# Do Income Support Levels and Work Incentives Differ Between Rural and Urban Areas?

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Abstract

Do incentives to work differ between rural and urban low-income families? This paper examines the question using a combination of local and state data on benefit programs and taxes. Weighting state parameters by the rural and urban populations yields the average benefit and tax rate structure available to the typical rural and urban resident, respectively, over all states. Comparisons between the benefit/tax structures indicate that financial incentives to work are slightly higher in rural than in urban counties. Surprisingly, adjusting for housing costs, average real benefits and incomes are higher in rural than in urban counties and the advantage rises with earnings.

Recent changes in the U.S. income support system have substantially increased the financial incentives for low-income adults to work. Beginning with state welfare initiatives and expanded under federal welfare reform legislation (the Personal Responsibility and Work Opportunities Reconciliation Act of 1996), the nation's welfare system has come to embody tough work requirements, time limits on the receipt of cash welfare, and welfare office policies that divert applicants away from welfare and impose additional requirements on those who do not take jobs. At the same time, the higher Earned Income Tax Credit (EITC), expanded support for child care and health care expenses, the child tax credit, and liberalized welfare rules for taking account of earnings and assets are increasing the financial rewards to workers.

In a recent analysis documenting the new structure of work incentives in 13 states, Acs et al. (1998) reported that income transfer benefits to low-income families are high enough so that a full-time, full-year working mother of two children earning only the minimum wage can escape poverty. The analysis showed that work incentives were especially generous to those moving from not working at all to working at a low-wage job. For example, in the median state, a rise in earnings from zero to about $800 per month increases the total income of a poor family from about $730 to over $1,300 per month. Put another way, the $800 increase in earnings lowers transfer benefits by about $230. However, benefits decline more sharply as earnings rise further. A $600 jump in earnings from $800 to $1,400 per month would add only about $200 to the family's income.

Work incentives vary not only over ranges of earnings, but also across states. In California, Minnesota, and New York, states providing relatively high benefits, work incentives are liberal over the initial range of earnings, but drop off dramatically. As workers move from a minimum wage job ($5.15 per hour) to a $9 per hour position, each added $100 dollars of

earnings results in a reduction of $80-$90 in benefits. In other states—such as Colorado, Florida, Michigan, and Texas—the reductions in work incentives are not as severe, though getting a raise over the full-time, minimum-wage level still lowers benefits by about 60 percent of the added dollars earned.

Using the state as the unit for analyzing benefit levels and work incentives is appropriate, given the wide variations across states and the increasing role states play in setting social welfare policies under the Temporary Assistance for Needy Families (TANF) program. However, one must go beyond existing studies in order to understand how location may affect the interaction between low-income families and the welfare system. In some states or areas within states, low wages may still make benefits relatively attractive in comparison to work.

The structure of transfers and taxes as well as the stringency of TANF program rules may differ for residents of non-metropolitan areas relative to residents of more metropolitan areas of a state (hereafter, we use metro and non-metro and urban and rural interchangeably).[1] Rural residents may be more vulnerable to poverty because they reside in less generous/lower benefit states. Rural populations may also be more concentrated in states with particularly stringent TANF rules, such as tough work requirements, short time limits, liberal asset rules, earnings disregards, and policies that divert new entrants from welfare. So far, available information on welfare caseloads suggests that welfare rolls have declined more rapidly in rural areas than in urban areas (Rural Conditions and Trends, 1999).

[1] The Office of Management and Budget defines counties located inside a Metropolitan Area as "metropolitan" counties and counties outside a Metropolitan Area as "non-metropolitan" or "rural." The general concept of a metropolitan area is one of a large population core, together with adjacent communities that have a high degree of economic and social integration with that nucleus. A Metropolitan Area contains: 1) at least one central city with either a place or minimum population of 50,000 or 2) a Census defined urbanized area and a total Metropolitan Area population of at least 100,000 (75,000 in New England).

