



**Effects of Welfare Reform on Economic Well-Being of Low-Income Families:  
Are They Better Off After Welfare Reform?**

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# Effects of Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996

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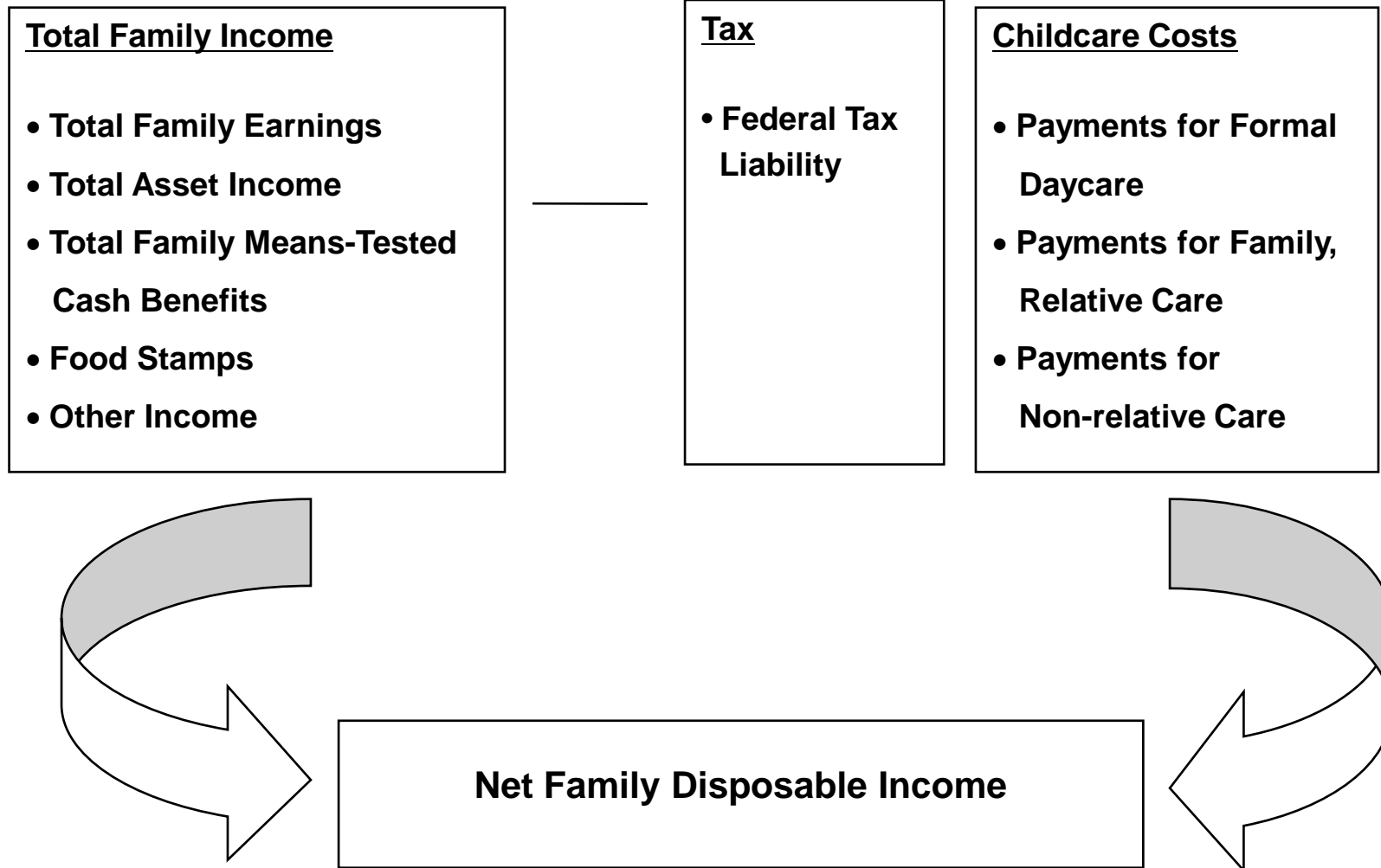
- Underpinning PRWORA is the belief that time limits and work requirements contribute to reducing the number of welfare recipients and welfare dependency.
- Many studies on effects of welfare reform of 1996 focus on employment, earnings and family income of former welfare recipients.
- However, some families may be working more but lose more in welfare benefits. The work requirements of TANF may also result in child care costs associated with entering the labor market.
- It is important to examine whether actual economic well-being of low-income families has changed after the welfare reform of 1996.
- How to measure appropriately economic well-being?

