

## **WOTC STATE LEVEL SAVINGS**

### **EXPLANATION OF COMPUTATIONS**

In his April 2013 study, "A Detailed Assessment of the Value of WOTC" Professor Peter Cappelli of the Wharton School quantified the savings in social spending programs to the United States Government that are generated by moving an individual from public assistance to private sector employment through the work opportunity tax credit (WOTC). The study that follows, prepared under Professor Cappelli's supervision, quantifies the savings at the state level in three programs which formed the basis his 2013 Federal level study.

The computations are as follows:

**TANF** – The percentage which states contribute to TANF was taken from the FFIS report, derived in turn from Federal Government statistics. The number of participants in TANF in each state and the average TANF benefit per state are taken from Federal Government statistics in a November 21, 2011 report of the Center for Budget and Policy Priorities. These figures were used to derive the average amount of the annual TANF benefit that each state contributes to recipients.<sup>1</sup>

Individuals hired in several WOTC categories are recipients of TANF benefits and the number certified (and hired) in each category is provided annually by the US Department of Labor. Two WOTC categories are specific to individuals on TANF. The Congressional Budget Office in a 2012 report on the food stamp (SNAP) program found that 60% of individuals on SNAP are also on TANF, and as a result, 60% of individuals certified for SNAP are added to the TANF categories to compute the total TANF state level savings under WOTC.

**SNAP** - Although SNAP is a federally funded program, states contribute to the administration of SNAP and the amount of that state level expenditure is also listed in the FFIS report. The chart derives these savings by dividing the total spent by each state to administer its SNAP program by the number of SNAP participants in each state (that number was taken from the USDA February 2014 report on the "Characteristics of SNAP Households). The average expenditure for SNAP per individual was multiplied by the number of individuals certified for WOTC under the SNAP category to determine savings.

A reduction adjustment was made to the overall WOTC savings in SNAP and TANF in the amount of 11% to account for the likelihood that not all WOTC hires will earn sufficient amounts to completely come off of these programs as was done in the April 2013 Cappelli study.

**MEDICAID** – Using figures from the Kaiser Family Foundation the WOTC savings in state Medicaid programs were added to the TANF and SNAP totals. These were derived by determining the total state contribution to Medicaid (by multiplying the total Medicaid spending in a state by the state's FMAP – its share percentage – and multiplying that by the number of WOTC hired individuals who are on Medicaid. This last number is a combination of 60% of all SNAP certified individuals (CBO statistics indicate that 60% of individuals on SNAP are also on

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<sup>1</sup> These calculations have since been updated to consider each individual state's TANF-related expenditures.

Medicaid) and 98% of the WOTC TANF certified individuals who statistics show are also on Medicaid.

The total Medicaid savings are adjusted down by 50% to account of individuals who are hired at wage levels that would continue to qualify them for Medicaid.

**Final Adjustments** – Two final adjustments are made to the savings totals. First, based on a study by New York State under Governor Pataki that showed the average WOTC recipient is retained in the job and is off public assistance for 2.3 years, even though the credit with one small exception is provided for just one year, the total is multiplied by a factor of 2.3. (Because years overlap, the states will realize the total amount of savings computed in these charts in a single year; the first year savings of someone certified in that year should be added in each year to the second year for savings for some certified in the prior year and so on).

A second adjustment reduces the savings by 25%, consistent with Professor Cappelli's finding that while WOTC is a very effective program, an allowance should be made for the possibility that WOTC may not be the main factor driving every hire under the program. Professor Cappelli uses a 25% reduction factor in this regard.

The overall savings figures may in reality be greater because the chart does not take into account state programs which are very difficult to quantify., including housing, health and wellness, crime prevention, and government run training programs.



# Maryland Annual State Savings WOTC

TANF				
Average Annual TANF Benefit per individual		\$7,632		
State Contribution	11%	\$840		
Annual TANF Certs Issued		811		
Sub-Total		\$680,851		
Annual SNAP Certs Issued		15,453		
Allowance for SNAP Recipients also on TANF (60%)		9,272		
Sub-Total		7,783,862		
Adjusted for participants that remain on SNAP and TANF despite full time work (11%)		6,927,637		
TANF Savings				\$7,608,487
SNAP				
Total annual Admin Cost Contribution		\$70,183,799		
Total Number of Recipients		404,708		
Average Admin Cost/Recipient		\$173.42		
Number of SNAP Certs Issued		15,453		
Total Annual Admin Savings of SNAP Recipients Certified by WOTC			\$2,679,834	
Subtotal of Savings			\$2,679,834	
Adjusted for participants that remain on SNAP and TANF despite full time work (11%)				\$2,385,052
MEDICAID				
Total Annual Medicaid Expenditure		\$9,410,000,000		
State Contribution	50%	\$4,705,000,000		
Total Recipients		1,061,749		
Average Annual Benefit Per Recipient Contributed by State Funds		\$4,431		
Average Annual number of SNAP Recipient on Medicaid		9,272		
Average Annual Number of TANF Recipients on Medicaid		795		
Sub-Total of TANF & SNAP Recipients on Medicaid		10,067		
Total Annual Savings of SNAP & TANF Recipients Certified by WOTC			\$44,608,715	
Less Adjustment for individuals that continue to receive Medicaid (50%)				\$22,304,358
STATE SAVINGS				
Subtotal Annual State Savings			32,297,897	
Retention adjustment for 2.3 years			74,285,164	
25% Reduction per Cappelli analysis			18,571,291	
<b>Total Annual State Savings</b>				<b>55,713,873</b>