This paper examines how state variations in welfare policy parameters, TANF rules, income tax policies, county-level variations in housing costs, and county-level variations in per capita income affect the work-welfare incentives facing rural and urban low-income families. The paper presents rural/urban comparisons for three income measures for a single parent moving from welfare to work at different wages. The focus is on one-parent families with two children, the archetypal low-income family participating in the mix of transfer programs. The income measures are: nominal income consisting of earnings plus transfers less taxes; that income adjusted for housing prices; and that income relative to county per capita income. Weighting each state benefit level by the rural population, we obtain the average benefit available to the typical rural resident over all states. Similarly, weighting by the urban population yields the average benefit for the typical urban resident. The rural-urban comparisons represent differences between what the typical urban and typical rural resident faces in the tax and transfer system.

The next section presents the data on benefits and program rules, highlighting features of programs or the underlying environment that may cause welfare programs to exert different effects by state. We then analyze how maximum benefits, work incentives, and stringency of program rules vary by metropolitan counties and accessibility of non-metropolitan counties. Our key findings are as follows:

- The average benefit guarantee for a family of three is lower in counties that are non-adjacent to a metropolitan area and the disadvantage widens for families subject to sanctions. However, the financial disadvantage in rural counties declines as families increase their earnings.

- Adjusting for the lower housing costs in rural counties, real benefits and thus real incomes are generally higher in rural than in urban counties at almost all levels of earnings. For those earning the minimum wage and working 35 hours per week, monthly incomes adjusted for housing prices are $1,422 per month in rural counties and $1,322 in urban counties.

- Financial incentives to work are slightly higher in rural than in urban counties.

- At each level of earnings, national average incomes (earnings plus transfers less taxes) are lower in rural than in urban counties, but the rural/urban differences are smaller once we take into account regional differences (i.e., living in the South).

- When we adjust for differences in rural and urban average incomes, benefits relative to average per capita income are higher in rural than in urban counties. The advantage for rural counties expands with earnings.

- State program rules concerning asset tests, exemptions from work requirements, sanctions, and time limits are not generally more stringent among populations living in rural counties. Surprisingly, states are not consistently liberal or stringent. States with a stringent rule in one domain are not especially likely to apply a stringent policy in another domain.

**Examining Variations in Benefit Levels, Work Incentives and Other Program Rules**

Federal and state tax and transfer policies interact with local conditions to determine the benefit levels, work incentives, and purchasing power of low-income families. The Federal government sets Food Stamp program benefit levels, decides on federal income tax payments and credits, and specifies a range of benefit rules for medical, housing, and other in-kind programs. State governments determine cash benefits, benefit reduction rates, work requirements, time limits, and a range of other rules under the TANF program. The state also chooses how to allocate money for training, child-care, transportation, and many specific policies for medical and housing benefit programs. State income tax rates and rules for defining taxable income affect work incentives as well.

Although benefit and tax packages are generally identical within states because state and federal policies interact to determine eligibility for benefits and tax obligations, the effect of these packages can vary across rural and urban counties in three ways. First, county rent differentials can influence the actual benefit amounts paid under Food Stamp and housing programs. Food stamp rules permit a deduction from countable income for excess rent; as a result, households with the same incomes but different rents may receive different amounts of

food stamps. The value of housing vouchers varies widely across the country with the fair market rent determined for the recipient's area.

A second reason that the effect of these packages differs is that living costs may vary, making the value of a fixed dollar value of benefits higher in some counties than others. At the same time, area cost differentials may not matter for assessing benefit variations. This is because, when people can move from one area to another, cost differentials may ultimately reflect the value people place on an area's amenities. Higher housing costs in San Francisco than in Topeka do not necessarily mean a higher overall price level in San Francisco but rather a higher quantity of non-priced amenities valued by residents.

