THE POSSIBILITY OF FRAUD

Obviously, if there is a lax administration or deliberate underreporting of income by the applicant, there is no financial deterrent to employment however high the welfare standard. Thus, to assess the impact of the program on initiative, one must take account of the effectiveness or ineffectiveness of administrative controls on fraud.

Until 1969, the procedures, at least on paper, for determining eligibility for welfare and the amount of the grant required a full field investigation of the potential client. His home was visited and intensive efforts were made to check on his resources and income from other sources. However, there are some indications that beginning about the mid-1960's, those procedures were not strictly followed. This situation arose partly because of the investigator's reluctance to probe too deeply in ghetto neighborhoods and partly because of a permissive attitude which developed as a result of intensified concern over problems of discrimination toward minority groups, particularly blacks and Puerto Ricans. According to the director of one welfare center in New York City, "Early in the 1960's the focus of the department changed from establishment of eligibility to the provision of services. Increasingly, throughout the 1960's, there developed an attitude of indifference among staff in regard to eligibility encouraged by top administration." [21] In any event, beginning in February 1969, the declaration method, whereby the client simply submitted an affidavit declaring his need for assistance, was substituted for the field investigation for all disabled, aged, and blind cases (AABD) in all 43 welfare service centers in the city and for AFDC cases in three test centers. In October 1971, the system was extended to all categories of welfare clients throughout the city.

Even under the declaration system, the applicant's resources, current and past employment, and employability were to be "fully explored and verified," and additional inquiry was to be made if a prudent person "found inconsistencies in the information provided." [22] The New York State Department of Social Services bulletin did not, however, detail the verification procedures and, in fact, the system was not uniformly administered. Some centers required various supporting evidence, such as rent receipts, while others did not. It is also interesting to note that while verification of reported earnings might be required, no verification was made if the applicant reported no earnings. Again, according to a welfare center director "* * * severe inequities exist[ed] in implementing the declaration system leaving the client open to subjective judgments by the income maintenance specialists * * * Most staff members, including social service and income maintenance personnel, have reservations in their acceptance of the basic premises of the declaration. This questioning ranges from cautious approval to complete rejection. The majority of the staff does not

[21] Testimony of Janet Ruscoll, director, Wyckoff Center, New York City Department of Social Services, in *Problems in Administration of Public Welfare Programs*, in hearings before the Subcommittee on Fiscal Policy of the Joint Economic Committee, pt. 1, 92d Cong., 2d sess. (1972), p. 145.

[22] New York State Department of Social Services, Bulletin 134, "Standards of Assistance," (May 1971), p. F2.

agree that with the declaration there will be no more ineligibility than there is with full documentation and field investigation." [23]

As a result of widespread criticism, the declaration system has been modified. In August 1972, the New York City Department of Social Services announced that applicants would be required to submit documentation of their identity, address, family size, and earnings.[24] As of the end of 1972, a new application form was introduced which requires answers to a long list of detailed questions. In effect, the procedures are much the same as they were in the 1950's and early 1960's except that generally no field investigations are made.

In a program where the determination of eligibility and level of benefits are so varied, administration is bound to be difficult. But mounting evidence in reports issued by the Office of the Inspector General for Welfare, the comptroller for the State of New York, and subsequently, by the commissioner for Social Services in New York City, on the level of ineligibility and the extent of overpayment and underpayment leads to the conclusion that improvements in administration are indeed essential.

The complexity of the budgeting process and the ambiguity of guidelines for the determination of eligibility also create the potential for maximum discretion at the individual case level in determining the amount of the grant even when the question of eligibility is not at issue. An ingenious income maintenance clerk can get a good deal more for his client than one who does not fully exploit the various special allowances available in different circumstances. It is probable, therefore, that the standards for eligibility and levels of assistance are far from uniformly applied.

In circumstances in which the rate of ineligible cases on welfare may be substantial, and where the level of the grant may vary depending on the ingenuity of either the client or the income maintenance clerk or both (rather than on the true economic situation of the family), it becomes difficult to ascertain whether the structural disincentives to work in public assistance are in fact operative. Certainly, to the degree that there is fraud in non-reporting of earnings and/or administrative sloppiness in making grant changes promptly when income changes are reported, the present system of welfare grants is not a disincentive to increasing income from work. Fraud and error, of course, are rather expensive and inequitable ways to remove disincentives. Moreover, no fraud or error need be assumed to recognize the possibility that the sheer level of benefits itself constitutes a disincentive to work quite apart from whether employment would offer the recipient any net income gain.

A variety of efforts are underway to reduce the possibilities for ineligibles to remain on welfare or to continue to receive incorrect payments. For HR clients deemed employable, these include requirements to pick up monthly checks at the State employment office, to register for work and to accept jobs or training if offered, or if regular jobs are not available, to "work off" the welfare payment in jobs created in various municipal departments. Other procedures utilized to

[23] Testimony of Eugene Slade, director, East End Center, New York City Department of Social Services, before Subcommittee on Fiscal Policy, op. cit., p. 150.

[24] *The New York Times*, Aug. 4, 1972.

reduce the number of ineligibles on welfare and to deal with other fraudulent practices include photo identification cards, a complete review of the caseload through face-to-face interview with the clients, and, as indicated above, a long application form subject to verification has replaced the declaration method for applying for assistance.

It is too early to assess the long range impact of the new administrative procedures on the size of the welfare caseload. Some success in uncovering ineligibility has been achieved. In November 1972, the New York City Department of Social Services announced plans to use a new computer system to close 80,000 cases, including 173,000 persons, or 14 percent of the caseload as a result of "special eligibility" control projects.[25] As of the end of December 1972, however, the welfare caseload had declined to 1,250,556 persons from a peak of 1,275,269 in September 1972—a drop of 24,713 persons or about 1.9 percent.[26] Further, the HRA administrator has requested a budget appropriation for fiscal 1974 which assumes that the welfare caseload will drop only another 1 percent to 1,237,000 persons by June 30, 1974.[27] This estimate, however, may only be the opening step in the usual ritual budget dance.

Summary Evaluation

The public assistance program as it has developed over the last decade in many parts of the Nation, as well as in New York City, has, first by providing a high standard of cash assistance relative to the income which can be obtained from a significant proportion of jobs available to the unskilled and semiskilled, and second by offering recipients little net gain from work, constituted a potential disincentive to work.

One possible way to reduce the disincentive, of course, would be to lower substantially the basic standard of assistance. The people of New York would not approve such a course of action; on the contrary, over the last decade the standard has increased in response to humanitarian efforts to improve levels of living for the poor, and at a rate greater than the increase in the unskilled wage level. From 1961 to 1970, when the welfare grant was at its peak, the monthly allowance for a family of four—including rent—rose from $188 to $349 or by about 86 percent (table 4). Even after taking account of the 10-percent cut below the standard in 1971, the rise from 1961 to 1971 is from $188 to $326 per month or about 73 percent.[28] Some of this "increase," however, simply reflects the incorporation of special grants into the basic allowance—estimated to be worth approximately $12 per month.[29] With this adjustment, the monthly grant rose by 67 percent. Wages of unskilled workers in factories in the metropolitan area rose by 53.2 percent between 1961 and 1970, and by 66.5 percent be-

[25] *The New York Times*, Nov. 22, 1972.

[26] New York City, Department of Social Services, Monthly Statistical Report, December 1972, p. 6.

[27] *The New York Times*, Jan. 5, 1973, p. 35.

[28] See supplement I, for a more detailed account of the changes in the welfare standard 1950–70.

[29] It is assumed that of the $23 increase in the basic allowance between 1969 and 1970, $11 reflected the increase in prices and $12 was the equivalent of the special grants.

tween 1961 and 1971. Thus, until 1971 the welfare grant rose more than unskilled wages.[30]

TABLE 4.—*Monthly welfare standards in New York City from 1961-72, for a family of 4 under AFDC, HR, VA*

	Monthly standard including rent [1]	Percent change
1961	$188	0
1964	203	+8.0
1966	258	+27.1
1967	263	+1.9
January 1968	273	+3.8
October 1968	[2] 295	+8.1
1969	301	+2.3
June 1970	349	+15.9
1971	[3] 326	−6.6
1972	[3] 326	0

[1] The rent components of the monthly standards are those used in the unpublished table prepared by officials of the Human Resources Administration.

[2] This figure does not include the $100 per person cyclical grant given in New York City on an experimental basis from Oct. 19, 1968 to June 1969 replacing the numerous special grants given in addition to the basic allowance.

[3] The 1971 and 1972 figure is the maximum monthly grant, 10 percent below the standard. For all other years the monthly standard and grants are equivalent.

NOTE.—With the exception of those noted, all figures are as of July 1 of the given year.

Source: Unpublished table provided by officials of the Human Resources Administration entitled "Basic Monthly Allowances New York City, Department of Social Services, 1958-71."

Most of the increase in the welfare standard was an adjustment to price changes. The price level rose 35 percent from 1961 to 1970, and by 42 percent between 1961 and 1971. The real increase in the welfare standard between 1961 and 1970, therefore, approximated 29 percent, with most of this increase occurring in 1966.[31] Even with the ratable reduction imposed on AFDC, HR, and VA clients by the legislature in 1971, the monthly grant in 1971 was in real terms about 18-percent higher than in 1961.[32]

Given the general attitude in the State in favor of maintaining at least the current minimum standard of living and the simultaneous concern that all employable persons should accept available employment, it is not surprising that a variety of incentives has been developed

[30] Wage data from New York City office, Bureau of Labor Statistics Information Service, by phone.

[31] According to the New York State Department of Social Services, from 1963 to 1967 there was a total increase in the price of the standard of 12.03 percent; 6 percent from 1963 to 1965; 2.3 percent from 1965 to 1966; and 3.9 percent from 1966 to 1967. (Unpublished departmental communication, May 10, 1968.). Annual price surveys were made by the New York State Department of Social Services of the costs of the components of the standard throughout the State. In principle, when the cumulative price increase amounted to 2 percent, revised schedules were supposed to be issued. In practice, the upward revisions were frequently delayed and only caught up with prices at irregular intervals.

[32] The median standard (including maximum rent) for AFDC programs in all States for the four-person family was $286 per month and the median maximum grant was $221 in January 1972. See *Handbook of Public Income Transfer Programs*, a staff study prepared by Irene Cox for the use of the Subcommittee on Fiscal Policy of the Joint Economic Committee (Washington, D.C.: Government Printing Office, Oct. 16, 1972), pp. 143–144. In New York State the standard is $349 and the maximum grant is $326 (using average rent figures).

to permit the welfare recipient to retain part of his earnings and still remain eligible for some measure of assistance, The question remains, have these incentives worked and what is the impact on equity—as among different types of welfare recipients and between the one-sixth of the city's population which is on welfare and the five-sixths which are not?

As has already been pointed out, to the extent that fraud and administrative inefficiency exist, the system does not necessarily discourage work but rather serves to enlarge the recipient's income by adding the welfare grant to his earnings. Clearly, however, maintenance of incentive by permitting fraud cannot be considered equitable. But quite apart from fraud, one finds serious inconsistencies in the pattern of work incentives for different types of families and a variety of notch problems, here defined to include situations not only in which there is an actual loss of benefits greater than the increase in disposable income but in which there is little or no gain. One must also bear in mind that while, in this chapter, the discussion of the notch problem and incentives is limited to the cash assistance program, loss of eligibility for public assistance as a result of an increase in income entails the loss or reduction of other benefits—medicaid, day care, food stamps, and free school meals—whose value may be greater than the increase in income.

In order to explore fully the question of incentives to work for all welfare recipients and inequities among different types of welfare families, the concept of disposable income has been used, that is, what the family actually has to spend for itself—gross earnings minus taxes and work expenses plus the welfare grant, if any, to which the family is entitled. Using this concept, it becomes clear that the intact family on home relief has little economic incentive either to seek work or to increase earnings if its earner is relatively unskilled and cannot command a wage of more than about $5,000 per year. The home relief family head who obtains a job as a result of a training program is slightly better off than if he found the job on his own since he is entitled to a $30 monthly earnings disregard. There is no built-in incentive to increase earnings, however, for the head of an intact family on home relief who is receiving the disregard. For example, if he increases his earnings from $4,160 to $4,700 and then to $5,000 his disposable income declines.

The working mother, who is the head of a household and seeking a supplement, is just as badly off in terms of incentive. Substantial incentives exist only for the AFDC mother who has been receiving welfare and then becomes employed even if her earnings do not exceed $5,000 per year. Further, as her earnings increase above this level, disposable income is also greater since the amount of exempt earnings increases as earnings go up.

The family receiving assistance under AFDC–UF offers another example of inequity among categories. As previously indicated, part of the definition of an unemployed father is one who is employed for less than 100 hours a month. Thus, if the father of an AFDC–UF family who has not been working gets a job for less than 25 hours a week, the family is still eligible for AFDC–UF and is entitled to the $30 plus one-third disregard. If, however, the father begins to work for 30 hours a week, the family becomes ineligible for AFDC–UF.

They would be eligible for HR but without the $30 plus one-third disregard. A small increase in earnings would therefore result in reduced benefits or ineligibility for assistance.

It is difficult to see any equity in this differential treatment of different types of families on welfare. It appears to offer considerable financial inducements to family breakup and to getting on welfare in the first place in order to obtain the benefits available from subsequently taking full- or part-time employment. It must also be said that the generous income disregards do not appear to have had any substantial effect in encouraging AFDC mothers to take employment; only about 6 percent of the AFDC mothers were working in any one month in 1969 when jobs were fairly plentiful and a far higher proportion could have found jobs.

That such a manifestly inequitable system of earned income disregards should have come into existence can be explained in large part because of fiscal considerations. Allowing all initial applicants to disregard $30 plus one-third of monthly gross income would have increased the numbers eligible for welfare and the amounts paid, adding considerably to welfare costs. The differential treatment was also devised to avoid abuse of the work incentive provision based on the theory that if initial applicants received a disregard, they might decide to give up their jobs, apply for assistance, and after 30 days begin working again, thus maximizing their total income.

The inequity in the treatment of different types of welfare recipients can, of course, be corrected by changes in Federal and State law; the income disregard can be the same for all welfare recipients and can be fixed either at the level which now prevails for the AFDC mother who obtained a job after a period on welfare, or at some other level. Neither course, however, provides any simple solution to the question of equity between the welfare and the nonwelfare population.

The dilemma faced by New York State is serious because of the State's policy of supplementing earnings. Any policy which involves a concentration of generous income disregards on those already on the assistance rolls is obviously unfair to the hitherto "independent" workers. But to extend the present liberal AFDC income disregard to all families in New York City, whether they had ever been on welfare before or not, would mean that all four-person families with earned incomes of about $9,200 or below would be entitled to some supplementation from the public assistance program. In addition, they would be eligible for other benefits such as medicaid and food stamps which are automatically available to cash assistance recipients. On the basis of income data for 1970 for New York City, such a program would encompass 35 percent of four-person families and, with appropriate adjustments for family size, at least the same proportion and possibly a larger proportion of the total population. With a less liberal disregard, so that the cutoff point for eligibility for any welfare grant would be a total income of $7,000, about 25 percent of four-person families would be included.

The figures are so high that the question is inevitably raised as to whether one should rely on a financial incentive to encourage welfare recipients to take employment or whether one must return to an older prescription: Those who can work, and for whom jobs are available, must work. Their incomes would be supplemented, if necessary from the cash assistance program to bring the family up to some agreed upon minimum-income level. In fact, this policy is already in operation to some degree in New York State.[33] The level at which the minimum-income level is set will be influenced by economic, social, moral, and political factors. It is a decision which must be reached by the country's elected officials at various levels of government, but in the end it must make sense, in terms of equity and impact, to a substantial majority of the population.

[33] New York State's work requirement program, effective July 1971, required HR and AFDC recipients determined to be employable to pick up their monthly checks at the State employment office, at the same time registering for employment or training. After 30 days, if no placement has been made, the HR recipient is required to "work off" his check in a public service job. Refusal to register or to accept employment without "good cause" results in termination of assistance. During the first 8 months of the program's operation in New York City, many difficulties of administration and enforcement were in evidence. The determination of employability proved a complicated problem. The city has been slow in assigning HR recipients to public service jobs, resulting in criticism from the State department of social services. Similarly, complex procedures have delayed the closing of cases for those who have either become employed or refused to comply with program requirements. Nevertheless, a recent analysis of the operation of the law in nine study sites throughout the State including New York City indicates that while relatively few welfare clients were placed in jobs, approximately 10 percent of those referred to the employment service (this does not mean 10 percent of the total caseload) had their cases closed either for failing to report to pick up their checks or for failing to accept employment services or a job offer. (U.S. Department of Health, Education, and Welfare, U.S. Department of Labor, New York State Department of Labor, New York State Department of Social Services, *Study of Public Assistance Employables*, March 1972.) The law was challenged in the courts, however, and in July 1972, the Federal court in Buffalo declared the State work requirements invalid insofar as they applied to AFDC mothers and other federally assisted categories on the grounds that such rules were preempted by the Federal Government's work incentive program (*New York Times*, July 29, 1972). Since approximately 70 percent of the caseload in New York City is comprised of AFDC mothers and their children and another 17 percent are in other federally assisted categories, for the present (December 1972), the law is applicable to about 13 percent of the caseload. New York State may appeal the decision. In the meantime, reliance must be placed on the WIN program which in the past has been a weak reed, especially so in the recent period of relatively high unemployment.

CHAPTER II. FOOD STAMP PROGRAM

The food stamp program is the major Federal program aimed at the alleviation of hunger in the United States. Food stamps, as well as the surplus commodities and school lunch programs, have been part of the continuing Federal effort both to support the market for agricultural products and to improve the diets of public assistance and other low-income families. The program, developed in an effort to find new approaches to problems of poverty, represented a major improvement over, and has largely replaced, the surplus commodities program under which only a limited variety of surplus farm products were distributed free to poor families.[1]

Participation in the stamp program allows eligible families to use the money they would normally spend for food to purchase coupons which are worth more and which may be used at retail stores to purchase all domestic food products.[2] The program was designed to allow greater choice for the recipient while at the same time insuring that the additional purchasing power made available would be restricted to the purchase of food.

The food stamp program has expanded considerably since its creation by the Food Stamp Act of 1964.[3] Federal appropriations for the program have grown from $15 million in 1967 to $250 million in 1969, and to $2.2 billion in 1972. The number of participants in the country as a whole rose from 3.2 million people in 1969 to 11.8 million in May 1972.[4]

The food stamp bonus, i.e., the difference between the purchase value of the stamps and what the recipient pays for them, is financed exclusively from Federal funds. States pay 37 percent of the cost of certifying nonpublic assistance cases and 100 percent of the administrative cost of issuing the coupons.

The food stamp program like the surplus commodities scheme is administered by the Food and Nutrition Service of the U.S. Department of Agriculture. New York State authorized participation in the program in amendments to the State Social Services Law in 1969 and it began operation in New York City in September 1970 under the administration of the Division of Food Stamps of the New York City Department of Social Services. As of May 1972, approximately

[1] Localities may not operate both programs except in emergency situations as determined by the Department of Agriculture.

[2] Stamps may not be used for lunch counter foods, alcoholic beverages, tobacco, pet foods, and household items such as soap. In 1972, the use of stamps was expanded to include the purchase of home-delivered meals for eligible persons over 60 not able to prepare meals themselves (the "meals-on-wheels" program).

[3] Although the first food stamp legislation was enacted in 1964, there had been experimental food stamp programs as far back as 1939.

[4] U.S. Department of Agriculture, Northeast Regional Food and Nutrition Service, Food Stamp Program, August 1972.

900,000 persons, including 762,000 on public assistance, participated in the city's program.[5]

Until 1971, States, subject to Federal approval, established their own eligibility requirements for food stamps, as they do for the other major federally-assisted programs—cash assistance, medicaid and day care—but this was changed with the enactment of the Food Stamp Act of 1971 (Public Law 91–671), which required the U.S. Department of Agriculture to establish national uniform eligibility requirements for participation in the program.[6] The 1971 regulations spell out eligibility requirements in great detail, reflecting in part the generally conservative administrative approach of the Department of Agriculture and its concern to assure proper expenditure of the program's Federal funds. The changes in the Food Stamp Act of 1971 also reflect the combination of pressures in the Congress, including efforts of Southern Congressmen to channel as much food stamp funds to the South as to the North; efforts of program critics to tighten administration and eligibility requirements; and efforts of client groups to make the program more flexible for recipients. New York State revised its food stamp program to conform to the Federal regulations in March 1972 with implementation beginning in May and July.[7]

Current Eligibility Requirements

Eligibility for food stamps is determined on a household basis rather than on the family basis used in the AFDC and HR cash assistance programs and includes consideration of property and resources as well as income.

1. DEFINITION OF AN ELIGIBLE HOUSEHOLD

A household is defined as a group of persons, other than roomers, boarders, or residents of institutions, who are living as an economic unit, sharing cooking facilities, and purchasing food together. A household may also be defined as a single individual preparing food at home.

Two additional requirements included for the first time in the 1971 Federal regulation have been enjoined by Federal court action. Both were designed to prevent "unconventional" households, such as communes or middle class students living on their own, from receiving stamps. This is a not uncommon situation which had evoked strong protests from States where many such households and individuals received stamps.[8] One provision required that all members of the

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[5] U.S. Department of Agriculture, Food and Nutrition Service, *News*, June 23, 1972.

[6] Income standards and coupon allotments are higher only for Alaska and Hawaii to reflect higher costs of living in these States.

[7] All current New York State regulations enacted pursuant to Federal regulations are found in New York State Department of Social Services Bulletin 154, "Revised Food Stamp Program," Transmittal No. 72 MB–20, Mar. 24, 1972, and additions.

[8] An article in *Ramparts* discussed the pros and cons of "ripping off" the food stamp program and included guidelines for those who wish to do so, despite new Federal regulations. "The Food Stamp Conspiracy," *Ramparts* (May 1972).

household under 60 years of age be related [9] and the other made an individual who had been claimed as a tax dependent within a year of his application ineligible unless the tax-paying household of which he was a member was also eligible for stamps. Both regulations were held to violate the equal protection clause of the 14th amendment [10] and were permanently enjoined as of November 1972.

2. INCOME ELIGIBILITY REQUIREMENTS

Until January 1973, public assistance households were eligible for food stamps regardless of their income and resources if they met the nonfinancial requirements.[11] In other words, income disregarded in determining entitlement to cash assistance is generally disregarded with respect to food stamps except in the case of the AFDC mother with exempt income gained from earnings. Eligible public assistance recipients are automatically sent authorizations which allow them to purchase food stamps, called authorizations-to-purchase (ATP's), but they are not required to purchase the stamps. In New York City any household in which at least one member is receiving public assistance is considered a public assistance household for food stamp purposes and is automatically eligible for stamps.[12]

[9] Regulations carefully defined acceptable households. All individuals under 60 must be related, individuals 60 or over need not be. If a household consists of persons both under 60 and 60 or over, all of those under 60 must be related to each other or to at least one of those 60 or over. If only one member of the household is under 60, they need not be related to those 60 or over.

[10] The household definition suit is entitled *Moreno, et al.* v. *U.S. Department of Agriculture* and the tax dependent suit is entitled *Murray et al.* v. *the U.S. Department of Agriculture.*

[11] It was anticipated that in January 1973, it would be necessary to consider the income of public assistance recipients in determining the food stamp bonus. Thus, assistance families who are employed will receive lower bonuses as their income increases. If income is above the eligibility level, assistance families will still be eligible for stamps with the minimum bonus. The bonus for families with no income may also vary. Those with higher rent allowances and higher total grants will be considered to have higher total incomes. According to local officials concerned with the food stamp program, this requirement is inappropriate to New York in that it penalizes recipients because of the generous State policy of giving rent allowances as paid. (Discussion with Sidney Brooks, director, Division of Food Stamps, June 1972.) According to Federal officials, however, the basic reason for considering assistance households' income is that purchase requirements are based on ability to pay no matter what the source of income. The new "excess rent" calculation will compensate for high rent payments included in welfare grants. The provisions are not viewed as serious disincentives to increase income by these officials.

Households must also have cooking facilities. Employable members must meet the work registration requirement for public assistance. The food stamp work registration program is discussed in this chapter. Before the 1971 regulations, eligibility for public assistance recipients in New York State was automatic. New York is now supposed to review each public assistance family receiving stamps to make sure that all food stamp eligibility requirements have been met. At the time of writing, this time-consuming process had not yet begun. Hence, the discussion of the food stamp program in this paper refers to operations in 1972.

[12] This does not conform to Federal regulations which require that such households be considered nonassistance households and that the income of the household members, including any welfare grants, be calculated.

The nonpublic assistance household may be eligible for food stamps if income is within the maximum eligibility limits indicated below:

Household size	Maximum monthly net income	Maximum yearly net income
1	$185	$2, 220
2	245	2, 940
3	307	3, 684
4	373	4, 476
5	440	5, 280
6	507	6, 084
7	573	6, 876
8	640	7, 680
9	693	8, 316
10	746	8, 952

NOTE: For each additional member add $53.

Source: New York State Department of Social Services, Bulletin 154, "Revised Food Stamp Program" (March 24, 1972); additional revisions effective June 1, 1972.

The pressure to equalize the amount of food stamp funds spent throughout the country is reflected most clearly in the choice of the maximum eligibility figure. When the national standards were first issued in July 1971, the maximum net income level for the four-person household was set at $360 per month in order to broaden the program. Indeed, an additional 1.7 million people would have been made eligible in Southern and Western States where the previous eligibility levels had been set by the States at much lower levels.[13] In South Carolina, for example, the maximum monthly net income allowed was only $160 for the four-person household in 1970.[14] The proposed national standard, however, could have had the reverse effect and eliminated many participants from the program in States such as New York where the maximum level had been $370 per month. Only after vigorous protests from such States and from poverty and welfare organizations was the cutoff point set at $370 net income for the four-person household. In July 1972, it was raised to $373 per month.[15] As in other programs such as cash assistance, medical assistance, and day care, income eligibility criteria for food stamps are stated in net income terms, that is gross income of all household members from which certain income is excluded and certain expenses deducted.

[13] *The New York Times*, Jan. 17, 1972.

[14] G. Steiner, *The State of Welfare* (Washington D.C.: The Brookings Institution, 1971).

[15] According to Federal regulations, income limits are the higher of the standard in effect in the State prior to July 29, 1971, or the level at which the value of the coupon allotment, i.e., the total amount of coupons an eligible household will receive, is 30 percent of net income. For the four-person household the monthly coupon allotment is $112 or approximately 30 percent of $373 monthly net income. The first definition was included to insure that the national income limits would not reduce eligibility in States with high maximum eligibility levels.

Gross income, as in the case of the cash assistance program, includes wages and salaries, contributions from relatives, any regular pensions, compensation or disability benefits and income from real estate.[16]

The exclusions and deductions used to determine net income, however, are quite different from those of the cash assistance program, particularly with respect to the treatment of earned income and other work-related expenses. Although the food stamp program allows mandatory salary deductions such as taxes, social security, disability and union dues, it does not permit deductions for other work-related expenses such as lunch and transportation. The earned income disregard allowed is only 10 percent of earned income, up to a disregard $30 a month; the disregard for AFDC recipients for cash assistance may be considerably larger.

The food stamp program allows large deductions for major family expenses not allowed in determining eligibility for some other programs such as medicaid or day care. The household may deduct total medical expenses when costs exceed $10 a month, payments for care of children or of disabled adults, and mandatory education payments such as tuition.[17] Other provisions allow for the deduction of unusual expenses after a household disaster such as fire or theft, when such expenses are essential to the continued existence of a household.[18] If the household's shelter costs (rent, utilities, and the basic cost of one telephone) exceed 30 percent of net income (before deductions for medical expenses, child or invalid care, fees for education, or "disaster" expenses), the amount above 30 percent may also be deducted from gross income.[19]

3. PROPERTY AND OTHER RESOURCES

In addition to net income as defined above, a household may not have more than $1,500 in resources unless the household consists of two or more persons, one of whom is over 60 years of age in which case they may not retain more than $3,000 in resources. Bank accounts, stocks, bonds, and lump-sum payments such as insurance settlements and tax refunds are considered resources. A home, lot, one car, per-

[16] Other income to be included for food stamps eligibility are payments for care of foster children (this is excluded from income for cash assistance), all the payments made by a roomer or boarder (payments above $15 for the former and $60 for the latter are included for cash assistance), scholarships and deferred payment education loans. Payments made a boarder must be at least $36 a month (the coupon allotment for one person) for the household to be eligible for stamps.

[17] Also excluded are income of a minor in school half time, nonrecurring payments (such as tax refunds), irregular income up to $30 in 3 months, contributions from relatives or friends for medical bills, and the first $30 a month payment from training programs. (These are similar to deductions allowed for cash assistance.)

[18] One of the most important differences in the New York State regulations enacted in March 1972 pursuant to Federal guidelines is the elimination of a broad hardship provision which not only allowed deductions for medical payments, child or invalid care, but allowed adjustment of income whenever "unusual expenditures" resulting from natural disasters or other emergencies significantly affected the household's ability to purchase food. (New York State Department of Social Services, Bulletin 154, "Food Assistance Programs" (August 1969, p. 12.) This provision allowed considerable discretion to be exercised in the determination of eligibility. The Federal regulations were designed to limit excessive use of such provisions by including a more exact unusual expenditure provision.

[19] In 1973, the provision will be changed to allow deductions of shelter costs in excess of 30 percent of net income after all deductions.

sonal and household goods, and property producing income consistent with its fair market value are not considered resources. The income from such property is, however, included in the family's total income.[20]

4. OTHER REQUIREMENTS

The 1971 Food Stamp Act established a work registration provision which requires all employable food stamp recipients who are not employed to register with the State employment service every 6 months.[21] This regulation was a result of criticism of the food stamp program similar to that which resulted in the new definition of a household and the tax dependency provision, that many people for whom the program was not intended were receiving stamps. Its primary intent was to eliminate the "hippy type" from the program rather than to insure that heads of families would work.[22]

The Cash Value of Food Stamps

These then are the eligibility criteria for participation in the food stamp program. A major question still remains: how much of a bonus do families with varying incomes at or below the maximum eligibility limits obtain?

The total value of the food stamps to which eligible households are entitled is based on household size—$112 a month for a four-person household for example. This amount represents the amount needed to maintain a nutritionally adequate diet.[23] The cost is adjusted annually to reflect changes in food prices. Stamps worth $112 will buy $112 of food. The amount the household must pay for these stamps, however, varies according to the size, income, and public assistance status of the household, with higher income families paying more for the same amount of stamps.

Three separate schedules are used to determine a household's purchase requirement, that is, the amount the household must pay for the stamps. The schedules referred to here are effective July 1, 1972, in New York. (The necessity to date all regulations reflects the frequency of changes in Federal requirements, all of which must be followed by changes in State programs, recalculation of benefits, new forms, and a variety of other problems.) One schedule is used for all nonassistance households, one for AFDC households in which a portion of earnings

[20] Under previous New York State regulations, an individual was allowed to have $1,000 worth of resources and other households $1,500 with an additional $500 for each person over 65.

[21] All "able-bodied" persons between 18 and 65 are considered employable except those employed 30 hours a week or part time because of verified medical reasons, attending a school or participating in an approved training or rehabilitation program at least half time, needed to care for children under 18 or for incapacitated adults.

[22] Discussion with Jack Conaboy, Regional Director, Food Stamp Program, Department of Agriculture, Aug. 4, 1972.

[23] In 1972, a suit was filed against the U.S. Department of Agriculture by New York City, Pennsylvania, the National Welfare Rights Organization, and individual plaintiffs alleging that the "economy diet plan," on which the allotment is based is inadequate and that the USDA therefore, is not fulfilling its congressional mandate to provide a nutritionally adequate diet for food stamp recipients.

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are disregarded under the $30 plus one-third provisions, and one for all other public assistance recipients.[24]

For the nonpublic assistance family, the cost of stamps increases, and, concomitantly, the value of the bonus decreases, as income rises. Families with a monthly net income under $30 (up to $360 per year) may get free stamps, a bonus worth $112 a month.[25] The bonus is reduced with income increments until the family with a montly net income of $360 receives a bonus of $24 monthly.[26] The bonus for the four-person household with monthly net income from $30 to $149 decreases $3 for every $10 of increased net income. From $150 to $269 of net income the bonuses decrease by $6 for every $20 income increment, and by only $4 for every $20 increase between $270 and $329 net income. The bonus remains the same between $329 and $359 ($26) and is reduced to $24 when monthly net income reaches $360.

In table 1, the value of the food stamp bonus for the four-person family is shown at various levels of gross income calculated by taking account of the most typical of the numerous possible deductions, that is, taxes, union dues, medical care, and the earned income disregard of 10 percent of gross income up to a disregard of $30 a month. It indicates that the family with a gross income of $6,000 is over the eligibility limits for participation in the food stamp program.

Families with gross earnings of $5,500 are eligible for a food stamp bonus of $288 a year and this increases to $636 for the family with a gross income of $3,000 per year. The bonus shown in table 1 is the one to which the family *not* receiving assistance is entitled. Families with gross incomes below $3,000 would, of course, receive higher bonuses. Lower income levels are not illustrated, however, since it is not likely that many four-person families with gross earnings under $3,000 a year can exist in areas such as New York without receiving some form of income supplement under the public assistance program and as such become entitled to the bonus for public assistance recipients.

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[24] The differentiation between AFDC recipients with exempt income and all other public assistance recipients was instituted by the national regulations and first implemented in New York City in May 1972.

[25] The free stamp provision was introduced by the national regulations in response to criticism that purchase requirements placed food stamps beyond the reach of the very poor, especially those in the South. This criticism was highlighted in the 1967 U.S. Senate hearings on hunger in the Mississippi Delta.

[26] The food stamp schedules described above represent an increase from those in effect on March 1972 in New York in both the total coupon allotment to which households are entitled (i.e. from $108 to $112 for the four-person household) and the total cost to food stamp recipients. All public assistance households of four or more persons pay more for their monthly stamps. In other words, while the food stamp allotment is increased, the food stamp bonus remains stable. (According to officials of the New York City Department of Social Services about half of the nonassistance households pay more for stamps) New York City officials consider that the requirement of additional out-of-pocket expenses diminishes the value of the food stamp benefit for both assistance and nonassistance households and thus makes the program less attractive to these households. (Testimony of Arthur Shiff, Asst. Administrator, New York City Human Resources Administration, before the Senate Select Committee on Nutrition and Human Needs, Washington, D.C., June 7, 1972, and discussions with Sidney Brooks, Director, Division of Foods Stamps, New York City Department of Social Services.)

TABLE 1.—*Deductions allowed from gross income, net income, and food stamp bonuses for 4-person families at various gross income levels*

	Annual gross income levels				
	$3,000	$4,000	$5,000	$5,500	$6,000
Deductions from gross income:					
Taxes and union dues	172	391	591	714	842
Earned income disregard [1]	300	360	360	360	360
Medical care expenses [2]	*0*	*0*	*0*	*0*	*150*
Total deductions	472	751	951	1,124	1,502
Net income	*2,528*	*3,249*	*4,049*	*4,426*	*4,648*
Annual food stamp bonus	*636*	*420*	*312*	*288*	*0*

[1] 10 percent of gross earnings up to a maximum disregard of $30 a month.
[2] Families with $3,000 and $4,000 gross earnings would not have out-of-pocket medical expenses since they are eligible for full medical coverage of both inpatient and outpatient bills. All inpatient costs for families with $5,000 and $5,500 gross earnings would also be covered by medicaid. It is assumed that the families at these income levels would obtain outpatient care in municipal clinics where fees are so low as to make out-of-pocket expenses above $10 a month unlikely (see medical assistance chapter). According to the surplus income provisions of medicaid, the family with $6,000 gross income would be required to make a maximum contribution of $150 to the costs of inpatient care but they too could receive outpatient care in city clinics at minimal costs.