# Research Design

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- The concept of “Net Family Disposable Income”
- Dependent Variable: Net Family Disposable Income  
= Total Family Income – Tax – Child Care Costs
- Sample
- A single mother is defined as a woman aged 16 to 54 who is an unmarried mother of children under the age of 18.
- A family is defined as “low-income” if average family income falls below 200 percent of the official poverty level.

## Composition of Dependent Variable



# Data

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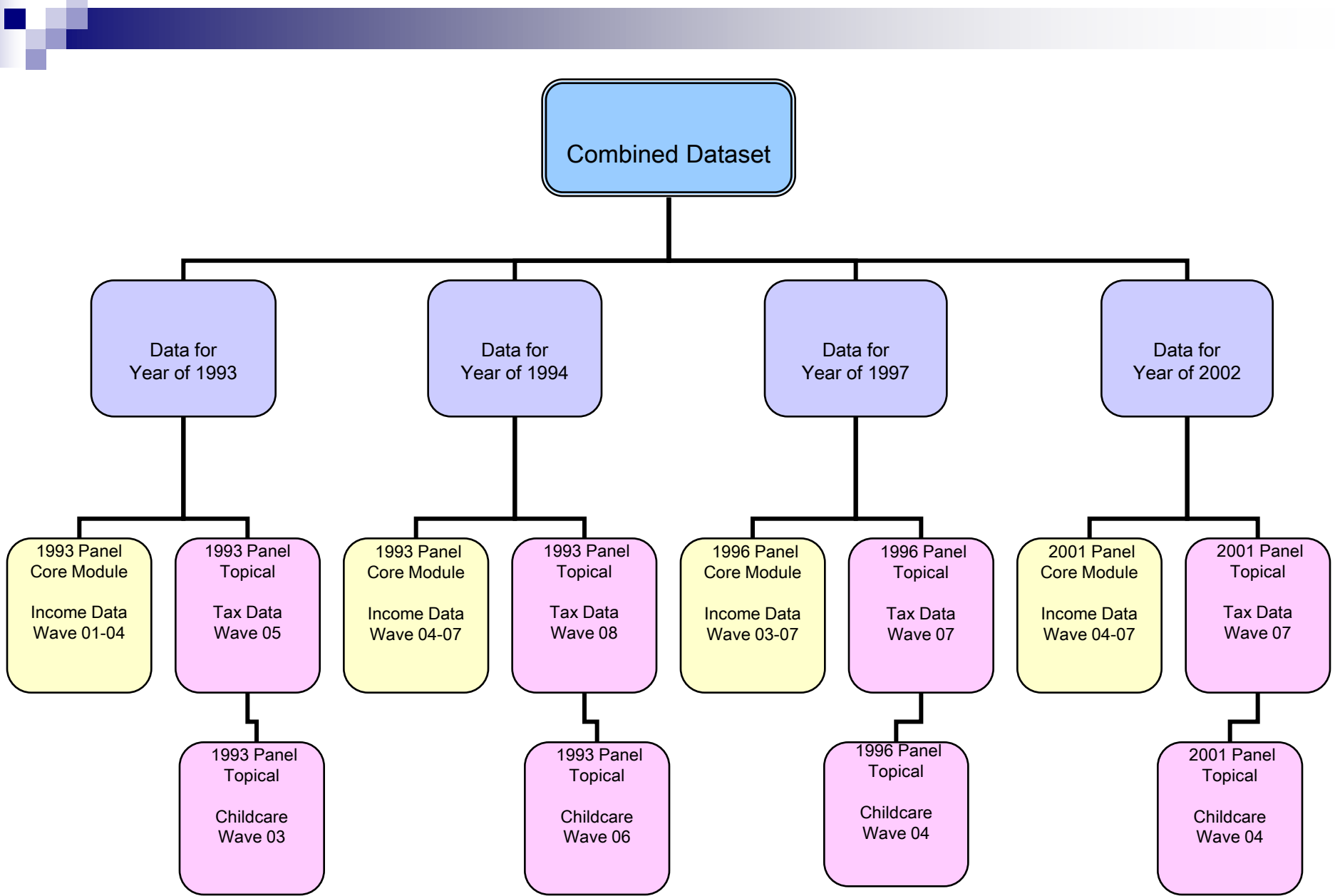
- **Survey of Income and Program Participation (SIPP)** conducted by the Census Bureau
- Because of the limited availability of information on tax and child care, the analysis will be a cross sectional study limited to four years, **1993, 1994, 1997** and **2002**.
- Three cohorts;
  - 1) 1993 and 1994, pre-welfare reform period
  - 2) 1997, right after welfare reform
  - 3) 2002, economic recession period
- Core and Topical modules of 1993, 1996, and 2001 SIPP were used: income variables are from Core modules, variables of tax and child care costs are from Topical modules.

