

At What Hourly Wage Were Women Able to Leave and Stay Off Welfare? UPDATE

Background

The Family Income Study's December 1993 issue brief, ***At What Hourly Wage Are Women Able to Leave and Stay Off Welfare?*** found a "threshold" wage of \$6.50 per hour enabled many women to leave and stay off welfare for at least 36 months **during the 1988-1992 Study period**.

This paper updates that analysis and reports the 1994 equivalent "threshold" wage using two different methods: 1. Wages earned **during the Study period** were adjusted for inflation, using the Consumer Price Index.¹ 2. Wages earned **during the Study period** were increased by the amount that would offset the increase in value, from 1988 to 1994, of the welfare package (Aid for Families With Dependent Children [AFDC] and Food Stamps).²

Family Income Study Findings:

- A 1994 equivalent "threshold" hourly wage, adjusted for inflation, was **\$8.00** for women who left welfare with employment. (*Chart 1*)
- Only 25 percent of the women who were employed when they left welfare earned a 1994 equivalent of \$8.00 or more per hour. (*Chart 2*)
- A 1994 equivalent "threshold" hourly wage that would offset the increase in value of the welfare package was **\$7.61**. (*See discussion*)

Discussion

When we adjusted the wages women earned **during the Study period** for inflation, we found that women who earned the 1994 equivalent of at least **\$8.00** per hour were more likely to stay off welfare. However, only 25 percent of the women would have earned this wage.

The other method of calculating a 1994 "threshold" wage represents a **tradeoff** between work on the one hand and welfare on the other. The **\$7.61** hourly wage was adjusted for the increase in the value of the welfare package (AFDC + Food Stamps) from 1988 to 1994.

In 1994 women may have considered working and claiming the Earned Income Tax Credit (EITC) and 12 months of Medicaid and child care benefits, **versus** staying on welfare without working. Medicaid and child care, very important considerations, are now extended for a 12 month transitional period when women leave welfare with work.

This analysis suggests that **\$7.61 to \$8.00** per hour may have been an appropriate target wage for welfare to work programs in 1994.

If you have any questions or comments, please call Greg Weeks or Carol Webster at (360) 866-6000, extension 6380.

1. We used the national Consumer Price Index to adjust individuals' wages reported **during the Study period** to obtain equivalent wages in 1994 dollars. The increase in the Consumer Price Index from 1988 to 1994 was 26 percent, and the increase in the average Washington State wage was about the same.

2. To estimate the "threshold" wage that would offset the welfare package in 1994, we calculated the increase in the value of the package between 1988 and 1994. We found a 17 percent increase. Thus, the 1994 estimated "threshold" hourly wage was increased by 17 percent, from \$6.50 to \$7.61 per hour.