It should also be noted that families with gross earnings of about $6,000 could be eligible for food stamps if allowable deductions are higher than those indicated. This might occur if day care or medical expenses reduce a family's net income sufficiently. Unusual circumstances, such as losses due to fire or flood, could also entitle a family with considerably higher gross income to food stamps. It would not be unusual, for example, for a victim of the summer 1972 floods in Pennsylvania with gross earnings of $10,000 or more to be declared eligible. Gross income of just below $6,000 is, however, a more typical equivalent of maximum net income for purposes of food stamp eligibility.

The cost of food stamps for public assistance households (exclusive of AFDC families with exempt income) and hence, the size of the bonus does not vary with income or with the size of their assistance grant.[27] All four-person assistance households pay $82 for $112 worth of stamps, giving them a $30 monthly bonus. The bonus that the AFDC mother who is employed and entitled to income disregards receives, however, is less than $30 a month if she has any significant earnings. For example, the AFDC mother earning $4,160 annually

[27] As indicated previously, this will no longer be the case after January 1973, unless objections from New York City officials and others again cause the Department of Agriculture to modify regulations.

would be entitled to a food stamp bonus of only $24 a month.[28] It should be noted that while her food stamp bonus is less than that of other public assistance recipients with similar gross earnings, she is receiving a considerably larger welfare grant because of the $30 plus one-third disregard and thus has more disposable income.

Notch Problems and Equity

Table 1 also reveals that up to the $5,500 gross income level, the decrease in the food stamp bonus is less than the increase in income after taking account of normal deductions. An increase in gross earnings from $5,500 to $6,000, however, means a loss of $288 in food stamp bonuses as compared to an increase of only $222 in net income when account is taken of normal deductions including medical expenses. Even if medical expenses were excluded from the calculation, the increase in earnings from $5,500 to $6,000 leaves the family practically no better off than it was before.

A comparison of the four-person intact household receiving public assistance and the household not on public assistance but earning comparable income, indicates that the advantage is with the welfare family but the differences are not large—less than $100 per year. For example, the four-person welfare family whose only income is its welfare grant receives a yearly food stamp bonus of $360; the nonwelfare family at the gross income equivalent of the welfare standard (about $4,700) would get a bonus of about $312 per year. If the intact welfare family, as a result of income disregards and work expense deductions has an income of $5,500, it will still receive a food stamp bonus of $360 while the nonwelfare family will obtain a bonus of only $288 per year.

The situation is different if one compares the four-person family on AFDC when the mother is employed and benefiting from the $30 and one-third income disregard. Such a family, with gross income of $6,000 up to $9,000, will still be entitled to a food stamp bonus of $288 while the nonwelfare family will no longer be eligible for participation in the program once its gross income rises to $6,000 or more. When the AFDC family's income increases to the point where it is no longer eligible for any public assistance, it will no longer be eligible for food stamps, and the family will lose a yearly benefit of just under $300. Thus, at the $9,000 gross income level, there is a "notch effect" for the AFDC family in the food stamp program. The loss of $288 at this income level may not be considered a severe notch but combined with other benefit losses once the AFDC family is off public assistance, it "adds up."

Program Administration

The 1971 Federal regulations made several changes in the program's administration designed to tighten the eligibility requirements and to provide greater options to the purchasers of food stamps.

[28] With a monthly earnings exemption of less than $13 the AFDC mother would still be entitled to a $30 bonus. If the exemption is between $13 and $62, however, the bonus is reduced to $26, and above $62 to $24. At $4,160 gross earnings the yearly exemption is $1,627, well over $63 a month. (See public assistance chapter, table 1.)

In the former category is the work registration requirement explained above. The food stamp program administers the requirement only to those who do not receive public assistance. Those who do, and are considered employable, must register for work in order to receive their public assistance grants. It appears, however, that the food stamp work registration requirement, intended to correct a particular problem of ineligible recipients, has imposed a requirement on many others in the program which is both administratively cumbersome and inappropriate to its purpose; namely, to improve the diets of the poor. In the latter category are regulations advocated by welfare rights organizations and other client-oriented groups and individuals who sought to increase program flexibility and offer more options to food stamp recipients. One such addition is a "variable purchase option" which allows households to purchase one-quarter, one-half, or three-quarters of their stamps in any one month. (New York City has already authorized stamp allotments in two monthly portions.) Under prior regulations, the full allotment had to be purchased or none at all. Another is an "optional withholding" provision which allows public assistance recipients to have the full cost of their monthly coupon allotment deducted from their assistance grant and their food stamps distributed to them with their checks. Both options require numerous additional transactions which increase program expenses.

Both New York City and Federal administrators have expressed criticism of the variable purchase option. The New York City administrators considered it to be an unnecessary addition of paperwork and the Federal administrators see it as contrary to the purpose of the program, which is to assure that a certain proportion of the family's budget will be reserved for food. New York City program administrators view the "withholding option" as an "administrative nightmare" because of the possibility that mailed stamps will be lost or stolen. Food stamps are easily negotiable since the identification cards issued to each recipient are seldom required by stores accepting stamps.

An additional administrative complication results from a new provision permitting assistance recipients to redeem unused books of stamps. The city program must now set up stamp redemption centers.

The administrative regulations and the detailed eligibility requirements discussed above must be evaluated in relation to the value of the food stamp benefit. The complex regulations do appear somewhat inappropriate in New York City for a total food stamp bonus likely to amount to only $360 a year for public assistance four-person households and to smaller amounts for other low-income families of this size with incomes of $5,000 or more.

The 1971 regulations have created some difficulties for food stamp recipients and program administrators alike. New York City program administrators contend that the new regulations, especially the work registration requirement, will make the food stamp program less attractive to low-income families. Since the regulation has only recently been implemented, the contention cannot be tested. But it is clear that nonparticipation is a real problem of the food stamp program. Only about 80 percent of the eligible welfare households in

New York City are taking advantage of the food stamp program,[29] and only 138,000 other low-income persons are participating out of about a half million eligible people.

In an effort to reach those eligible for food stamps, the Food and Nutrition Service of the Department of Agriculture has engaged the assistance of voluntary organizations in New York City. A special Project "FIND" was created to reach eligible elderly persons, and an outreach effort is also part of the ongoing program of the Division of Food Stamps of the New York City Department of Social Services.

In view of the extent of nonparticipation in the food stamp program, the number of ineligible recipients is probably not significant and verification procedures appear to be adequate—or at least adequate in relation to a fairly small benefit. According to these procedures, nonpublic assistance applicants for food stamps must submit documentary proof (such as pay stubs) of all sources of income. For recertification, verification of income is required only if the amount and/or source of income has changed substantially. According to Federal regulations, verification of other factors of eligibility (such as household size and composition) is required ". . . only to the extent that information furnished by the applicant is unclear, incomplete, or inconsistent." [30] New York State regulations also stipulate that "prudent judgment" should be exercised in determining whether the applicant has facilities to prepare simple meals at home. In addition, applicants must provide both a physical address and a mailing address since a post office box alone is not sufficient proof of residency.[31]

One aspect of the problem of nonparticipation in the food stamp program is that the program deals with families and individuals who may be considered economically insecure and, therefore, reluctant to commit a portion of their income to a specific expense. Money transformed into coupons cannot be used for other necessities that may arise.[32] New regulations, such as those requiring additional out-of-pocket expenses and work registration for some, may add to this basic problem.

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[29] As indicated, not all public assistance recipients are eligible for stamps. For example, residents of congregate living facilities or those receiving full restaurant allowances are not eligible. The participation rate is 80 percent of the authorizations issued.

[30] *Federal Register*, XXXVI No. 146 (July 29, 1971), p. 14108.

[31] Eligibility is certified for periods of time based on the probability of change in the income or status of the household. Assistance households are certified for periods coinciding with review of eligibility for public assistance. Nonassistance households are usually certified for 3-month periods, though certification may be extended to 6 months or a year if little change in income is expected.

[32] This analysis of nonparticipation was suggested by Jack Conaboy, Regional Director, Food Stamp Program, Department of Agriculture, Aug. 4, 1972.

Chapter III. National School Lunch Program

The national school lunch program was created in 1946 as part of the continuing effort of Congress to provide assistance to low-income families while supporting the market for agricultural products. The goals of the program are ". . . to safeguard the health and well being of children and to encourage domestic consumption of nutritious agricultural commodities." [1] To this end, the program, administered on the national level by the Food and Nutrition Service of the U.S. Department of Agriculture, provides both Federal funds and surplus commodities to participating State education agencies for distribution to public and private schools. [2]

To be eligible for national school lunch program benefits, schools must operate a nonprofit lunch program available to all children, and serve meals that meet Department of Agriculture standards.[3] In addition, the school must provide free or reduced price lunches for children unable to pay for lunch, as determined by school authorities.

In fiscal year 1972, 25.2 million of the Nation's school children benefited from the national school lunch program; 7.9 million or 31.3 percent received free or reduced-price lunches.[4] In New York City, which does not have a reduced-price program, approximately 368,000 free lunches are provided each school day to public and private school students, approximately one-quarter of the total number of children of elementary or high school age in the city. An additional 92,000 children purchase lunch each day. All needy children may receive free lunches; others pay from 45 to 60 cents depending on their grade and type of lunch purchased.[5]

The program in New York City is administered by the Bureau of School Lunches of the New York City Board of Education by agreement with the Bureau of School Food Management of the New York State Department of Education. It is anticipated that approximately $30 million of State and Federal funds will be devoted to the program in the city in 1972. In the assessment of program administrators, the

[1] Office of Economic Opportunity, *Catalog of Federal Domestic Assistance Programs* (June 1, 1967), p. 173.

[2] Federal school lunch appropriations are allocated to States according to a formula that considers the State's per capita income and its participation rate in the program for the previous year. States with per capita income equal to or greater than the national average must match every $1 of Federal funds with $3 in State funds. For other States, matching is reduced by the percentage by which the State income is below the national average. "Special assistance" funds for poverty area schools are allocated based on the number of children in the State aged 3 through 17 in households with yearly incomes of less than $4,000.

[3] The lunches provide approximately one-third of the Department of Agriculture's recommended daily dietary allowance.

[4] Irene Cox, op. cit., p. 293.

[5] Costs are 45 cents for soup and sandwich and 50 cents for a full cafeteria lunch for elementary and junior high school students, and 55 and 60 cents for high school students.

program is reaching those children for whom it is primarily designed—the children of poor and low-income families.[6]

Current Eligibility Requirements

The U.S. Department of Agriculture establishes the basic eligibility requirements for the receipt of school lunch program benefits. According to these regulations any child whose family's income is at or below the income standards based on poverty levels as indicated in the Census Bureau's Current Population Reports is eligible for free or reduced-price lunches. In 1972, the yearly standard for the family of four was a gross income of $4,110.[7] Local school lunch authorities may not establish less liberal standards but may establish more liberal eligibility levels and New York City has, in fact, done so.[8]

Current eligibility standards in New York City for free school lunches, announced by the Board of Education in a policy statement dated January 1972 provide that children who are in families on public assistance or participants in the food stamp program are automatically eligible for free lunches.[9] Eligibility of other children depends on family income. If weekly family income, after deduction of income and social security taxes, falls within the following scale, children are eligible for free lunches.

Size of family (number of persons)	Maximum weekly net income	Maximum annual net income
2	$60	$3, 120
3	75	3, 900
4	87	4, 524
5	98	5, 096
6	110	5, 720
7	122	6, 344
8	134	6, 968
9	146	7, 592
10	158	8, 216

Source: "National School Lunch Policy Statement for Determining Eligibility for Free Lunch," Board of Education of the City of New York, Jan. 24, 1972.

Translating the net income scale above into gross income, the four-person family can earn approximately $5,000 and receive free lunches ($5,000 gross earnings minus appropriate Federal, State, local, and social security taxes amounts to approximately $4,500). Thus, the cutoff for eligibility for free lunches is only a few hundred dollars

[6] Discussion with William F. Scully, Assistant Director, Bureau of School Lunches, Board of Education, City of New York, May 1972.

[7] This refers to all sources of income including wages, salaries, social security, welfare, unemployment, pension, or veterans payments, alimony, dividends, or interest before deductions for income taxes or social security taxes.

[8] According to national program regulations issued in November 1972, State agencies must issue eligibility standards for use by local school authorities which are at least equal to or 25 percent above the poverty guidelines issued by the Department of Agriculture. Local school standards must conform with these standards except that more liberal standards already in effect may be used for the fiscal year ending June 1973.

[9] "National School Lunch Policy Statement for Determining Eligibility for Free Lunch," Board of Education of the City of New York, Jan. 24, 1972.

above the $4,712 gross income equivalent of the public assistance standard. All income is taken into account including earned income, social security and unemployment benefits, pensions, and alimony or support payments.[10] Assets such as savings and investments, however, are omitted from consideration in determining financial eligibility. If family income is higher than the above levels, the children may still be eligible for free lunches if the family has unusual expenses caused by accidents, fire, or other circumstances, if there is illness in the family, or if other "emergency situations" exist.

If the family is not eligible for free lunches it may, no matter what its total income is, arrange for the child to purchase lunch for approximately 50 cents, a sum below actual costs due to the use of surplus commodities and some public funds.[11] Thus, all children who buy lunch in a New York City school receive some benefit from the school lunch program.

Program Administration

Information to determine eligibility is furnished by the applicant in a simple one-page document printed in English on one side and in Spanish on the other. Each year principals of local schools are instructed by the Board of Education to distribute application forms to families of all students and all families are asked to return the form whether or not they are requesting free lunches. The principal or his staff determines eligibility of each family in accordance with board policy.

The application form contains the income scale shown above. The form explains that a child is eligible for free lunches if the family receives welfare or food stamps, or if its weekly income after taxes and social security is no more than the income scale indicated. If the child is eligible and the parent wants him to receive free lunches, the parent may then check the appropriate box to indicate eligibility. He is not asked to indicate his actual income but only whether it falls within the appropriate limits for his particular family size. If the parent feels that special circumstances should be considered, even though his income is above the designated limits, he is asked to submit a statement explaining these circumstances. If the parent wishes his child to purchase his lunch, he indicates this on the form.

The information contained in the application is accepted by the school personnel without verification. According to program administrators, explanations of special circumstances are also honored in all but the most unusual cases. These liberal administrative procedures and the simplicity of the application itself are in keeping with the major goal of the program, which is to improve the diets of children whose nutrition would otherwise be inadequate by providing them

[10] This definition of income is used in Federal regulations. The application form used by the New York City program simply refers to "income" and does not explain what should be included.

[11] According to administrators of New York City's program, the actual cost of the lunch served is difficult to calculate because of the variety of lunches and locations at which they are produced. According to Joint Economic Committee data the national average cost of a lunch was 68.3 cents in 1971 with Federal contributions totaling 21.1 cents (13.9 cents in cash and 7.2 cents in commodities). The average cost to the "non-needy" child was 35 cents. (Irene Cox, op. cit. p. 296).

with at least one good meal a day. The income eligibility scale is designed to focus the program on low-income families. The open-ended concept of special circumstances attempts to make sure that families experiencing unusual financial difficulties, such as sudden loss of employment, will also be able to receive this assistance.

The distribution of application forms to every child's family is part of the outreach effort of the program. In addition, in exceptional cases the teacher or principal may complete an application for a child if his family has not done so, though Board of Education policy states that this should not be interpreted to mean that school personnel can complete forms in large numbers. Again, the goal is to insure that no needy child will be denied the benefits of the program.

Notch Problems and Equity

The free school lunch subsidy for a family with two school-age children is worth approximately $190 per year (based on the purchase cost of 50 cents per lunch for 190 days). This is a significant sum to the four-person family whose gross income is $5,000, or to those with higher incomes who are receiving free lunches because of special financial burdens. The benefit may also be substantial for four-person families with gross incomes of $6,000–$8,000, but it becomes less significant for the family whose gross income is above this level. While there is apparently a notch problem in the sense that if the four-person family with a gross income of $5,000 increases its income by a few hundred dollars it loses a benefit worth at least $190 per year, the flexible administration of the program, especially the lack of verification of incomes, probably means that small increases in income do not, in fact, result in the loss of the school lunch benefit.

Broad eligibility requirements, simple application procedures, and flexible administration appear to be rational policies for the school lunch program and are in keeping with the program's goals and the relatively limited value of the benefit provided. A requirement that parents present detailed information regarding income or that they document special hardships could discourage participation. It is also assumed that, despite the loose procedures, families in middle- and upper-income groups will be prepared to pay for the school lunch or make other arrangements. This assumption appears to be correct. On the basis of 1970 income data for New York City, one can roughly estimate that, of the 500,000 children aged 6 to 18 years who are eligible for free lunches because of family income or public assistance status, about 368,000 are taking advantage of the program.[12] Rigorous verification procedures would add to the cost of the program without uncovering sufficient numbers of ineligible children to offset the cost of the verification process itself. Indeed, the income data cited above provide some evidence that a significant number of eligible children may not be participating in the program.

Free school lunches are an additional benefit tied to receipt of public assistance. A family receiving assistance is automatically entitled to free school lunches. And the free lunch benefit, like the food stamp bonus, does not reduce the family's welfare grant. The simple application form requires only that a family indicate that it is on welfare.

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[12] Blanche Bernstein, "Recent Trends in Income Distribution in New York City," *City Almanac* (August 1972).

The "notch effect," that is the impact of loss of benefits when the family is no longer eligible for assistance, is less significant than in the case of medicaid or day care services since the subsidy involved in school lunches is small. In fact, there is no notch for the home relief family since the eligibility limit for welfare is below the eligibility limit for free school lunches. Further, since many types of unusual circumstances are taken into account and verification of income is not undertaken, it is likely that the former public assistance family may continue to benefit from free lunches for some time, and perhaps even as long as it wishes to do so. Nevertheless, it must be noted that, at least in theory, the AFDC family whose mother is not entitled to the $30 plus one-third earnings disregard would lose a benefit worth almost $200 per year if her gross annual income from work exceeded $5,500, and at this income level $200 is a significant sum. On the other hand, the AFDC family of four, where the mother is working and benefiting from the $30 plus one-third disregard continues to receive some cash from the public assistance program and so her three children remain eligible for free school lunches until her gross earnings reach about $9,400 per year.

Chapter IV. Medical Assistance

The medical assistance program, commonly known as medicaid, was created in 1965 by the addition of title XIX to the Social Security Act and marked a major expansion of the Federal role in financing medical care programs. Before title XIX, Federal aid to the States for medical care programs was available only to recipients of public assistance through vendor payments for medical care for those receiving cash assistance and for the medically needy aged through the Kerr-Mills program. In New York as well as in a number of other States, however, State and local governments had already financed a considerably broader program of medical assistance. Title XIX extended Federal aid for medical care to medically needy families and individuals, as well as to the medically needy aged.

Title XIX is administered on the Federal level by the Social and Rehabilitation Service of the Department of Health, Education, and Welfare. The medicaid program in New York City, as in other localities of the State, is governed by title II of Article 5 of the New York State Social Services Law adopted in 1966 and referred to as medical assistance for needy persons. Title II and subsequent amendments establish the criteria for eligibility and define the groups covered. In New York City, the Bureau of Medical Assistance of the City Department of Social Services has the responsibility, within the criteria established in the law, of determining eligibility for those who are not automatically eligible as recipients of cash assistance.

As of April 1972, approximately 1,500,000 persons were enrolled in the medicaid program in New York City;[1] in any one month, according to recent data, close to 600,000 persons obtain medical assistance.[2] Title XIX expenditures for 1971 in New York City, including Federal, State, and local funds, were approximately $1 billion, about 20 percent of the national total.[3]

The Federal Program Requirements

Title XIX provides Federal funds for medical care for all persons receiving cash assistance under one of the Federal categorical assistance programs: aid to families with dependent children (AFDC),

[1] Testimony of Seymour L. Budoff, Director of Medical Assistance Program, New York City Department of Social Services, before the Subcommittee on Fiscal Policy, op. cit., p. 175.

[2] New York City Department of Social Services, Social Statistics, XXXIV, No. 1 (January 1972).

[3] Testimony of Seymour L. Budoff before the Subcommittee on Fiscal Policy, op. cit., p. 175.

and aid to the aged, blind and disabled, (AABD).[4] Federal financing is also available, by State option, for medical assistance for "categorically related medically needy." This term refers to individuals or families who are the same type as are covered in the Federal assistance categories—female-headed households, aged, etc.—and whose income and resources are above the cash assistance eligibility level but below the level determined sufficient to meet the costs of medical care, in other words, "medically indigent" or "medically needy."

Those under 21 who are "medically needy" may be included even if not in a Federal category (i.e., not blind, disabled or part of an AFDC family) and are referred to as the "noncategorically related medically needy". States may also choose to provide medicaid for intact families or for single individuals between 21 and 65 who are "medically needy" but not "categorically related". If the States chooses to extend coverage to these two groups, however, Federal funds are available for administrative costs only.

The definition of "medically needy" for both categorically and noncategorically related families and individuals was originally left for the States to determine. But in 1967, because of mounting concern about the cost of the program, certain limits were placed on State discretion.[5] Recipients of cash assistance have been and remain automatically eligible for full coverage under the medicaid program.[6] What has changed is the income eligibility level for the medically indigent. The 1967 amendments to the Social Security Act limited Federal funds to payments on behalf of individuals and families whose income was no more than 133⅓ percent of the highest amount of cash assistance ordinarily paid to an AFDC family of the same size in each State. For

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[4] In addition to those receiving assistance in a Federal category, the State medicaid plan must include those who would be included if not for a State provision invalidated by title XIX (such as residency requirements) and those under 21 who would be eligible for AFDC if under 18. The States may also include those who would be covered by a Federal program if States adopted the broadest programs possible (i.e. some States do not have AFDC-UF) and those who would be eligible if not in a medical facility (except those under 65). All of the above groups are referred to as the "categorically related needy." The 1967 Amendments to the Social Security Act made Federal funds available for coverage of the spouse of a cash assistance recipient essential to his welfare whose needs are considered in determining the amount of the assistance grant.

[5] Robert Stevens and Rosemary Stevens, "Medicaid: Anatomy of a Dilemma," in *Law and Contemporary Problems* (Spring 1970). On page 378 the authors state "Legislators and their staff at all levels of government were unprepared for Medicaid's fiscal impact—the President's budget predicted total Federal and State vendor payments of $2.28 billion in fiscal 1968, with forty-eight States participating. The actual expenditures for the year, with only thirty States having operating programs, were $3.54 billion." But this was only the beginning. Between 1968 and 1970, total Federal, State and local expenditures for medical assistance payments rose from $4.1 billion to $5.6 billion, and in 1971 to $6.9 billion. (Social Security Bulletin, XXXV, No. 9 (Sept. 1972), Table M-28). In New York State actual medicaid expenditures also far exceed the estimates. Indeed, it was the medicaid programs in New York and California which explain in large measure the unanticipated level in the Nation as a whole. Although California covered a smaller percent of its total population than New York, costs were high since the program was designed to provide comprehensive health benefits to all those eligible. Physicians were also paid according to their usual fees rather than by a fixed fee scale.

[6] In May 1971, 78 percent of all medicaid beneficiaries in the United States were also receiving public assistance, accounting for 57 percent of the programs total medical care costs. Irene Cox, op. cit., p. 206.

Coverage varies not only by the usual income and resource criteria but also by whether the recipient is on welfare or not, and if not on welfare, whether categorically related or not, and if not categorically related, whether under or over 21 years old. The range of benefits is classified in five types of coverage as follows:

A—Full benefits without cost to the recipient.

B—Full benefits with cost sharing by the recipient.

C—Benefits limited to inpatient care only until a required amount is spent by the recipient on outpatient care.

D—Benefits limited to inpatient care at all times.

E—Full benefits after cost sharing is met, i.e., after recipient has spent a specified sum for medical care—the sum being related to his income.

These categories will be discussed further in the following section.

2. INCOME ELIGIBILITY STANDARDS

When the program first became operational in New York State in 1966, the medical assistance standard for a family of four was set at $6,000 of net income. According to New York State regulations for the program, net income is calculated by deducting income taxes, health insurance premiums, and court-ordered support payments from gross income, but no deduction is allowed for social security taxes or work expenses, nor are there any earnings disregards as in the cash assistance program. The omission of social security taxes from allowable deductions from gross income is especially significant in view of the substantial increases in social security taxes in recent years. Thus, a $6,000 net income is the equivalent of approximately $7,000 gross income for a family of four.[14]

New York's original standard was one of the most liberal submitted to HEW for approval. Part of the rationale for it was that New York already provided extensive services for public assistance recipients and for the medically needy aged (under Kerr-Mills). Since title XIX contained the concept of "State effort," which required that the Federal funds made available by title XIX add to, rather than replace, existing State expenditures, the liberal standard was a logical development in New York's medical care program. The particular figure of $6,000 represented a compromise between the standard proposed by Governor Rockefeller of $5,700 and a standard of $6,700 submitted by Speaker Travia, the Democratic leader of the State senate. The compromise also resulted in the omission of social security taxes from allowed income deductions. The $6,000 figure was agreed upon and approved by the State legislature after little debate and only one day of hearings.

Under the standard, about 8 million people or 45 percent of the State's population were eligible for medical assistance. Income data for New York City in 1967 indicate that about 43 percent of the families had incomes below the gross income equivalent of the medicaid eligibility cutoff point.[15] In contrast, the California and Connecticut

[14] $7,000 minus income taxes of $647 and health insurance premiums of $285 is approximately $6,000 net income. (See supplement II for calculations.)

[15] Blanche Bernstein, "Recent Trends in Income Distribution in New York City," *City Almanac* (August 1972). Data for New York City are not available for intracensus years prior to 1967.

plans, for example, covered 13 percent and 10 percent of the State populations respectively.[16]

Reaction to the New York State plan (and to title XIX in general) began only after its adoption by the legislature when it became known that almost half the State's population, and more than half in many upstate areas, became eligible for a wide range of free medical care services. The Governor responded to these objections with the odd argument that experience indicated that only 25 percent of the potential recipients among the medically indigent ever signed up for publicly assisted medical programs. It should be noted, however, that while issue may be taken with the justification offered by the Governor, his estimate was reasonably accurate. Despite efforts to register the medically indigent, culminating in a medicaid alert in January 1967, it turned out that most of those who enrolled for medicaid were already on welfare and therefore did not qualify as "medically indigent."[17] The legislature did hold postpassage hearings to allow objections to be voiced but no significant changes were enacted.

Whether the legislature and the Governor were aware of the size of the potentially eligible population under a $6,000 net income criteria cannot be stated with any certainty. It is clear, however, that they were not aware of the potential costs involved. These costs were not only influenced by the number of participants, but also by the extraordinary inflation in medical care prices.

In any event, by March, when hearings on the 1967 social security amendments began in Washington, title XIX had been subject to widespread criticism in New York and elsewhere.[18]

Until 1972, the Federal law envisioned a progressive extension of the scope of medicaid. Section 1902(d) of title XIX provided that while a State could reduce the range, duration, or frequency of services provided under medicaid, it could not reduce its current aggregate medicaid expenditures. This "maintenance of effort" requirement was repealed by the final version of H.R. 1 written into law in 1972. (Sec. 231 of Public Law 92–603.) Section 1903(e) of title XIX, which required a State to show by 1977 that it was making efforts toward broadening the scope of services and liberalizing eligibility was also repealed by Public Law 92–603 (sec. 230).

Following the income limits imposed by the 1967 amendments (see above), the eligibility standard for the 4-person family in New York remained temporarily at the $6,000 net income level, equal to 150 percent of the most liberal State AFDC standard since 1966. As of July 1, 1968, however, the State legislature lowered the standard to 140 percent of the AFDC standard, bringing the maximum income level for a family of 4 to $5,300 net income. And, effective July 1, 1969, it was lowered to 133⅓ percent of the AFDC level, bringing the

[16] Robert Stevens and Rosemary Stevens, op. cit., p. 367.

[17] Ibid., p. 416.

[18] In a discussion of a new project of the Urban Institute to assist the Social and Rehabilitation Service of HEW in planning and analysis, the point is made that "with the advantage of hindsight, it now seems evident that realistic projections of the cost and effects of the medical aid programs enacted by Congress in 1965 for recipients of public assistance could have averted the bottlenecks and cutbacks experienced by medicaid in recent years." *Search—A Report From the Urban Institute*, vol. II, No. 2 (March–April 1972).

maximum down to $5,000 net income, equivalent to approximately $5,700 annually in gross income.[19]

In 1971, the State legislature approved further reductions in the eligibility standard to $4,500 net income for a family of 4. At the same time, the legislature removed coverage for certain outpatient services (including dental care, drugs, optometrist, and podiatrist services) for the medically needy. The reductions in eligibility levels and services were approved by HEW. However, as a result of a court action brought against HEW by medically needy persons affected by the reductions, the State was enjoined from implementing the new standards and service provisions (*Bass* v. *Richardson*, U.S. district court 1971). The court ruled that the cutbacks would cause irreparable injury to the medically needy and were contrary to the intent of the Federal legislation that States make efforts toward broadening the scope of services and liberalizing eligibility requirements. The removal of this requirement by the 1972 amendments mentioned above, suggests that additional legal action may be taken by New York State in an attempt to reverse the court's ruling.

Current eligibility standards differ according to the category into which the would-be beneficiary falls.

a. Public assistance recipients

In accordance with Federal requirements, any person receiving cash assistance in any of the Federal categories (AABD, AFDC) is automatically eligible for full medical coverage. In addition, under New York State law those on VA or home relief are also automatically eligible, although the State receives Federal aid only for administrative costs of their medical care. In effect, an application for public assistance constitutes an application for medical assistance and eligibility continues as long as the family or individual is obtaining public assistance, however small the money payment.[20] Each child or adult public assistance recipient thus becomes eligible for free inpatient care in hospitals or nursing homes, X-ray and laboratory services, physical therapy, outpatient care in clinics or by qualified physicians, dentists, nurses, optometrists and podiatrists, routine dental care, drugs, eyeglasses, and transportation to obtain care. Services are free to the recipient and the provider is reimbursed by the Medical Assistance Bureau. These full benefits, referred to as "A coverage," represent an important added subsidy to the public assistance recipient. It has been estimated that typical expenditures for the 4-person family receiving medicaid amount to $1,300 a year.[21]

b. The medically indigent

For those not receiving public assistance, a much more complex set of eligibility requirements, both financial and nonfinancial, must be met.

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[19] $5,700 gross income minus $647 for taxes and $285 for health insurance is approximately $5,000 net income (see supplement II for calculations).

[20] The individual or family need not be receiving public assistance if it is eligible to do so.

[21] New York State Department of Social Services, by phone, December 1972.

The current income eligibility standard for the 4-person family who is not on welfare is $5,000 net income (about $5,700 gross).[22]

The basic net income standard for different size families is as follows:

Yearly net income standard

Number of persons in household:	
1	$2,200
2	3,100
3	4,000
4	5,000
5	5,700
6	6,400
7	7,200
Each additional person	600

It is important to note, however, that the above income levels do not denote absolute cutoff points for eligibility for some assistance under the medicaid program. A "surplus income" provision allows for partial coverage of medical expenses for categorically related families with incomes above this level in certain circumstances which will be described below. Further, in New York City, as in the State as a whole, a "catastrophic illness" provision in the State social service law, in effect in New York State since 1968, allows for partial coverage for noncategorically related types of individuals and for families without children; it is financed with State and city funds.[23] In fact, there is no absolute cutoff point for eligibility; the cutoff depends on the amount of medical expenses in relation to income, established eligibility standards, family type, and size.

In addition to income, each family may maintain liquid resources[24] of $500 per person up to $2,000 for a family as a burial reserve and savings equaling one-half of the maximum income eligibility limit (i.e., $2,500 for a family of four). Thus, a family of four may have total resources of $4,500. A family may also own its home and an automobile.

With respect to nonfinancial requirements, the type of coverage available and the cost to the recipient varies for children and adults and for different types of families and individuals, reflecting the differences in the Federal funding formulas described above.[25] Federal funds for medical care for nonpublic assistance recipients are limited to those families and individuals that are categorically related, i.e., female-headed families (AFDC), intact families with the father unemployed (AFDC-UF), or the aged, blind, or disabled (AABD), and to noncategorically related individuals under 21 years of age.

To simplify the explanation of these complex requirements for families not receiving cash assistance, the coverage available to fami-

[22] Eligibility requirements for the medical assistance program are found in New York State Department of Social Services, Bulletin 182, "Medical Assistance," June 1970.

[23] This provision was instituted after the cutbacks following the 1967 amendments to the Social Security Act. Before the cutbacks, adults in New York State had been covered under medicaid.

[24] Liquid resources may include cash, savings accounts or the cash value of insurance policies.

[25] According to an administrator of the New York City Medical Assistance Bureau, the same coverage has been available to all families whose income was below the medical assistance standard in 1966 and it was not until the 1967 amendments that the categorical criteria made differentation necessary.

lies of different types with incomes at or below the medicaid eligibility standard and to those with incomes above the standard will be explained.

(1) The categorically related

A family of four headed by a female[26] whose net income is $5,000 or less (equivalent to $5,700 or less gross income) and whose resources are not above the maximum $4,500 level will be eligible for the full costs of inpatient care, and both mother and children are also eligible for outpatient care. The medical assistance program, however, will pay only 80 percent of the cost of outpatient care if income is *above the public assistance level.* Under these cost-sharing provisions, enacted by the New York State Legislature in 1969 in an attempt to reduce expenditures, the family must pay 20 percent of the cost of outpatient care in an amount up to the difference between their income and the most liberal public assistance standard used in New York State (a statewide average) since 1966.[27]

This standard is as follows:

	Most liberal New York State yearly public assistance standard
Number of persons in household:	
1	$1, 910
2	2, 630
3	3, 170
4	4, 030
5	4, 670
6	5, 330
7	5, 990
8	6, 530
9	7, 190
10	7, 730
Each additional person	540

Thus, a family of four whose net income is $5,000 must pay 20 percent of its outpatient costs until it has spent $970 for such care ($970 is the difference between $5,000 and the public assistance standard of $4,030). This is referred to as "B coverage." After it has spent this amount, a family is considered to have "spent down" to the public assistance level and it will then be eligible for full inpatient and outpatient benefits without the 20 percent cost sharing, or "E coverage." [28]

If the female-headed family of four has a net income above the medical assistance standard (and resources are not above $4,500), it may still be eligible for assistance for medical care through the

[26] It should be noted that the one-parent family need not be female headed to be categorically related. Since this is the most typical situation, however, it is used throughout this analysis.

[27] Under current Federal law, such payments may be required of the medically needy but not of cash assistance recipients. Public Law 92–603 requires States to charge monthly premiums to the medically needy for medicaid coverage. The premiums would be graduated by income. In addition, States may require copayment by the medically needy for all services and by cash assistance recipients for optional services.

[28] Cost sharing is actually computed on a 6-month basis. Thus, after the family has spent $485 on outpatient care, it will be eligible for E coverage for the rest of the 6-month period.

application of the "surplus income provision." If resources are above this level, the surplus resources must first be spent on medical care. Under this provision, if a member of the family is hospitalized, the family is responsible for hospital bills equalling one-half of the amount of annual net income above the medical assistance standard. For example, with a $6,000 net income ($7,000 gross), the family must pay up to $500, i.e. 50 percent of the difference between a net income of $5,000 and of $6,000. With $7,500 net income ($9,000 gross) its liability would be $1,250, i.e. 50 percent of the difference between $7,500 and $5,000. If the bill exceeds $500 in the former case or $1,250 in the latter, the remainder is paid by the Bureau of Medical Assistance with the usual Federal reimbursement.