Though not examined in this paper, variations in the impact of policies across counties within states might occur because policy actions designed for one area do not apply well in other counties. For example, a rule requiring applicants for benefits to contact 15 employers before completing their application might impose substantially higher transaction costs of fulfilling this requirement in some counties than others. Asset tests that limit a recipient's ability to own an automobile could constrain low-income families most in counties lacking public transportation.

The perceived value of benefits may also depend on incomes in the local area. Two families qualifying for the same dollar amount of benefits may place different values on the benefit package if one family lives in a high-income area and the other family lives in a low-income area. The ability to attain a consumption level comparable to that of your neighbors may be as important as the absolute level of consumption. Low relative incomes may have a more significant effect on participation in community life than low absolute incomes.

Given these differences, the impact of benefit packages may vary among recipients within states as well as between states. The focus of this paper is on rural-urban differences across counties.

We examine differences in benefit packages, work incentives and other rules between urban counties, rural counties adjacent to urban areas, and rural counties not adjacent to urban areas. The units of observation are county income averages within each of the 50 states and the District of Columbia. In most states, there are three observations—averages for urban, adjacent rural, and non-adjacent rural counties. Because not all states contain areas with all county categories, the total number of observations is 145.[2]

In the first step, we consider differences that mainly reflect the states where urban and rural residents happen to live. This analysis answers questions such as: are rural residents concentrated in states with relatively low benefits, strong work incentives, and tough work requirements? Or is the rural population distributed across states with benefit packages similar to those in the country as a whole? The only within-state difference considered in this exercise is the impact of housing costs on state average food stamp benefits.

The second step is to examine benefit packages after adjusting for housing cost differentials between rural and urban counties within states. Using county data on fair market rents by categories of urban, adjacent rural, and non-adjacent rural, we adjust benefit packages for housing prices. Our approach assumes housing prices are the only cost differences across counties and that housing accounts for about 35 percent of outlays of low-income recipients.[3]

[2] We excluded Wisconsin because the data on financial components of its TANF program were not comparable to those of other states.

[3] Consumer Expenditure Survey, US Bureau of Labor Statistics. The 35 percent figure is the average amount spent on housing as a proportion of average total expenditures among the bottom 40 percent of households. See Table 1: Quintiles of Income Before Taxes: Average Annual Expenditures and Characteristics, Consumer Expenditure Survey 1997 available at ftp://ftp.bls.gov/pub/special.requests/ce/standards/1997/quintile.txt.

In the third step, we look at how county income differences affect comparisons of benefit packages across rural and urban counties. A family that can access $700 per month in benefits may be more likely to take advantage of welfare programs in counties where average incomes are $2,000 per month than in counties where average incomes are $3,000 per month. Differences in take-up rates may reflect differences in the returns to work (because of relative wage differences) or differences in satisfaction with a particular income level (a fixed benefit level brings less satisfaction to families in high-income counties than to families in low-income counties). In this analysis, we use calculations of the average per capita income in each county within a state as the weighted average of per capita incomes in counties of the same category. Thus, the income for the non-adjacent rural area observation in Alabama is the population-weighted average income across each Alabama county in the non-adjacent rural category.

After describing the data in the next two sections, we move to the analysis of area differences in benefit packages, work incentives, and program rules.

**The Data on Benefits, Taxes, and Geographic Areas**

In order to conduct the analysis, we required data on the way benefits and taxes vary with earnings, on other program rules, and on such area characteristics as population and income. The first step involved classifying counties on the basis of the adjacency codes developed by the Economic Research Service (ERS). These ERS continuum codes draw on the Office of Management and Budget's classification scheme of metro and non-metro counties. Counties located inside a Metropolitan Area are considered "metropolitan" and those counties outside a Metropolitan Area are "non-metropolitan" or rural. As described earlier in a footnote, the general concept of a Metropolitan Area is one of a large population core, together with adjacent

communities that have a high degree of economic and social integration with that nucleus. The ERS continuum codes recognize this integration by further refining the classification by categorizing counties by their degree of urbanization and proximity to a metro area. Metro counties are divided into four groups by the population of the Metropolitan Area of which they are a part and by whether or not the county is a central or fringe county (for counties in metro areas with a population of at least 1 million). Non-metro counties are classified according to the aggregate size of their urban populations and their adjacency to one or more metro counties. Non-metro adjacent counties are physically adjacent to one or more Metropolitan Areas and have at least two percent of the employed labor force in the non-metro county commuting to central metro counties. Any non-metro counties that do not meet this criterion fall into the non-adjacent category.