## SIPP Topical module waves used for the analysis

Panel	1993	1996	2001
Wave 1	1/93	3/96	1/01
Wave 2	5/93	7/96	5/01
Wave 3	C 9/93	11/96	9/01
Wave 4	1/94	C 3/97	C 1/02
Wave 5	T 5/94	7/97	5/02
Wave 6	C 9/94	11/97	7/02
Wave 7	1/95	T 3/98	T 1/03
Wave 8	T 5/95	7/98	5/03
Wave 9	C 9/95	11/98	
Wave 10		3/99	
Wave 11		7/99	
Wave 12		11/99	

T – tax

C – child care



# Significance of the Study

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- First, the sample group of this study covers not only welfare recipients but also low-income single mothers who might be eligible for welfare but are not on welfare.
- Second, the net disposable income in this study is defined as the net income after deduction for taxes and child care costs. This study is the first to take account of childcare costs to see the changes of low-income single mothers' net income.
- Third, Core and Topical modules from the Survey of Income and Program Participation (SIPP) conducted by Census Bureau are used for the analysis.



# Analysis Model

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$$Y = \alpha + \beta_1 X_{time} + \beta_2 X_{welfare} + \beta_3 X_{demo} + \beta_4 X_{family} + \beta_5 X_{econs} + \beta_6 Z + \varepsilon$$

**Y** : log of net family disposable income

***X<sub>time</sub>*** : time dummy (1=after welfare reform, 0=before welfare reform)

***X<sub>welfare</sub>***: welfare dummy (1=receive AFDC/TANF benefit, 0= no)

***X<sub>demo</sub>*** : demographic characteristics

***X<sub>family</sub>*** : family characteristics

***X<sub>econs</sub>*** : employment status

**Z** : control variable, Women's unemployment rate in each year

# Total and Net Family Disposable Income in 1993, 1994, 1997, 2002

## Working Single Mothers: Above 200% poverty line

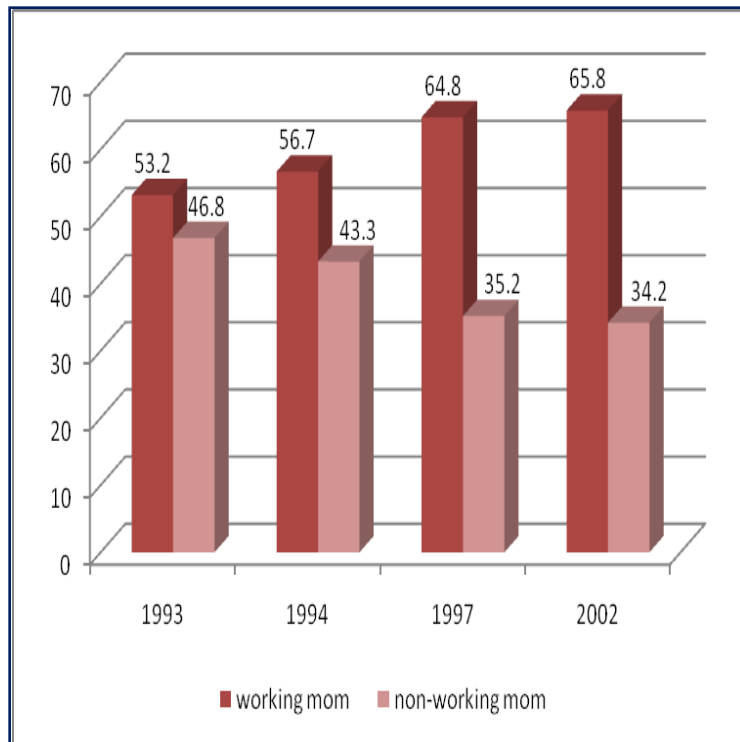
Year	N	Total Income	Tax Expenditure	Childcare Costs	Net Income	Difference
1993	380	54593	2215	803	51576	3017
1994	355	53468	2041	654	50773	2695
1997	761	58463	2503	1517	54443	4020
2002	626	59383	1051	1460	56872	2511
[1] Before Welfare Reform 1996		54031	2128	728	51175	2856
[2] After Welfare Reform 1996 <sup>c</sup>		58923	1777	1489	55657	3266
[3] Difference		4892	-351	760	4483	410