A "surplus income provision" also applies to outpatient care. In this instance, the family's liability is the monthly surplus above the medical assistance standard for each month in which are is recived. Thus, for a female-headed family of four, if annual net income is $6,000 ($7,000 gross), the monthly surplus, or outpatient liability will be approximately $83, or one-twelfth of the yearly $1,000 surplus, assuming some of the surplus has not already been spent for inpatient care. The family will be eligible for outpatient care (with cost-sharing) when outpatient bills for a particular month have amounted to to $83, but they will only be eligible for the remainder of that month. No reimbursement is made, however, for expenses above the surplus incurred prior to the client's application for medical assistance. The applicant must spend the surplus, verify expenditures, and be issued a B coverage card which is valid for the remainder of the month in which it is issued. In sum, this provision requires such mental and physical agility on the part of the patient or her family as to be, in fact, of limited application.

(*2*) *The noncategorically related*

(*a*) *The intact family.*—By definition, an intact family with both parents present (and neither obtaining public assistance nor aged, blind, or disabled) is not categorically related. It is in this type of family that medicaid coverage may be different for the children than for their parents. (Coverage for persons under 21 is specifically provided for in title XIX.)

If the net income of an intact family of four (not receiving public assistance), is at or below the medical assistance standard ($5,000 net income or less), and resources are no more than $4,500, the children will be eligible for full inpatient care and for outpatient care with 20 percent cost-sharing (or B coverage). The parents, however, will be eligible for the full costs of inpatient care only (or C coverage).

The parents can become eligible for outpatient care by "spending down" to the public assistance level, that is by spending on the family's outpatient care an amount equal to the difference between the family's net income and the public assistance standard for that size family. If the family's net income is $5,000, they must spend $970 (the difference between $5,000 and the assistance standard of $4,030 for the family of four). But the parents can become eligible only if the family's resources are not above the maximum resource level for eligibility for public assistance—$2,000 for the family of four—in contrast to the $4,500 maximum level which applies to the categorically related family. If resources are no more than $2,000, and $970 is spent for medical care, both parents and children become eligible for both inpatient and outpatient care without cost-sharing, or E coverage. If resources are above $2,000, the parents cannot become covered for outpatient care merely by "spending down" $970. They would have to reduce resources as well. (The parents whose resources are not above the public assistance level have C coverage until they spend down to E coverage. With resources above the public assistance level, the parents have D coverage, which is limited to inpatient care at all times.) In fact, adults of an intact family can become eligible for outpatient benefits only when they are eligible for public assistance, i.e. when resources are no more than $2,000 [29] and net income is reduced to $4,030.

The status of the intact family changes as soon as one parent is hospitalized. Since categorically related is defined as the absence of one parent, the family becomes categorically related when one parent is hospitalized and therefore is absent from the home. During the period in which one parent is hospitalized, the nonhospitalized parent becomes eligible for outpatient care (B coverage) and the family's status with respect to medicaid becomes the same as that of the previously described categorically related female-headed family of four.

If an intact family's income is above the medical assistance eligibility level, but resources are not above the allowed amount ($4,500 for a four-person family), they may be eligible for some medical coverage. (If resources are higher, the surplus resources must be utilized first.) In this instance, both parents and children may be eligible for inpatient care under the previously described surplus income provisions. If the four-person family has a net income of $6,000, it must pay up to $500 of any hospital bill (one-half the yearly surplus of $1,000). While one parent is hospitalized, the children and the other parent are also eligible for outpatient care (with cost-sharing) after they have spent their monthly surplus on outpatient care. After the parent leaves the hospital, only the children will be eligible for outpatient care, subject to the monthly surplus income provision.

If the parent were not hospitalized, the children would be eligible for "B coverage" (inpatient care and outpatient care with cost sharing) but only after the family had spent its "surplus income" above the medical assistance standard of $5,000 on medical care, or $1,000. But the parents could become eligible only if both income and resources are reduced to the public assistance level.

(*b*) *Single individuals or childless couples, ages 21 to 64.*—Single individuals or childless couples between the ages of 21 and 64 who are eligible for welfare are eligible for the full benefits of the medicaid program ("A coverage"). But for those not eligible for welfare [30] no assistance is provided under the program's provisions for the medically needy (i.e. "B, C, D, or E coverage").

[29] It should be noted that while the four-person family's total cash reserve may be $2,000 this must be composed of a $500 burial reserve for each member. Thus, while each member could have an insurance policy of up to $500, one parent could not be insured for $2,000.

[30] For an individual, net income can be $1,910 or approximately $2,200 gross (with $500 resources). For a childless couple, maximum net income is $2,630 or approximately $3,100 gross (with $1,000 resources). See supplement for calculations.

Such persons are, however, covered by the "catastrophic illness" provision of the New York State program. The term catastrophic illness, it should be noted, is a financial rather than a medical concept since it relates medical costs to income and not to the nature of the illness. Related only to inpatient care, it limits the patient's liability to an amount which is in excess of the lesser of 25 percent of the patient's annual net income or the difference between his net income and the applicable public assistance level. Resources, however, may not be above the maximum allowable amount for medical assistance. Resources above this amount must first be used to pay any medical bills.

For a single person whose net income is $5,000 (about $6,200 gross income) 25 percent of his net income, or $1,250, is less than the amount of his income in excess of the public assistance standard ($1,910 for an individual). His maximum liability is thus $1,250. If he incurs a $2,000 hospital bill, $750 will be paid by the Medical Assistance Bureau and he will also be eligible for payment of any other inpatient care for the year after this hospitalization. Similarly, if an individual has a net income of $20,000 (approximately $30,000 gross), he will be responsible for $5,000 of his hospital bills (25 percent of his net income, since this is less than $18,090, the difference between his net income and the public assistance standard of $1,910). Hospital bills above $5,000 will be paid by the Bureau of Medical Assistance, under the catastrophic illness provision. However, resources above the allowable amount ($1,600 for an individual),[31] must be used for medical bills before these provisions are applied.

Notch and Equity Problems

To assess the effect of the regulations, including the surplus income provision,[32] two tables have been constructed showing patient liability for annual medical expenses at varying income levels for an intact family and for a female-headed household, each with four family members. To construct these tables, it was necessary to establish certain arbitrary assumptions or ground rules. Thus, for each level of total medical expenses at each income level, we have assumed that (1) the medical expenses are divided equally between inpatient hospital care and outpatient care, (2) the hospital care applies to one of the parents but not to the children and that it occurs in the first month or two of the year, (3) the outpatient expense is divided equally between the parents and the children, (4) the outpatient expense is incurred in equal amounts during each month of the year, (5) resources are no more than those allowed by the medical assistance program ($4,500 for the four-person family), and (6) the families above the $4,000 net income level are not eligible for public assistance. Obviously, these assumptions are arbitrary, but they bear some resemblance to possible actual patterns of expenditures and serve as a basis for indicating the families' liabilities for its medical expenses under the current medical assistance programs in New York City.

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31 Each individual is allowed a $500 burial reserve plus savings equaling one-half the medical assistance income limit ($2,200 for one person) or $1,100, a total of $1,600.

32 Since the tables illustrate the effect of regulations on families, the catastrophic illness provision, which applies to individuals and childless couples between 21 and 64, is not applicable.

TABLE 1.—*Patient liability for annual medical expenses for a female-headed, 4-person family at varying gross and net income levels*

Gross	Net	Patient liability for annual medical expenses of— $500	$1,000	$1,500	$2,000
Annual income:					
$4,500 or less	$4,000 or less	0	0	0	0
$5,700	$5,000	$50	$100	$150	$200
$7,000	$6,000	500	1,000	1,050	1,100
$8,500	$7,000	500	1,000	1,500	2,000
$10,000	$8,000	500	1,000	1,500	2,000
$11,000	$9,000	500	1,000	1,500	2,000
$12,000	$10,000	500	1,000	1,500	2,000
$20,000	$15,000	500	1,000	1,500	2,000

TABLE 2.—*Patient liability for annual medical expenses for an intact 4-person family at varying gross and net income levels*

Gross	Net	Patient liability for annual medical expenses of— $500	$1,000	$1,500	$2,000
Annual income:					
$4,500 or less	$4,000 or less	0	0	0	0
$5,700	$5,000	$142	$284	$425	$567
$7,000	$6,000	500	1,000	1,122	1,276
$8,500	$7,000	500	1,000	1,500	2,000
$10,000	$8,000	500	1,000	1,500	2,000
$11,000	$9,000	500	1,000	1,500	2,000
$12,000	$10,000	500	1,000	1,500	2,000
$20,000	$15,000	500	1,000	1,500	2,000

Two summary statements may be made about the calculations in tables 1 and 2. First, severe notch problems are apparent above the eligibility level for full medicaid coverage. Second, the intact family is significantly disadvantaged compared to the female-headed household.

With respect to notch problems, it is worth indicating that the shift from public assistance status to medical indigency status (from up to $4,000 net income to $5,000 net income), for the female-headed household is fairly smooth. Only 5 percent to 20 percent of the family's additional net income of $1,000 would have to be spent for its medical care if total medical expenses ranged between $500 and $2,000 for the year.

The situation is quite different when the female-headed household moves from the medical indigency level of $5,000 net income to $6,000 net income. Even $500 of medical expenses would require 50 percent of the family's "surplus" income; expenses of $1,000 would take all the surplus, while medical expenses above $1,000 would require the the family to spend down toward the public assistance level. Further, as income rises, the notch problem does not disappear; it simply appears at a somewhat higher level of medical expenses. Thus, the female-headed family of four with a net income of $7,000 is better off than the $6,000 family if medical expenses do not exceed $1,000 but if they are $1,500 or $2,000 the family devotes 45 and 90 percent respectively of its extra income to medical care.

Matters are worse for intact families. First, even at the medical indigency level of $5,000 net income, they are required to pay from about 14 percent ($142) of the extra $1,000 of net income (above the welfare standard) for medical expenses of $500 per year up to 57 percent ($567) for annual medical expenses of $2,000. Second, at all income levels, if medical expenses exceed the surplus (that is, the difference between net income and the medical indigency level), the intact family has to pay more of the bill than does the female-headed household. As in the case of the female-headed household, the notch problem is severe as the family moves from the medical indigency level of $5,000 net income to $6,000 net income. With medical expenses of $500, it pays 35 percent (the difference between a patient liability of $142 and $500) of its additional $1,000 of income for medical care; a medical bill of $1,000 absorbs 70 percent of its additional income (the difference between a patient liability of $284 and $1,000). Also, as in the case of the female-headed household, the notch problem for the intact family does not disappear as income rises but simply shows itself at a higher level of medical expenses.

It has also seemed useful to construct a table in which it is assumed that the medical bills incurred are exclusively for hospital care to illustrate the different impact of the varying provisions with respect to patient liability for inpatient and for outpatient care and because, in the real world, hospital expenditures can reach high levels. Thus, table 3 indicates patient liability for hospital bills of $500 to $4,000 at varying income levels. In this case, there are no differences between the intact and the female-headed household.

TABLE 3.—*Patient liability for hospital bills for a female-headed or intact 4-person family at varying gross and net income levels*

Gross	Net	Patient liability for hospital bills of— $500	$1,000	$1,500	$2,000	$3,000	$4,000
Annual income:							
$4,500 or less	$4,000 or less	0	0	0	0	0	0
$5,700	$5,000	0	0	0	0	0	0
$7,000	$6,000	$500	$500	$500	$500	$500	$500
$8,500	$7,000	500	1,000	1,000	1,000	1,000	1,000
$10,000	$8,000	500	1,000	1,500	1,500	1,500	1,500
$11,000	$9,000	500	1,000	1,500	2,000	2,000	2,000
$12,000	$10,000	500	1,000	1,500	2,000	2,500	2,500
$20,000	$15,000	500	1,000	1,500	2,000	3,000	4,000

however, that health insurance rarely covers the full cost of care, particularly for outpatient services, and that many families between the medical indigency and low- to moderate-income levels may have no health insurance at all. Liability would also be less if the hospitalization of the household head resulted in a disruption of income which is entirely possible especially at lower income levels. On the other hand, the tables may underestimate the liability of families because it is assumed that resources are no more than the maximum allowed by the medical assistance program ($4,500). Since the primary focus of this study is on the impact of eligibility criteria for different benefits on the incentive to increase earnings, it is most important to look at how much of the additional earnings of families is absorbed by medical costs as income goes up.

This is not to say, however, that resources are not an important consideration if, in fact, regulations requiring that surplus resources be spent on medical bills are enforced. And it is not unlikely that families at the higher income levels shown in the tables will have resources considerably above $4,500. Although no information of this nature is readily available for families in New York City, a national survey conducted by the Federal Reserve Board in 1962 gives some indication of the average value of assets (both liquid assets and investments) held by families at different gross income levels.[35] For example, the average value of assets held by families with gross incomes of $6,000 is close to $5,800, or $1,300 more than the amount allowed under medicaid. Thus, both the intact and the female-headed family with $6,000 gross income and $5,800 resources would have to spend $1,300 on medical care before any assistance could be received. The data also indicate that families with incomes between $7,500 and $10,000 have assets valued at close to $9,000. Thus, either type family with income of $7,500 or $9,000 would have approximately $4,500 in surplus assets. The use of surplus assets and surplus income would be required, thus making them liable for the full cost of the medical bills shown in the tables. For families above the $10,000 level, the average value of assets is considerably higher, again increasing their liability for payment of medical care. It must also be recalled that if the family expends a sum exceeding 3 percent of its adjusted gross income for medical care it will reduce its income tax liability, so that the net cost will be less than shown in tables 1–4.[36] Finally, while the amounts shown in the tables are what are required according to the regulations, there is reason to believe that the regulations are not being fully implemented, particularly with respect to hospital bills for low-income patients.[37]

Apart from notch problems, one may note a number of inequities in the treatment of families who differ in nonfinancial characteristics but have the same income. These inequities arise, in part, from the differentiation between categorically related and noncategorically related

[35] D. S. Projector and G. Weiss, *Survey of Financial Characteristics of Consumers*, Board of Governors, Federal Reserve Board (Washington, D.C., 1966). (Assets include savings, stocks, bonds, and real estate investments but do not include the value of the family's home or automobile.)

[36] Expenses above 3 percent of gross income may be deducted from gross income to determine the family's taxable income. For a family with $9,000 gross income, $3,000 in medical expenses would result in a $529 tax savings.

[37] See section on administrative controls.

families, partly from the different definition of net income in the cash assistance and the medicaid programs, and partly from the differing formulas in the surplus income provision of the medicaid program and the catastrophic illness provision in the New York State Social Services law.

Thus, the medically indigent intact family with a net income of $5,000 may be no better off than the intact family on welfare with a net income of about $4,000 since it has to pay from $142 to $567 of total medical expenses amounting to $500 or $2,000 respectively, and about $400 or more of the net income goes for such work expenses as carfare, lunches, and union dues. In general, families on welfare receiving supplements to earnings receive more generous medicaid benefits than families with similar incomes who are not on welfare.

As a result of the varying formulas in the medicaid program and the catastrophic illness program, it is interesting to note that in regard to inpatient care, individuals whose net income is above $10,000 are in a more favorable position than families with the same income. For example, a four-person family with a net income of $15,000 will be responsible for one-half of the annual surplus above the medical assistance standard, or for $5,000 of hospital bills incurred. A single individual with the same income would be responsible for only $3,750 of his inpatient care, or 25 percent of his net income.[38]

There is also unequal liability for single individuals who are categorically related and those who are not. For example, an individual who is disabled would be responsible for medical costs equal to one-half his annual surplus income above the medical assistance standard of $2,200 for an individual. At a net income of $6,000 his liability would be $1,900 (one-half of the difference between $6,000 and $2,200). An individual between ages 21 and 64 with $6,000 net income and not categorically related would be responsible for 25 percent of his net income or $1,500 in hospital bills.

Another peculiarity of the medical assistance program is the difference in coverage available for outpatient and inpatient care. For example, noncategorically related adults who are eligible for inpatient care are not eligible for outpatient care until they have "spent down" to the public assistance level. While the rationale of the system is that hospital bills are typically the greatest burden to families, the system does create some disincentive to preventive treatment. This problem was highlighted by Seymour Budoff, director of the medical assistance program in New York City who stated:

"It's axiomatic in public health that the only real chance to get a 'bang for the buck' is in preventive care . . . yet in New York State we have told persons eligible for medical assistance, who are between the ages of 21 and 64, and who are not eligible for cash assistance, that we will no longer pay for their ambulatory care under the medicaid program. However, when they get sick enough to require hospitalization, they will be covered under medicaid. Essentially, we are saying that we will not pay $3 for antibiotics to treat an upper respiratory infection, but when pneumonia develops, we will pay for 2 weeks of hospitalization at a cost of $150 a day." [39]

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[38] The family is, however, allowed to maintain more resources. For example, the four-person family may retain $4,500 while the single individual could keep only $1,600.

[39] Testimony of Seymour Budoff before the Subcommittee on Fiscal Policy, op. cit., p. 175.

The difference in coverage of inpatient and outpatient care is also seen when one compares a family's liability for combined hospital and outpatient bills (tables 1 and 2) to their liability for equal bills for hospital care alone (table 3). At or below the $5,000 net income level, hospital care is free to all families. Their liability for a combination of inpatient and outpatient care, however, ranges from $50 to $200 for the categorically related and from $142 to $567 for the intact family, reflecting the family's obligation to pay part of the costs of outpatient services. At $6,000 of net income the family also pays less for hospital care costing $1,000 than for the same amount for hospital and outpatient care. With net income of $7,000 a family pays all of $1,500 for a combination of hospital and outpatient care, but receives some assistance with hospital bills of $1,500 or more.[40]

It would be hard to imagine a more confusing and complicated set of arrangements to determine who pays how much for what types of care under varying economic circumstances. It is extremely difficult for clients to know their rights. As to the impact on the incentive to increase income, since it is unlikely that anyone not steeped in the regulations would understand what he is and is not entitled to receive, it is improbable that the decision of an individual or family head not on welfare would be influenced by the loss of potential medical assistance benefits. But for the individual or family on welfare and automatically obtaining full medicaid coverage, or for the family with a net income currently at or slightly below the medical assistance level, the uncharted sea in which he must swim if his income increases by $500 must be frightening. It is indeed highly probable that it is this uncertainty that provides the greatest impediment to efforts to increase income on the part of welfare recipients. The effect of this incomprehensible and arbitrary system which may expose such families and individuals to heavy medical bills, often exceeding any additional income they might secure, can only be to encourage many families to retain their welfare status at all costs.[41] For, as welfare recipients they have certainty—certainty of access to full medical benefits with no copayments.

Administrative Controls

We have pointed out in other chapters that the income disincentive effects of a program will be felt only to the extent that there is minimal fraud in the form of underreporting income or resources, and minimal administrative inefficiency, in the form of irregular and infrequent checks on family circumstances and adjustments of benefit levels. Thus it is important to assess the effectiveness of administrative controls.

The administrative problems of determining initial and continuing eligibility fall into three categories: public assistance cases which constitute about 1,275,000 of the 1.5 million persons receiving medicaid

[40] Because of the peculiarities of the surplus income formula the liability for the outpatient portion of the combined bills could be smaller if the total bill occurs in a short period of time rather than spread throughout the year, but the latter is the more typical situation and this assumption is made in the tables.

[41] In an attempt to deal with the possibility of a severe "medicaid notch" resulting from loss of eligibility for public assistance H.R. 1 (Public Law 92-603, sec. 209) provides that a family that becomes ineligible for public assistance because of increased earnings will be covered by medicaid for an additional 4 months.

benefits in New York City and are automatically eligible for medicaid; the medically indigent who became eligible on the basis of a self-declaration of their income and resources; and those above the medical indigency level who may benefit from the surplus income provision in medicaid or the catastrophic illness provision of the New York State social service law. The extent of fraud in each of these cases is difficult to determine.

Any significant number of ineligibles [42] carried on the public assistance caseload will also be reflected in the medicaid caseload, except that some who have incomes above the public assistance level may still be below the eligibility level for medical assistance.

However, some people eligible for welfare do not apply for it, and there is reason to believe that about 120,000 persons, mainly aged, can be so described.[43] These people are not receiving the medicaid benefits to which they are entitled. In addition, many thousands of aged in New York City, though above the welfare level, may not have registered for medicaid even though they would be eligible.

Medical indigency is determined on the basis of a self-declaration of income and resources. Until November 1971, the declaration could be made by mail but abuses of this system led the New York City Department of Social Services to require a face-to-face interview since then.[44] Documentation is required in the form of paycheck stubs to justify the declaration of income but no further investigation is made of income and none of resources, unless the "prudent person" determining eligibility concludes that there are gaps or inconsistencies in the information presented. Recertification of eligibility for the medically indigent is done annually, also on the basis of a self-declaration, in response to a reapplication form mailed by the Department of Social Services. Eligibility is terminated automatically if a reapplication is not submitted. Medicaid cards are issued to public assistance recipients every 2 months. This procedure is designed to prevent persons who have become ineligible for public assistance from continuing to use their cards. Such persons could, of course, reapply for medical assistance in the medically indigent category.

As in the case of public assistance, estimated rates of ineligibility in the medicaid caseload rest on periodic studies involving a full field investigation of a 10 percent sample of the nonpublic assistance caseload. Also, as in the case of the public assistance caseload, these have shown an ineligibility rate of less than 3 percent, but questions have been raised as to the validity of these estimates. A comprehensive analysis of medicaid ineligibility was undertaken in 1972 by the Human Resources Administration,[45] and beginning July 1972, periodic validation studies were begun by the New York State Department of Social Services in conjunction with its comparable studies of the public assistance caseload.

[42] For a discussion of the extent of fraud in public assistance see ch. I.

[43] Blanche Bernstein, *Welfare and Income in New York City*, Center for New York City Affairs, August 1971, p. 18.

[44] The requirement was initiated by a State Department of Social Services directive issued in September 1971. During the 1972 session of the State legislature, the requirement was put into law.

[45] Testimony of Arthur Spiegel, Deputy Administrator and Executive Director, New York City Department of Social Services before the Subcommittee on Fiscal Policy, *op. cit.*, p. 187.

It should be noted that eligibility under the "surplus income" or "catastrophic illness" provisions is determined in a far different context than for other types of coverage. It is, in fact, an ad hoc determination made at a particular time to cover a single hospital bill rather than a determination made to cover future medical care.

The procedure for determining eligibility is initiated when a patient is admitted to the hospital and indicates that he will need assistance to pay his bill. If the estimated cost of care exceeds the patient's liability under the surplus income or catastrophic illness provision, the hospital will send the entire bill to the Bureau of Medical Assistance. The Bureau subsequently bills the patient for his share.

It is not clear whether these cases are included in the verification sample, so the extent of ineligibility is also unclear. But another administrative problem is evident. It appears that frequently the Bureau of Medical Assistance has only limited success in collecting the patient's share of the bill. The relatively low-income patient simply does not pay the bill because he no longer has the cash in the amount of his theoretical surplus income and the department does not institute a suit because it considers the bill uncollectible.

Common sense would indeed suggest the likelihood of a sizable amount of ineligibility. It must be extremely difficult to train a large and fluctuating corps of clerical and semiprofessional personnel to review each patient's medical bills and his economic circumstances and to determine accurately both the types of benefits to which he is entitled and his financial liability as distinct from the public share.

Seymour Budoff, director of the medical assistance program in the New York City Department of Social Services, stated that the problems of administering the program include "implementing criteria established for eligibility which defy the comprehension of most people" and added that—

> Because conditions for eligibility are incomprehensible and fluctuate for any given family from day to day, it often happens that at any given point in time, a family which was eligible suddenly is not eligible; although it may be eligible again next week.[46]

Since we have struggled with the manuals defining eligibility, we can wholeheartedly support his testimony.[47]

The reader may now feel, and with some justice, that we have already told him more than he really wants to know about the medical assistance program in New York City. But we cannot conclude this chapter without some reference to a significant element of the medical care delivery system in New York City which operates under different rules and regulations regarding eligibility for free or subsidized medical care. We are referring to the outpatient clinic system in municipal hospitals operated by the New York City Health and Hospitals Corporation.

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[46] Testimony of Seymour L. Budoff before the Subcommittee on Fiscal Policy, op. cit., pp. 174, 178.

[47] We must add that without the help given us by officials in the Department of Social Services in lengthy consultations, we also would not have succeeded in comprehending the criteria for eligibility. We should particularly like to acknowledge the assistance given us by Henry J. Rosner, Assistant Commissioner, New York City Department of Social Services, Seymour Budoff, director, medical assistance program, and Johanna M. Rodgers, assistant to director, medical assistance program.

Outpatient Care in City Hospital Clinics

The New York City Health and Hospitals Corp. (HHC), created by State law in 1969, operates the 19 hospitals formerly organized under the city's municipal hospital system. All residents of New York City, whatever their income, may receive outpatient care in the HHC's various clinics. Free treatment is provided in the tuberculosis, venereal disease, well-baby, premature baby, family planning, and innoculation and vaccination clinics. All other outpatient departments, including emergency rooms, charge patients who are not covered by medicaid or medicare; [48] the fee is based on the patient's income.

In 1971, approximately 4.7 million visits were made to the city's outpatient departments, including 1.6 million visits to emergency rooms, some 263,000 to mental health clinics, and 68,500 to mental health emergency rooms.[49] Somewhat less than half of the total number of visits to the clinics were made by individuals on medicare or medicaid.[50]

Four fee scales have been established for each of the four types of fee charging clinics: general clinics, emergency rooms, psychiatric clinics, and psychiatric emergency rooms. All fees are based on the patient's family size and net income which is defined simply as "take home pay." No evaluation is made of the family's resources. In the tabulation below, fee scales were translated into their approximate gross income equivalents by considering social security, New York State disability insurance, Federal, State, and city income taxes as typical salary deductions. In 1972, the fees charged to the patient from a four-person family were as follows: [51]

Fees for visits to various outpatient departments for a family of 4 at varying gross and net income levels

Annual income		Fee per visit			
		General		Mental Health	
Gross	Net	Clinic	Emergency room	Clinic	Emergency room
Under $6,700	Under $5,800	$2	$2	$1	$1
$6,700 to $8,500	$5,800 to $7,000	5	5	2	2
$8,501 to $10,750	$7,001 to $8,700	8	8	4	4
$10,751 to $16,500	$8,701 to $13,000	12	12	6	6
$16,501 to $20,000	$13,001 to $15,400	16	27	8	13
Over $20,000	Over $15,400	34	27	17	13

[48] Clinic visits are covered under the optional supplementary medical insurance provisions of medicare (part B). Medicare recipients without this coverage are billed in the same manner as other patients.

[49] New York City Health and Hospitals Corp., November 1972.

[50] According to staff of the HHC, health insurance rarely covers clinic or emergency room visits; the remaining visits are therefore referred to as made by self-paying patients. The corporation also treats its employees, prisoners, policemen and firemen injured in the line of duty, and patients from other city agencies such as the addiction programs; there is no source of direct reimbursement for these visits.

[51] Fees are charged only for those visits when the patient is seen by a physician. There would be no charge if a nurse is seen.

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The maximum fees of $34 and $27 in general clinics and emergency rooms respectively are considered to be the full costs of care. Maximum fees for mental health services are approximately half the cost, reflecting the special consideration given to those in need of psychiatric treatment.

The person who registers for treatment in a general clinic is asked whether or not he has medicaid or medicare coverage and, if not, to state his family size and net income or take home pay. Eligible medicare recipients receive free care as do medicaid recipients with A coverage, while medicaid recipients with B coverage are asked to contribute $2 a visit.[52] Other patients are assigned a fee based on their income. Fees for mental health clinic patients are handled somewhat differently. In most cases, the doctor, rather than a clerk, determines the fee to be charged since the fee payment may be designed to be part of the patient's therapy. Each person in a general clinic is given a clinic card indicating the fee to be charged for future visits. A bill is prepared and the patient is asked to pay the cashier. If he prefers, the bill is mailed. If payment has not been received after 30 days, one followup bill is sent. No subsequent attempts at collection are made. The procedure for emergency room patients is basically the same except that emergency care is given before the fee determination is made.

In general, the clinic fee scales are applied loosely at best. No documentation of income is required, no spot check verification is done, and little attempt is made to collect fees.

According to HHC staff, the typical fee charged is the minimal fee of $1 or $2 a visit. This results to a large extent from the fact that most users of these clinics come from low-income families. But in addition, the fee scale is well known to those familiar with the clinics and it is not unlikely that many patients match their reported income to the fee scale so as to be charged the minimum fee. Further, it is probable that many bills for $2 are ignored since there is no followup after the first reminder. Less than $2 million is collected from patients for outpatient visits during a year. Since approximately half of the visits are made by nonmedicaid or medicare patients, the average payment amounts to less than $1 per visit.

While the determination and collection of fees is a serious problem, HHC staff consider that the more serious financial loss to the corporation results from the underutilization of medicaid by those who are medicaid recipients or medicaid eligibles. In their assessment, a significant number of clinic patients have medicaid cards but either forget or choose not to use them. Further, substantial numbers of people who are apparently eligible for medicaid have not applied for it. In both cases, it appears that the clinics are regarded as a source of free care and that the loose administration of the fee scale is common knowledge. It is, therefore, not a disadvantage to the medicaid recipient to forget to use his card. Indeed, the person eligible for medicaid may avoid the inconvenience of applying for medicaid and still receive free medical care (in a clinic or emergency room).

The underutilization of medicaid is a serious financial problem for the corporation because of the Federal reimbursement lost for each

[52] See definition of A and B coverage above.

potentially eligible person and for each medicaid recipient who is not identified. The corporation receives $34 for each clinic visit and $27 for each emergency room visit made by a medicaid recipient.[53] It is estimated that as much as $40 million in medicaid reimbursement may be lost each year because of this problem.[54]

The fee scales for outpatient care at the city's hospitals appear to be more of a formality with minimal fees charged as a rule and little attempt made at collection. On the face of it, fees of $10 or more, perhaps even $5 or more, for general clinic visits are unrealistic since such a fee would cover care from a private physician. When the administrative cost of collecting less than $2 million in fees is considered, the value of charging patients for treatment is questionable.[55] One may reasonably ask why such a fee scale exists at all. The answer lies in part in the medicaid reimbursement system. Medicaid will not pay for treatment that is given free to nonmedicaid recipients. The medicaid reimbursement rate, which is supposed to cover the full cost of the service provided, is the upper limit of the fee scale for self-paying patients.[56]

The problem of the fee scales must be considered in the context of the publicly operated hospital system. The corporation is, to a large extent, constrained from strict administration. The mandate of the corporation is to provide service to all city residents and, according to the HHC staff, regulations prohibit verification of income. The clinics cannot turn away patients who refuse to pay their bills. There are also the practical considerations of large numbers of people needing care and limited administrative and professional personnel making enforcement of regulations difficult. In addition, the corporation hospitals, typically located in low-income neighborhoods have been subject to criticism for lack of concern for community problems. Since the clinics are viewed as the family doctor by a large portion of New York's low-income population, the adverse reaction to stricter regulations could be considerable, something the corporation would like to avoid.

It must be noted, however, that the clinic fee scales are not consistent with the regulations determining the patient's liability under medicaid

[53] The medicare reimbursement rate varies from one hospital to another and for the most part is considerably lower than the medicaid rate.

[54] The corporation is attempting to deal with the problem of those failing to use their medicaid cards by using a master file of clinic patients who have previously used their cards at the clinics for cross checking self-paying clinic users. But the problem of those who have never used their cards at the clinic or have not applied for medicaid remains. HHC staff would like to make efforts to enroll medicaid eligibles at the hospital but they are prohibited from doing so by State regulation. Currently they can only suggest that patients who indicate very low incomes apply for medicaid at the Department of Social Services.

[55] It has been estimated that $2 million is spent on the administrative costs of the billing process. While a portion of this covers medicare and medicaid billing, a substantial amount is spent to collect less than $2 million in fees from self-paying patients.

[56] The medicaid reimbursement rate is also partially responsible for one peculiarity of the fee scale. Between $16,501 and $20,000 gross income, the fee for emergency care is greater than the fee for clinic care, while over $20,000 the reverse is true. Since the medicaid reimbursement rate is only $27 for emergency room visits this became the maximum fee. Why the emergency room scale was not graduated more smoothly to $27 could not, however, be explained.

for outpatient care.[57] For example, the intact family of four with a gross income of just under $6,700 would have to spend its monthly surplus above the medical assistance standard or $70 per month before it became eligible for outpatient coverage and, at that, only the children would be eligible. In contrast, the family with the same income could receive practically free treatment at a municipal hospital clinic; even 10 visits by various members of the family in the course of a month would involve charges of only $20. The same inconsistency may be noted for the female-headed family of four with a gross income of just under $6,700.

Notch problems are evident throughout the scale as a family moves from one income group, as defined in the scale, to another; a $1 increase in income may result in a rise of $3 or $4 per clinic visit, or at the $20,000 level in a $16 increase per visit. But, as has been indicated, the scale is honored mainly in the breach. Moreover, higher-income families are unlikely to use the clinics except in an emergency.

[57] The net income equivalent of $6,700 is $5,836 or $836 above the medical assistance standard; the monthly surplus therefore is approximately $70.

Chapter V. Housing Programs

Subsidized housing programs in New York City today reflect the accumulated effects of Federal, State, and local legislation adopted over the last four decades beginning with the New York State Public Housing Law of 1934 and followed by the U.S. Housing Act of 1937. The housing situation of most New Yorkers, however, is influenced not only by housing programs but by tax laws which permit tax deductions for payment of interest on mortgages and property taxes and by rent controls which in effect provide a significant subsidy to families living in controlled apartments.

Eligibility for housing provided under housing programs is income tested, that is, benefits are related to family income; the tax benefits or the benefits derived from rent control are not. To avoid misleading impressions, it is important to note this fact in the introduction to any discussion of the nature and extent of subsidized housing programs in New York and their impact on the incentive to work. Indeed, if New York City follows the national pattern, the nonincome-tested housing subsidies involved in tax subsidies are substantially larger than the subsidies in the housing programs.[1] It is estimated that the bulk of such tax subsidies benefits families with incomes of $7,000 or more and about 70 percent of the subsidies benefits families with income of $10,000 or more.[2] Rent control benefits are also substantial; the tenant in a controlled apartment is paying a rent about $650 per year below the market value in New York City as a whole and $1,200 per year less in Manhattan. Further, while both the poor and the prosperous benefit from rent control, about 55 percent of the controlled apartments are occupied by the nonpoor.[3]

The nonincome-tested housing subsidies do not, of course, involve any disincentives to increase income. In fact, by and large, they work in contrary fashion since the higher the income the larger the tax deduction for any particular level of interest payment or property tax. Therefore, the higher the income level, the more likely that the value of the house and mortgage and consequently, the interest payment and property tax will be higher. Clearly, it is theoretically possible for any particular family to switch from an income-tested subsidized

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[1] *The Economics of Federal Subsidy Payments*, staff study prepared for Joint Economic Committee, Congress of the United States, Jan. 11, 1973. Table 5–7, p. 152, indicates that in fiscal year 1970 the estimated gross budgetary cost of Federal housing subsidies equalled $8.4 billion, of which $5.4 billion were tax subsidies deriving from the deductibility of interest and property taxes on owner-occupied homes.

[2] Henry G. Aaron, *Shelter and Subsidies, Who Benefits from Federal Housing Policy*, Brookings Institution, Washington, D.C. 1972, p. 56.