We grouped counties into one of three categories:

- Metropolitan counties:
  - 0: central counties of metro areas of 1 million population or more;
  - 1: fringe counties of metro areas of 1 million population or more;
  - 2: counties in metro areas of 250,000 to 1 million population;
  - 3: counties in metro areas of fewer than 250,000 population.

- Non-metropolitan counties, adjacent to a metropolitan area:
  - 4: urban population of 20,000 or more, adjacent to a metro area;
  - 6: urban population of 2,500 to 19,999, adjacent to a metro area;
  - 8: completely rural or less than 2,500 urban population, adjacent to a metro area.

- Non-metropolitan counties, not adjacent to a metropolitan area:
  - 5: urban population of 20,000 or more, not adjacent to a metro area;
  - 7: urban population of 2,500 to 19,999, not adjacent to a metro area;
  - 9: and completely rural or less than 2,500 urban population, not adjacent to a metro area.[4]

[4] Butler, Margaret A. and Calvin L. Beale, "Rural-Urban Continuum Codes for Metro and Non-Metro Counties, 1993." United States Department of Agriculture, Economic Research Service, Agriculture and Rural Economy Division, pages 1-2. September 1994.

To study the interaction between earnings, benefits, and taxes, we used the Urban Institute's benefit simulator and extended it to incorporate state taxes and tax credits. Many of the tax and transfer rules are the same throughout the country and others are the same across each state. To examine the incentives under various combinations of earnings, TANF, food stamps, and taxes, we compute the take-home income of a hypothetical family, consisting of a single parent and two children who live in three different geographic scenarios in 49 states.[5] We assume the family does not have assets that would preclude TANF receipt, and only receives income from earnings and the public transfer programs in the database (TANF, food stamps, and EITC). We examine seven earnings scenarios for the family, which range from no earnings to an earnings level of nearly $22,000 per year.

We compiled a database of 49 states that included detailed information about TANF and food stamp benefit levels, and taxes. This initial database took into account an individual's federal and state income tax liability, as well as any potential earned income tax credit one might receive at a given earnings level. Total income was computed by adding earnings, TANF and food stamp benefits, and federal and any state earned income tax credits and subtracting any federal and/or state income taxes owed under a given income scenario. Although we do not take housing benefits directly into account in this analysis, differences in housing costs can still influence benefits and work incentives through the Food Stamp program (food stamp recipients can deduct up to 50 percent to the extent their rental expenses exceed countable income).

We examine benefits and taxes at several levels of earnings and program activity. In the first scenario, the household does not have any earnings from work and faces a sanction for non-compliance with state TANF work requirements. Each state has varying penalties for non-compliance with work activities or other requirements, such as immunization of children, school

[5] See footnote 2.

attendance, or child support cooperation. Some states withhold a portion of a household's TANF benefit; while a few states terminate TANF benefits completely if some minimum work or other requirement is not met. We consider only the case in which non-compliance with a work requirement triggers a state's sanction to the TANF benefit. We are assuming this is the first instance of non-compliance. The second case again involves no earnings from work, but the household complies with program rules and is not sanctioned. A TANF recipient may be in this situation if she is exempt from work requirements or if she is actively searching for work but not employed.