## Working Single Mothers: Below 200% poverty line

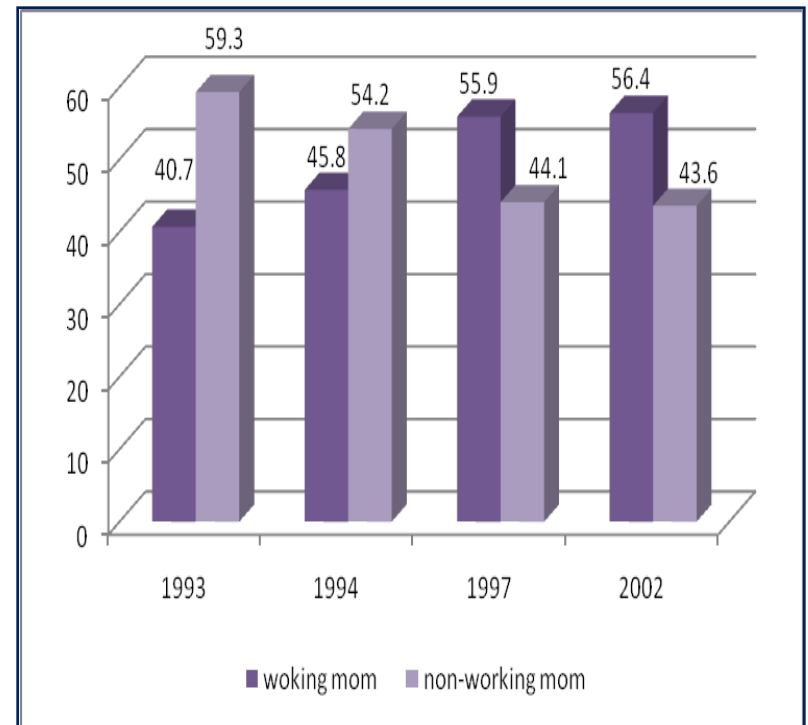
Year	N	Total Income	Tax Expenditure	Childcare Costs	Net Income	Difference
1993	441	22727	341	622	21764	963
1994	456	22776	300	580	21896	880
1997	1016	21814	331	933	20550	1263
2002	806	21511	206	799	20507	1004
[4] Before Welfare Reform 1996		22752	321	601	21830	922
[5] After Welfare Reform 1996 <sup>c</sup>		21662	268	866	20529	1134
[6] Difference		-1089	-53	265	-1302	212