[3] Ira S. Lowry, Joseph S. DeSalvo, Barbara M. Woodfell, *Rental Housing in New York City, Vol. II: The Demand for Shelter*, The New York City Rand Institute, June 1971, p. XV.

housing program to a nonincome-tested subsidy in an owner-occupied home. However, data are not available in sufficient detail to permit any analysis of the impact of such switching on the total subsidy by income level. Therefore, it is not possible to determine whether or not the family is better off by the substitution of one kind of subsidy for another. Even among the income-tested housing programs, the analytical problems are not simple because we are dealing not with one housing program but with a dozen programs.

There are two basic reasons for the large number of housing programs in New York City. First, New York State and New York City, unlike most other States and cities, not only play a role in the federally subsidized programs but they have developed programs of their own without Federal subsidies. Secondly, the income groups targeted for benefits have been expanded. Thus, the U.S. Housing Act of 1937 stated that its goal was ". . . to alleviate present and recurring unemployment and to remedy the unsafe and insanitary housing conditions and the acute shortage of decent, safe and sanitary dwellings for *families of low income*[4] . . . ." (Italic ours.) In the Housing Act of 1949, Congress declared "that the general welfare and security of the Nation and the health and *living standards of its people* require housing production, and related community development, sufficient to remedy the serious housing shortage . . . and the realization as soon as feasible of *the goal of a decent home and suitable living environment for every American family*".[5] (Italic ours.) This goal was reaffirmed in the Housing and Urban Development Act of 1968 when Congress also determined that the goal could be achieved within the following decade and set a target for the construction or rehabilitation of 26 million housing units including 6 million for "low and moderate income families." [6] Under the 1949 Act and subsequent Federal legislation, as well as New York State legislation, programs have been developed not only for low-income families but for families with low-moderate or moderate incomes. In addition, as programs have worked out in terms of actual costs, the definitions of low-moderate and moderate incomes have been stretched to what are ordinarily considered high-income levels, particularly with respect to continued occupancy.

Programs for Subsidized Housing in New York City

Rental costs are made up of four elements: Operating costs, debt service, taxes, and profits. All the subsidized housing programs—Federal, State, and municipal—affect a reduction in the rent the tenant would otherwise have to pay by reducing or eliminating one

[4] Committee on Banking and Currency, House of Representatives, U.S. Congress, *Basic Laws and Authorities on Housing and Urban Development revised through January 3, 1971*. p. 253.

[5] Ibid., p. 1.

[6] Ibid., p. 3.

or another or some combination of these elements. The subsidy may take the form of a cash contribution to operating costs and if so it shows up in the Federal or State budget. Or, it may take the form of a municipal tax exemption in which case it is not visible in the budget and reflects itself only in a lower level of revenue than would otherwise be available.

In this chapter, we shall deal with 12 different housing programs, all related to rental housing. Subsidized programs for owner-occupied housing are also available in New York City, as in other cities and in suburban and rural areas in the country. In an effort to simplify the analysis somewhat, we have concentrated on subsidized programs for rental housing, a decision justified by the fact that the bulk of subsidized housing in the city is rental housing.[7] The 12 programs include 7 designed for low-income families, 2 for low-moderate, and 3 for moderate-income families. In terms of governmental sponsorship, the 12 programs include 5 federally subsidized programs, 3 State subsidized, and 4 which are exclusively city subsidized; the Federal and State programs also benefit from exemption from city taxes.

At the end of 1972, an estimated total of 268,700 apartments providing subsidized housing for about 915,000 people had been constructed in New York City under the various programs [8] (table 1). The most important of the programs in terms of the number of apartments it has made available to the city's residents is the federally aided public housing program for low-income families which accounted for 85,000 apartments or 31.7 percent of the total. The second largest, accounting for 52,500 units, is the State aided public housing program. Altogether, the 7 programs designed for low-income families accounted for 162,700 housing units or 60.6 percent of the subsidized housing in the city. About 88,000 apartments, 32.8 percent of the total, have been constructed under State and city programs for moderate-income families and 18,000 units, 6.6 percent, for families with low to moderate incomes.

[7] Two of the programs, however, State and city Mitchell-Lama, include some middle-income cooperatives.

[8] This assumes an average size family in subsidized housing of 3.4 persons and may be slightly on the high side; 3.4 is the average size family in Federal low-income projects. See New York City Housing Authority, Management Department Statistics Division, "Special Tabulation of Tenant Characteristics," Jan. 1, 1972.

TABLE 1.—*Estimated inventory of public and publicly assisted housing in New York City, end of 1972, by program type*[1]

Program type	Housing units	
	Number	Percent
Low income:		
Public housing:		
Federally aided	85,000	31.7
State aided	52,500	19.5
City aided:		
Pt. III	13,000	4.8
Pts. IV and V	6,000	2.3
Sec. 23 leasing	3,200	1.2
State capital grant	2,000	.7
Rent supplement	1,000	.4
Total low income	162,700	60.6
Low-moderate income:		
221(d)(3)	10,000	3.7
236 regular	5,500	2.0
236 exception	2,500	.9
Total low-moderate income	18,000	6.6
Moderate income:		
State Mitchell-Lama	48,000	17.9
City Mitchell-Lama	35,000	13.0
Municipal loan	5,000	1.9
Total moderate income	88,000	32.8
Grand total	268,700	100.0

[1] Excluding units built under 2 New York City programs, the redevelopment companies which obtained tax exemptions for a maximum of 25 years on the value of improvements, and the limited dividend housing program which also obtained partial tax exemption. These 2 programs accounted for about 35,000 units but many of them are no longer receiving tax benefits and no new housing is being built under them.

In brief, these programs are as follow: [9]

1. LOW-INCOME PROGRAMS

1. Federally aided public housing, designed to provide a decent, safe, and sanitary low-rent housing and related facilities for low-income families, was originally enacted under the U.S. Housing Act of 1937 and subsequently amended. It is administered by the U.S. Department of Housing and Urban Development (HUD) through area

[9] The descriptions of the various housing programs are derived from the following sources:

Committee on Housing Statistics: "Housing Statistics Handbook," *Basic Housing Statistics, The City of New York* (Oct. 1968), Fifth Edition, 99 pp.

Robert Alpern: *Pratt Guide to Planning and Renewal for New Yorkers*, (New York: Quadrangle Press, 1973), 416 pp.

Stanley J. Cohen and Helen Plumez: "Public Financing and Assistance Programs for Multifamily Housing in New York City," Office of Programs and Policy, Housing and Development Administration, the City of New York, Jan. 1971.

Fred Powledge: *New York State*'s *Capital Grant Program, Low-Income Families in Middle-Income Housing;* Citizens Housing and Planning Council of New York, Inc., 1969.

offices and local public housing authorities established under State laws. Low rental charges to tenants are made possible by Federal assistance to local housing authorities through loans, capital grants, and annual cash contributions to cover part of the costs, as well as partial exemption from city taxes. The program is administered in New York by the New York City Housing Authority, a public corporation established in 1934 which usually builds or rehabilitates housing structures and owns and operates the projects.

Provisions of the Housing Act of 1965 made it possible for Federal projects to be built by private builders if they are done within legislative cost limits; upon completion the buildings are turned over to and operated by the local housing authority.

2. The section 23 leasing program, authorized under section 23 of the Housing and Development Act of 1965, permits the local authority to lease individual apartments or entire buildings from private owners if the apartments meet local code and New York City Housing Authority standards. With the aid of Federal subsidies, the authority then subleases these housing units to low-income families at the same rentals these families would pay for apartments in public housing projects. Such leasing can involve new construction or existing housing, privately financed housing, or housing produced through Government programs. The purpose of section 23 was not only to increase the supply of apartments made available to low-income families but to promote economic integration in privately owned and operated apartment buildings.

3. A Federal rent supplement program for low-income families was authorized under section 101 of the Housing and Development Act of 1965. Originally designed chiefly for use in FHA-insured 221(d)(3) projects (see below), it was expanded in 1968 to apply to nonprofit or limited profit housing built with assistance from any level of government and was specifically tied in with section 236 interest subsidy programs (see below). The main purpose of the rent supplement program, as with section 23, was both to increase the supply of apartments for low-income families and to promote economic integration. The Federal subsidy covers the difference between the rent paid by the low-income tenant (i.e., 25 percent of his adjusted gross income) and the regular rent for the unit. The rent supplement program is administered by the New York area office of the U.S. Department of Housing and Urban Development (HUD).

4. State-aided public housing for low-income families is authorized under the New York State public housing law of 1934 which permits the State to guarantee temporary loan notes during planning and construction, to make long term development loans, and to provide annual cash subsidies for new construction or rehabilitation projects undertaken by the New York City Housing Authority. The cash subsidies cover debt service and 1 percent of operating costs; the remainder of the deficit is covered by a contribution from New York City, all or part of which can be in the form of tax exemption.

5. The capital grant low-rent assistance program, authorized in the 1965 New York State private housing finance law (sec. 44a, article 2), was designed to provide low-income families with apartments in privately owned middle-income developments constructed under the State and city Mitchell-Lama programs (see below). At first

limited to rental housing, it was expanded in 1967 to include cooperatives. The program is directed to "cohesive" family units, upwardly mobile young couples and stable elderly persons.

The New York State Housing Finance Agency is the actual lessor or purchaser of apartments in both State-aided and city-aided Mitchell-Lama developments and subleases the apartments to low-income tenants. Eligible families are required to pay at least one-fifth of their income for rent; the difference between this sum and the regular rent for the apartment is covered by capital grant funds.

6. City-aided public housing—part III, directed to low-income families, was authorized by the New York State public housing law of 1934. The city's contribution toward covering the cost of the housing is chiefly in the form of financing guarantees for temporary loans made during the planning and construction phase, for long term housing authority bonds authorized after construction is completed, and in the form of partial tax exemption. Projects built under this program are known as New York City's "no cash subsidy" program; rents are somewhat higher than in Federal or State public housing projects.

7. City-aided public housing—parts IV and V are in all respects the same as part III except that part III projects were completed between 1950 and 1952 and have one set of eligibility requirements; parts IV and V, completed between 1956–60 and 1968–69 respectively have another set of eligibility requirements; in addition, part V projects receive some cash subsidy.

2. LOW-MIDDLE-INCOME PROGRAMS

8. The 221(d)(3) BMIR (below market interest rate) housing program, established in section 221(d)(3) of the Housing Act of 1961, authorized the provision of housing for families of low-moderate income. It has been phased out since the establishment of section 236 programs in the Housing Act of 1968. However, about 10,000 apartments have been completed in New York City under this program so that it has contributed to the stock of subsidized housing in the city. Under this section, housing projects developed by eligible sponsors—nonprofit organizations, cooperatives, and limited dividend corporations—were subsidized through direct 40-year mortgages from the Federal National Mortgage Association (FNMA) at the below-market interest rate of 3 percent. The program is administered in New York City by the New York area office of HUD.

9. The section 236 program, authorized under the Housing and Urban Development Act of 1968, was designed for low-middle-income families who are just above Federal public housing admission eligibility limits but who cannot afford decent private housing. Income limits are set at 135 percent of public housing limits in the locality except that up to 20 percent of the number of units in 236 projects in the country as a whole may be used for tenants whose incomes exceed these limits but are no higher than 90 percent of the limits established for 221(d)(3) below-market-interest-rate housing. The 236 program provides interest subsidies payable by the Federal Housing Administration to lenders that reduce debt service payments on approved mortgages to the amount that would be required if a 1 percent interest rate were being charged. Mortgages for nonprofit and limited-profit

housing sponsored under both FHA insured housing programs and State and city loan programs are eligible for subsidy under the 236 program. The program is administered by the New York area office of HUD.

The section 236 program is usually combined with other subsidy programs. Rent supplement assistance may be provided for up to 40 percent of the 236 units. Administratively, however, such piggy-backing of subsidies has generally been limited in New York City to 20 percent and more recently to 10 percent of the units. In any given project, exceptions may be made and rent supplements provided for up to 100 percent of the units. Section 236 is widely used with city and State Mitchell-Lama financed housing projects which have found that their costs have risen so sharply that without the subsidies available under section 236, rents would exceed the capacity of middle-income families.

3. MIDDLE-INCOME PROGRAMS

10–11. State and city Mitchell-Lama projects, so called after the sponsors of the law, are authorized under the New York limited-profit housing companies law (art. II of the New York State private housing finance law) enacted in 1955. It permits the State and individual municipalities to finance and give tax exemption for rental or cooperative housing for low-middle and middle-income families. The statute did not, however, define middle income in dollar terms. Rather, it stated that at the time of admission to the housing project, the tenant's income could not exceed a multiple of the rental charged; that is, six times annual rent for a family of three, and seven times annual rent for a family of four.

The basic subsidy derives from the tax exemption which may be granted. But the cost of an apartment building constructed under the Mitchell-Lama law is reduced below what it otherwise would be by the fact that mortgages of up to 50 years on 90 or 95 percent of the development cost may be provided at the interest rate which the State or the city has paid (and this is lower than the private developer could obtain himself), plus a service charge of 0.25 percent. In return for these benefits, the maximum return to the private developer is limited to 6 percent on the equity in the building.

The New York State Division of Housing and Community Renewal and the State Housing Finance Agency administer the State's Mitchell-Lama projects; the New York City Housing and Development Administration administers the city's program.

12. The Municipal loan program (art. VIII of the New York State private housing finance law) enacted in 1960 permits municipalities to make loans directly to owners of multiple dwellings constructed prior to 1929 to install central heating and modern plumbing to rehabilitate apartments or to convert roominghouse-type units to regular apartments. In New York City the program is administered by the Housing and Development Administration (HDA).

The program was designed to serve middle-income families and, as in the case of the Mitchell-Lama projects, the basic subsidy derives from tax exemptions and abatements granted to rehabilitated buildings by the city. Also like the Mitchell-Lama projects, costs are moderated by the provision of 30-year mortgages up to 90 percent of the value of the building at an interest rate equal to the interest rate paid by the city or 6.5 percent, whichever is greater, plus a yearly charge of 0.5 percent.

The subsidized housing programs in New York City are indeed complex. Criteria for eligibility differ not only in terms of the targeted income group, initial admission, and continued occupancy, but also among those designed for low-income families or those for low-middle-income families. Income disregards vary widely, assets are not treated uniformly, and the level of benefits available to a family with any specified income can differ by as much as 300 percent, depending on the particular type of housing program in which his apartment is located. We turn now to an analysis of the criteria for eligibility for subsidized housing.

Current Eligibility Criteria

A number of non-financial eligibility criteria have been established for admission to housing projects under the various subsidized programs. Most are fairly general in character, such as the requirements for low-income projects that the family reside in New York City for 2 years and be living under unsatisfactory housing conditions. They do not in themselves constitute serious barriers for families, or elderly, disabled, or handicapped individuals.[10] Preference is given, however, to certain types of eligible families or individuals—such as those who formerly lived on the site or who were displaced by other governmental action—and the shortage of available apartments in low-income projects is such that families who do not have preferential status have little chance of admission.

Some of the smaller low-income programs do have some non-financial criteria which limit the types of families eligible. For example, the Federal rent supplement program requires that families meet at least one of the following qualifications: be displaced by government action, be an occupant of substandard housing, be a present or former resident of housing badly damaged or destroyed by natural disaster, or have a head of household 62 years of age or older, or physically handicapped, or on active military duty. In effect, these criteria for eligibility are about the same as the criteria for preference in admission to the main low-income programs.

The significant eligibility criteria relate to income and assets. Income eligibility is stated in one of two ways in all subsidized rental housing programs, either as a ceiling expressed in a fixed-dollar amount or as a multiple of the rent. The first system is followed in all low-income housing projects, and the latter system in the low-middle and middle-income projects.

With one exception, the BMIR moderate-income program, eligibility for admission is based on "adjusted" gross income which equals gross income minus various deductions or income disregards which vary from program to program. Among the 12 housing programs

[10] Little provision is made in low- or low-middle-income housing projects, however, for the unattached individual under 50 years of age on the assumption, apparently, that such individuals can fend for themselves in the private market. An unattached individual can remain in a low-income project if he is the last remaining member of a tenant family.

which have been described, we found nine different patterns of deductions; the seven low-income housing programs fall into four groups; the two low to moderate into two groups; the three middle-income programs each differ somewhat from the others. Table 2 shows these nine patterns.

Within the major low-income housing programs (that is, the Federal, State, or city-aided public housing) as well as the smaller section 23 program, the pattern of deductions is similar in important respects. For example, all permit the deduction of all earnings of minors, $1,500 of the earnings of adult secondary earners, social security and disability taxes, and various work-connected expenses such as uniforms, union dues, and *excess* carfare. But there are also differences: the Federal public housing program allows a deduction of $100 for each nonworking minor but the State and city public housing projects do not. The latter projects allow a deduction for pension payments to the elderly of up to $75 per month, the Federal programs do not. On the other hand, the Federal programs permit a deduction for veterans' compensation payments for service-connected disability or death benefits.

these are allowed. Thus, table 3 shows the gross income eligibility limits for admission and continued occupancy for the four-person family. Unlike the public assistance and medicaid programs, financial eligibility criteria for housing programs are basically the same for the intact as for the female-headed family. In terms of admission limits, the more significant figure is the maximum rather than the minimum since the latter is rarely stated in the regulations although ability to meet the rent payments is taken into account in determining whether to admit a family into the project.

TABLE 3.—*Summary of gross income eligibility limits for admission and continued occupancy for a 4-person family in March 1973, by housing program*

Program type	Gross income eligibility limits for— Admission: Minimum	Admission: Maximum	Continued occupancy (maximum)
Low income:			
Federal aided:			
Public housing	(1)	$8,920	$15,110
Sec. 23	(1)	8,920	15,110
Rent supplement	$2,920	8,400	8,400
State aided:			
Public housing	4,800	8,920	14,910
Capital grant	4,600	8,990	13,500
City aided:			
Pt. III	5,600	9,620	14,910
Pts. IV and V	6,200	10,420	14,910
Low-middle income:			
BMIR	6,000	13,200	(1)
236 regular	7,400	11,720	(1)
236 exception	9,000	13,200	(1)
Middle income:			
State Mitchell-Lama	9,000	18,900	28,350
City Mitchell-Lama	8,000	16,800	25,200
Municipal loan	6,000	12,600	18,900

[1] None.

Note: Maximums are either dollar income limits stated in regulations or are derived from specified rent to income ratios. Minimums are rarely stated in the regulations but ability to meet rent payments is taken into account. Minimum income limits shown in this table are the amounts at which required rents are 30 percent of adjusted gross income. One program however, sec. 236, states that rent must not equal more than 35 percent of income but this provision has been suspended pending the outcome of a legal challenge. While rent supplement has no minimum income limit, HUD will not pay more than 70 percent of the basic rent (or less than 10 percent). In effect, therefore, this establishes a minimum equal to 4 times 30 percent of the regular rent for the unit. Although no maximum income for termination is given for 236, there would be a maximum on a Mitchell-Lama 236 in accordance with Mitchell-Lama requirements that tenants move when income exceeds limits by more than 50 percent.

Maximum income limits for admission range from $8,400 to $10,420 in the low-income-projects, from $11,720 to $13,200 in the low-middle, and from $12,600 to $18,900 in the middle-income projects. Maximum limits for continued occupancy are substantially higher, reaching slightly over $15,000 for the major low-income housing programs [11]

[11] Administrative continued occupancy income limits were established by the New York City Housing Authority pursuant to New York State law which permits continued occupancy by over-income families who, because of the severe housing shortage, cannot obtain adequate housing in the community at a price they can afford.

and $18,900 to $28,350 for the middle-income projects. While no maximum limit on income is stated in the Federal legislation establishing the BMIR program and its successor, the section 236 program, families with income above a certain level would be required to pay a rent which equaled the rent at the market rate of interest and full local tax costs.

It is evident from table 3 that while there is a progression in both the minimum and maximum income eligibility limits for what is described in the legislation (whether Federal, State, or local) as low-income, low-middle, and middle or moderate income, there is also considerable overlapping. But this is perhaps inevitable and not especially serious. What does raise a question is how the levels defined for continued occupancy relate to currently accepted definitions of low or moderate income, as, for example, the Bureau of Labor Statistics description of the costs of levels of living in New York City. In terms of autumn 1971 prices, these were $7,578, $12,585 and $19,238 respectively for the lower, moderate, and higher levels of living for the four-person family.[12] These figures may be compared with the maximum annual income limits for continued occupancy in the major low-income housing programs of just over $15,000 and the limits on continued occupancy in the middle-income Mitchell-Lama houses of $25,200 and $28,350.[13] A similar result is obtained if one compares the income limits for continued occupancy in low-income and in middle-income housing with the distribution of families in New York City by income levels. In 1970, only about 30 percent of all four-person families in the city had incomes of $15,000 or more and only 5.8 percent had incomes of $25,000 or more.[14] Further, it should be noted that recently completed Mitchell-Lama developments are charging $70 to $80 per room, and some not yet completed will cost $100 per room. The maximum income limit for continued occupancy for the four-person family in such developments may go as high as $56,000 per year. But it is premature to attempt any answer to the question as to whether the maximum income levels for continued occupancy are too high before we examine the data on the rents paid by families at various income levels and the amount of public subsidy they receive under the various programs.

In addition to the restrictions on income, the amount of assets held by families applying for admission to the low-income housing programs is limited to 1.5 times the income admission limit in all such programs except the Federal rent supplement where the limit is $2,000 or $5,000 depending on whether the family head is under or over 62 years of age and the State Capital Grant Program which has no limitation on assets. The low-middle and moderate-income projects do not limit the amount of assets which the family may hold at the time of admission. None of the programs take account of assets in determining eligibility for continued occupancy.

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[12] U.S. Department of Labor, Bureau of Labor Statistics, News Release, "Rise in City Workers Family Budget," 1971.

[13] The high income levels for continued occupancy, as well as the relatively high level of admission, reflect the high costs of construction and therefore of rents and the definition of eligibility as a multiple of rent. In the early years of the program rents were less than $30 per room.

[14] Blanche Bernstein, "Recent Trends in Income Distribution in New York City, "*City Almanac*," vol. 7, No. 2, August 1972; Center for New York City Affairs, New School for Social Research.

Rents in Subsidized Housing Programs

All tenants in subsidized housing programs pay some rent based on the schedules of charges and surcharges prevailing in each of the programs. Table 4 shows the monthly rents paid by the four-person family at various gross income levels under each of the housing programs. These rents have been calculated from the varying rent formulas, and income disregards in each program. To simplify matters, we focus on rents paid by families in "continued occupancy" status in order to reflect both the rents paid by families who meet the financial eligibility criteria for admission and those whose incomes increase but who may remain in their apartments if they pay the required surcharges.

It can quickly be seen from this table that the different formulas and disregards result in a highly variegated rent pattern. In some programs—rent supplement, State aided public housing, city aided public housing part III—rent is increased with each $1,000 increase in gross income. In others—federally aided public housing and section 23 leasing, city aided parts IV and V, and the low-middle and middle-income programs—rent remains the same through some part of the income range but is increased, or decreased, with each $1,000 change in gross income above or below this range.

TABLE 4.—*Monthly rents paid by 4-person family in continued occupancy status, by program and gross income* [1]

Gross income	Low-income programs							Low-middle-income programs			Middle-income programs		
						New York City public housing			Sec. 236		Mitchell-Lama		
	Federal public housing	Sec. 23 leasing	Rent supplement	New York State public housing	Capital grant	Part III	Part IV and V	BMIR 221(d)(3)	Regular	Exception	State	City	Municipal loan
Unsubsidized rent	$175	$220	$240	$190	$270	$195	$210	$250	$315	$375	$270	$250	$190
$1,000	10	10	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
$2,000	21	21	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
$3,000	42	42	48	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
$4,000	62	62	62	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
$5,000	83	83	83	80	115	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
$6,000	85	92	104	86	115	98	(2)	150	(2)	(2)	(2)	(2)	(2)
$7,000	85	92	125	87	117	104	122	150	(2)	(2)	(2)	(2)	160
$8,000	85	92	147	91	133	113	122	150	160	(2)	(2)	200	160
$9,000	85	92	[4] 160	98	150	115	122	150	167	200	225	200	160
$10,000	85	92	(2)	112	167	119	122	150	187	200	225	200	160
$11,000	97	103	(2)	122	183	145	122	150	208	208	225	200	160
$12,000	108	114	(2)	129	200	157	122	150	229	229	225	200	160
$13,000	118	125	(2)	135	217	170	147	171	240	250	225	200	160
$14,000	130	135	(2)	140	[4] 225	182	159	180	240	271	225	200	160
$15,000	(2 3)	(2 3)	(2)	(2 3)	(2)	(2)	(2)	180	240	292	225	200	176
$20,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	234	240	300	236	230	(2)
$25,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	270	264	300	293	290	(2)
$30,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	270	324	330	(2)	(2)	(2)
$35,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	270	360	375	(2)	(2)	(2)
$40,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	270	360	435	(2)	(2)	(2)
$45,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	270	360	450	(2)	(2)	(2)
$50,000	(2)	(2)	(2)	(2)	(2)	(2)	(2)	270	360	450	(2)	(2)	(2)

[1] See explanatory notes to table 4 for basis of rents charged tenants and for basis of calculation of unsubsidized rental values.

[2] Not eligible.

[3] Maximum gross income for continued occupancy in the federally aided public housing and leasing programs is approximately $15,100, but since this is at the beginning of the $15,000 to $20,000 income interval families throughout this income interval are considered to have reached the maximum.

[4] The rent supplement tenant in BMIR, 236, or municipal loan housing whose gross income exceeds the $8,400 rent supplement maximum (table III) would transfer to regular tenant status in the particular program and would be subject to that program's regulations. For example, the rent supplement tenant in 236 housing would pay a surcharge when gross income reaches approximately $9,000. Similarly, the capital grant tenant in Mitchell-Lama housing would become a regular Mitchell-Lama tenant when gross income exceeds $13,500 (table III) and would be subject to Mitchell-Lama surcharges and eligibility limits.

Explanatory Note to Table 4

(1) *Rents Charged to Tenants*

Rents charged are based on rent schedules and regulations for each program. Although apartments in each program are assigned a specific rent, certain program regulations specify that tenants pay rents based on a percentage of their income, such as the Brooke Amendment which limits rent in Federal public housing to 25 percent of adjusted gross income. In the "low-middle" and "middle-income" programs the schedules of rent charges allow higher income tenants to be charged rents equal to or higher than the unsubsidized value of the apartments.

Rents are calculated for four-person families with incomes of $1,000 to $3,000; these are theoretical, however, since it is likely that families with such limited incomes would in fact obtain public assistance bringing them to a level of at least $4,000.

(2) *Unsubsidized Rental Values*

The unsubsidized rental value for low-income public housing units was derived from consolidated financial statements of the New York City Housing Authority. Per unit operating expenses as indicated in the statements were lowered by $25 to $30 to exclude costs which are not truly housing expenses such as social and community services, certain central office management expenses, and employee benefit contributions for all New York City Housing Authority personnel. The value of the tax exemption assumed that the portion of the rent which covers payment in lieu of taxes (or 10 percent of rent exclusive of utilities) represents 15 to 20 percent of total taxes due. (This results in a lower but more realistic value than would be obtained by using the current assessed value of the housing units.) Combining adjusted operating expenses, debt service, and tax exemption resulted in unsubsidized rentals for Federal, State, city III, and city IV and V public housing of $175, $190, $195, and $210 respectively.

The unsubsidized value of apartments under *Sec. 23 leasing*, i.e. $220, is based on the average unsubsidized value of apartments in the municipal loan, BMIR, and regular 236 programs, (see below) the programs on which sec. 23 units are piggybacked. The average is weighted heavily toward municipal loan where most of sec. 23 units are leased.

Rent supplement units are also located in BMIR, regular 236, and municipal loan developments. Thus, the unsubsidized value, i.e. $240, is also obtained by averaging the value of the three piggyback programs. Since a higher proportion of rent supplement units is in the higher cost programs, the average is weighted less heavily toward municipal loan than was the case for sec. 23. The unsubsidized value of the capital grant apartments, i.e. $270, is based on the unsubsidized value of State Mitchell-Lama units (see below) since it is assumed here that all capital grant units are piggybacked in State Mitchell-Lama housing.

The unsubsidized rents for low-middle and middle-income housing programs equal the rent paid by the tenant for apartments for a four-person family (that is the basic rent that could be charged for a particular apartment according to the rent schedule) plus the approximate value of subsidies such as operating subsidies, interest subsidies, and tax exemption, the value of the tax exemption varying primarily with the period of construction.

The unsubsidized rent for *BMIR units*, i.e. $250, is the sum of the rent of $150 paid by the tenant, $70 for city tax exemption, and $30 to cover the Federal Government interest subsidy (that is, the difference between a 3 percent and a market rate debt service.) The unsubsidized rent in *236 regular* units equals the $160 rent paid by the tenant plus the interest subsidy of $80 (based on the difference in debt service at a 1 percent rather than the market interest rate), and $75 in tax exemption, resulting in an unsubsidized rent of $315. *The 236 exception* units, most of which are located in the Mitchell-Lama developments, are somewhat newer and more expensive than the "regular" units; their unsubsidized rent is estimated at $375 based on a $200 apartment rent, $100 indebt service, and $75 in tax exemption. *The State Mitchell-Lama* unsubsidized rent equals the tenant's rent of $225 plus $45 in city tax exemption; and *city Mitchell-Lama* equals tenant's rent of $200 with $50 in tax exemption resulting in unsubsidized rental values of $270 and $250 respectively (the tax exemption for the State units is somewhat less because more of these units are located in areas with lower tax assessments.) The unsubsidized rent in the municipal loan program, $190, is the sum of the $160 apartment rent plus $30 in city tax exemption (reflecting the tax assessment on rehabilitated buildings located primarily in ghetto areas.)

(Estimates of the Federal contributions are from Morris L. Sweet, draft of unpublished study of funding sources for New York City housing programs, 1972. Estimates of the value of tax exemption for the various programs are from internal memoranda and tabulations prepared by Rhoda Radisch, Department of Development, NYC Housing and Development Administration).

It may also be noted that the rent paid by a family in any particular income range may vary substantially. For example, a family of four with a gross income of $7,000 will be charged from $85 to $150 per month depending on whether its apartment is in a Federal public housing project or in a BMIR program. Similarly, the $10,000 family may pay from $85 to $225 per month depending on whether it is living in a Federal public housing project or a city Mitchell-Lama building. To some degree these differences reflect differences in the "value" of the apartment but, as we will see when we analyze the amount of the subsidy in the various housing programs, they largely reflect differences in the amount of subsidy provided. Table 4 also indicates the monthly rental value (i.e. the unsubsidized rent) of the apartment when account is taken of the subsidies provided. These may include, in addition to tax exemptions, cash subsidies to cover operating deficits as in the Federal and State low-income public housing projects, or subsidies to cover the difference between market interest and the interest rates charged the project, as in the low-middle-income programs, or solely tax exemption or abatement, as in the middle-income projects.

The monthly rental values are estimates. The detailed basis of the estimates are presented in the explanatory note to table 4. In general, the unsubsidized rental values reflect operating costs excluding certain items not ordinarily part of rent in private housing, debt service, an estimated value of the tax exemption or abatement, and as appropriate, the limited profit permitted. They also reflect the average rental value for apartments in houses built at different times over a period of some years. For example, some public housing projects were constructed as much as 35 years ago when prices were considerably lower and some low-middle and middle-income projects were completed only within the last year or two. Operating costs are rising in houses built under any of the programs but debt service requirements vary widely depending on the time of construction and the difference between market rates and actual interest rates paid.

These estimates of the unsubsidized rental value range from $175 per month in the Federal public housing projects to $375 per month in the 236 exception program. It is importatnt to note, however, that these "rental values" do not reflect market value or what families would have to pay for a comparable apartment in the unsubsidized private market.

The Size of the Housing Subsidy

The housing subsidy is the difference between the rent paid by the tenant and the unsubsidized value of the apartment. Table 5, which is derived from table 4, shows these subsidies on an annual basis for each of the programs by income level.

If one assumes that the four-person family has a minimum gross income, or equivalent, of $5,000, the largest annual housing subsidy available to any family is $2,100, the subsidy to families with gross incomes of $9,000 to $10,000 benefiting from the 236 exception program. Between gross incomes of $5,000 and $25,000, annual subsidies range from $156 (to the $14,000 family in city part III public housing) to $2,100 (to the $9,000 or $10,000 family in the

236 exception program). But, taking account of the types of programs which have the most units, the annual subsidies fall roughly between $540 and $1,200 per year. These are substantial sums. How are they distributed by income level and what if any notch and equity problems do they present? First, one must consider how the regulations and rent schedules are administered with respect to criteria for eligibility and continued occupancy.

TABLE 5.—*Annual housing subsidy available to 4-person family by program and income*

Income		Low-Income Programs					New York City Public Housing		Low-Middle-Income Programs			Middle-Income Programs		
										Sec. 236		Mitchell-Lama		
Gross	Disposable [1]	Federal Public Housing	Sec. 23 Leasing	Rent Supplement	New York State Public Housing	Capital Grant	Pt. III	Pt. IV and V	BMIR 221(d)(3)	Regular	Exception	State	City	Municipal loan
Unsubsidized rent		$175	$220	$240	$190	$270	$195	$210	$250	$315	$375	$270	$250	$190
$1,000	$846	1,980	2,520	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
2,000	1,692	1,848	2,388	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
3,000	2,538	1,596	2,136	2,304	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
4,000	3,229	1,356	1,896	2,136	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
5,000	4,002	1,104	1,644	1,884	1,320	1,860	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
6,000	4,751	1,080	1,536	1,632	1,248	1,860	1,164	(2)	1,200	(2)	(2)	(2)	(2)	(2)
7,000	5,475	1,080	1,536	1,380	1,236	1,836	1,092	1,056	1,200	(2)	(2)	(2)	(2)	360
8,000	6,213	1,080	1,536	1,116	1,188	1,644	984	1,056	1,200	1,860	(2)	(2)	600	360
9,000	6,994	1,080	1,536	960	1,104	1,440	960	1,056	1,200	1,776	2,100	540	600	360
10,000	7,653	1,080	1,536	0	936	1,236	912	1,056	1,200	1,536	2,100	540	600	360
11,000	8,442	936	1,404	---	816	1,044	600	1,056	1,200	1,284	2,004	540	600	360
12,000	9,312	804	1,272	---	732	840	456	1,056	1,200	1,032	1,752	540	600	360
13,000	10,062	684	1,140	---	660	636	300	756	948	900	1,500	540	600	360
14,000	10,784	540	1,020	---	600	540	156	612	840	900	1,248	540	600	360
15,000	11,507	0	0	---	0	0	0	0	840	900	996	540	600	168
20,000	15,187	---	---	---	---	---	---	---	192	900	900	408	240	0
25,000	18,086	---	---	---	---	---	---	---	0	612	900	0	0	---
30,000	21,083	---	---	---	---	---	---	---	---	0	540	---	---	---
35,000	23,540	---	---	---	---	---	---	---	---	---	0	---	---	---
40,000	25,993	---	---	---	---	---	---	---	---	---	---	---	---	---
45,000	28,295	---	---	---	---	---	---	---	---	---	---	---	---	---
50,000	30,466	---	---	---	---	---	---	---	---	---	---	---	---	---

[1] Disposable income in this table equals gross income minus appropriate Federal, State, and local income and social security taxes, plus a fixed sum of $500 for work expenses.

[2] Not eligible.

Problems of Administration

Enough books have been written on the problems of administration of subsidized housing programs to constitute a fair-sized library. There are many problems ranging from the widening gap between revenues and operating costs in both low- and middle-income housing programs to questions of security. It cannot be said that none are relevant to the central concern of this study, that is, the impact of benefits in income-tested programs on the incentive to increase income, but they are only marginally relevant. In this section, therefore, we shall limit the examination of administrative problems to the question of verification of income and assets for initial admission and continued occupancy since, as in the other programs analyzed in this study, it is only if the income tests are enforced that they can have any impact on incentives.