For the next four cases, we vary the level of hours worked and/or wage rates. The earnings to the family vary from $443 per month to $1,806 per month. The lowest earnings represent an individual working 20 hours per week at an hourly wage of $5.15 for a monthly income of $443 and a yearly income of $5,316. The next case assumes that the individual's hours increase to 35 per week, thereby raising earnings to $775 per month or $9,300 per year. The fifth case is a scenario in which the head of the household works 35 hours per week at $7.00 per hour, earning $1,054 per month or a yearly income of $12,648. The last two situations retain the assumption of 35 hours per week of work, but raise the assumed wage rate to $9.00 and $12.00 per hour, implying monthly incomes of $1,355 and $1,806, respectively.

In 1998, the poverty threshold for a family of three was $13,133 per year.[6] Although only two of the scenarios described above feature households whose earnings from work are above the poverty threshold, all but one of the family types are able to attain incomes above poverty by supplementing their earnings with benefits and tax credits. Put another way, a lone mother and two children living anywhere in the country can escape poverty by having a full-

[6] United States Census Bureau Website: (http://www.census.gov/hhes/poverty/threshld/thresh98.html)

time, full-year worker—even a worker earning only the minimum wage—and by taking the benefits available through the EITC and food stamps.

TANF cash payments to a household depend on the program's income and asset tests. The size of the payment depends on the state's maximum benefit to a family with no earnings and the methods used by the state to count income. The implicit rate at which benefits decline with earnings varies across states, depending on policies relating to what income can be excluded (say, some fixed proportion of earnings or child care expenses). We compiled TANF payments for 1998 for each earnings level on the basis of calculations for individual states[7] using the state TANF income calculator (STIC) on the Urban Institute's *Assessing the New Federalism* website, http://newfederalism.urban.org/incalc2/index.html.

The food stamp benefit was calculated using fiscal year 1998 parameters for a family of three. We assumed the household would receive the following: the standard deduction of $134 per month, the earned income deduction of 20 percent of earnings, and a deduction for shelter expenses (50 percent of any expenses that exceed the maximum of $247 per month in 1997). We calculated a family's actual shelter expense as 68 percent of the rent a family of three can expect to pay for a two- bedroom dwelling in the county in which they live.[8] County data on expected rental cost, or fair market rent, comes from reports listed on the Department of Housing and

[7] TANF benefit levels for the state of Wisconsin were not available on the STIC, and therefore, Wisconsin was excluded from the database. Wisconsin is not included on the STIC database because its eligibility requirements are too complex for the design of STIC.

[8] Acs, Gregory et al., "Does Work Pay? An Analysis of the Work Incentives Under TANF." Assessing the New Federalism, the Urban Institute, page 44. July 1998. We derived this 68 percent figure from the work previously completed for the "Does Work Pay?" paper. They used data from the 1995 food stamp Quality Control System and averaged the reported shelter expenses for single mothers with two children, omitting families with zero shelter expenses. This average was compared with the 1995 state average fair market rents. Thus, we derived our estimates of 1998 shelter expenses by multiplying the average ratio of these two measures (68 percent) by the 1998 FMR in the three sub-areas of each state and assume this is what the family must spend in rent.

Urban Development (HUD) website. Using a population-weighted average of county fair market rents, we calculated rents for each of the three sub-areas of each state.

The maximum food stamp allotment for a family of three in fiscal year 1998 was $321. If a family unit's gross income per month exceeded $1,445 in 1998, they were not eligible for food stamp benefits.[9] This means that only the highest earnings group in our study, those with an income from work of $1,806 per month, was ineligible for food stamp benefits.

Federal tax parameters, federal insurance contributions (FICA tax), and federal earned tax guidelines were all set at 1998 levels. The tax rate was 15 percent of all earnings with a standard deduction of $354 for someone claiming as "single" and a standard deduction of $521 for someone claiming "head-of-household." The single deduction is included even though this study examines a family unit because according to federal tax laws, if the parent in this scenario has earnings that are less than double the benefits they receive, they have to claim the lower deduction. The FICA tax for 1998 was 7.65 percent of a person's earnings in all the work scenarios.