# Employment Status Among Single Mothers

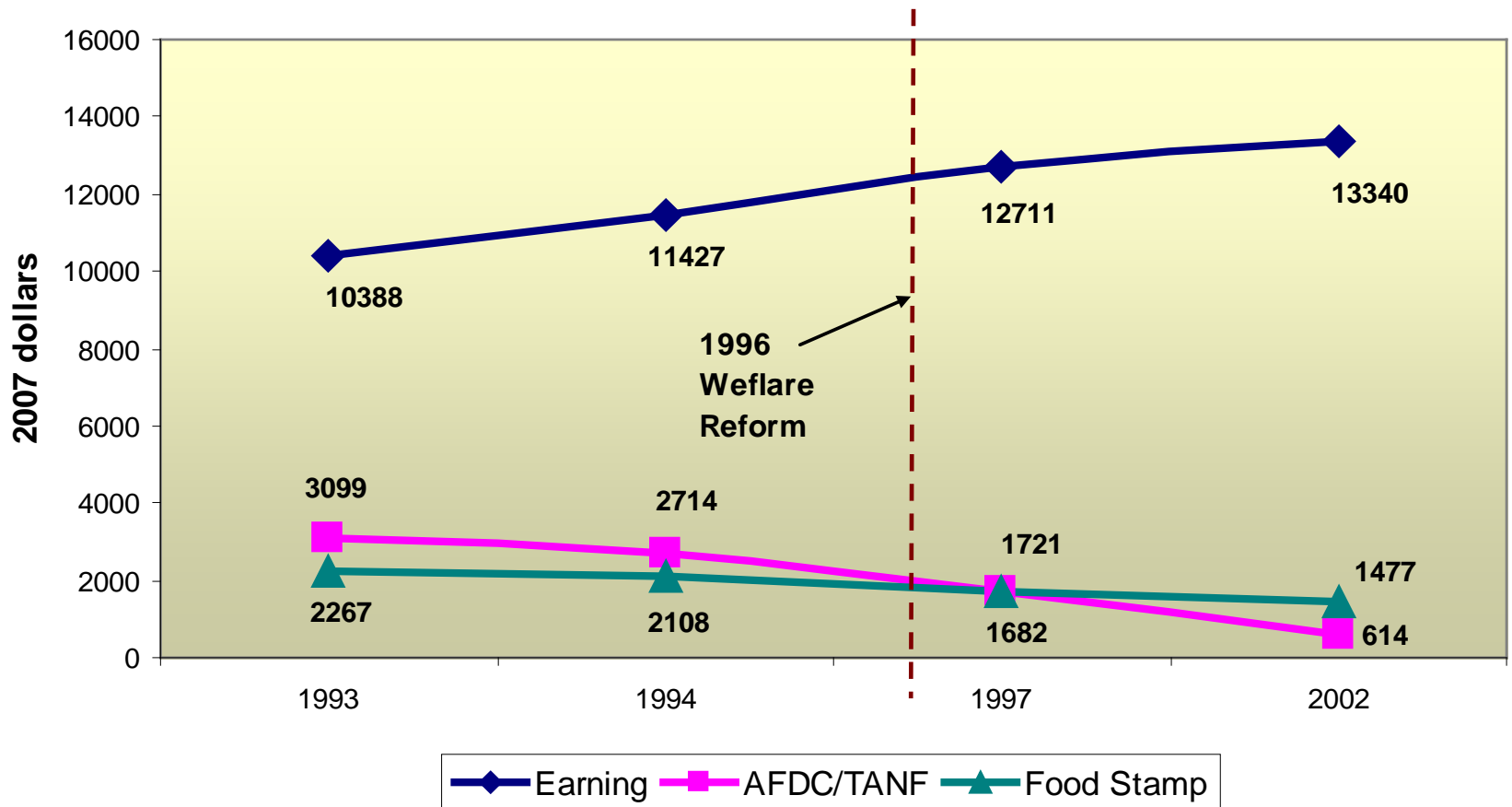
## ■ Single Mothers



## Low-Income Single Mothers



### Family Earning, AFDC/TANF, and Family Food Stamp Trends for Low-Income Single Mother Families, 1993-2002



## Mean of Earnings, Total and Net Income, and Childcare Costs by Income Quintile (2007 dollars)

Quintile	Variable	Year			
		1993	1994	1997	2002
Lowest	N	347	308	512	417
	Family Earning	1314	1705	2853	3089
	Total Family Income	7386	7305	7264	6709
	Net Family Disposable Income	7107	7074	6565	6101
	Tax Expenditure	79	39	219	157
	Childcare Costs	200	192	480	451
	Percentage of Childcare Costs <sup>a</sup>	9.2%	21.1%	18.5%	30.3%
Second	N	331	296	556	418
	Family Earning	7164	7777	9878	10373
	Total Family Income	15136	15399	15969	15495
	Net Family Disposable Income	14649	14834	14881	14824
	Tax Expenditure	105	176	250	155
	Childcare Costs	382	390	838	516
	Percentage of Childcare Costs <sup>a</sup>	20.2%	21.2%	17.7%	17.8%