The New York City Housing Authority management manual contains voluminous and detailed instructions to staff with respect to verification of income and other eligibility requirements for admission and continued occupancy in Federal, State, and city subsidized low-income housing projects. With respect to admission, considerable documentation—from marriage and birth certificates to income tax returns and pay stubs—is required from the prospective tenant with respect to size and composition of the family, the type of housing in which the family is currently living, and the family's income and assets. Visits may be made to the tenant's current apartment to verify any aspect of eligibility. Income is reexamined annually to determine whether adjustments need to be made in monthly rental charges and whether the family continues to be eligible.

With about 150,000 tenants in low-income housing projects operated by the New York City Housing Authority, annual verification of income and assets as well as verification for admission is obviously a large task. Nevertheless, it appears that the verification system for determining eligibility for admission is working well. The annual recertification process has faced some problems but it too is reasonably effective.

To determine the ongoing eligibility of Federal rent supplement tenants, the project manager conducts the verification of income and assets for admission and recertifies tenant income annually (except for the elderly). HUD reviews the project manager's reports. If the recertification is delayed, rent supplement payments to the building owner are withheld. Verification has been a costly and burdensome task for the nonprofit sponsors of the buildings housing rent supplement tenants and does not appear to be operating smoothly.

Verification of income for the 221(d)(3) and 236 low-middle-income programs is the responsibility of the housing manager or owner. He checks the tenant's application with the employer and with the W–2 form. If the wife appears to be employable, that is, not pregnant, ill, or otherwise incapacitated, but states that she is not working, she is asked to sign a statement to this effect. Unlike the practice with respect to low-income projects, however, home visits are not generally made to verify the information provided by the applicant. The application and the documentation are reviewed by the HUD area office. Income is verified at least each year for continued occupancy in the 236 program and at least every other year in 221(d)(3) housing. The verification is based on the tenant's declaration supported by a W–2 form, a check with the employer, and a check to determine whether the wife is working. The tenant is not asked to submit a copy of his income tax return, however, unless there appears to be some question about the total income reported. The W–2 form, of course, will not reveal secondary sources of income if they exist. Clearly, the verification procedures in the low-middle-income programs leave the possibility of significant under-reporting of income either at admission or during continued occupancy but data are not available to indicate how widespread the practice may be.

The verification procedures in State and city Mitchell-Lama middle-income, as stated in the governing regulations, are, in principle, comparable to the procedures in the low-income housing projects, and in fact they are comparable with respect to admission. Before a tenant is approved for admission to a Mitchell-Lama project, the housing company which owns the building must determine the applicant's income and certify the tenant's eligibility to either the New York State Division of Housing and Community Renewal or the New York City Housing and Development Administration, depending on whether it is a State or city program. These agencies in turn must approve the certification. A copy of the applicant's previous year's tax return must accompany each application for approval to be granted. These procedures for determining eligibility are being followed and are effective.[15]

The responsibility for the annual review of tenant income to determine whether the tenant must pay surcharges and/or whether he is still eligible for continued occupancy rests with the housing companies, in the case of State Mitchell-Lama houses. The governing regulations require that the tenant's statement of his income be verified by comparing his W–2 form with a copy of his previous year's tax return. However, until 1972, the verification procedures were not followed. Instead, reliance has been placed exclusively on the tenant's declaration of his income. As a result, there was considerable abuse of the program's intent with many tenants not reporting their income in full.[16] In the case of city Mitchell-Lama, HDA sends copies of income affidavits to housing companies which distribute them to tenants. HDA reviews and audits the affidavits and advises management as to necessary surcharges and continued eligibility. In effect, the system provides for a self-declaration of income by the tenant with verification based on spot checking. Unless the surcharge is paid, eviction proceedings are to be commenced. If no affidavit is received, the maximum surcharge is imposed. Thus, here too, procedures required by the law have not been followed. The former administrator of HDA asserted that recent spot checks gave credence to the suspicion that there was a "high degree of understated income in most Mitchell-Lama developments." [17]

[15] The Legislature—State of New York, Legislative Commission on Expenditure Review, *Middle Income Subsidized Housing in New York State*, Feb. 29, 1972, p. 13.
[16] Ibid. p. 14.
[17] *New York Times*, Oct. 1, 1972.

Beginning in 1972, both State and city authorities took steps to implement the regulations with respect to verification of income. In 1972, city authorities first requested tenant authorization to permit HDA to check the tenant's declaration against his income tax return. When this resulted in tenant protests and refusal to cooperate, the city simply asserted the right to do so under existing regulation. State authorities took comparable action. A tenant group took the issue to court where a State supreme court ruled against the tenants, the judge stating that persons living in middle-income developments are accepting a form of public assistance, and thus the State has the right to verify their incomes.[18] The matter is still in dispute with the tenants vigorously protesting what they regard as an invasion of privacy; they have successfully sought legislation from the city council to deny HDA the right to examine city income tax returns.[19] The bill is likely to be vetoed by the mayor but, in this event, the veto may be overridden. City officials contend that checking income tax returns is a legitimate verification procedure in a situation in which families are obtaining subsidies from the city. A recent report by the State Study Commission for New York City supports HDA's decision to check income tax returns.[20] Obviously, such action is necessary in both State and city Mitchell-Lama if the regulations regarding the relationship between income and rent payments are to be implemented.

There is a further problem in administration relating to the cutoff point for continued occupancy which affects both low- and middle-income projects, particularly the latter. In principle, families whose incomes exceed 50 percent of the maximum admission limits (and who are supposed to be paying the maximum surcharges) must move out or be evicted from the program. The purpose is twofold: to deny subsidies to families with incomes above the limit and to release subsidized units to families in need of subsidy. In fact, in neither State nor city Mitchell-Lama buildings, has any tenant been evicted. Tenants in these programs would not be receiving subsidies if they were paying the maximum surcharge, but their units would not be released to families with insufficient income to obtain adequate housing in the private market.

Until 1970, tenants in low-income housing projects were evicted if income exceeded the maximum income limits. Widespread agreement that continued implementation of this provision had destructive social and economic effects on the families and unfortunate repercussions on the character of the housing projects as stable, upwardly mobile families were forced out, led to a new provision of the law which permitted families whose incomes exceeded maximum limits to remain in the projects if moving would cause undue hardship. No families have been evicted for excess income since adoption of this provision and a bill has now been introduced in the State legislature to make the provision, currently effective only until July 1973, permanent by deleting the date of termination. Such families do

[18] *New York Times*, July 20, 1972.

[19] Office of the President of the City Council, by phone, March 12, 1973.

[20] The temporary State Commission to Make a Study of the Governmental Operation of New York City, Housing and Development Administration Study Group, *New York City's Mitchell-Lama Program*, January 11, 1973, p. 61.

benefit to some extent from subsidized rents, but their number appear to be small and they pay additional surcharges.[21]

In the discussion of notch and equity problems which follows, we assume in general that the criteria for admission and continued occupancy are in fact being implemented, but the impact of verification procedures as currently applied is also taken into account.

Notch Problems

Table 5, which shows the annual housing subsidy to the 4-person family at various income levels in each of the 12 housing programs, may be analyzed both vertically and horizontally. The vertical look reveals for each program how the amount of the subsidy declines with increases in income. The horizontal look indicates whether and to what extent the subsidy to the four-person family with the same income varies under different programs. Put another way, the vertical look reveals notches, if any, and the impact on incentive to increase income; the horizontal view focuses on questions of equity.

The following generalization can be made on the basis of the vertical data in table 5: there are no significant notch problems between the minimum limit for admission and the maximum eligibility limit for continued occupancy in each type of program; the reduction in subsidy, when there is one, from one income level to the next is generally less than 20 percent of the increase in disposable income (gross income minus income and social security taxes and $500 for work expenses). Indeed, in every program except the Federal rent supplement, there is a range of the income scale where the constancy of the rents charged constitute a positive incentive to increase income. Thus, in the Federal public housing projects rent is unchanged as gross income rises from $6,000 to $10,000 per year. In the 236 regular program the positive incentive operates from $13,000 to $20,000 per year and in the State and city Mitchell-Lama from $8,000 or $9,000 to $15,000 annual gross income.

The story is different at the level at which the family's income exceeds the maximum level for continued occupancy. Among the six low-income housing programs, which cut off at an income of just about $15,000, the annual loss in subsidy (except in city part III) equals from $540 to $1,020 compared to an increase in disposable income of $723. In other words, the marginal benefit-loss rate ranges from about 75 percent to over 100 percent. On the other hand, at the maximum cutoff levels in the low-middle or the middle-income projects as well as in city part III low-income projects the marginal benefit-loss rate on disposable income never amounts to more than 23 percent.

In principle, the tenant family in a low-income housing project whose income increases above the maximum level for continued occupancy can move to a low-middle or middle-income project and thus avoid the precipitous rise in the marginal benefit-loss rate. But it is improbable that the appropriate apartment will be available at the time the family must move, except where this is built into the

[21] In 1969 when families were still being evicted for excess income, only 386 evictions occurred among the approximately 150,000 tenants in the public housing projects (Community Service Society of New York, Committee on Housing and Urban Development), "memo No. 3," Feb. 6, 1973.

Federal rent supplement and State capital grant piggyback type programs. In principle, the low-middle or middle-income family in such programs as 236 or Mitchell-Lama also does not lose much subsidy in relation to his income when he reaches the cutoff point. He may find, however, that the rent he actually has to pay for a comparable apartment in the private unsubsidized market is far more costly and in fact imposes a high marginal benefit-loss rate on the family.

Thus, at the cutoff levels for eligibility for continued occupancy in low- or in middle-income programs, the notch problem may be quite severe. The family in a low-income project whose income rises to just over $15,000 may be forced to take an apartment at $50 per room per month rather than at the approximately $30 he has been paying; the annual difference in rent could be as much as $1,000 per year. As has been indicated above, the N.Y. State Legislature made provision in 1970 for a temporary stay in evictions of "excess income" tenants until July 1973 and it is possible that at the 1973 session this provision will be extended. In that event, the notch at what is now the cutoff point for continued occupancy will be eliminated. Similarly, a middle-income four-person family living in one of the older Mitchell-Lama projects where the rent including surcharges is $250 or $270 per month for a 4.5 or 5 room apartment, might, if his income rises above $25,000 or $28,000 in city and State Mitchell-Lama projects, respectively, only be able to find an apartment at $450 to $500 per month in the private market. His problem would be less severe if he could move into another Mitchell-Lama project only slightly more expensive than the one he is in but such accommodations may not be available. It must be noted, however, that no evictions for excess income have been made in Mitchell-Lama houses and further that, in the absence of verification of income, many tenants may not be paying the surcharge to which they are in principle liable.

Equity Problems

The housing programs in New York City present two serious problems of equity: equity among comparable families in the various housing programs, and equity between comparable families in one or another program and those who would like to be in a program but for whom no apartment is available.

First, with respect to comparable families in the various housing projects, one finds in the horizontal view of table 5 that the subsidy to the four-person family at a particular income level varies widely.

The family with a gross income of $7,000 may be taken as an illustration of what happens in the housing programs designed for low-income families. The amount of subsidy for such a family ranges from $1,056 in parts IV and V city-aided public housing projects to a maximum of $1,836 in the State capital grant program, a large difference. Closer analysis reveals however, that in the low-income programs which contain 156,000 of the total of 162,700 low-income housing units in New York City, the subsidy range is much narrower—from $1,056 to $1,236, or $180 per year. State public housing projects provide the larger subsidy in comparison to the Federal or city projects. It is in the smaller and more recent low-rent programs—section

23 leasing, rent supplement, and State capital grant—that one finds a much larger subsidy for the $7,000 four-person family, about $1,380 or $1,536 in the two Federal programs, and over $1,800 in the State program. The substantial difference in the subsidy results from the fact that while the rents paid by the tenants in these programs are higher than in the public housing projects, the "rental value" (i.e., the unsubsidized rent) of the apartments is proportionately still higher because the buildings are of more recent construction; also costs are higher, as is the value of the tax exemption. But there is a reason for this different treatment of families with the same income. In the case of the Federal section 23 and rent supplement programs, the goal was to promote economic integration of low with middle-income families while the State capital grant program was directed to "cohesive family units, and upwardly mobile young couples" as well as to stable elderly persons. Thus, low-income families were placed in middle-income housing which, obviously, they could not afford without a large subsidy.

It is less easy to understand the reasons for the diversity in the annual subsidy to a four-person family in section 236 low-middle-income projects as compared to the same size family at the same income level in a low-income public housing project. If one takes the $9,000 family as an illustration, the annual subsidy for such a family is $2,100 in a 236 exception building and $1,776 in a 236 regular compared to the range of $960 to $1,536 in the low-income projects. The answer to the puzzle, at least in part, is that the section 236 projects authorized by the Housing Act of 1968 are of recent construction; the costs, therefore, are high, and the income groups for which they were designed simply could not afford them without the larger subsidy. Increasing costs also explain the large difference in subsidy to the $9,000 four-person family in the two types of 236 programs—$1,776 and $2,100 per year—and the family with the same income in a State or city Mitchell-Lama project which gets a subsidy of $540 or $600 per year.

In considering questions of equity as among the various housing programs, note must be taken of the impact of the current rent schedules on four-person families with incomes of about $12,000 up to $15,000, incomes which are in the lower half of the BLS range between the cost of the moderate and of the higher standard of living. If such families are in the Federal, State, or local low-income public housing projects, monthly rents will range from $108 in the Federal projects to $182 in city part III and the subsidies they receive from $156 in the latter to $840 in the former. But if they are in the State or city Mitchell-Lama middle-income houses, monthly rent charges are $225 or $200 respectively, and the subsidy is between $540 and $600. The Mitchell-Lama tenant is, of course, getting a better apartment for his higher rent payment than is the tenant in the low-income project. At these income levels, however, rent in the Mitchell-Lama projects absorbs about a fourth of the $12,000 family income and about a fifth, more or less, of the $14,000 level of income. This is a heavy charge on the family's income; indeed, when income and social security taxes as well as work expenses are taken into account, rent in State Mitchell-Lama houses absorbs about 30 percent of diposable income at the $12,000 gross income level and 25 percent at the $14,000 level.

Another serious question of equity in regard to families in about this same middle range is posed by the maximum admission limits (table 3). One would assume that the progression and overlapping of these limits assured that families with incomes falling anywhere between the maximum admission limits for low- and for middle-income housing would be eligible for one or another program. This is true in principle but, because of the high rentals in the recently completed Mitchell-Lama projects, it is unfortunately no longer true in fact. Particularly hard hit are families with gross incomes of just over $13,200 up to about $16,000. They are barred from admission to the low-income or low-middle-income programs which have maximum admission limits ranging from $8,400 to $13,200 but they cannot afford the rentals in the recently completed Mitchell-Lama projects; at $75 per room for a 4.5 room apartment, a family would have to devote about 30 percent of a $13,300 gross income to rent and about 25 percent of a $16,000 gross income. In terms of disposable income, the respective figures are about 40 and 32 percent. The higher rentals in not yet completed Mitchell-Lama projects—$90 to $100 per room—would absorb even larger proportions of the gross incomes of such families. Families with incomes of $13,300 to $16,000 are, of course, eligible for admission to the older Mitchell-Lama buildings where rents are $30 to $50 per room. But, openings in these buildings are infrequent since families are not required to move when their incomes rise above the continued occupancy limits. With few openings in the older buildings and no new construction which they can afford, families in this middle-income group are effectively barred from any of the housing programs.

Whether one considers each housing program separately or looks at them across the board, one must conclude that a substantial governmental subsidy is made to the 269,000 families or unattached eligible individuals who are benefiting from any of the programs. At the maximum limits for continued occupancy in low-income projects, subsidies to four-person families with incomes of about $15,000 per year generally range from $500 to $1,000 per year; in low-middle and middle-income programs, subsidies of almost $200 to $900 per year are made to families with gross incomes of $20,000 and even to some families with incomes above this level.

Another large block of families and unattached individuals in New York City is benefiting from rent control. Approximately 1 million apartment units in the city, built prior to 1942, are under rent control. Tenants in such apartments, as indicated earlier in this chapter, are in effect obtaining a subsidy of about $650 without any income test. This subsidy will be gradually reduced, however, under the maximum base rent (MBR) program, adopted by the city council in 1970, which provides for annual rent increases of 7.5 percent beginning January 1, 1972 until the maximum base rent for each apartment is reached,[22] but this will take a number of years.

[22] The MBR is designed to provide enough revenue for adequate operation and maintenance and a rate of return to landlords competitive with rates of return on other types of investment.

Finally, about 669,000 families and individuals living in owner-occupied houses or apartment cooperatives in New York City are benefiting from subsidies through income tax reductions for interest payments on mortgages and property taxes. In this case, the larger the income, the larger the benefits.

Data are not available to permit any analysis of the comparative benefits to the four-person family at each income level from the housing programs, tenancy in rent controlled apartments, or from tax exemptions. One can only say that any profound similarities would be truly a coincidence.

With about 2,050,000 families of two or more persons and somewhat under 1 million unattached individuals in the city, there is a large block, about 1.1 million families or unattached individuals, not obtaining benefits from housing programs, tenancy in rent controlled apartments, or tax exemption for interest and property taxes. These include low-income families living in poor housing because they cannot find decent housing at prices they can afford and middle-income families living in decent housing but only by utilizing a higher than ordinary proportion of income for rent and sacrificing other aspects of their standard of living. This is really the major inequity in the system; meeting the criteria for eligiblity in a housing program does not guarantee that one will obtain the benefit. It can be remedied only by increasing the supply of decent housing to families at various income levels at prices they can afford.

Chapter VI. Day Care

Publicly subsidized day care for preschool age children began in the 1930's with WPA projects designed to care for children of families on relief and to provide jobs for unemployed teachers. Day care assumed major significance, however, only during World War II, when its purpose was to provide care for children of mothers whose employment was essential to the wartime economy. In both instances, day care was considered a temporary program to meet a temporary need. With the decline in urgent manpower demands at the war's end, many day care programs throughout the country were dismantled. Federal aid was discontinued in 1946.

Also in 1946, New York State shifted responsibility for day care from the war council to the State youth commission, and with this shift, the program's emphasis changed from facilitating the employment of mothers to the prevention of delinquency. Eligibility was limited to children living in areas of high delinquency whose parents were employed, incapacitated, or in the armed services. A year later, however, the State withdrew from the day care program altogether, on the grounds that day care was a matter of local concern. In New York City and a few other cities, a significant number of day care programs remained in operation, mainly under voluntary agency auspices and with a mixture of philanthropic and local government funding.

In the midfifties a new impetus for day care developed as it came to be regarded, particularly in New York City, as an alternative to the long-term placement of children in foster care. Further, it was also a way of permitting low-income women to work either as primary or secondary wage earners in a labor market which was again demanding their services. The main purpose was once again work oriented.

A major change in the purpose of day care occurred, however, during the sixties. The preschool child from a poor family became the focus of attention as day care came to be regarded as a way of helping the child overcome the disadvantages of poverty. In the same period, soaring welfare caseloads led to an expansion of day care programs to permit welfare mothers to accept employment.

Day care goals have expanded more recently into early childhood development programs, with some proponents urging such programs for all children, and most recently as a way of maximizing the opportunities for women to pursue their personal and career goals. But the other goals remain: a reduction in welfare caseloads, a way of enabling low-income women to improve family income, a way to attract women into the labor market, and a way of helping the economically and socially disadvantaged child in his early years.

Amendments to the Social Security Act in 1962 made Federal child welfare funds available to the States for day care for the first time and, since States were required to match Federal funds, New York State reentered the day care picture. Both Federal and State involvement in day care has expanded in recent years, especially after the 1967 amendments to the Social Security Act made additional Federal funds available. The growing number of children in publicly funded day care programs in New York City has reflected this increase. As of March 1970 about 8,000 children were in publicly funded group day care centers and an additional 4,500 were in family day care programs.[1] By the end of 1971, the numbers had grown to 15,700 and 6,150 and by December 1972 to approximately 24,000 and 6,400 respectively.[2]

At the end of 1972, however, Congress, in its final passage of H.R. 1 (Public Law 92-603), imposed a ceiling (in place of the previous open-ended appropriation) on Federal funds available to the States under titles IV-A and XVI of the Social Security Act for day care and other services. New York State and consequently New York City will receive less than had been anticipated. As a result, it is unlikely that the recent rate of expansion will be maintained.

Current Income Eligibility Requirements

Under New York City procedures, in effect as of December 1972, no child is ineligible for day care because of family income. The only limitation is that the family "must be in need of this type of service and be unable to provide this type of care at its own expense." [3] Families with incomes above a certain level, however, must pay a fee for day care according to an established scale.

The budgeting process used to determine a family's ability to pay for day care and the amount of weekly fees is complicated. The basic standard is a "Schedule of Weekly Expenses" (table 1) for families of different sizes with different numbers of wage earners based on the 1968 family budget standard developed by the Budget Standard Service of the Community Council of Greater New York for city dwellers of low to moderate income.[4] Included in the schedule are the cost of food, clothing, personal care, utilities, furnishings, laundry, household supplies, medical care, life insurance, telephone, transportation, union dues, social security and disability taxes, gifts, and miscellaneous expenses such as recreation.

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[1] New York State began licensing homes for family day care in 1964. Under this program a mother receives a monthly stipend to provide day care for one or more children in her home.

[2] "First Report to the Mayor of the Agency for Child Development of the Human Resources Administration" (November 1971), as quoted in *The New York Times*, Nov. 23, 1971, and Agency for Child Development (December 1972).

[3] City of New York, Department of Welfare, Bureau of Child Welfare, Division of Day Care, "Day Care Procedures No. 3, Procedure for Determining Financial Eligibility and Fees for Day Care Services" (1965) as amended.

[4] A revised standard was published in 1970 but the day care procedures have not yet been updated. The total cost of the community council's low-to-moderate standard for the four-person family in 1968 was $8,029. In 1970, the council's standard, now described as moderate rather than low to moderate, cost $10,813.

TABLE 1.—*Schedule of weekly expenses for families of varying sizes used in calculating day care fees in New York City*

Number of persons in family	Basic weekly expenses [1] for families with the following number of wage earners		
	None	1	2
1 adult and 1 child	$59.50	$78.50	------------
3 persons	77.50	96.50	$125.00
4 persons	96.00	115.00	143.50
5 persons	113.50	132.50	161.00
6 persons	129.50	148.50	177.00
7 persons	148.50	167.50	196.00
8 persons [2]	167.25	186.25	214.75

[1] Shelter, fuel for heating and heating water, State and Federal taxes are not included.
[2] For each additional unemployed person over 8 persons, add $20.25.

Source: City of New York, Department of Welfare, Bureau of Child Welfare, Division of Day Care, "Day Care Procedures No. 3, Procedure for Determining Financial Eligibility and Fees for Day Care Services" (1965), as amended.

To determine the fee the family must pay for day care, a budget is prepared based on the schedule of weekly expenses for the appropriate size family and number of wage earners. For a family of four with one wage earner the weekly amount is $115; to this is added the actual rent paid, an allowance for fuel, and actual salary deductions for Federal, State and city taxes. Exceptional expenses for health care or for other reasons may also be taken into account but these must be approved by the case supervisor.

Total expenses are compared to weekly income which consists of gross wages or salary of any member of the family, as well as any other regular income, such as support payments, workmen's compensation, or veterans benefits. The difference between expenses and income is the basis for determination of the weekly fee.[5] No account is taken of family savings or other financial assets.

The fee schedule is shown in table 2. If there is a budget deficit (gross income is less than the amount required to meet the standard) the family pays the minimum weekly fees. $2 for one child, $3 for two children or $3.50 for three children. This policy has not, however, been applied to public assistance recipients for the last 2 or 3 years; they are not required to pay any fee. When such fees were charged, they were simply added on to the recipient's monthly welfare grant, so that the cost of day care was still borne by the city and additional bookkeeping was the only result.

[5] For example, a mother of 3 children whose weekly gross income is $173 ($9,000 a year), would be allowed $115 a week for basic expenses and $21 a week for taxes. If a weekly rent figure of $29 is used, total expenses are $165 a week. The family has a weekly surplus of $8 (gross income of $173 minus expenses of $165) and would be charged $7.50 a week for day care for three children. (Rent is the amount paid by the family of four at a moderate standard according to the Community Council Family Budget Standard, October 1970).

TABLE 2.—*Schedule of weekly fees for day care for 1, 2, and 3 children, according to New York City day care procedures in effect in 1972*

Budget surplus	Weekly fee for 1 child	Weekly fee for 2 children	Weekly fee for 3 children
0	$2. 00	$3. 00	$3. 50
$0.01 to $4.99	2. 25	3. 50	4. 00
$5.00 to $5.99	2. 75	4. 00	4. 75
$6.00 to $6.99	3. 25	4. 50	5. 50
$7.00 to $7.99	3. 75	5. 50	6. 50
$8.00 to $8.99	4. 25	6. 25	7. 50
$9.00 to $9.99	4. 75	7. 00	8. 25
$10.00 to $10.99	5. 25	7. 75	9. 00
$11.00 to $11.99	5. 75	8. 50	10. 00
$12.00 to $12.99	6. 25	9. 25	11. 00
$13.00 to $13.99	6. 75	10. 00	11. 75
$14.00 to $14.99	7. 25	10. 75	12. 50
$15.00 to $15.99	7. 75	11. 50	13. 50
$16.00 to $16.99	8. 50	12. 25	14. 50
$17.00 to $17.99	9. 25	13. 00	15. 25
$18.00 to $18.99	10. 00	13. 75	16. 00
$19.00 to $19.99	10. 75	14. 50	17. 00
$20.00 to $20.99	11. 50	15. 25	18. 00
$21.00 to $21.99	12. 25	16. 00	18. 75
$22.00 to $22.99	13. 00	16. 75	19. 50
$23.00 to $23.99	13. 75	17. 50	20. 50
$24.00 to $24.99	14. 50	18. 25	21. 50
$25.00 to $25.99	15. 25	19. 00	22. 25
$26.00 to $26.99	16. 00	19. 75	23. 00
$27.00 to $27.99	16. 75	20. 50	24. 00
$28.00 to $28.99	17. 50	21. 25	25. 00
$29.00 to $29.99	18. 25	22. 00	25. 75
$30.00 to $30.99	19. 00	22. 75	26. 50
$31.00 to $31.99	19. 75	23. 50	27. 50
$32.00 to $32.99	20. 50	24. 25	28. 50
$33.00 to $33.99	21. 25	25. 00	29. 25
$34.00 to $34.99	22. 00	25. 75	30. 25
$35.00 to $35.99	22. 75	26. 50	31. 00
$36.00 to $36.99	23. 50	27. 25	32. 00
$37.00 to $37.99	24. 25	28. 00	32. 75
$38.00 to $38.99	25. 00	28. 75	33. 75

Source: City of New York, Department of Welfare, Bureau of Child Welfare, Division of Day Care, "Day Care Procedures No. 3, Procedure for Determining Financial Eligibility and Fees for Day Care Services" (1965) as amended.

A family with a budget surplus will pay an amount on that surplus, i.e., $2.25 for one child if the budget surplus is 0.1 cent up to $4.99; $2.75 with a surplus of $5 to $5.99, etc. At the higher income levels, the charges are $10 for one child if weekly income is $18 above expenses, $13 if income is $22 above, and $20.50 if the surplus is $32. With a weekly surplus income of $38, the family must pay $25 a week for a child, a sum which in 1965 was assumed to be the total cost of care. Any family with a larger weekly surplus must pay $25.25 weekly for one child. This token additional 25 cents reflects the fact that the family is considered ineligible for subsidy, but may still be enrolled in the program.

TABLE 4.—*Comparison of New York City and New York State weekly day care fee schedules for a 4-person family, by gross and net income*

Annual income: Gross	Annual income: Net	New York City Schedule. Number of Children in Day Care: 1	2	3	New York State Schedule, Family Fee
$4,160 [1]	$3, 803	$2. 00	$3. 00	$3. 50	(2)
$5,500 [1]	4, 895	2. 00	3. 00	3. 50	(2)
$6,000 [1]	5, 282	2. 00	3. 00	3. 50	$1. 00
$7,000 [1]	6, 069	2. 00	3. 00	3. 50	3. 50
$7,500 [1]	6, 453	2. 00	3. 00	3. 50	3. 75
$8,000 [1]	6, 847	2. 00	3. 00	3. 50	6. 00
$8,500	7, 229	2. 25	3. 50	4. 00	8. 00
$9,000	7, 628	4. 25	6. 25	7. 50	11. 00
$9,500	8, 010	8. 50	12. 25	14. 50	13. 75
$10,000	8, 287	12. 25	16. 00	18. 75	14. 25
$10,500	8, 647	17. 50	21. 25	25. 00	(3)
$11,000	9, 076	23. 50	27. 25	32. 00	(3)
$12,000	9, 915	[4] 25. 25	[4] 39. 00	[4] 45. 50	(3)

[1] At these gross income levels (and their net income equivalents) a calculated budget deficit exists.
[2] No charge.
[3] Full Cost.
[4] At higher income levels the fee remains $25.25 for 1 child; for 2 or 3 children the fee is 75 percent or 87.5 percent of the budget surplus respectively until the full cost of care, $50 for 2 children or $75 for 3, is reached.

NOTE.—Net income, as defined by State regulations, allows for deductions for income taxes and health insurance. Actual taxes and $285 for health insurance are deducted from gross income to reach net income figures shown above.

Comparisons between city and State schedules are approximate, however, since the budgeting process currently used in New York City leaves much room for individual variation, especially in the allowance for housing costs and exceptional expenses. It also seems possible that current city day care regulations have not been interpreted uniformly. Thus, fees currently being paid may differ from those indicated by the day care regulations. The absence of official data on the average fees actually paid by families at different income levels contributes to the difficulty of making exact comparisons.

Some generalizations, however, can be made. Little difference is found between the current New York City and the proposed State fee schedules with respect to fees charged to welfare families for day care.[10]

While welfare recipients with earnings are technically required to pay the full cost of care under the current State schedule, this amount is deducted from their income as an employment expense and their welfare grant is increased accordingly.[11] The State schedule also eliminates the minimum fee requirement for some low-income families, i.e. those with gross incomes of $5,500 or less.

[10] None of the State proposals suggested that welfare recipients pay for day care even if they are employed. In fact, one proposal included the provision that former HR and AFDC families not be required to pay for day care for 6 months after increases in their income make them ineligible for assistance.

[11] Under these procedures the full cost of care at the particular day care facility being used, up to $50 a week, will be deducted from earnings. The recipient will then be responsible for paying the day care fee. This allows the cost of day care for these families as an assistance payment with 50 percent Federal reimbursement rather than under the ceiling of Federal contributions for social services. Day care costs for families in the WIN program are claimed as a WIN program expense which are also outside the ceiling.

The rationale of the State fee scale becomes clear from this fairly comparison. The idea is to encourage welfare and lower-income families to take employment by providing free day care for preschool age children, and after school care for school-age children when necessary. Thus, under the State schedule, no fees are charged for families with gross incomes of less than $5,500; the current city scale requires payments of $2 to $3.50 from such families depending on the number of children in care.

At about a $7,000 gross income, the State specified fee would be slightly higher than the current city scale if one or two children were involved but the same if three children were in day care. Beginning at the $8,000 gross income level, where the current city schedule still requires only a nominal fee of $2 per week for one child, the State schedule would require significantly larger fees—$6 per week. Also at the $8,500 gross income level, the State fee of $8 is substantially above the amount now required for one child in care. Oddly enough however, while the State fee is higher than the city fee for one or two children, at the $9,500 level, it is lower for three. And, at the $10,000 level the State fee is lower for both two and three children.

The basic difference between the current city and the State fee scales, and the heart of the resulting controversy, is the "cutoff" point for subsidized day care. The State regulations require families whose net income is $8,500 (the gross income equivalent is approximately $10,500) and above to pay the full cost of care. According to opponents of these regulations, this virtually excludes these families from the public day care programs and changes the program's policy to day care for the poor only. It should be noted, however, that a gross income of $10,500 is not poor by established definitions. By 1970 standards, it is at about the BLS moderate-income level, and is not far below the median income of $11,286 for four-person families in New York City in 1970.

An important goal of New York State's day care policy is to help reduce dependency and its concept of day care is a program providing subsidized care primarily to low-income families. This is in conflict with the concept of day care which has developed in New York City as a service to families at all income levels. The New York City program has moved towards a concept of universal day care service providing early childhood development programs. Economic and racial heterogeneity in itself is considered to be an important element of these programs. The opponents of the State regulation believe that a price of $50 per week would discourage use of the publicly funded day care centers by families with gross incomes of $10,500 or more; they are undoubtedly correct since private day care centers are available at this or even a lower price.

The basic reason for the 1970 State policy which set the cutoff point for subsidized day care at $8,500 net income (or $10,500 gross) for the four-person family was the budgetary constraint. It reflected an estimate of how much day care the State could subsidize with the amount of money it was ready to put into the program.[12] But it was also influenced by the then existing Federal legislation which provided for Federal sharing of expenditures for day care of children of present or

[12] Discussion with Barry L. Van Lare, former executive deputy commissioner, New York State Department of Social Services, May 1972.

potential welfare recipients. According to regulations for Federally funded services for families and children (which will shortly be revised), States must provide day care, among other child care services, to any AFDC family required to accept employment or training under the work incentive program. In addition, the State will receive Federal funds if it elects to provide such services to the following types of families: families who are current applicants for public assistance, those who are former applicants or recipients, or those who are "likely to become" applicants or recipients. Families "likely to become" applicants or recipients of public assistance are defined as (a) those eligible for medical assistance, (b) those who would be eligible for public assistance if the earnings exemptions granted to recipients applied to them, (c) those likely to become assistance recipients within 5 years or (d) those at or near the dependency level (including those in low-income neighborhoods where services are provided on a group basis.) [13]

These provisions leave the State considerable latitude in determining who is a potential public assistance recipient. For example, if the $30 plus one-third earnings exemption granted to an AFDC mother were applicable to all female-headed households, this would place the potential assistance level at $9,000 gross income for the family of four. The definitions of "low income" and "those at or near the dependency level" are also variable. For example, if the BLS lower level budget for the family of four in the New York-Northeastern New Jersey area for Autumn 1971, is used to define low income, the potential assistance level would be $7,578 gross income for the four-person family. In setting the cutoff for eligibility for subsidized day care at a net income of $8,500 ($10,500 gross), New York State officials were apparently assuming that families below that level would be deemed "likely to become assistance recipients within 5 years."

Notch Problems and Equity

According to New York City's existing budgeting procedures, only a nominal fee—$2.00 per week for one child up to $3.50 per week for three children—is charged the four-person family with a gross income of less than $8,000, the theory being that it is not appropriate to take any significant part of the family's income for day care until it has sufficient income to purchase all the items in the family budget standard. It is at least questionable whether this assumption of rigidity of needs is justified, particularly since no account is taken of the family's resources in determining its ability to pay a fee.

However, examination of the city's current fee schedule reveals that at the lowest end of the scale, unless the family is on public assistance, the family with one child in care may pay from 45 to 100 percent of its surplus for day care (for example, if the weekly surplus is $2.25 or less, 100 percent is used to pay the $2.25 weekly fee; with a weekly surplus from $2.25 to $4.99 up to 50 percent of the surplus must be spent on the $2.25 fee). From a weekly surplus of $5 up to $17.99 per

[13] "Rules and Regulations, Service programs for Families and Children," Federal Register, XXXIV, No. 18 (Jan. 28, 1969) p. 1360. These regulations may be superceded by new and far more restrictive regulations published for comment prior to adoption in the *Federal Register*, Vol. 38, No. 32. Feb. 16, 1973.

week, the proportion required for fees is ths same—50 percent of the midpoint. Above the level of $18 per week, there is some progressivity in the amount required for day care—54 percent at a surplus of $18.50 per week and about 65 percent at $38 per week.