In calculating the federal Earned Income Tax Credit (EITC), we assume that both children in the household lived with the parent for all 12 months and did not live with a biological relative (such as an aunt) who has a higher income and supplies more support than their parent. The phase-in rate for the EITC is 40 percent and the phase-out rate is 21.06 percent. The maximum amount a person can receive in an earned income tax credit is $313 per month. An individual cannot receive federal EITC benefits if their income per month exceeds $2,508; therefore the individuals in all of our scenarios received the federal EITC.

[9] 1998 Green Book, pages 930-931.

We generated state tax estimates at each earnings level using TaxCut, a software program that allows one to calculate tax amounts for every state and, where relevant, state EITC amounts. In some cases, individuals can qualify for a payment from the state tax authority instead of having to pay a tax.

We compiled data on fair market rent, population, and per-capita income at the county level and benefit payments, housing ownership status, and other variables at the state level.

An individual case best illustrates the types of tabulations used to measure net income. Consider a family residing in one of Maine's rural, non-adjacent counties in which the head of the family works 20 hours per week at a wage of $5.15 per hour and will receive $443 per month (equal to a yearly income of $5,316). Assuming the head's earnings is the entire earnings for the family, the household will receive $407 in TANF benefits, $139 in food stamp benefits per month, pay $34 in FICA taxes, $0 in federal income tax, and $0 in state income tax per month. The family will receive a federal earned income tax credit worth $177 per month. Adding the positive income flows and subtracting the federal tax liability yields a net monthly income of $1,132 per month or $13,584 per year.

**Coding the Stringency of TANF Program Rules**

To quantify the stringency of state TANF program rules, we classified states on a scale of 1 to 5 going from most stringent (1) to most lenient (5) across 12 policy areas. The first eight variables capture components of the state's TANF program as follows: asset limits, vehicle exemption limit, work requirement, exemption from work requirement based on age of youngest child, exemption based on disability, first sanction for non-compliance with work requirement, second sanction for non-compliance, and length of lifetime time limit. The ninth and tenth

variables reflect the state's decision regarding the PRWORA option to align a state's food stamp rules with the state's other cash assistance rules. The final variable is the existence of statewide or local General Assistance programs.

*Asset Limit and Vehicle Exemption Rules*[10]

Under TANF, families receiving assistance are not allowed to accumulate more than a certain amount in countable resources. Before the passage of PRWORA, families could not have more than $1,000 in countable resources in order to qualify for assistance, nor could they have a vehicle valued at more than $1,500. Under PRWORA, the federal government gave states the flexibility to set their own asset limits and vehicle exemption rules, so several states expanded these limits to encourage work and savings.

For the asset limit rules, we classified the states as follows:

1 = less than or equal to $1,000
2 = $1,001-$2,000
3 = $2,001-$3,000
4 = $3,001-$4,000
5 = equal to or greater than $4,000

For the vehicle exemption rules, we grouped states in the following manner:

1 = less than or equal to $1,999
2 = $2,000-$4,500
3 = $4,501-$5,000
4 = $5,000-$7,500
5 = $7,500-one vehicle

In an attempt to encourage savings by TANF recipients, the majority of states increased their asset limit after the passage of PRWORA. Most states' asset limits are between $1,000-

[10] Gallagher, L. Jerome et al, "One Year After Federal Welfare Reform: A Description of State Temporary Assistance for Needy Families (TANF) Decisions as of October 1997." Assessing the New Federalism, the Urban Institute. June 1998.

$3,000, with five states featuring limits over $4,001, including Iowa, Hawaii, Missouri, Minnesota, and North Dakota. There does not appear to be a pattern of states' asset limit choices across rural or regional dimensions.