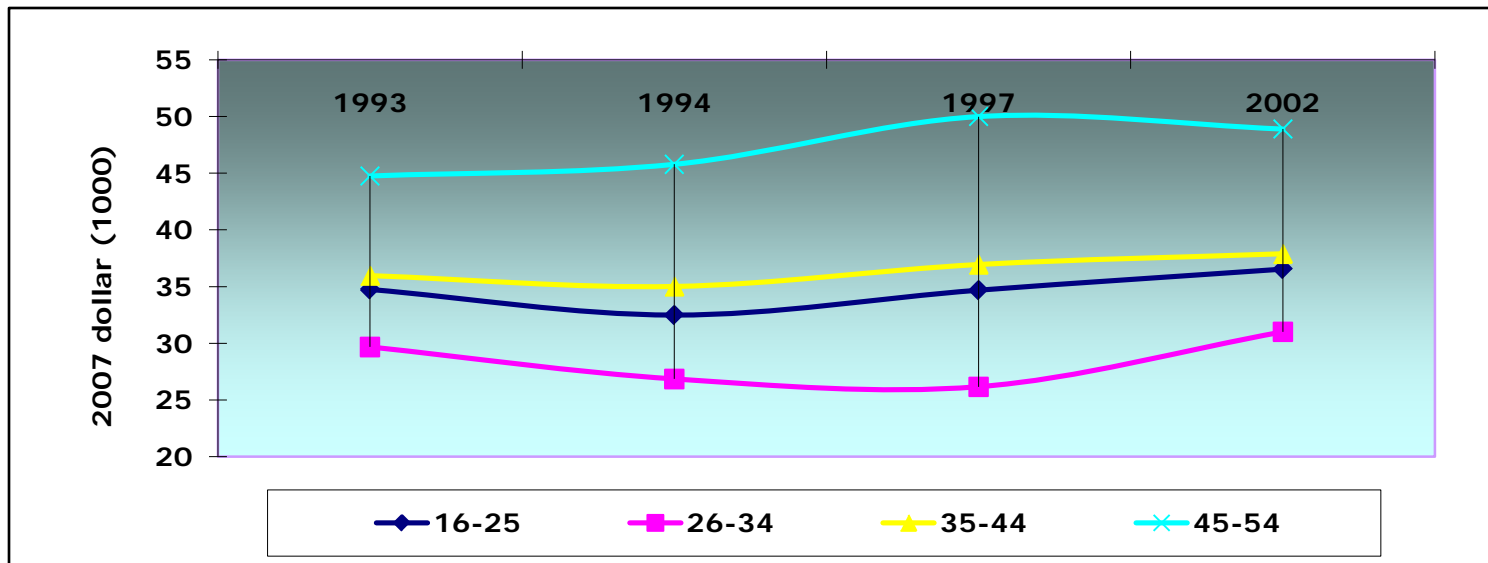
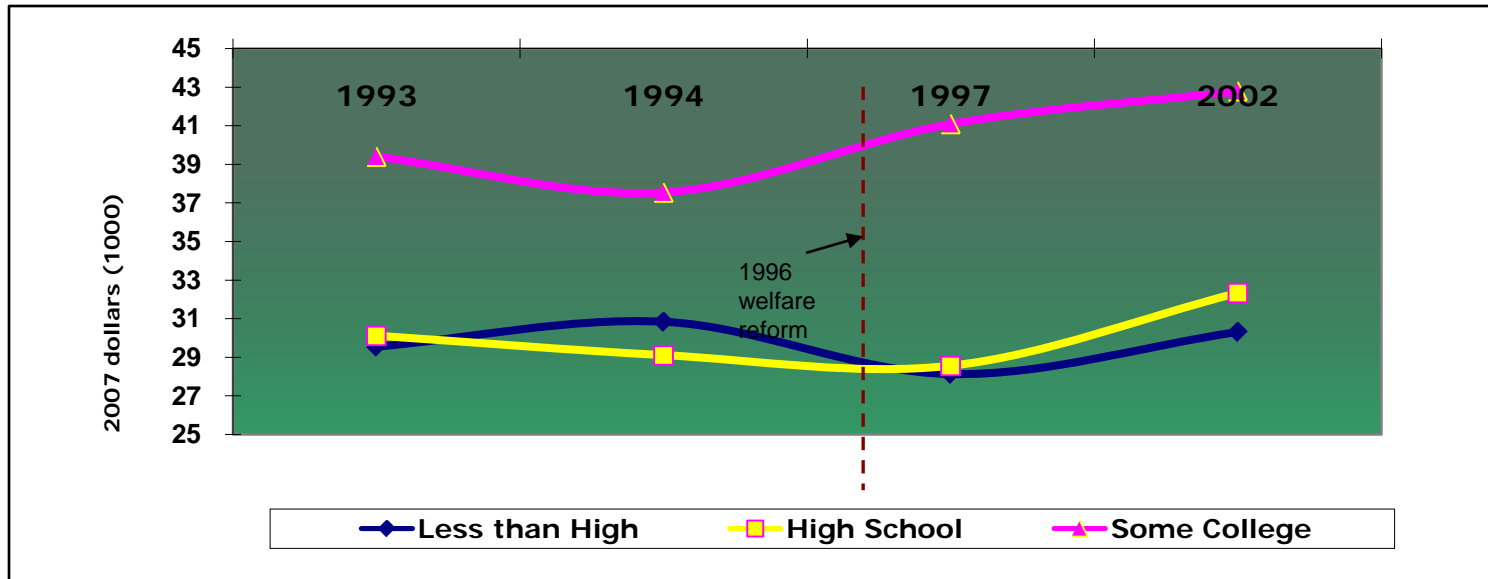
Quintile	Variable	1993	1994	1997	2002
Third	N	324	298	574	462
	Family Earning	18429	18947	19835	20149
	Total Family Income	25255	25347	25749	25647
	Net Family Disposable Income	24512	24527	24266	24408
	Tax Expenditure	446	376	541	278
	Childcare Costs	298	444	942	961
	Percentage of Childcare Costs <sup>a</sup>	16.7%	14.7%	15.1%	12.6%
Fourth	N	272	309	560	414
	Family Earning	30378	31010	31699	33333
	Total Family Income	38743	38706	39444	39173
	Net Family Disposable Income	36846	37207	37467	37582
	Tax Expenditure	1068	964	1073	563
	Childcare Costs	829	534	904	1028
	Percentage of Childcare Costs <sup>a</sup>	11.1%	13.1%	11.3%	12.6%
Highest	N	269	220	539	465
	Family Earning	56046	56837	61411	61440
	Total Family Income	68781	68759	72145	71548
	Net Family Disposable Income	66338	66614	69170	69955
	Tax Expenditure	2063	1833	2185	807
	Childcare Costs	380	313	791	786
	Percentage of Childcare Costs <sup>a</sup>	9.4%	11.0%	7.1%	8.1%