What is curious about all this, however, is that in 1972, the division of day care was still using a budget standard based on 1968 prices, except for rent and taxes, and maintaining a maximum fee of $25.25, regardless of the family's income although, according to DSS estimates, the current cost of day care is more than $50 per week.[14] We have not tried to calculate how this would come out if current prices and costs were used but what is clear is that higher income families, if they are using publicly funded day care centers, are receiving a substantial subsidy and can continue to receive it no matter how high their income goes. This is the reverse of a notch problem and indeed it contains no disincentive to increase income, but it is doubtful that it was the legislative intent to subsidize day care for children of middle-class or well-to-do families. It would appear that about 2,250 of the 30,000 children in publicly subsidized day care programs are in families with incomes which are the equivalent of $10,500 or more for a family of four.[15]

The New York State schedule of fees does contain a severe notch problem. The four-person family moving from a gross income of $10,000 to $10,500 is required to pay $50 per week instead of $14.25—an annual difference of $1,859 and clearly a disincentive. This problem had been recognized by State officials and various fee schedules considered between 1970 and 1972 made some attempt to deal with the notch or at least to move it to somewhat higher income levels.[16] But when the decision was made for budgetary reasons to implement the 1970 scale, the notch remained at $10,500.

Further manipulation of the New York State fee schedule could remove the notch problem by increasing fees more gradually above the $10,000 gross income level for the four-person family, but the consequence would be to provide substantial subsidies to families with gross incomes of as much as $15,000 or possibly more. One must then raise the question of whether it is reasonable to provide day care subsidies of possibly $750–$1,000 per year for families at this income level. In 1970, 41 percent of four-person families in New York City had gross incomes of less than $10,000 and 70 percent had incomes under $15,000. It is questionable whether the 30 percent of families with incomes of $15,000 and over should be required to subsidize day care for families

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[14] Day care cost data are notoriously inadequate and it is difficult to say what day care costs then or now. See Blanche Bernstein and Priscilla Giacchino, "Day Care Costs: Implications for Public Policy," *City Almanac*, VI, No. 2 (Center for New York City Affairs, New School for Social Research, 1971).

[15] Based on statement by Georgia L. McMurray, Commissioner, Agency for Child Development, in the *New York Times*, January 3, 1973, to the effect that 7.5 percent or 2,250 of the 30,000 children in day care programs would become ineligible under the State fee schedule. Her statement also implies that about 20 percent or 6,000 of the children are in families with incomes which are the equivalent of $8,000 up to $10,500 for a family of four.

[16] Under one schedule considered by the New York State Department of Social Services in an attempt to answer objections to the 1970 policy, a family of four would not have paid the full cost of care until net income was over $10,500 (close to $13,000 gross) and throughout the schedule fees would have increased more gradually. Consideration had also been given to allowing more generous deductions from gross income for such expenses as special schools for handicapped children and care of children during the workday other than through day care.

with incomes of about $12,500 up to $15,000 per year. Indeed, part of the cost of the subsidy may be covered by taxes obtained from families with incomes of less than $12,500 and some with incomes substantially below this figure. The question may be raised even more sharply with respect to the current city scale, whereby a family, no matter how high its income, may, if it chooses, use some of the limited number of places available in publicly subsidized day care programs and obtain such care at a price which reflects a substantial public subsidy. Moreover, day care expenditures are also subsidized by deductions allowed under the Federal personal income tax. Closer coordination of these direct and indirect subsidy methods would seem to be in order.

As indicated earlier, the family on welfare is not now charged any fee for day care in New York City. This makes a good deal of sense if the welfare family is obtaining all or almost all of its income from the welfare grant, but a startling anomaly occurs when account is taken of income incentives for AFDC mothers. Analysis of work incentive provisions has shown that an AFDC mother with three children entitled to the $30 plus one-third disregard can earn about $9,000 and still be eligible for about $150 per year in public assistance. The family will remain eligible for free day care, however, until it is no longer receiving any cash assistance. If, however, an AFDC mother increases her earnings from $9,000 to about $9,400 per year she would have to begin to pay for day care at the rate of $362 per year for one child, $537 for two, and $625 for three children. Thus, at this stage, the income incentive offered the mother under AFDC is negated. The extra $400 per year of income would, when account is taken of taxes and the day care fees, leave her somewhat worse off than she was before.

The New York State schedule does not correct the notch problem for welfare families, since it also does not take into account the public assistance family's total income in the determination of day care fees but only whether or not it is on assistance. Further, there is some inequity between the AFDC and the non-AFDC mother. A mother with three children earning $9,000 and not receiving assistance would be budgeted according to the previously described procedures and would have a weekly surplus of $8; the cost of day care to her for three children would be $7.50 a week ($380 per year) and for one or two children would be $4.25 and $6.25 a week respectively. The AFDC mother in the same economic circumstances would pay nothing.

Chapter VII. Dental Care

In New York City free dental care is provided to recipients of public assistance or medicaid and to children in foster care. In addition, under provisions of the New York State Public Health law, the New York City Department of Health with State and city funding, administers through its Bureau of Dentistry two income-tested programs of dental care for children. These are the dental clinic program which provides routine dental care for schoolchildren in kindergarten through the ninth grade, as well as for preschool age children,[1] and the dental rehabilitation program which, as its name suggests, treats children up to 21 years of age for severely handicapping dental defects which constitute "an obstacle—to optimal health, normal development, education and future employment."[2] Approximately 100,000 children including 12,000 preschoolers receive care under the dental clinic program and about 5,000 children are in the rehabilitation program.

Children in need of routine dental care may be brought into the program through their parents' request for assistance at a health center or at school, or as a result of efforts by school personnel to seek out those children in need of treatment.[3] Most referrals for rehabilitative care are made by orthodontists. Routine dental care is provided in 163 clinics in schools located mainly in low-income areas[4] in New York City and in 27 clinics in health centers operated by the Department of Health. Rehabilitative treatment is provided by a panel of private orthodontists or in hospitals or freestanding clinics approved by the Bureau of Dentistry.

Current Eligibility Requirements

The eligibility requirements for the two programs are somewhat different, reflecting the fact that routine care is relatively inexpensive. Initial care for a child at a private dentist would cost about $100 and

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[1] High school students are not routinely serviced due to the limited funds available for the program but efforts are being made to expand the program.

[2] New York City Department of Health, Medical Rehabilitation Services, *Guide for Determination of Financial Eligibility and Financial Participation of Families* (October 1965). Throughout this chapter "dental rehabilitation" refers to those services provided by the program: orthodontics and prosthodontics.

[3] The school may become aware of these children through its dental health education program under which all schoolchildren are given notes to be completed by their family dentist stating that the child is either receiving care, has completed care, or has normal teeth not requiring treatment. The school dental hygienist may also visit classes as part of the educational program, and either the classroom teacher or the hygienist may seek out the parents of children in need of care to obtain their consent to arrange treatment for the children.

[4] The clinics were originally established only in schools in low-income areas but due to population shifts some clinics are now in lower-middle and middle-income areas. While all clinics are located in public schools, parochial school children are also served.

recurring needs about $25 per year. Dental rehabilitation is much more expensive. For example, the cost of private orthodontic care amounts to an average of $1,500 per patient over a three-year period.[5]

1. ELIGIBILITY FOR DENTAL CLINIC PROGRAM

All children in families on medicaid (whether or not receiving welfare) are automatically eligible for free care in either the dental clinic program or from private dentists.[6] For those not on medicaid, eligibility is limited to children in families with incomes as follows:

	Maximum net income	
	Weekly	Annual
Size of family:		
2	$120	$6, 240
3	140	7, 280
4	160	8, 320
5	180	9, 360
6	200	10, 400
Each additional person	20	

Net income for the dental clinic program is defined simply as "take home pay." Thus, the gross income equivalent of $8,320—the maximum net income limit for the four-person family—is approximately $10,000, after income taxes and social security deductions are taken into account.[7] No evaluation is made of the family's resources. All children determined to be eligible and admitted to the program receive free treatment. If income exceeds the maximum, the children cannot use the clinic; there is no sliding fee scale.

2. ELIGIBILITY FOR DENTAL REHABILITATION PROGRAM

All children who have met the program's medical eligibility requirements who are on medicaid are automatically eligible for free treatment, except that medicaid recipients with B coverage must share certain costs.[8] Nonmedicaid recipients may be eligible under provisions of the Public Health Law of New York State which authorize full or partial assistance to families unable to meet the costs of rehabilitative treatment.

The Guide for Determination of Financial Eligibility for the rehabilitative services assumes and encourages financial responsibility by the family, but it states that their contribution to the cost of care

[5] Discussion with Dr. Leon Lewis, Assistant Director, Bureau of Dentistry, New York City Department of Health, Sept. 1972.

[6] Approximately 30 percent of the total number of children treated in the program are covered by medicaid. Families with B coverage would pay 20 percent of the cost of private dental care.

[7] Until late 1972, the dental clinic program was operating under longstanding guidelines which, in principle, set the eligibility limit for the four-person family at $5,000 net or $5,500 gross income. Actually, these guidelines were considered out of date and children in families above this level were treated.

[8] Approximately two-thirds of the children in the program are in medicaid families.

should not cause " * * * a reduction in the standard of living to the extent that hardship and deprivation might result * * *." [9]

As in several other programs, the determination of eligibility for the program and the amount of the fee, if any, involves a comparison of family needs or expenses and family income. The budget standard used in the dental rehabilitation program to determine family needs or expenses is the 1965 Family Budget Standard developed by the Community Council of Greater New York; a standard which is clearly out of date.[10] In order to compensate for the increase in costs since 1965, the Bureau of Dentistry in determining eligibility first reduces the family's total gross income (wages, pensions, income from lodgers, trust funds, support payments, and any other regular income of all adult family members) by 20 percent to a maximum of $2,400. Rent as paid (up to $1,800 per year for any size family) is also deducted, as well as a variety of expenses including a supplementary employment expense of $936 a year ($18 a week) for each fully employed earner other than the household head (prorated for those working part-time), and other "special expenses" for ongoing fixed costs such as alimony payments, child care for a working mother, pension contributions, a portion of parochial school expenses, and any special employment expenses such as maintenance of a car necessary for work. (Basic employment expenses for the household head are not deductible since they are included in the budget standard.) Payments on loans incurred for "essential needs" such as home repair may also be deducted as may medical expenses in excess of the amount included in the budget standard; i.e., expenses above $309 a year for the four-person family. The family's "adjusted gross income," that is their total income minus all dedvctions, is the equivalent concept to "net income" in other programs discussed in previous chapters. An unusual feature of the deductions is the allowance for parochial school education costs and repayment of loans.

In contrast to most other programs, the determination of eligibility and fees for dental rehabilitation includes a detailed procedure for assessing and utilizing a family's assets (bank accounts, stocks and bonds, etc.) Again, the guide is the Community Council's 1965 Budget Standard which provides a "reserve allowance" for families of different sizes (e.g., $2,100 for the family of four). If the family's assets exceed the reserve, 20 percent of the surplus up to $3,000, 30 percent of the surplus of $3,000 to $5,000, and 50 percent of the surplus above $5,000 is considered available for payment and is added to the yearly fee for which the family is responsible.[11]

In view of the many possible deductions from gross income, which tend to raise the income eligibility limits, on the one hand, and the requirement that some of the "surplus" resources be used in calculating adjusted gross income, on the other hand, it is difficult to state the eligibility limits for the dental rehabilitation program with any precision. According to the guidelines, a family of four whose annual

[9] *Guide for Determination of Financial Eligibility*, op. cit.

[10] At the time of this writing, a revised and simplified procedure was to be issued shortly, according to program administrators.

[11] If a family has surplus assets but its income is below the standard, the deficit may be deducted from savings before assessing the availability of assets for payment.

"adjusted gross income" is above $7,199 is ineligible for care. To translate this figure to its gross income equivalent as the term is used throughout this study, the most typical of the numerous possible deductions were taken into account—rent, medical expenses, and the 20 percent adjustment in total income. Allowing the maximum rent deduction ($150 a month) and assuming the family's medical expenses are $500 a year, the gross income equivalent is approximately $11,400 per year. The maximum eligibility limit, however, could be considerably above $11,400 if the family is entitled to other deductions such as those for employment expenses for secondary wage earners, day care, debt payments, or parochial school education, etc., or below this level if deductions are less.

The fee scale for the family of four with assets of no more than $2,100 is indicated below: [12]

Adjusted gross income	Annual gross income equivalent	Annual fee
$6, 000–$6, 199	$10, 000–$10, 200	0
$6, 200–$6, 399	$10, 300–$10, 400	$30
$6, 400–$6, 599	$10, 500–$10, 700	$50
$6, 600–$6, 799	$10, 800–$10, 900	$80
$6, 800–$6, 999	$11, 000–$11, 200	$120
$7, 000–$7, 199	$11, 300–$11, 400	$180
$7, 200+	$11, 500+	Ineligible

This fee scale differs from others we have seen so far in that fees are charged only within a narrow income band. The service is given free to four-person families with gross incomes of $10,200 or less; within an income band of $1,200, that is from over $10,200 to $11,400, fees of $30 and $180 are charged; and above $11,400 the family is ineligible for service in the program and must seek private care.

Program Administration

1. THE DENTAL CLINIC PROGRAM

Verification of eligibility in the dental clinic program is a fairly loose procedure. Either the school dental hygienist or a dental assistant at a health center clinic interviews the parent who is asked a few simple questions regarding family size, employment of family members, and the amount of weekly take-home pay. If the stated family income is close to the eligibility standard, approval is given for treatment. The family's resources are not considered and no documentation of income is required.

[12] According to program administrators, the cutoff point is the $180 payment level; i.e. those families able to pay more than $180 are ineligible. Thus, families with adjusted gross incomes below $7,199 but with assets above $2,100 will be ineligible since a percentage of the surplus assets must be added to the amount of payment for which they are responsible. Fees in the above table would be higher if there are surplus assets. If, at any of these income levels, the fee for which the family is responsible amounts to more than $180, the family could be considered ineligible. Data on assets discussed previously (medical assistance chapter) indicate that families with $6,000 gross income have average assets of close to $5,800 and that for families with incomes between $7,500 and $10,000 assets are close to $9,000. Thus, it is not unlikely that the combined effect of assets and income would make families with gross incomes of $10,000 and $11,400 ineligible for the program.

As indicated earlier, most dental clinics are located in low-income areas. The presumption is, therefore, that most of the children obtaining care in the dental clinics are in low- or low-to-moderate income families. The flexible administrative procedures appear to be in keeping with the goal of the program; to reach as many children as possible who need but may not be able to afford routine dental care. As indicated, the value of initial treatment given to a child in the program is approximately $100; annual dental maintenance costs about $25. As is the case with the school lunch program, detailed eligibility regulations could discourage participation. In addition, it is reasonable to assume that middle- and upper-income families will prefer to use private dentists for their children's routine and inexpensive dental problems no matter how flexible the eligibility requirements in the clinics. It is probable that of the 100,000 children receiving care in school clinics, relatively few are ineligible.

2. DENTAL REHABILITATION PROGRAM

The situation is quite different in the dental rehabilitation program. The numerous possible deductions indicating flexible eligibility limits are regulated by what appear to be carefully detailed administrative procedures. A dentist or orthodontist who believes a child requires rehabilitative care which his family may be unable to afford refers the child to school or health center dental personnel who do an initial screening of the child's dental problems. Final determination of both medical and financial eligibility is handled by Bureau of Dentistry personnel who then refer eligible children to panel clinics or orthodontists for treatment.

Applicants who are not medicaid recipients are required to submit full documentation of income, resources, and deductions. A certified copy of the family's Federal income tax return must be submitted and, if significant change has occurred since the return was filed, pay checks, wage slips, or employer's statement must be presented. Other documents such as bank books, rent receipts, brokers' statements, and paid bills are required where appropriate. In general, the verification procedures appear to be far more detailed than those for other programs, especially regarding the utilization of surplus assets. According to program administrators, these procedures are carefully enforced. In contrast to the dental clinic program which is designed to give routine dental care to as many children as possible, the dental rehabilitation program is designed to provide a highly specialized, costly service to a limited group of children.

Notch and Equity Problems

Since the dental clinic program provides a relatively inexpensive service, the notch problem it presents by cutting off eligibility at a gross income of about $10,000 for a four-person family is not severe. It is also likely that because of the flexible administrative procedures, a small increase in income above the eligibility level would be overlooked. But, one may question whether it is necessary to subsidize routine dental care for children in a family with an income of as much as $9,000 to $10,000. The answer may be that in fact such families are not using the dental clinics and that only low-income families are or more a week if regular homemaker services were required or $700 or more if round-the-clock care were necessary. On the basis of this formula a family able to pay $3,500 per year for publicly operated foster home care or $5,000 to $10,000 a year for care in boarding homes, group residences, or institutions under voluntary agency auspices is also financially ineligible for publicly subsidized care.

b. Treatment of resources

The procedures for evaluating eligibility require that resources be taken into account in determining the family's contribution to the cost of the service, but how resources are to be applied is not specified. According to SSC administrators, resources are fully explored and evaluated on a highly individualized basis with the amount used for homemaker or foster care determined by the overall family situation. If the family has substantial resources, it is expected to utilize a portion of them to pay for care unless special circumstances exist, such as the need for psychiatric treatment for another child in the family. Thus, while no specific schedule for use of resources exists, the fee is adjusted above the level equal to 50 percent of the budget surplus if substantial resources are available and the family's situation permits their use for this purpose.

Current Fee Scales

The fee schedule for four-person families at various gross income levels, excluding consideration of resources, is indicated in table 1. No fee is charged families with gross incomes of $8,000 or less, since according to the budget standard used, the family does not have any surplus at these income levels. The $9,000 family pays $208 per year and the $11,000 family, whose income is close to the median for all four-person families in New York City, pays a fee of $936. The subsidy to a median-income family, therefore, may be substantial—ranging from about $2,400 per year to over $9,000 for foster care, depending on the type of care necessary for the child, or from $1,500 to $7,500 for homemaker service. As indicated above, the costs of foster care may be anywhere from $3,400 to $10,000 per year while homemaker service may cost from $200 to $700 a week or from $2,400 to $8,400 for 3 months of service.

Because of the high cost, even high-income families are eligible for subsidized foster care or homemaker services. For example, families with annual gross incomes of $25,000 are eligible for partially subsidized full-time homemaker services and foster care placement in certain high cost facilities. At an income of $50,000, the family's weekly contribution is just over the highest average cost of foster care placement but it could be eligible for some subsidy if the actual costs of placement are above average. It is important to note, however, that the fees shown in table I are based on income alone with no consideration of resources. Available data indicate that at income levels between $7,500 and $10,000, for example, average family assets are valued at close to $9,000; available resources are even greater at higher income levels (see Medical Assistance, ch. IV). Thus, while it is not possible to estimate how much the fees would be increased in relation to resources, they could be and probably are higher than the fees shown in table 1.

TABLE 1.—*Fees for homemaker or foster care services for a family of 4 at various gross income levels*

Annual gross income	Income net of Federal, State and city taxes	Weekly fee	Annual fee	Increases over fees paid at preceding annual gross income level
$8,000 or below	7, 100	(1)	(1)	
$9, 000	7, 900	$4	$208	$208
$10, 000	8, 600	10	520	312
$11, 000	9, 400	18	936	416
$12, 000	10, 200	26	1, 352	416
$13, 000	11, 000	34	1, 768	416
$14, 000	11, 700	41	2, 132	364
$15, 000	12, 400	48	2, 496	364
$20, 000	16, 100	83	4, 316	1, 820
$25, 000	19, 000	110	5, 720	1, 404
$50, 000	31, 000	223	11, 596	5, 876

[1] No charge.

NOTE.—In the above table, basic expenses of $115 a week, plus actual income taxes and rents of $29 a week are compared to weekly gross income. At each income level above $8,000 a surplus exists. The weekly fee is 50 percent of this surplus. It should be noted that weekly fees would be lower when rents are above $29 a week since the budget surplus would be reduced. At incomes of $12,000 and above, Federal taxes were calculated by allowing a deduction of 13 percent of gross income. It was assumed that at these income levels, families would itemize deductions and that these deductions would average the same proportion of income as is allowed for the standard deduction.

Administration

The determination of the need for a homemaker and the type of service required is made jointly by the homemaker division and special services for children, or other department of social services personnel when appropriate. SSC determines financial eligibility for nonassistance families on the basis of a verified budget, that is, a budget for which adequate documentation has been provided. According to program administrators, however, SSC is flexible in its verification procedures and relies primarily on the cooperation of the family in furnishing documentation.[10] Further, as indicated above, the administration of the provisions relating to resources is, in the absence of any specific guidelines, highly discretionary. The flexibility again reflects the priority which is given to assuring that children are cared for and receive the needed service. In situations where service is provided to families who are able to pay partial or full costs of care but are unwilling to do so, SSC will take legal action to secure payment. According to program administrators, however, this happens infrequently and only in the most extreme situations.

Evaluation

It is clear that homemaker and foster care services involve large subsidies to both public assistance and nonpublic assistance families. If full-time homemaker service is needed for 3 months of a year, the cost could be from $2,400 to over $8,400; foster care for a child for a

[10] Discussion with Ciara Richmond, administrator aide to the director, Special Services for Children, September 1972.

year could cost up to $10,000.[11] These expensive services are provided free to families with a gross income up to $8,000 whether or not they are receiving public assistance, and fees covering only a portion of the cost of care are charged until annual income is well over $25,000, since a generous budget standard is used. The policy is that no matter how large, only half of a family's income surplus above that standard should be used for services involving the well-being of children.

In comparison with all the other programs which have been discussed, the fee schedule for homemaker and foster care services is unique in one respect—it does not contain any notch problems either for the family moving off public assistance or for the nonassistance family as its income increases from $8,000 on up. Even the AFDC family benefiting from the $30 and one-third disregard will not suffer a significant notch problem when it becomes ineligible for welfare. For such families at the $9,400 cutoff, an income increment of $200 per year could involve a charge of about the same amount for foster care or homemaker service but this is not a large sum at this income level. The intact family which is ineligible for the $30 plus one-third disregard and thus loses welfare benefits when total income equals $4,700 is not required to pay any fee until income exceeds $8,000.

In terms of equity, the relevant considerations are the treatment of nonpublic assistance families as compared to public assistance families, the relative fees charged to families at different incomes who are receiving service, and the availability of large subsidies for very high-income families.

With respect to the first consideration, since homemaker service for children and foster care are free to both public assistance and nonpublic assistance families with incomes of $8,000 or less, inequity between these families is largely eliminated. The schedule is regressive, however, in terms of requiring the same proportion of surplus from the family earning $10,000 as from the family earning $25,000 or more a year. Indeed, the scale is even more regressive than it seems since allowance is made for actual rent paid for expensive apartments in figuring the surplus available to the higher income family. In other words, a significant element of the family's higher standard of living is protected from use for payment for homemaker service or child care.

In assessing the equity of the availability of subsidies to families with sizable incomes it first must be said that the need for service is the primary concern and the safety of children is an important consideration. According to SSC administrators, most families referred to them for services have only low to moderate incomes. In addition, it is possible that a high-income family in need of casework supervised homemaker services or especially needing to place a child in foster care is so disrupted as to have service needs which do outweigh financial considerations.

[11] Long-term placement is not unusual. According to SSC administrators, while State and city regulations require annual reauthorization and 6 month reviews of placement, actual reviews take place more frequently. A subsidized adoption program has been developed to limit lengthy placement by allowing otherwise qualified families hitherto excluded by reason of the low level of their incomes to adopt children in their care.

On the other hand, it must be noted that although large subsidies are involved, the policy and the verification procedures are so flexible, particularly with respect to the utilization of resources, that some abuse is clearly possible. It is also possible that SSC administrators are reluctant to pressure families into full utilization of income and resources because of fear of jeopardizing the safety of the children involved. But commonsense would surely suggest that it is not inappropriate for a family to reduce its standard of living somewhat to meet a crisis situation, particularly if that standard is substantially above the moderate-income level.

These considerations appear particularly relevant to the homemaker program. According to administrators of this program,[12] there are some indications of a perversion of the original intent of the program which was to alleviate a temporary crisis in the family. The trend is toward fewer short-term cases and toward more long-term cases involving child abuse or neglect, or the inability of emotionally disturbed parents to care for their children. In such situations, the homemaker program must deal with basic family problems that are not likely to be solved by improved household management and some general counseling. In less critical situations, the homemaker may become a welcome addition to the household—an addition that a family is reluctant to relinquish once the crisis situation has passed. Apparently, more families are becoming aware of the attractive service available through the homemaker program. In contrast, the foster placement of a child cannot be considered anything other than an unhappy situation. Demand for the service is scarcely likely to increase, no matter how much of the cost is subsidized from public funds.

While public assistance and nonpublic assistance families with children are treated alike in regard to homemaker services, inequity is clearly present in the provision of homemaker services for adults since they are eligible only if they are on welfare. Aged one- or two-person families are particularly hard hit by the exclusion of the nonassistance families from the publicly subsidized adult homemaker services program. They are ineligible for welfare if their gross income exceeds approximately $2,200 or $3,200 for the one- and two-person family respectively or, even if their incomes are below this level, if they have resources in excess of $500 and $1,000 respectively. Yet, even if they had incomes substantially above this level, they could not afford to pay for homemaker services.

This difficiency in the program is especially evident given the large numbers of aged poor in New York City. It has been estimated that 120,000 persons, mainly aged, are eligible for public assistance but have not applied for it.[13] Other aged persons, though ineligible for welfare, live on limited incomes which are insufficient to allow for the private purchase of household assistance.

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[12] Discussion with Pearl Rowe, Director, Division of Homemaker Services, May 1972.

[13] Blanche Bernstein, *Welfare and Income in New York City* (Center for New York City Affairs, August 1971), p. 18.

The imposition in the Revenue Sharing Act of 1972, of a ceiling $2.5 billion on Federal grants for social services and the possibility of an even lower level of appropriation make unlikely any early expansion of New York City's homemaker program to include adults with limited incomes who are not receiving public assistance and whose exclusion is today a major program deficiency. It is a particularly glaring deficiency not only from the point of view of the aged persons denied this type of help but from the point of view of the public exchequer, since some of the aged now in nursing homes could remain in their own homes, at a lower cost to the public treasury, if supportive homemaker services were more readily available. It is a deficiency which should be made up by the State and city even in the absence of a Federal contribution.

CHAPTER IX. VETERANS PENSIONS

Veterans of the U.S. Armed Forces have traditionally been singled out for certain benefits in recognition of their service to the country. Among these benefits are insured housing loans, educational stipends, and a variety of special income maintenance programs. The Veterans' Administration (VA) administers two income maintenance programs for disabled veterans: *compensation* for veterans and their dependents for *injury or disability incurred or aggravated in service*, and *pensions* for veterans and their dependents who are *disabled for reasons not related to their service.* Payments for the former are based on the degree of disability while payments for the latter are related to income, assets, and family size. Widows and dependents of veterans whose deaths were service-connected are eligible for *dependency indemnity compensation* while widows and dependents of wartime veterans who died of nonservice-connected causes may receive *death pensions.*[1] Death compensation payments are based on the military rank of the veteran at the time of his death while widows' pensions, like the veterans pensions, are related to income, assets, and family size. The focus of this analysis is on the nonservice-connected, need-based, disability pension programs.

The pension program is authorized by Title 38 of the United States Code and is financed entirely by Federal funds. Eligibility requirements and benefit levels are set by law. It is estimated that in fiscal year 1972, the total cost of the program for the country as a whole was $2.5 billion.[2] In New York State in 1972, approximately 75,000 pensions were paid to veterans and their dependents and 106,000 to widows and children of deceased veterans.[3]

Current Eligibility Criteria

1. NONFINANCIAL CONSIDERATION

To be eligible for a pension a veteran must have served at least 90 days of active wartime duty[4] and must be "permanently and totally disabled." Determination of a veteran's disability is not, however, based solely on his physical condition but on a combination of factors: the severity of the physical impairment, the effect of the impairment on his employability, and his age. If these three factors indicate that

[1] The veteran need not have been receiving a pension at the time of his death for his widow to be eligible for benefits.

[2] Irene Cox, op. cit., p. 156.

[3] Veterans' Administration, Regional Office, New York City, by phone, October 1972 (data not available on the number of persons in these cases).

[4] Wartime duty includes any active military service during the Mexican Border period (1916–1917), World War I, World War II, the Korean Conflict, and the Vietnam era but not the periods in between these conflicts. Veterans with less than 90 days of active duty are also eligible if released or discharged from wartime service because of a service-related disability.

than for the veteran;[13] the maximum annual payment is $1,044 decreasing to $204 when income is $2,600 compared to from $1,560 to $266 for the veteran with the same countable income. The maximum benefit to the widow and one child is $1,248 a year, decreasing to $504 when income is at the maximum level. But unlike the veteran's pension which is the same for three or more dependents, an additional $204 is added to the widow's basic pension for each additional child. And although the maximum annual pension is higher for the veteran than for the widow with three dependents, the widow's pension is reduced less for additional amounts of countable income. If the widow is in a nursing home, or requires "regular aid and attendance," the pension may be increased by $660 annually.

If the widow's countable income exceeds the eligibility level, or if she remarries, the veteran's children are still eligible for pensions if each child's unearned income does not exceed $2,000 annually. The pensions are $504 per year for one child with an additional $204 for each additional child, with the total divided equally among the children.

Although no automatic cost of living adjustment is stipulated by law, pensions have been increased periodically by Congress. The latest revision, effective in January 1972, increased the maximum monthly pension for single veterans from $121 to $130 and for veterans with dependents from $132 to $140. It also increased the maximum eligibility levels by $300 annually above the 1971 levels.[14] The annual pensions to which veterans and widows with three dependents are entitled are illustrated in table 1.

TABLE 1.—*Annual pensions payable to veterans or widows with 3 dependents at various countable income levels*

Annual countable income	Annual pension	
	Veteran	Widow
$500 or below	$1, 800	$1, 656
$1,000	1, 668	1, 608
$1,500	1, 488	1, 536
$2,000	1, 308	1, 416
$2,500	1, 128	1, 296
$3,000	948	1, 140
$3,500	696	960
$3,800	516	912

[13] According to a VA official, payments for the widow are lower because the Nation's prime responsibility is to the veteran, his survivors being "derivative beneficiaries". (See testimony of Ralph White, Adjudication Officer, Georgia Regional Office of the Veterans' Administration, before the Subcommittee on Fiscal Policy, June 8, 1972, op. cit., p. 1164).

[14] The higher benefits were designed to allow for cost of living increases and to prevent the loss of pension because of the 10 percent increase in OASDHI benefits enacted in March 1971, an important adjustment since 76 percent of veteran pensioners also receive OASDHI benefits. (Research and Statistics Notes, op. cit.) Prior to the 1972 revisions, pensios were based on over 20 income brackets of $100 increments. A small increase in countable income, such as that caused by higher social security benefits, could place the veteran in a higher bracket, reducing his pension and resulting in loss of total income. The new benefit formula was designed to preclude loss of total income due to income increases from sources other than the pensions as long as countable income does not exceed the eligibility limit. At the time of writing, however, no adjustments in the benefit schedule had been made to prevent loss of pension because of the 20 percent OASDHI increase enacted in 1972.

Program Administration

As indicated, the veteran who is 65 years of age or older is automatically considered disabled. Veterans under the age of 65 are usually examined at a VA medical facility. A report is sent to a rating board which evaluates the veteran's condition to determine whether or not he meets the permanent and total disability criteria.

The veteran whose disability has been established or the widow of a deceased veteran is interviewed to determine financial eligibility and the amount of the pension. The applicant is usually interviewed at a veteran's assistance center (although a hospitalized veteran will be visited by VA staff when necessary), and is asked to complete an application supplying information on dependents, all sources of income, and assets.

No documentation of any kind is required. The recertification process is done by mail. In November of each year, a simple card is mailed to the recipient requesting a yearly statement regarding dependents, income, and assets. When the card is returned, the pension is reviewed and any necessary changes in the amount of payment are made before the pension is renewed.

The eligibility procedures are clearly intended to be lenient. Further, it appears that no regular sample verifications are made. The Veterans' Administration has been subject to some criticism for its administrative procedures and it appears that problems of ineligibility and overpayment do exist.[15]

There is a widely held belief that these benefits are payment for services rendered rather than public charity and the programs are administered accordingly. As a result, the veteran's rights are carefully guarded and benefits tend to be maximized. The national veterans organizations such as the American Legion and the Veterans of Foreign Wars help maintain this concept by political support for veterans' programs and encouragement to veterans to apply for benefits.

In statements before the Subcommittee on Fiscal Policy of the Joint Economic Committee, a VA official discussed the numerous sources from which the veteran receives counseling regarding his right to benefits and emphasized the special treatment given the veteran in need of assistance. In his words, "* * * The pension program recognizes the special status this nation has always accorded veterans and their survivors, in providing pension as an honorable means of supplementing income * * * "[16] Veterans are indeed regarded as a separate category of the "deserving poor."

Veterans Pensions in Relation to Public Assistance Benefits

In States, like New York, where public assistance standards exceed pensions, veterans and their families may receive supplementary

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[15] During the 1960's the U.S. General Accounting Office conducted a number of studies of the pension program that were critical of administrative procedures. The GAO is planning another review of the program which will address itself to such questions as eligibility controls and the "timeliness and accuracy" of pension payments. (Discussion with Stephen Gazda, General Accounting Office, Washington, D.C., November 1972.)

[16] Testimony of Ralph White before the Subcommittee on Fiscal Policy *op. cit.* p. 1161.

public assistance payments.[17] In fact, in New York, the family with no income has only a little to gain from receiving both pensions and public assistance rather than public assistance alone, since the pension is taken into account, except for some exemptions indicated below, in determining eligibility for and the amount of the public assistance grant.[18] For pensioners applying for public assistance in the VA category, for example, 15 percent of the pension is disregarded, as is $7.50 per month for the AABD category. The full pension of the widow applying for AFDC is included in net income.[19] Thus, the aged veteran and his wife or the disabled veteran with dependents on AABD has only $90 a year more if receiving benefits under both programs than under welfare alone; the veteran with a pension receiving public assistance under the VA category [20] is only $270 better off than the veteran without a pension, and the widow with three children has nothing to gain from dual eligibility.

The comparative benefits under the two programs may be quite different, however, for the family which has other income since income disregards are far more generous in the pension system than in the public assistance program; especially important are the wife's earnings, private contributions for a family's support, and 10 percent of any social security or other retirement benefits. For example, in a two-person family where the spouse earns $4,160 a year (the gross earnings from full-time work at $2 an hour), the couple will still receive the maximum annual pension for the veteran with one dependent ($1,680); such a couple, however, would be ineligible for welfare. Similarly, the disabled veteran with three dependents including a wife who earns $4,160 per year will receive a pension of $1,800 annually while a similar public assistance family would be entitled to only $1,180 a year.[21] Only in the case of the widow with three children are public assistance benefits somewhat more generous than pensions at this earnings level. Though the widow would be ineligible for the pension, an annual benefit of $912 would be paid to the children; an AFDC family not entitled to the $30 plus one-third disregard (that is, one who had not

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[17] For example, the New York welfare standard including rent for a couple in the AABD category is $2,982 while the maximum pension for the veteran and his wife is only $1,680. The veteran with three dependents is entitled to a veterans pension of only $1,800 a year; a family of four on AD may receive up to $4,059 a year. A widow with three children is entitled to $1,656 from the pension program as compared to $3,912 from AFDC.

[18] Since pensions are financed totally by Federal funds, New York City is careful to include the receipt of veterans benefits in determining welfare eligibility. The DSS sends an inquiry to the Veterans' Administration for every public assistance applicant who indicates veterans status. The VA then checks for benefits under VA programs and reports the amount of benefits to the DSS.

[19] The more generous disregard of pensions for veterans applying for assistance in the VA or HR category is apparently designed to encourage them to apply for the federally funded benefit in order to reduce the assistance grant which is funded exclusively by the city and State.

[20] The veteran may receive aid in the VA rather than the AD category because what constitutes a disability for the VA may not meet State disability standards.

[21] This benefit was calculated by deducting employment expenses of $801 and an employed homemaker allowance of $480 a year from gross income to determine the family's net income, $2,879. Net income was subtracted from the welfare standard, including rent for a family of four consisting of AD and AFDC recipients, $4,059. $4,059 minus $2,879 is $1,180, the size of the annual grant.

been on welfare before she began to work) would be entitled to a $1,033 annual public assistance grant.

Resources are also treated more generously in the pension system than in public assistance. The latter program specifically limits resources to a burial reserve of $500 for each family member; no specific limits are established in the pension program. Since the allowable amount is at the VA's discretion, veterans and widows could have substantial resources and still be eligible.

Although as we have seen, public assistance payment standards for the aged and disabled and for families with dependent children are, on the whole, more generous than for pensions,[22] it has been estimated that less than 10 percent of the total number of veterans in the country who are receiving pensions are also receiving public assistance.[23] Thus, while there may be some veterans who choose to receive lower benefits rather than apply for welfare, it seems probable that the limited receipt of overlapping benefits results primarily from the fact that pensioners and their families have significant income and resources that would make them ineligible for public assistance.

Notch and Equity Problems

The U.S. Congress has probably been more conscious of notch problems in the veterans' pension program than in most other social welfare programs.

It took action in the 1960 and subsequent amendments to reduce existing notch problems. Nevertheless, some remain, at least technically. A small increase in countable income above $2,600 for a veteran with no dependents would result in a loss of an annual pension of $264. For the veteran with one, two, or three or more dependents whose income increases slightly above $3,800, the loss would amount to $396, $456, or $516 a year, respectively. But the flexible administrative procedures described above indicate that a small change in income, if reported, would be overlooked. In addition, where the veteran's spouse is the major contributor to family income, an increase in her earnings will not affect the veteran's pension rights.

The widow without children could lose $204 in yearly benefits as a result of a small increase in countable income above $2,600 but a widow with three children whose income increases slightly above $3,800 would not lose benefits since the children remain eligible and the annual benefit of $912 paid to the children alone is equal to the benefit paid to a widow with three children with $3,800 countable income.

The pension program singles out the veteran even though his disabilities are nonservice connected, as well as the widow of a wartime veteran, whether or not he was disabled, for preferential treatment with respect to income maintenance, a preference which has been justified as delayed compensation for services performed during wartime. This is a tradition hallowed by time but questionable in a period when a

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[22] The monthly payment standard for the AFDC family of four and the aged couple is higher than the monthly pension in all but four States. In approximately half the States payments under welfare for the disabled or blind individual are higher. See Irene Cox, op. cit.

[23] James R. Storey, op. cit. p. 50.

variety of social programs exist to help people in need. Further, despite its goal, the VA pension system does not give much help to the disabled veteran without income or living on his social security benefit since the welfare grant for the disabled individual is greater than the veterans' pensions in half of the States and the welfare grant for the aged couple is greater in all but four of the States. On the other hand, the pension is a bit of a bonanza for the disabled veteran whose wife is working or has other sources of income. It may be that equity, as well as efficiency, might be better served if veterans and their families were entitled to the same benefits, were subject to the same degree of administrative regulation, and were served in the same assistance program as are other recipients of public assistance.

Chapter X. The Package of Social Programs

In the preceding chapters, each of the programs has been considered more or less separately. What happens when families benefit from a combination of programs? What is the total level of benefits to which a family may be entitled? Are the disincentives found in particular programs eliminated or intensified when benefits from various programs are combined and are different types of families treated more or less equitably?

In seeking answers to these questions it is necessary to distinguish among the programs. Some are directed at meeting universal needs for food, shelter, medical care. Other programs, such as day care, meet a need common to many but not all families; and some programs, such as foster care, are necessary only to a relatively small number of families in crisis situations. It must also be stressed that not all public assistance families benefit at any given time from all the other programs, even the "universal" ones. Sometimes this is a matter of the family's choice, as when it decides not to buy foodstamps; or because the service is not needed in a particular time period, as in the case of medical care; or because of inadequate supply, as in the case of subsidized public housing or day care facilities. But from the data available it can be said that the preponderant majority—about 80 percent—of families on public assistance also benefit from the foodstamp program and probably the children in most of these families receive free school lunches. Further, while not every family uses the "average" amount of medical care in any one year, almost every family is likely to use some medical services.

The welfare allowance includes an average sum for rent as paid, but it is estimated that, as of early 1973, only about 20 percent of welfare families obtain the additional subsidy inherent in the public housing programs.[1] Finally, with only about 30,000 children in publicly subsidized day care programs in New York City, it is clear that only a small percentage of welfare families are benefiting from this program. Even when account is taken of welfare families who have made private day care arrangements, the cost of which is covered in the public assistance allowance, it appears that less than 10 percent are benefiting from day care subsidies. This is not to imply that all or even a majority of the children in welfare families need to be in day care programs, but only to clarify the situation with respect to multiple social program benefits.

[1] In January 1971, about 16 percent of AFDC recipients lived in public housing ("Characteristics of ADC Families in New York State," January 1971, New York State Department of Social Services, September 1972, p. 72.) In the two intervening years the proportion of welfare tenants in public housing has increased from 24.3 to 31.3 percent. (New York City Housing Authority, Quarterly Reports of Management Activities.") Thus, it seems reasonable to estimate that about 20 percent of welfare families are now living in public housing.

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In order to present a fairly realistic picture of the social benefits available and the impact on incentive to increase income, it is most useful to consider different combinations of social programs reflecting both universality of need and the relative numbers of families benefiting from them. The most frequent combination is public assistance, foodstamps, and school lunches, followed closely by these three plus medical care. Less frequent is the combination of these programs plus the benefits of subsidized housing and least frequent is the combination which includes day care.

A series of tables has been prepared to facilitate the analysis. In supplement III, tables 1 to 3, information presented in earlier chapters on benefits available to intact and female-headed families of four is summarized. Female-headed households benefiting from the $30 plus one-third disregard are distinguished from those who do not.[2]

Table 1, in this chapter shows for each of the three types of four-person families, by gross income levels, the total value of benefits from various combinations of social programs *plus* disposable income, if any, from earnings and other sources. Disposable income equals gross income minus appropriate income and social security taxes and a work allowance of $500.[3] It is worth stressing that in considering the impact of social programs on incentives to increase income account must be taken not only of work expenses but of social security taxes and income taxes. It is this sum of disposable income plus the social program benefits which determines the level of economic well-being of the family. Table 1 can also be used to determine the approximate gross income equivalent of any particular combination of disposable income plus benefits from social programs by finding the figure which most closely approximates the combination in the column headed disposable income. For example, an intact four-person family with gross earnings of $7,000 which is benefiting from the medical assistance, housing, and day care programs has a disposable income plus benefits equal to $9,356; this figure approximates the figure of $9,312 seen in the column on disposable income and is the equivalent of a gross income of $12,000.

Tables 2 to 4 show the effect of higher earnings on benefits and disposable incomes from earnings for each of the three types of families. Omitted from the four text tables are the programs for foster care, homemakers, and dental rehabilitation since these involved only small numbers of families. Also omitted are veterans pensions which, except where the wife is working, are less generous than public assistance in New York City.

The Value of the Social Benefit Package

If a four-person family is without income from earnings or other sources such as pensions, interest, or dividends, table 1 reveals that benefits from public assistance, food stamps, and school lunches equal approximately $4,400. If medical care is included, the benefits equal $5,400 for the female-headed household and $5,600 for the intact

[2] See ch. I on public assistance.

[3] Except at income levels between $1,000 and $3,000 where part-time employment is assumed and the work allowance is prorated accordingly.

TABLE 1.—*Level of living potentially available to 4-person families in New York City benefiting from combinations of social programs plus disposable income from earnings and other sources, by income and type of family*

Income		Intact family—Disposable income plus—				Female-headed family not benefiting from $30 plus one-third disregard—Disposable income plus—				Female-headed family benefiting from $30 plus one-third disregard—Disposable income plus—			
Gross	Disposable [1]	Public assistance, food stamps, and school lunch (1)	Column 1 plus medical assistance, and dental clinics (2)	Column 2 plus housing (3)	Column 3 plus day care (4)	Public assistance, food stamps, and school lunch (5)	Column 5 plus medical assistance, and dental clinics (6)	Column 6 plus housing (7)	Column 7 plus day care (8)	Public assistance, food stamps, and school lunch (9)	Column 9 plus medical assistance, and dental clinics (10)	Column 10 plus housing (11)	Column 11 plus day care (12)
0	0	$4,367	$5,567	$6,359	$8,959	$4,462	$5,412	$6,204	$8,804	$4,462	$5,412	$6,204	$8,804
$1,000	$846	4,427	5,627	6,419	9,019	4,582	5,532	6,324	8,924	4,989	5,939	6,731	9,331
2,000	1,692	4,487	5,687	6,479	9,079	4,702	5,652	6,444	9,044	5,297	6,247	7,039	9,639
3,000	2,538	4,547	5,747	6,539	9,139	4,822	5,772	6,564	9,164	5,630	6,580	7,372	9,972
4,000	3,229	4,316	5,516	6,308	8,908	4,942	5,892	6,684	9,284	5,963	6,913	7,705	10,305
5,000	4,002	4,409	5,363	6,503	8,999	4,942	5,892	6,684	9,284	6,296	7,246	8,038	10,638
6,000	4,751	4,751	5,552	6,668	9,164	4,751	5,511	6,627	9,123	6,630	7,580	8,372	10,972
7,000	5,475	5,475	5,780	6,860	9,356	5,475	5,675	6,755	9,251	6,963	7,913	8,705	11,305
8,000	6,213	6,213	6,413	7,433	9,929	6,213	6,413	7,433	9,929	7,297	8,247	9,039	11,639
9,000	6,994	6,994	7,194	8,190	10,569	6,994	7,194	8,190	10,569	7,630	8,580	9,372	11,972
10,000	7,653	7,653	7,853	8,717	10,680	7,653	7,853	8,717	10,680	7,653	7,853	8,717	10,680
11,000	8,442	8,442	8,442	9,246	10,624	8,442	8,442	9,246	10,624	8,442	8,442	9,246	10,624
12,000	9,312	9,312	9,312	10,032	11,319	9,312	9,312	10,032	11,319	9,312	9,312	10,032	11,319
13,000	10,062	10,062	10,062	10,698	11,985	10,062	10,062	10,698	11,985	10,062	10,062	10,698	11,985
14,000	10,784	10,784	10,784	11,384	12,671	10,784	10,784	11,384	12,671	10,784	10,784	11,384	12,671
15,000	11,507	11,507	11,507	12,107	13,394	11,507	11,507	12,107	13,394	11,507	11,507	12,107	13,394
20,000	15,187	15,187	15,187	15,559	16,846	15,187	15,187	15,559	16,846	15,187	15,187	15,559	16,846
25,000	18,086	18,086	18,086	18,794	20,081	18,086	18,086	18,794	20,081	18,086	18,086	18,794	20,081

[1] Disposable income equals gross income minus appropriate income and social security taxes and a work allowance of $500. The work allowance at income levels of $1,000-$3,000 is prorated.

family. The relatively minor difference reflects the variation in family composition and its impact on medical care costs. These are net figures however; when translated into the gross income equivalent, the combination excluding medical assistance equals approximately \$5,500; including medical assistance, this combination of social programs provides the equivalent of \$7,000 for either the intact or female-headed family of four.

It is of some interest to compare the gross income equivalent of the benefits of these four basic programs—public assistance, food stamps, school lunches, and medical assistance— with the cost of the Bureau of Labor Statistics lower level of living, sometimes known as the city wage earners budget, for the New York area, a level which is considered a decent standard for the family with an employed wage earner.

In autumn 1971 prices, this was \$7,578; when rough account is taken of price increases between 1971 and 1972, the cost may be put at about \$7,880 in 1972 prices. Thus, what may be called the universal package of social program benefits is within about 11 percent of the BLS lower level of living. It is true, of course, that a family earning \$7,000 might not spend the income in the same way as the family obtaining the equivalent sum in cash and benefits from social programs is defined as doing. For example, it might not devote as large a proportion of its income to medical care or to the purchase of food. Nevertheless, any package of programs which provides the equivalent of 89 percent of the BLS lower living standard must be described as a fairly high standard. It is the equivalent of what a wage earner working a 35-hour week at \$3.80 per hour would earn.

When housing subsidies are added to the package, the gross income equivalent reaches over \$8,000 and when day care is added the gross income equivalent rises to about \$11,500—a figure more than midway between the BLS lower and moderate levels of living. This level of benefits is not available, however, to all families on welfare; only about 20 percent of families on welfare are living in publicly subsidized housing and less than 10 percent have a child in subsidized day care programs.

The Impact of the Package on Incentive To Increase Income

While the value of the benefits available to the four-person family without any income is approximately the same regardless of family type, differences do exist once the family has some income from earnings or other sources. The impact of the benefits available from various combinations of social programs on incentives to increase income will, therefore, be considered separately for each type of family. The essential data are the amounts left to the family from gross income after payment of taxes and work expenses, that is disposable income, plus the benefits to which it remains entitled under the rules and regulations governing the various Federal, State, and local programs as they operate in New York City.

1. THE INTACT FAMILY

The relevant data for the intact family are presented in tables 1 and 2. They make it strikingly clear that there is practically no advantage

TABLE 2.—*Change in potential benefits from combinations of social programs plus disposable income from earnings and other sources for an intact 4-person family, by income level*

Income		Difference in disposable income plus							
		(1) Public assistance, food stamps, and school lunch		(2) Col. 1 plus medical assistance and dental clinics		(3) Col. 2 plus housing		(4) Col. 3 plus day care	
Gross	Disposable [1]	From preceding income level	From zero gross income	From preceding income level	From zero gross income	From preceding income level	From zero gross income	From preceding income level	From zero gross income
0	0								
$1,000	$846	+$60	+$60	+$60	+$60	+$60	+$60	+$60	+$60
2,000	1,692	+60	+120	+60	+120	+60	+120	+60	+120
3,000	2,538	+60	+180	+60	+180	+60	+180	+60	+180
4,000	3,229	−231	−51	−231	−51	−231	−51	−231	−51
5,000	4,002	+93	+42	−153	−204	+195	+144	+91	+40
6,000	4,751	+342	+384	+189	−15	+165	+309	+165	+205
7,000	5,475	+724	+1,108	+228	+213	+192	+501	+192	+397
8,000	6,213	+738	+1,846	+633	+846	+573	+1,074	+573	+970
9,000	6,994	+781	+2,627	+781	+1,627	+157	+1,831	+640	+1,610
10,000	7,653	+659	+3,286	+659	+2,286	+527	+2,358	+111	+1,721
11,000	8,442	+789	+4,075	+589	+2,875	+529	+2,887	−56	+1,665
12,000	9,312	+870	+4,945	+870	+3,745	+786	+3,637	+695	+2,360
13,000	10,062	+750	+5,695	+750	+4,495	+666	+4,339	+666	+3,026
14,000	10,784	+722	+6,417	+722	+5,217	+686	+5,025	+686	+3,712
15,000	11,507	+723	+7,140	+723	+5,940	+723	+5,748	+723	+4,435
20,000	15,187	+3,680	+10,820	+3,680	+9,620	+3,452	+9,200	+3,452	+7,887
25,000	18,086	+2,899	+13,719	+2,899	+12,519	+3,235	+12,435	+3,235	+11,122

[1] See definition in table 1.

to the intact four-person family in increasing earnings from zero up to $7,000 gross income in relation to the basic social programs including medical assistance.[4] At various points on the income scale it is worse off. Such a family ends up with only $180 more per year if it earns $3,000 than if it has no earnings. Because of the notch in the public assistance program at $4,000, the family which moves from zero earnings to gross earnings of $4,000 is slightly worse off and if it moves from $3,000 to $4,000 it loses about $230 in the process. The notch in the medicaid program at $5,000 due to rules regarding outpatient care results in a net loss of about $200 for the family which raises its earnings from zero to $5,000. At best, if the family is living in subsidized housing, it will be $144 better off with earnings of $5,000 than with no earnings at all.

Even at $6,000 of earnings the family with "average" medical costs of $1,200 will be no better off than at zero earnings and at $7,000 it will only have about $200 more a year. Only if the family's medical expenses are substantially less than average does it make any substantial gain by increasing its income from $6,000 to $7,000.

As earnings increase above $8,000, the family does, of course obtain a larger net benefit from each $1,000 increase in income, and the difference in the level of living achieved by those with earnings of $8,000 or more and those relying exclusively on social programs becomes significant. But for those who, because of limited education and skills, or because of discrimination, or other reasons, are unable to earn more than $6,000 to $7,000 per year, the present set of eligibility criteria for benefits from the major social programs does not provide any incentive to increase income. In fact, the result is quite the contrary.

2. THE FEMALE-HEADED FAMILY ENTITLED ONLY TO REGULAR DISREGARDS

The female-headed family of four which is not entitled to the $30 plus one-third disregard[5] is in a slightly better position as its income increases than is the intact family, but not much (tables 1 and 3). If the mother's earning rise from zero to $4,000, the family will have about $480 more in disposable income plus benefits, whatever the combination of social programs, and this sum is larger than if earnings were $2,000 or $3,000. But a further rise to $5,000 of earnings yields no additional income to the family because of the large reduction in the public assistance grant at this point. Further, earnings of $6,000 or $7,000 will mean that, unless the family is benefiting from subsidized housing and day care, it will be only $99 or $263 better off respectively than the family with zero earnings because at this level it is no longer eligible for any public assistance supplement or for foodstamps or school lunches, and its medicaid benefits are substantially reduced as compared to the family with earnings of $5,000 or less.

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[4] This section ignores the provision of free or very low-cost outpatient care by the New York City Health and Hospital Corporation and other clinics. To the extent that these facilities are used by persons who become ineligible for medicaid, the notches and benefit-loss rates discussed here are overstated.

[5] See ch. I on public assistance.

TABLE 3.—*Change in potential benefits from combinations of social programs plus disposable income from earnings and other sources for a female-headed, 4-person family (not benefiting from $30 plus ⅓ disregard), by income level*

Gross income	Disposable income[1]	Difference in disposable income plus: (1) Public assistance, food stamps, and school lunch		(2) Column 1 plus medical assistance and dental clinics		(3) Column 2 plus housing		(4) Column 3 plus day care	
		From preceding income level	From zero gross income	From preceding income level	From zero gross income	From preceding income level	From zero gross level	From preceding income level	From zero gross income
0	0								
$1,000	$846	+$120	+$120	+$120	+$120	+$120	+$120	+$120	+$120
$2,000	1, 692	+120	+240	+120	+240	+120	+240	+120	+240
$3,000	2, 538	+120	+360	+120	+360	+120	+360	+120	+360
$4,000	3, 229	+120	+480	+120	+480	+120	+480	+120	+480
$5,000	4, 002	0	+480	0	+480	0	+480	0	+480
$6,000	4, 751	−191	+289	−381	+99	−57	+423	−161	+319
$7,000	5, 475	+724	+1, 013	+146	+263	+128	+551	+128	+447
$8,000	6, 213	+738	+1, 751	+738	+1, 001	+678	+1, 229	+678	+1, 125
$9,000	6, 994	+781	+2, 532	+781	+1, 782	+757	+1, 986	+640	+1, 765
$10,000	7, 653	+659	+3, 191	+659	+2, 441	+527	+2, 513	+111	+1, 876
$11,000	8, 442	+789	+3, 980	+589	+3, 030	+529	+3, 042	−56	+1, 820
$12,000	9, 312	+870	+4, 850	+870	+3, 900	+786	+3, 828	+695	+2, 515
$13,000	10, 062	+750	+5, 600	+750	+4, 650	+666	+4, 494	+666	+3, 181
$14,000	10, 784	+722	+6, 322	+722	+5, 372	+686	+5, 180	+686	+3, 867
$15,000	11, 507	+723	+7, 045	+723	+6, 095	+723	+5, 903	+723	+4, 590
$20,000	15, 187	+3, 680	+10, 725	+3, 680	+9, 775	+3, 452	+9, 355	+3, 452	+8, 042
$25,000	18, 086	+2, 899	+13, 624	+2, 899	+12, 674	+3, 235	+12, 590	+3, 235	+11, 277

[1] See definition in table 1.

As in the case of the intact family, it is only when earnings reach $8,000 or more that the family is significantly better off than the family with lower or zero earnings; its marginal benefit-loss rate begins to reflect mainly the income tax rates. If there is a child in day care, however, further notches may be noted between the $10,000 to $11,000 gross income levels as a result of the relatively sharp increase in fees at these two points.

'. THE FEMALE-HEADED FAMILY BENEFITING FROM THE $30 PLUS ONE-THIRD DISREGARD

The female-headed family on welfare in which the mother obtains employment and qualifies for the disregard of $30 of monthly earnings plus one-third of the remainder is in a substantially better position than the intact family or the female-headed family not entitled to this disregard when the various combinations of social programs are taken into account (tables 1 and 4). This type of family benefits not only from the fact that it retains more of its earnings—or the converse, its welfare grant is not reduced as much—but as long as it retains its welfare status, the family receives free school lunches, full medicaid coverage and free day care.

The result of this treatment is that this type of female-headed family with earnings is always significantly better off than the comparable family with zero earnings and the family with higher earnings is better off than the family with lower earnings whatever combination of social programs is taken into account. Thus, this type of family with earnings of $4,000 has $1,500 more than a similar family with zero earnings; the family with $6,000 has $2,168 more than the family with zero earnings and $667 more than the family with $4,000 of earnings.

Despite the much more generous treatment of female-headed families who obtain employment while on public assistance, it must be noted, however, that their marginal benefit-loss rates are still high. Thus, from $1,000 up to $9,000 of earnings, the marginal benefit-loss rate is 67 percent: In other words the family keeps $333 of each $1,000 of earnings when the reduction in benefits and the increase in income and social security taxes, as well as work expenses, are taken into account. Further, a serious notch occurs as income exceeds about $9,400 when the family at one swoop loses food stamp benefits ($288), schools lunches ($190), and most important of all medicaid ($950). In addition, at this level it begins to pay fees for day care amounting to about $400 per year. As a result, the $1,000 increase in income from $9,000 to $10,000 leaves the family with about $700 less than it had been receiving from its earnings plus the benefits from public assistance, stamps, lunches and medicaid, and almost $1,300 worse off if it is living in subsidized housing and has a child in a day care program.

Marginal benefit-loss rates of almost 70 percent are considered high; the Federal marginal income tax rate for families does not reach 70 percent until adjusted gross income exceeds $200,000. At $4,000 to $8,000 the marginal income tax rate is 19 percent and at $8,000 to $12,000 it is 22 percent. One must raise the question as to whether, despite the favorable treatment accorded the female-headed family on welfare compared to the intact family or the female-headed family

TABLE 4.—*Change in potential benefits from combinations of social programs plus disposable income from earnings and other sources for a female-headed, 4-person family (benefiting from $30 plus ⅓ disregard), by income level*

Gross income	Disposable income[1]	Difference in disposable income plus — (1) Public assistance, food stamps, and school lunch: From preceding income level	(1) From zero gross income	(2) Col. 1 plus medical assistance and dental clinics: From preceding income level	(2) From zero gross income	(3) Col. 2 plus housing: From preceding income level	(3) From zero gross level	(4) Col. 3 plus day care: From preceding income level	(4) From zero gross income
0	0	----------	----------	----------	----------	----------	----------	----------	----------
$1,000	$846	+$527	+$527	+$527	+$527	+$527	+$527	+$527	+$527
$2,000	1,692	+308	+835	+308	+835	+308	+835	+308	+835
$3,000	2,538	+333	+1,168	+333	+1,168	+333	+1,168	+333	+1,168
$4,000	3,229	+333	+1,501	+333	+1,501	+333	+1,501	+333	+1,501
$5,000	4,002	+333	+1,834	+333	+1,834	+333	+1,834	+333	+1,834
$6,000	4,751	+334	+2,168	+334	+2,168	+334	+2,168	+334	+2,168
$7,000	5,475	+333	+2,501	+333	+2,501	+333	+2,501	+333	+2,501
$8,000	6,213	+334	+2,835	+334	+2,835	+334	+2,835	+334	+2,835
$9,000	6,994	+333	+3,168	+333	+3,168	+333	+3,168	+333	+3,168
$10,000	7,653	+23	+3,191	−727	+2,441	−655	+2,513	−1,292	+1,876
$11,000	8,442	+789	+3,980	+589	+3,030	+529	+3,042	−56	+1,820
$12,000	9,312	+870	+4,850	+870	+3,900	+786	+3,828	+695	+2,515
$13,000	10,062	+750	+5,600	+750	+4,650	+666	+4,494	+666	+3,181
$14,000	10,784	+722	+6,322	+722	+5,372	+686	+5,180	+686	+3,867
$15,000	11,507	+723	+7,045	+723	+6,095	+723	+5,903	+723	+4,590
$20,000	15,187	+3,680	+10,725	+3,680	+9,775	+3,452	+9,355	+3,452	+8,042
$25,000	18,086	+2,899	+13,624	+2,899	+12,674	+3,235	+12,590	+3,235	+11,277

[1] See definition in table 1.

in which the mother is working and seeking a supplement from welfare, the marginal benefit-loss rate is not so high as to constitute a disincentive to increase income. It is only when earnings reach $11,000 or more that marginal benefit-loss rates for this type of female-headed family are about 20 to 25 percent if benefits from housing or day care are excluded or somewhat over 30 percent when they are included.

In summary, one is led to conclude that the benefits from the package of social programs available to New Yorkers under current rules and regulations constitute a disincentive to the acceptance of relatively low-paying or even not so low-paying jobs. Further, they are a disincentive to increasing family income by working longer hours or by a second adult in the family entering the labor market unless the family can look forward to achieving an income of more than $8,000 a year. Indeed, the notch problems present in each of the programs tend to accumulate and to reinforce the disincentive effect. Even the incentives provided to the female-headed family on welfare, though generous in comparison, involve marginal benefit-loss rates of almost 70 percent until family gross income reaches $11,000 per year.

The Impact of the Package on Equity

Inequity in the treatment of different kinds of families has been discussed in earlier chapters, particularly with respect to public assistance and medicaid. The question remains as to whether the inequities present in the individual programs are diminished or intensified when families are benefiting from various combinations of programs.

Again, we turn to table 1 (and supplement III, tables 1 to 3) for data which throw some light on the issue. Comparisons on the horizontal axis reveal whether one or another type of family is better off at any particular level of private annual gross income when account is taken of disposable income plus the benefits from the various combinations of social programs.

One fact comes through clearly: Even though New York, unlike some States, has a general assistance program for the intact family, such a family, on the whole, fares worse than the female-headed family; this is true even though the medicaid benefits tend to moderate the inferior public assistance benefit available to the intact family, as do the benefits available from subsidized housing and day care. But both the intact family and the "regular" female-headed household obtain substantially smaller benefits than the female-headed family with the $30 and one-third disregard. The effect of this disregard and the benefits available to a welfare family from food stamps, school lunches, and medicaid are such that with gross earnings of $5,000, the intact family has a disposable income plus benefits of $5,363, the regular female-headed family has $5,892, and the "$30 and one-third" female-headed family has $7,246. The relative benefits are a bit higher for the intact family than for the regular female-headed family at the $6,000 to $7,000 levels because its somewhat higher medical costs are partially covered. But, while both types of families with gross earnings of $7,000 have a disposable income plus benefits (other than housing and day care) of $5,780 and $5,675 respectively, the "$30 and one-third" female-headed family has $7,913.

If each of the three types of families is benefiting from housing subsidies and day care, the differences among them are smaller. Nevertheless, the "$30 and one-third" family retains an advantage worth from $1,350 to $1,640 as earnings rise from $1,000 to $5,000 and this margin increases until income from earnings surpasses $9,000. When all types of families with gross incomes of $10,000 are benefiting *only* from housing subsidies and day care, they are left with the same disposable income, i.e. $7,653, plus benefits of $2,827 ($1,963 is from the day care program and $864 from housing subsidies.)

Questions of equity arise not only as among different types of families benefiting from the various combinations of social programs but as between those who *are* and those who *are not* benefiting from the programs.

It is worth pointing out that the female-headed family entitled to the $30 and one-third disregard is in a privileged position not only with respect to other types of families on public assistance but in relation to families not eligible for public assistance. Thus, a female-headed family in which the mother is earning $7,000 per year obtains a disposable income plus benefits from public assistance, food stamps, school lunches, and medicaid of about $7,900 per year. The non-public assistance family with earnings of $7,000, eligible at this income level only for a small amount of medical assistance, would be left with a disposal income plus benefits of only about $5,800. Or put another way, the ordinary family would need gross earnings of about $10,500 to achieve the same standard of living as the female-headed AFDC family earning $7,000. If the female-headed family has earnings of $7,000 and is also benefiting from housing subsidies and has one child in a day care program, its disposable income plus benefits amounts to $11,300 which is equal to gross earnings of almost $15,000.

In summary, the present package of social programs does not provide equity among the different types of families on public assistance or between those who are and those who are not on public assistance; nor does it produce incentives to increase income for those whose earning potential may be limited.

It must also be stressed that the bewildering variety of criteria for eligibility, the differences in the definition of income and of income disregards for various programs, and the varying procedures for verifying income, resources, and other aspects of eligibility—some strict and some loose—fail to assure either that everyone will understand what he is entitled to receive or that those not entitled to benefits will in fact be denied them.

Finally, it must be noted that the variety of policymaking bodies involved at the Federal, State, and local levels, each with some authority to determine the rules which will govern the criteria for eligibility and the nature of the administration, has led to serious inconsistencies in the rationale for deciding who should benefit and to what degree from various programs. For example, it is questionable whether the subsidies granted in certain programs such as day care to families with gross income of $10,000 to $15,000 should be as large as they are since it means that families at the same or even lower-income levels who do not have children in day care programs are subsidizing those lucky enough to find a place in the limited number of day care facilities.

Implications for Policy

The introduction to this study indicated the framework in which issues of adequacy of benefits, incentives and equity must be considered. We have high humanitarian goals, but there is a conflict between the goal of insuring a reasonable level of living for those in need and the goal of increasing the production of goods and services available to all the people through work and employment. Further, the efforts to increase incentives often lead to inequity of treatment among different types of families. The policy question arises as to what, if anything, can be done to increase incentives and enhance equity while retaining a reasonable level of benefits.

1. INCENTIVES TO INCREASE INCOME

One of the more dramatic solutions recently offered to the dilemma of the conflicting goals of insuring some decent basic standard while avoiding disincentives to increase income has been the demogrant, a system whereby each person would receive a sum of money from the government regardless of his other income and resources. One figure suggested has been $1,000 per person (lesser amounts are sometimes proposed for children) on the assumption that this would cover the basic needs. The merits of the proposal are that it avoids any income test since it is automatically given to everyone and it avoids disincentives since any earnings are retained subject only to income tax rates. Part of the cost of the demogrant is recaptured in income taxes from those whose demogrant plus income is above a given level.

Apart from the dubious political acceptability of this solution, there is much we do not know about how the system would actually work. Further, it would be at best only a partial solution. In New York City, as we have seen, a four-person family with no income obtains about $5,500 from public assistance, food stamps, school lunch programs, and medicaid alone. Thus, the demogrant would have to be about $1,400 per person if the present level of benefits were to be maintained. In addition, it would not avoid the necessity for income-tested programs to cover medical costs in excess of the average (unless medical costs were covered in a separate insurance system), housing subsidies, or day care.

Another alternative is to rework and coordinate the criteria for eligibility for all the major social programs with the objective of allowing more incentives at the lower-income levels. This would require substantial income disregards in respect to eligibility for public assistance and a lower and more gently graduated scale of fees for the other programs (or the equivalent—a more graduated loss of benefits as income increased). Further, the income disregard for public assistance would have to be given to all families and the fee scales for the other programs would have to be regulated so as to avoid existing notches. This can be done; it is technically feasible. But if the disregard is large enough to serve as an incentive and is applied to all families, it will, in combination with the current level of social benefits, involve huge costs and entitle large numbers of families to public assistance and other subsidized programs. Indeed, it will involve a large proportion of the population in income-tested programs. For example, if the $30 and one-third income disregard were applicable to all families in New York City, an estimated 35 percent or more of the city's families would be eligible for some subsidy to income. Even this approach would still involve a high marginal benefit-loss rate of 67 percent. And, it would not remove the incentive to maximize income by family splitting or the nonformation of families.

A third possibility for resolving the conflict between the humanitarian goal of a decent standard of social benefits and disincentives to increase income would be to substitute a work test and rigorous procedures for insuring initial and continuing eligibility for built-in income incentives. Eligibility for, and definitions of income under various basic program elements, whether in cash or in kind, covering food, clothing, shelter, and medical care, would be uniform. Income disregards would be eliminated except for income and social security taxes and some standard deduction for work expenses. Instead, work requirements would be enforced for all who could work; this requirement would apply not only to males but, in order to reduce the incentive to maximize family income by family splitting, to female heads of families as well, assuming adequate arrangements can be made for care of the children.[6]

Clearly, this approach substitutes an administrative fiat for financial incentives to increase income. In effect, it says that society will insure some standard of living by paying the full or the partial cost for people who have insufficient income or resources because they are unable to work, or because they have earnings which are low relative to their needs, or because they have inadequate savings, pensions, and the like. This approach implies that a choice must be made between generosity and incentives; to try to provide both means that so large a proportion of the population will be receiving income-tested benefits that the "other half" will not consider it reasonable.

But it is obviously difficult to enforce a work requirement if jobs are not available even for those who are able and willing to work; indeed, some might argue that so long as jobs are not to be had by those desiring them, it does not really matter if some people who are able to work do not do so. Further, experience has already shown that the determination of employability, particularly in regard to women who are heads of families, will not be easy. In any event, a work test requires that minimum standards for "suitable" work must be enforced, covering such matters as wages, working conditions, and assurance of customary protections such as coverage by social security, unemployment insurance, and workmen's compensation. Finally, a work requirement may prove costly if, as is likely, it necessitates a public job creation program as well as an expansion of day care services. In connection with day care, it may be noted that 65 percent of the 640,000 children in AFDC families in New York City are 6 years of age or older. This means they are of school age and would require at most only after-school care. It is also significant in terms of work potential that 38 percent of the AFDC mothers in this city do not have any children under the age of 6 years.[7]

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[6] The definition of employability, in the case of female-headed households, must take account of the number and age of the children and include adequate arrangements for their care.

[7] New York State Department of Social Services, "Characteristics of ADC Families in New York State," January 1971.