# Earnings, Total and Net Income, and Childcare Costs by Income Quintile

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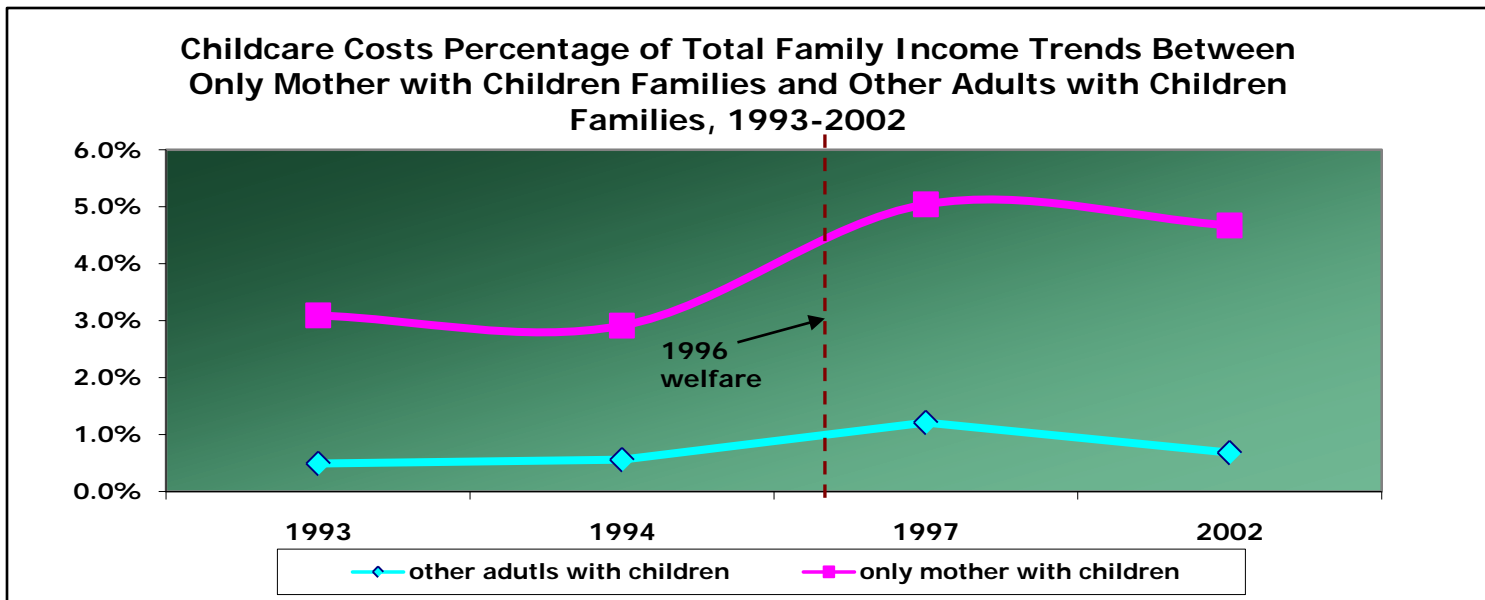
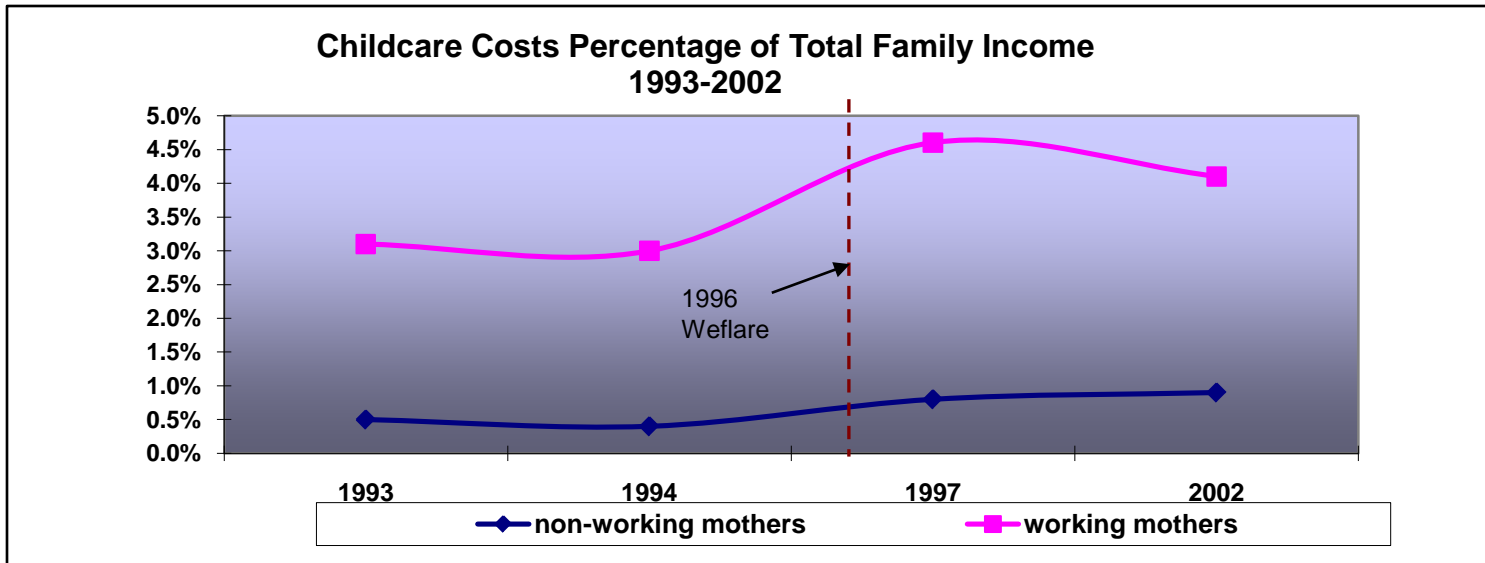
- Although earnings of single mothers in the bottom 20<sup>th</sup> percentile increased between 1993 and 2002, their total and net income decreased during this period of time.
- Severe poor single mothers are moving from welfare poor to working poor.
- Single mothers who were in the bottom 20%, who paid for childcare, spent an average of 18.5% in 1997 and 30.3% in 2002 of their total income, compared to only 7.3% in 1997 and 8.2% in 2002 among mothers in the highest income quintile.
- Childcare costs for low-income families are greater burden as compared with higher income families.