The difficulties of dealing with disincentives to work exclusively by fiat must be recognized. Yet there are some specific changes which, in conjunction with work requirements for those who are held to be employable and with effective administration, might both preserve a decent standard for public assistance and other social benefits and provide more incentive to increase income by work than now exists. This fourth alternative, which would include effective administration and a work requirement, would also include: (1) A reduction of the number of income-tested benefits in kind by adopting a system of health insurance replacing medicaid and by merging the food stamp program with public assistance; (2) A substantial reduction in Federal income tax rates on the lower-income brackets (e.g., under $7,000 for a family of four) with similar action at State and local levels, and a reduction of social security taxes which bear particularly on lower income earners. At the Federal level these reductions could be financed from the revenue captured by closing tax loopholes; and (3) A series of changes in income-tested programs, especially public assistance, housing, and day care to remove existing notices and to rationalize the criteria for eligibility. In particular, eligibility for the basic programs covering food and shelter should be made uniform as should the definitions of income.

It is doubtful that any system can be worked out which preserves both a reasonably decent standard of social benefits and some incentives to increase income unless medical assistance is removed from the income-tested programs. The extent and cost to a family is so highly unpredictable and uncontrollable as to make it extremely difficult, if not impossible, to devise a schedule that avoids notches. The shift of the cost of medical care from an income-tested to an insurance system would remove a major disincentive to leaving the assistance rolls. As was indicated in the chapter on medical assistance, the criteria for eligibility are so incomprehensible that it is doubtful that they have any disincentive effects *if* the family's income is above the public assistance level. But for the family on welfare the potential loss of full medical coverage and the resulting uncertainty as to what medical expenses will be covered is a serious disincentive to increasing income to the level which makes them ineligible for any public assistance and for full medicaid coverage.

The extent to which changes in the tax system can be used to increase incentives is limited as may be seen from the tabulation below:

1972 income and social security taxes paid by a 4-person family at various income levels

Gross income	Income taxes (Federal, State, and local)	Social security tax	Total taxes
$1 to $3,000	0	0	0
$4,000	$48	$208	$256
$5,000	239	260	499
$6,000	438	312	750
$7,000	662	364	1,026
$8,000	883	405	1,288

Even if rates were cut in half for both income and social security taxes, the addition to disposable income would range from about $125 to $500 as earnings increased from zero to $7,000. Nevertheless, it would make some difference especially if it were combined with some disregard of income; this disregard, however, would have to be substantially below the $30 and one-third presently given to AFDC mothers to avoid putting about 35 percent of the population on welfare. Further, the disregard should probably be stated as some percentage of income instead of a flat sum plus some percentage to avoid notches, especially at the lower income levels. Use of the tax system to increase the incentive to increase income instead of large income disregards would have the advantage of being more acceptable politically and, more importantly, would not provide an incentive for family splitting to maximize income.

2. ENHANCEMENT OF EQUITY

A reworking and coordination of criteria for eligibility, benefit levels, and fee schedules in the major social programs is also required to enhance equity of treatment among various groups in the population. Fortunately, the nature of the problem is such that it is easier to achieve than it is to maintain incentives to increase income along with high benefit programs.

First, among the issues in equity which require attention are those which arise from the complexities of criteria and definitions which make it impossible for all but the expert to know his rights and entitlements. The worst program in this respect is undoubtedly medicaid, but arcane provisions in public assistance and other programs also leave the client vulnerable to the ingenuity—or lack of it—of the individual clerk or caseworker to insure the correct calculation of the benefit to which he is entitled. The "gigo" principle (garbage in, garbage out) prevents the computers by themselves from improving the situation. Excessively complex regulations regarding eligibility may also discourage those entitled to benefits from seeking them. For example, the regulations applying to food stamps have discouraged many eligible families from applying.

Second, the variety of criteria such as income definitions and disregards are not just bewildering; they are irrational. Why social security taxes are sometimes taken into account and sometimes not—or work expenses, or earnings in whole or in part of the wife or adult children, or assets of various kinds, or the rest of the long list of items which may or may not be disregarded—defy explanation in terms of the objectives of the program and of equity of treatment of those who need one or another kind of service. The fact that there may be a political or historical explanation does not make it logical. Worth special mention are the diffierent eligibility criteria for non-public assistance families for medicaid and food stamps since these are both basic needs. It would make more sense both in terms of equity and administrative costs if eligibility for medicaid was taken as the criterion for eligibility for food stamps. Also in the category of irrational features are fee scales which in some cases take the same proportion of "surplus" income at relatively low-income levels as they do at high levels, or in other words, impose a regressive fee scale. Mention must also be made of the varying definitions of income and disregards in the different housing programs.

Third, the glaring inequity in the treatment of the intact family as compared to the female-headed household under public assistance and medicaid makes no social sense at all. It reflects the development of the Federal Government's role in public assistance whereby it shared the costs for the "categorically needy," a role carried over to medicaid. It has no present justification in a nation which gives high priority to the preservation of the family.

Fourth, the inequity which results from conferring benefits on the basis of public assistance status rather than income should be removed. This inequity of treatment is particularly marked in the medicaid and day care programs as between the female-headed household qualifying for the $30 and one-third disregard and the nonpublic assistance family whether intact or female-headed. The former, even with a total income of $9,000 from earnings and public assistance, will receive free medical care and free day care. The nonpublic assistance family with the same income will be liable for all of the average annual medical bills amounting to between $950 and $1,200 and for $220 of the cost of day care for one child. More equitable treatment can be achieved by simply relating fees to total income including welfare instead of to public assistance status.

3. ADMINISTRATIVE EFFECTIVENESS

If the package of social programs is to be provided to those in need with only modest built-in income incentives, it will have to be accompanied by a work requirement for those who are held to be employable and by effective procedures with respect to the determination of initial and continuing eligibility, including verification of income and resources, as well as other procedures to insure administrative effectiveness in maintaining a tolerably low rate of ineligibility.

The question may be raised: Will it work? One answer is that it appears more practical and feasible to enforce a set of regulations if the goal and the regulations appear reasonable to a large majority of the population than it is either to set up an incentive scheme which is likely to involve almost two-fifths of the population in a city like New York in income-tested welfare programs or to make payments to the entire population as in a demogrant. It must also be said, however, that there is some evidence, some presented in this study, and more available in the daily newspapers, to indicate that it is difficult—sometimes for political reasons and sometimes for technical reasons—to implement effective procedures to insure that benefits will be restricted to those who are eligible. It is particularly difficult to enforce a work requirement if an adequate number of jobs is not available for those who can work. Nevertheless, the difficulties of enforcement should not be exaggerated. Tightening up of a series of administrative procedures in the public assistance and medicaid programs in New York City is expected to have a significant impact in weeding out the ineligibles. A simplification of eligibility criteria should be undertaken to enable potential beneficiaries to understand their rights and responsibilities and to make the system easier to administer effectively. But it must be stressed that a job creation program to insure the availability of employment for those who can work is an essential element in making the system work.

Effective verification procedures are also required to insure equity between those who are and those who are not eligible, for it is unfair to those who abide by the regulations to accept any significant degree of flouting of the regulations by others. Effective procedures are particularly important where substantial subsidies are involved as in public assistance, medicaid, housing, or day care. Looser procedures may be sufficient where the subsidy involved is small as in the school lunch program. The 1972 experience with State and city Mitchell-Lama projects has shown that verification procedures are as necessary to insure continued eligibility of tenants for middle-income housing as they are to insure continued eligibility for public assistance or medicaid.

The Prospects for Action

It would be naive to suggest that the proposals which have been made with respect to incentives and equity will be easy to accomplish. The political hurdles are numerous. But the power does lie with the Congress and the President to effect the necessary changes, and no major changes in policy concepts are involved.[8] The major programs—public assistance, food stamps, school lunches, medicaid, many of the housing programs, and day care are federally funded and subject to regulation by the legislative and executive branches of the Federal Government. It is true, of course, that various congressional committees which have hitherto made decisions with respect to criteria for eligibility independently would have to cooperate to develop a coordinated system.

Congress made some effort to deal with the varying definitions of income in housing programs in its drafting of the National Housing Act of 1972, but the effort was aborted when the draft act was tabled. In any event, the problem clearly extends across the whole spectrum of social programs and cannot be the sole concern of any one committee in the Senate or House, dealing with one or another specific program. What is needed is a decision by the Congress to charge one of its committees with responsibility for developing a set of recommendations which will rationalize and simplify the criteria in all the Federally funded social programs.

The solution to the current irrational pattern of disregards, fee scales, and the like does not, however, lie solely with the Federal Government, especially in a State such as New York which has developed numerous programs in housing and health services without Federal funding and which may provide day care to families not eligible for Federal reimbursement. New York State authorities need to take action comparable to that suggested for the Federal authorities. They need to revise criteria for eligibility, definitions of income, disregards, and fee scales to develop a pattern which assures rational and equitable treatment of those who need one or another social service. Indeed, cooperation between Federal and State authorities in this effort is necessary to avoid notches and inequity between those benefiting from Federally funded programs and those benefiting from programs funded exclusively by the State and city.

[8] Alternatively, if revenue sharing is greatly extended, the authority can be exercised by State legislative and executive authorities.

Achievement of a more effective and equitable administration of the major social programs requires the cooperation of all levels of Government, but clearly the Federal Government must take the lead. It alone has the broad authority and the resources to do so. But no problem can be solved until there is recognition that there is a problem and some understanding of its nature is achieved. If this study has done nothing else it should persuade all its readers that there is a problem; perhaps it will also help in its solution.

SUPPLEMENT I

Changes in the Welfare Standard in New York, 1950–70

In the early 1950's, the welfare standard was based on consumer expenditure studies made by the U.S. Departments of Labor and Agriculture and on low-cost food plans developed by the Department of Agriculture. Basically, the standard represented a minimum level of living; the amount allocated for food was designed to provide adequate nutrition with the use of inexpensive foods; minimum allowances were also made for clothing and other recurring needs.

Over the years, and particularly during the 1960's, the level of the standard was raised. In part, the higher standard reflected improvements in the food standard based on the findings of research studies in nutrition and the recommendations of the National Research Council on Nutrition. But the major impetus came from more generous Federal financing accomplished through changes in the reimbursement formula for both adults and children in the federally assisted welfare categories.[1] Moreover, the political climate in New York State regarding welfare was still relatively favorable in the mid-1960's. While welfare rolls had been increasing noticeably, the large annual increases of 25 percent or more did not begin until 1967. The level of the national economy has apparently not been a significant factor in accounting for increases in the standard in New York except insofar as the increase in gross national product resulted in higher Federal tax receipts and permitted the increase in Federal financing. In other words, the expanding economy of the 1960's did not in itself cause the increased standards in New York. The downturn in the national economy in 1970, which was reflected in budgetary constraints in New York State however, combined with the mounting welfare case load since the mid-1960's, did have a significant impact, resulting in a reduction in the welfare grant though not in the standard itself.

Another factor promoting the rise in the welfare standard was the simplification of the system of determining the welfare grant for each family. Prior to March 31, 1969, the standard of need used for determining eligibility and size of grants for public assistance applicants in New York State was not uniform for every family of a given size. A

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[1] After the introduction of medicaid in 1965, States with approved medicaid programs could choose to receive Federal funds for assistance grants based on the "Federal medical assistance percentage" formula, that is from 50 to 83 percent of the cost of the assistance, depending on the States per capita income. This is a more generous formula than the one previously used. New York State receives 50 percent Federal reimbursement. The Federal Government also provides 75 percent of the cost of services and 50 percent of administrative costs for all States' assistance programs.

highly complex system of schedules of costs for food, clothing, personal and household expenses for individuals of different age and sex engaged in different activities was used. In 1951, there were 13 schedules for food alone and 21 different age groups on the clothing schedule. In 1952, all items of food, clothing, and household and personal expenses were combined into one schedule. But the schedule still differentiated families by the age and activity of the family members; 23 different family types still received different basic allowances in addition to special grants for over 25 special expenses.

A gradual process of simplification took place. By 1963, only 10 age and activity groups were established for clothing and other allowances and food allowances were based on family size. Further simplifications were implemented between 1965 and 1967 as the number of age groups was reduced and many special costs were incorporated into the basic grant. The impact on the welfare standard resulted from the fact that as the number of different age groups was reduced the tendency was to average up. By 1968, though considerable simplification had occurred, the system was still complex and variations among grants to families of the same size were considerable. For example, the basic allowance (excluding rent) for the four-person family varied from $152 to $221 a month depending on the age of the family's oldest child. Older children were considered to require more food, clothing, and other expenses.[2] In addition, 18 categories of special need grants existed for which payments varied from family to family.

From September 1968 to July 1969, New York City experimented with a flat grant of $100 a year per person (paid quarterly) in place of many special need grants. On the basis of this experiment, new standards and maximum grants were issued for New York State in March 1969 based on a new flat grant system for families of a given size. This flat grant system was justified as an advance in administrative efficiency. For AFDC families, for example, the age of the oldest child in each individual family was no longer considered in determining need. The maximum grant for any family of a given size was established by determing what the average age of the oldest child was for families of each size in New York State. The maximum grant was the amount to which the family whose child was this average age would be entitled. This again was an averaging up process.

While both city and State action in substituting the flat grant for individual determination of special needs was a reaction against a campaign organized by the national Welfare Rights Organization to obtain as many special grants for welfare clients as possible, it undoubtedly produced a more efficient administrative system, was more dignified from the point of view of the client, and meant more money for most of the clients on welfare, Nevertheless, the resulting standards were challenged in court as violating a Federal requirement that

[2] New York State Department of Social Services, departmental communication, Apr. 30, 1970, p. 2.

standards be adjusted to reflect cost of living increases.[3] The U.S. Supreme Court found that New York's new system of flat grants had not incorporated all of the previous "special grants." New York, therefore, had lowered the basis of the standard in contradiction to the intent of the 1968 Amendments to the Social Security Act. The Court, however did not object to the age-averaging method used to simplify the basic grant.

Pursuant to the Court action, the State submitted a revised plan to the U.S. District Court of the Eastern District of New York.[4] The basis of the new proposal was the 1967 Bureau of Labor Statistics lower living standard, which replaced the standards based on the Department of Agriculture's low food budget, adjusted to exclude the cost of shelter and fuel (covered by an allowance for rent as paid), medical care (covered by medicaid), meals in restaurants, tobacco and alcohol, reading and recreation, nonpublic transportation, gifts, occupational expenses and social security, and disability and income taxes.

The Bureau of Labor Statistics lower living standard was selected as the basis of the revised plan because it is a widely used and credible standard. The use of the BLS standard also made sense in relation to the continuing efforts by the State toward simplifying the assistance standard. Since the BLS data, which came to $263 per month for a four-person family after the adjustments indicated above were made, reflected the costs of the modified lower living standard for a family comprised of an employed husband of 38, an unemployed wife, a girl of 8 and a boy of 13, it was further adjusted to reflect the "prevailing composition" of the public assistance caseload.[5] The resulting figure, $231, was the public assistance monthly standard for a

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[3] In a class action in Federal District Court against George K. Wyman and the NYS Department of Social Services, Julia Rosado and other welfare recipients alleged that the NYS AFDC plan resulting from Sec. 131-a was in violation of 1968 Amendments to the AFDC section of the Social Security Act (Sec. 602-a (23)) which required States to adjust the basis of AFDC standards and maximum grants based on those standards to reflect cost of living increases from the time standards were established to July 1, 1969. The case eventally reached the U.S. Supreme Court. In April 1970, the Supreme Court ruled in favor of the petitioners, reversing the action of the U.S. court of appeals which had vacated District Court injunctions against the State plan.

The analysis of the litigation and the court decisions is found in *Rosado* v. *Wyman*, U.S. Supreme Court Opinion, April 6, 1970, and the Brief Amici Curiae, submitted to the Supreme Court by the Catholic Charities of New York and Brooklyn, Community Service Society of New York, Federation of Jewish Philanthropies of New York, and Federation of Protestant Welfare Agencies, October 1969.

[4] The analysis of the revised State plan, its justification and the Court's approval is found in *Rosado* v. *Wyman*, U.S. District Court, E.D.N.Y., Memorandum and Order (69–c–355) October 27, 1970, and the State Department of Social Services Affidavit (69–c–355) submitted May 1970.

[5] The adjustments were made by multiplying $263 by the appropriate factor on the BLS–LLS equivalency scale used to determine budgets foi families of different size, age, and composition. According to a State study, 55 percent of AFDC mothers in New York State were under 35 in May 1969. Thus, $263 was multiplied by .88, the portion of the cost of goods and services for the base family required to provide the same standard of living for a one-parent family of four whose head is under 35 years of age.

female-headed or intact family of four. A similar process was used for a two-person household (for which the equivalency value for a couple with the head aged 65 or over was used), and for the one-person household (for which the value for a person 55–65 was selected). This resulted in a monthly standard of $134 and $84 respectively, excluding rent.

The State explained to the court the manner in which certain items provided prior to July 1969 by "special need" grants, had been incorporated into the new standard. The modified BLS standard was said to provide a larger component for food at home than the previous standard, thus taking care of the "special diet allowance." Similarly, the larger clothing allowance covered the former institution or camp clothing replacement grant. The standard also contained special items such as telephones and household furniture replacement not in the standard in 1969. The State also cited statutory provisions for special needs such as meals for those unable to prepare meals at home, homemaker and housekeeping service. Previous special grants to pregnant women were replaced by the provision increasing the number of people in the recipient's household by one after medical verification of 4 months of pregnancy. Special medical items such as orthopedic shoes could be obtained through the medical assistance program. The State submitted a listing showing all pre-existing items of basic maintenance and special need and how they would be provided for in the revised standard.

Although the revised standards were eventually accepted, the court considered the above justification of the new standards to be inadequate. Because of the great difference between the basis of the old and new standards, the court required that actual dollar comparisons be made between the proposed payments to AFDC recipients and those paid to similar recipients during the base year, July 1, 1968 to June 30, 1969. (July 1, 1969 was the date to which the Federal AFDC amendment required price adjustment of standards and grants.) This comparison called for data on the average amount paid recipients per month for "special need items" as defined prior to July 1969.

Since complete records on payment of special grants were not available at the State or district level, a statistical sample of the New York City caseload was taken to find the average value per recipient per month of items which prior to July 1, 1969, were granted on a special needs basis and which were subsequently incorporated in the standard basic allowance. Results were to be treated as uniform for New York State.

The data obtained on average payments for 20 special need items by family size was added to the standard of need in effect during the base year. Comparison with the proposed standard showed that the revision from a basic allowance of $208 to $231 per month for a four-person family did, in fact, bring that standard to a level equal in net terms to that of the base year period as required by the 1968 amendments.[6]

In April 1971, the New York State Legislature reduced maximum grants for AFDC, VA, and HR recipients to 90 percent of the standard of need established in 1969, the first reduction of welfare payments below the standard in the history of the New York State program. This action was consistent with Federal legislation which gives considerable leeway to States not only in determining standards but permits a "ratable reduction" whereby payments to all recipients in a particular category are reduced to a fixed percentage of the standard. The New York State reduction of maximum grants to 90 percent of the standard for AFDC, HR, and VA recipients is a ratable reduction.

In the *Rosado* opinion, the Supreme Court interpreted the intent of Congress to be that, while the States were required to establish standards and to adjust maximum grants to allow for cost of living increases, the actual grant once adjusted may be reduced. It was not considered contradictory but as accomplishing a specific congressional objective: "A State may pare down payments to accommodate budgetary realities * * * but it may not obscure the *actual* standard of need." The cost of living modifications require the State to accept responsibility for those whose incomes are below the standard "computed in light of economic realities." Although the State may then reduce payments, Congress has accomplished "the goal, however modest, of forcing a State to accept the political consequences of such a cutback and bringing to light the true extent to which actual assistance falls short of the minimum acceptable." [7]

The State legislature justified the action on the grounds of a statewide budgetary crisis. In the "Declaration of Legislative Findings—1971," the legislature explained the reductions:

> A fiscal crisis of staggering proportions exists in the State of New York, comprised, in part, by the fact that proposed and mandated expenditures for the State's fiscal year 1971–72 exceed the anticipated revenue * * * by more than one billion dollars.[8]

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[6] Similar adjustments were required for the rest of New York State. Until 1971, separate standards and payment schedules existed for different areas of the State. Although the court ruling required increases for the entire State, actual computations were based on the schedule SA–1 for New York City and seven suburban counties. Schedule SA–2 which covered 42 northern counties and SA–3, 8 western counties had lower standards of need than SA–1. In *Boddie* v. *Wyman* (F. Supp. (WDNY 1970) 2d Cir., Dec. 9, 1970) the State was required to issue schedules for upstate counties identical to those of SA–1 until it could be demonstrated that the cost of living was higher in the SA–1 area. (The discussion of *Boddie* v. *Wyman* is found in *Rosado* v. *Wyman*, U.S. Court of Appeals, Second Circuit, Dec. 21, 1970). Today, one statewide schedule exists. According to staff of the New York State Department of Social Services, there is insufficient evidence of differences in the cost of living (other than rent) throughout the State to warrant going into court for approval of different standards for the separate social services districts.

[7] *Rosado* v. *Wyman*, U.S. Supreme Court Opinion, April 6, 1970, pp. 14–15.

[8] "Declaration of Legislative Findings—1971." Sec. 1 of L. 1971 c. 133 as quoted in sec. 131–a of the Social Service Law. The reduction brought the maximum grant for a family of four back to $208 a month.

Fiscal integrity was seen to require a balanced budget necessitating reductions in every area of expenditure. The legislature pointed out that New York was one of only 13 States paying 100 percent of the standard of need for aid to families with dependent children [9] and cited the *Rosado* decision allowing ratable reduction from the established standard. The legislature concluded that "* * * In order to accommodate present budgetary realities * * * it is constrained to enact, with respect to aid to dependent children and home relief, a 10-percent ratable reduction from the standard of need for basic monthly grants and allowances." [10]

Grants to the aged, blind, and disabled (AABD) were not reduced despite the budgetary crisis, reflecting the widely held belief that these welfare recipients are the "worthy poor." [11] In contrast, the AFDC category has been subject to much criticism, partly because of the size and cost [12] of this part of the welfare program and the extent of nonsocially approved behavior such as illegitimacy and desertion.

Prior to 1971, the standard of need for the State was promulgated by the State Board of Social Welfare on the basis of the work done by the New York State Department of Social Services.[13] Since 1971, the establishment of the public assistance standard has been a legislative function. The Department of Social Services can only recommend changes to the State legislature and cannot issue new standards without legislative action. The yearly pricing of the standard continues but it is possible that an increase in the cost of the standard, though it might be reflected in the legislation, would be accompanied by a "ratable reduction" in monthly grants.

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[9] From January 1967 to January 1971, the national median standard for the four-person AFDC family increased from $215 to $286, or by 33 percent, and the median maximum grant by 24 percent, partly reflecting the Federal cost adjustment requirement. During the same period, however, the number of States paying 100 percent of the standard decreased from 22 to 13. See Irene Cox, op. cit., p. 144.

[10] "Declaration of Legislative Findings," op. cit.

[11] There is now some indication of changing attitudes toward aid to the disabled as a result of recent increases in the number of drug addicts receiving assistance in this category. These individuals are not included in the concept of "worthy poor."

[12] The number of families in the United States receiving AFDC increased from 803,000 in December 1960 to 2,552,000 in December 1970 and to 2,746,000 (including 10,154,000 individuals) in July 1971. In fiscal year 1971, approximately $5.5 billion in benefits were paid. See Irene Cox, op. cit., pp. 138, 146.

[13] In 1971, the board lost much of its policymaking power including the authority to appoint the commissioner of social services. The commissioner is now appointed by the Governor.

SUPPLEMENT II

Gross income equivalents of net income in medical assistance program

	4-person family		Single individual		Childless couple
Net income	$5, 000	$6, 000	$1, 910	$5, 000	$2, 630
Gross income equivalent	5, 700	7, 000	2, 200	6, 200	3, 100
Taxes:					
Federal	296	530	68	755	102
State	36	75	16	139	8
City	26	42	11	57	14
Total	358	647	95	951	124
Health insurance premiums [1]	285	285	[2] 150	[2] 150	285
Total deductions	643	932	245	1, 101	409
Net income	5, 057	6, 068	1, 955	5, 099	2, 691

[1] The cost of health insurance premiums is according to the Bureau of Labor Statistics lower level budget for the 4-person family in urban United States in 1969. (This cost is not separated from total medical costs in 1970 budget.) "Three Budgets for an Urban Family of 4 persons, 1969-70, Supplement to Bulletin 1570-5," U.S. Department of Labor, Bureau of Labor Statistics, 1972.

[2] Approximately ½ the cost of family coverage.

SUPPLEMENT III

Benefits Available From Various Social Programs in New York City

EXPLANATORY NOTES FOR TABLES 1–4

In supplement tables 1 through 4 the range of benefits potentially available to four-person families with incomes ranging from zero to $25,000 a year are shown.[1] Table 1 shows benefits for which the intact family is eligible. It is assumed that the father has not gone through a training program and, therefore, is *not* entitled to a $30 monthly earnings disregard, that one child is in school, and one child is enrolled in day care. In tables 2 and 3 respectively, benefits to the female-headed family in which the mother is *not* entitled to the $30 plus one-third earnings disregard and to the family in which the mother *is* entitled to the disregard are illustrated. In both cases, it is assumed that two children are in school and one child is in day care.

For each of the families both gross income and disposable income are shown, that is, gross income minus taxes and $499 for basic work expenses at each income level.[2] Public assistance benefits are calculated using allowable deductions for each family type and the $118 monthly housing allowance that has been used throughout the study. The food stamp benefit is the value of the yearly stamp "bonus" for families at different income levels. The school lunch benefit is the value of lunches at school for the families' one or two schoolchildren. Medical assistance benefits are based on average yearly medical bills (inpatient and outpatient) incurred by intact or female-headed families, $1,200 and $950 respectively (see chapter IV). While the dental clinic program is available to children from families with incomes of up to $10,000, it is assumed that dental costs are included in full medicaid coverage; for other eligible families the $200 value of initial dental treatment for two children is included.

To evaluate the housing benefit available to families at various income levels, it was necessary to consider the 12 separate housing programs discussed in chapter V. To do so, the average of the subsidies available to families with different incomes under different housing programs was calculated, weighted by the number of units in each program in New York City. For public assistance families, the housing subsidy was developed by calculating the difference between the housing allowance, $118 a month, and the unsubsidized rent in public hous-

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[1] Veterans pensions are not included in this overall analysis since this benefit is not available to all families.

[2] It is assumed that resources are no more than $1,500, within the maximum for all programs. The sum of $499 for basic work expenses is used throughout except at the $1,000 to $3,000 gross income levels where the amount is prorated for part-time employment.

ing units weighted by the units in each of these programs, resulting in a yearly figure of $792.[3]

In tables 1–3 the potential public assistance, food stamp, school lunch, medical care, and housing benefits are totaled at each income level. This subtotal represents the value of those programs designed to meet "universal needs"; income maintenance, food, shelter, and medical care. Day care benefits, a service generally estimated to cost $2,600 a year for one child, are listed separately since day care is less than a "universal need." It is, however, an important benefit available to many families and is added in the total column. Benefits are based on New York City fee scales still in effect as of January 1, 1973.

Benefits from the dental rehabilitation, foster care, and homemaker programs are shown in table 4. These benefits are considered separately because of their exceptional nature and because they would seldom be required simultaneously by any one family. The full dental rehabilitation benefit, $500, is the value of 1 year of a total program of treatment which typically amounts to $1,500 over a 3-year period; the full foster care benefit, $5,100, is based on the cost of a year's care in a boarding home under voluntary auspices; and the homemaker service, $2,400, is the cost of 3 months of a 35-hour week of care. At each income level, required fees are subtracted from the full benefit. Intact or female-headed families with the same incomes would be entitled to the same benefits from these programs. Thus, the dental rehabilitation, foster care, and homemaker benefits shown in table 4 are applicable to each of the families in tables 1, 2, and 3.

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[3] Although public assistance families also live in other aided housing, the numbers are much less than in public housing. In addition, the $118 rent allowance used here would not cover rent in other aided housing programs.

TABLE 1.—*Benefits potentially available from various social programs in New York City to an intact 4-person family by income level*

Gross income	Disposable income	Benefits: Public assistance	Food stamps	School lunch	Medical assistance	Dental clinic	Housing	Subtotal	Day care	Total benefits
0	0	$3,912	$360	$95	$1,200	(1)	$792	$6,359	$2,600	$8,959
$1,000	$846	3,126	360	95	1,200	(1)	792	5,573	2,600	8,173
$2,000	1,692	2,340	360	95	1,200	(1)	792	4,787	2,600	7,387
$3,000	2,538	1,554	360	95	1,200	(1)	792	4,001	2,600	6,601
$4,000	3,229	632	360	95	1,200	(1)	792	3,079	2,600	5,679
$5,000	4,002	(2)	312	95	754	$200	1,140	2,501	2,496	4,997
$6,000	4,751	(2)	(2)	(2)	601	200	1,116	1,917	2,496	4,413
$7,000	5,475	(2)	(2)	(2)	105	200	1,080	1,385	2,496	3,881
$8,000	6,213	(2)	(2)	(2)	(2)	200	1,020	1,220	2,496	3,716
$9,000	6,994	(2)	(2)	(2)	(2)	200	996	1,196	2,379	3,575
$10,000	7,653	(2)	(2)	(2)	(2)	200	864	1,064	1,963	3,027
$11,000	8,442	(2)	(2)	(2)	(2)	(2)	804	804	1,378	2,182
$12,000	9,312	(2)	(2)	(2)	(2)	(2)	720	720	1,287	2,007
$13,000	10,062	(2)	(2)	(2)	(2)	(2)	636	636	1,287	1,923
$14,000	10,784	(2)	(2)	(2)	(2)	(2)	600	600	1,287	1,887
$15,000	11,507	(2)	(2)	(2)	(2)	(2)	600	600	1,287	1,887
$20,000	15,187	(2)	(2)	(2)	(2)	(2)	372	372	1,287	1,659
$25,000	18,086	(2)	(2)	(2)	(2)	(2)	708	708	1,287	1,995

[1] Although the family is eligible for the dental clinic program, it is assumed that dental costs are covered by medicaid.

[2] Not eligible.

TABLE 2.—*Benefits potentially available from various social programs in New York City to a female-headed family of 4 not benefiting from $30 plus ⅓ disregard, by income level*

Gross income	Disposable income	Benefits								
		Public assistance	Food stamps	School lunch	Medical assistance	Dental clinic	Housing	Subtotal	Day care	Total benefits
0	0	$3, 912	$360	$190	$950	(1)	$792	$6, 204	$2, 600	$8, 804
$1,000	$846	3, 186	360	190	950	(1)	792	5, 478	2, 600	8, 078
$2,000	1, 692	2, 460	360	190	950	(1)	792	4, 752	2, 600	7, 352
$3,000	2, 538	1, 734	360	190	950	(1)	792	4, 026	2, 600	6, 626
$4,000	3, 229	1, 163	360	190	950	(1)	792	3, 455	2, 600	6, 055
$5,000	4, 002	390	360	190	950	(1)	792	2, 682	2, 600	5, 282
$6,000	4, 751	(2)	(2)	(2)	560	$200	1, 116	1, 876	2, 496	4, 372
$7,000	5, 475	(2)	(2)	(2)	(2)	200	1, 080	1, 280	2, 496	3, 776
$8,000	6, 213	(2)	(2)	(2)	(2)	200	1, 020	1, 220	2, 496	3, 716
$9,000	6, 994	(2)	(2)	(2)	(2)	200	996	1, 196	2, 379	3, 575
$10,000	7, 653	(2)	(2)	(2)	(2)	200	864	1, 064	1, 963	3, 027
$11,000	8, 442	(2)	(2)	(2)	(2)	(2)	804	804	1, 378	2, 182
$12,000	9, 312	(2)	(2)	(2)	(2)	(2)	720	720	1, 287	2, 007
$13,000	10, 062	(2)	(2)	(2)	(2)	(2)	636	636	1, 287	1, 923
$14,000	10, 784	(2)	(2)	(2)	(2)	(2)	600	600	1, 287	1, 887
$15,000	11, 507	(2)	(2)	(2)	(2)	(2)	600	600	1, 287	1, 887
$20,000	15, 187	(2)	(2)	(2)	(2)	(2)	372	372	1, 287	1, 659
$25,000	18, 086	(2)	(2)	(2)	(2)	(2)	708	708	1, 287	1, 995

[1] Although the family is eligible for the dental clinic program, it is assumed that dental costs are covered by medicaid.

[2] Not eligible.

Table 3.—*Benefits potentially available from various social programs in New York City to a female-headed family of 4 benefiting from $30 plus ⅓ disregard, by income level*

Gross income	Disposable income	Benefits								
		Public assistance	Food stamps	School lunch	Medical assistance	Dental clinic	Housing	Subtotal	Day care	Total benefits
0	0	$3,912	$360	$190	$950	(1)	$792	$6,204	$2,600	$8,804
$1,000	$846	3,641	312	190	950	(1)	792	5,885	2,600	8,485
$2,000	1,692	3,127	288	190	950	(1)	792	5,347	2,600	7,947
$3,000	2,538	2,614	288	190	950	(1)	792	4,834	2,600	7,434
$4,000	3,229	2,256	288	190	950	(1)	792	4,476	2,600	7,076
$5,000	4,002	1,816	288	190	950	(1)	792	4,036	2,600	6,636
$6,000	4,751	1,401	288	190	950	(1)	792	3,621	2,600	6,221
$7,000	5,475	1,010	288	190	950	(1)	792	3,230	2,600	5,830
$8,000	6,213	606	288	190	950	(1)	792	2,826	2,600	5,426
$9,000	6,994	158	288	190	950	(1)	792	2,378	2,600	4,978
$10,000	7,653	(2)	(2)	(2)	(2)	$200	864	1,064	1,963	3,027
$11,000	8,442	(2)	(2)	(2)	(2)	(2)	804	804	1,378	2,182
$12,000	9,312	(2)	(2)	(2)	(2)	(2)	720	720	1,287	2,007
$13,000	10,062	(2)	(2)	(2)	(2)	(2)	636	636	1,287	1,923
$14,000	10,784	(2)	(2)	(2)	(2)	(2)	600	600	1,287	1,887
$15,000	11,507	(2)	(2)	(2)	(2)	(2)	600	600	1,287	1,887
$20,000	15,187	(2)	(2)	(2)	(2)	(2)	372	372	1,287	1,659
$25,000	18,086	(2)	(2)	(2)	(2)	(2)	708	708	1,287	1,995

1 Although the family is eligible for the dental clinic program, it is assumed that dental costs are covered by medicaid.

2 Not eligible.

TABLE 4.—*Benefits available from dental rehabilitation, foster care, and homemaker programs to a 4-person family, in New York City by income level*

Gross income	Disposable income	Benefits: Dental rehabilitation	Foster care	Homemaker service
0	0	$500	$5, 100	$2, 400
$1,000	$846	500	5, 100	2, 400
$2,000	1, 692	500	5, 100	2, 400
$3,000	2, 538	500	5, 100	2, 400
$4,000	3, 229	500	5, 100	2, 400
$5,000	4, 002	500	5, 100	2, 400
$6,000	4, 751	500	5, 100	2, 400
$7,000	5, 475	500	5, 100	2, 400
$8,000	6, 213	500	5, 100	2, 400
$9,000	6, 994	500	4, 892	2, 352
$10,000	7, 653	500	4, 580	2, 280
$11,000	8, 442	380	4, 164	2, 184
$12,000	9, 312	(1)	3, 748	2, 088
$13,000	10, 062	(1)	3, 332	1, 992
$14,000	10, 784	(1)	2, 968	1, 908
$15,000	11, 507	(1)	2, 604	1, 824
$20,000	15, 187	(1)	784	1, 404
$25,000	18, 086	(1)	(1)	1, 080

[1] Not eligible.

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