# Net Family Disposable Income Changes by Education, Age





# Child Care Costs



# Earned Income Tax Credit

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- Between 1993 and 2002, average of EITC almost doubled for single mothers.

**Average Amount of Earned Income Tax Credit for Single Mothers  
1993-2002 (unit: 2007 dollars)**

<b>Sample</b>	<b>1993</b>	<b>1994</b>	<b>1997</b>	<b>2002</b>
<b>Low-Income Single Mothers</b>	<b>\$620</b>	<b>\$682</b>	<b>\$1,112</b>	<b>\$1,061</b>
<b>Single Mothers</b>	<b>\$1,040</b>	<b>\$1,171</b>	<b>\$2,277</b>	<b>\$2,193</b>

## Regression Results

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- Interaction term indicating the period after welfare reform and low-income single mothers has a statistically significant association with the log of net family disposable income ( $\beta = -0.192$ ,  $p < .001$ ), which means that the net family disposable income of low-income single mothers decreased by 19.2% after welfare reform.
- **Coefficient of Interaction term (Post welfare reform\*Low-income) with Sub-Samples**
  - Working single mothers: -0.145\*\*\***
  - Non-working single mothers: -0.275\*\*\***
  - Hispanic : -0.210\*\*\***
  - High school graduates: -0.143\*\*\***
  - Only mother and children families (no other adults): -0.242\*\*\***

# Regression Results

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- **Education level** ( $\beta = 0.053$ ,  $p < .001$ ) and **work experience** (working:  $\beta = 0.079$ ,  $p < .01$ , working weeks:  $\beta = 0.108$ ,  $p < .001$ ) had significant effects on net income.
- Families with **only a mother and children** had a consistent negative impact on the net income ( $\beta = -0.451$ ,  $p < .001$ )
- Dummy of **childcare costs** had negative association for single mothers with their net income ( $\beta = -0.082$ ,  $p < .001$ ).

# Conclusions

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- Although the total family income and net family disposable income for working single mothers with incomes above 200% of the poverty line increased over time, it went in a opposite direction for low-income single mothers.
- Low-income single mothers are working more but lose more in welfare benefits. The work requirements of TANF also resulted in child care costs associated with entering the labor market.
- Childcare costs for low-income families are greater burden as compared with higher income families.

# Policy Implication

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## ■ **Childcare Subsidy**

: Access to affordable and good quality of childcare is a critical prerequisite to work for single mothers. Childcare subsidy benefiting single mothers with low earnings would have a large effect on increase in net family income and economic well-being.

## ■ **Education and Job Training Program**

: Policy reforms that encourage education and job training may be more likely to produce single mothers who are more skilled, more highly paid, and less likely to return to welfare.

## ■ **Earned Income Tax Credit and Minimum Wage**

: Effects of EITC on raising the incomes of working poor above the poverty line is related in part to increase in the minimum wage.

## ■ **Public Policy for Disconnected Women**

: Disconnected women who have not benefited from TANF and who do not have a steady employment should be concerned.



Thank you!

Comments and questions?

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