Most states have significantly increased their vehicle exemption limit over the past several years. Twenty-eight states now allow TANF recipients to exempt a vehicle valued at $7,500 or higher, while only three states limit their recipients to vehicles valued less than $4,500 (Iowa, Indiana, and Mississippi; though Iowa allows the value of one vehicle up to $3,889 for each adult *and* working teenage child to be exempt). Eight states raised their limit to $4,650 to reach parity with the Food Stamp program's vehicle exemption limit. Fifty-seven percent of those states with more than 50 percent of their population living in counties classified as non-metro allowed vehicles valued at more than $7,500 to be exempt. Fifty-three percent of those states with 30-49 percent of their population residing in non-metro counties exempt vehicles worth more than $7,500, while 36 percent of those states with less than 30 percent of their population residing in non-metro counties are as generous with vehicle exemption limits.

*Work Requirements* [11]

Before the implementation of PRWORA, nonexempt adult recipients of AFDC were required to participate in the Jobs Opportunities and Basic Skills Training (JOBS) program. Cooperating with JOBS entailed participating in work activities once the state determined a recipient was ready, or as state resources permitted. Before TANF was implemented, several states experimented with the timing of work activities. They used waivers to create triggered time limits specifying that nonexempt recipients were required to participate in a work activity

[11] "National Governor's Association Round Two Matrix and Summary of Selected Elements of State Programs for Temporary Assistance for Needy Families." National Governor's Association Center for Best Practices. March 14, 1999.

after a certain number of months as a condition of receiving benefits. One of PRWORA's primary goals is to increase the work participation rate among welfare recipients; therefore the TANF program did not retain the federal JOBS requirements. Instead, PRWORA followed the lead of states with work-related waivers and requires that all adult recipients participate in state-defined work activities within two years of initial benefit receipt or, if already receiving assistance, from the time the law was signed. Work activities include unsubsidized and subsidized employment, unpaid work experience (on-the-job training, community work experience, and community service), job search/job readiness, and job skills training. States are also required to meet work participation rates; meaning that nonexempt recipients must participate in certain federally defined work activities for a minimum number of hours per week. We categorized states based on the stringency of their triggered work requirement:

1 = recipients must participate in work activities immediately upon implementation of requirement or upon initial application or receipt of assistance
2 = 1-3 months
3 = 4-19 months
4 = 20-23 months
5 = 24 months (same as federal limit)

A nearly equal number of states adopted a work requirement that requires recipients to seek work immediately upon initial approval or receipt of assistance as those states that do not require participation in work activities until the 24$^{th}$ month of assistance. The strictness of the work requirement does not vary across the non-metro/metro spectrum, but the western states take a much tougher stance when compared to other regions of the country. Utah, Idaho, Montana, Oregon, Washington, Wyoming, Arizona, and California implemented an immediate work requirement and New Mexico and the Dakotas require participation in work activities within 1-3 months of initial receipt of assistance.

*Age of Youngest Child Exemption* [12]

The JOBS program gave states the option of exempting from participation several groups of AFDC recipients, such as those recipients who were new mothers or disabled. Under JOBS, a recipient was exempt if he or she was the primary caretaker relative of children under three years of age (which could be lowered to one year at state option) or six years of age if child care was not guaranteed by the state. Under PRWORA, only parents with children under one year of age are omitted from the work participation rate calculations, so states have a financial incentive to set the exemption age at one year or less. Several states have adopted an exemption age below one year, including no exemption at all. We classified states as follows:

1 = No exemption
2 = 3-6 months
3 = 1 year
4 = more than 1 year to 18 months
5 = more than 18 months

A majority of states took the federal lead and adopted a one year exemption for mothers of newborns. Lowering it below one year requires a higher expenditure of funds on child care; and infant child care is significantly more expensive than child care for older children. Four out of the five states with no exemption require participation in work requirements immediately (Utah, Idaho, Iowa, and Montana). Five states allow for exemptions of more than one year: Vermont, Virginia, Texas, New Hampshire, and Massachusetts; the latter three allow caretakers to opt out of participation for more than 18 months after the birth of a baby.

[12] Ibid., 27.

*Exemptions for Clients with Disabilities*[13]

As policies exempting those recipients caring for children under a certain age changed with the implementation of TANF, so did exemption policies for recipients with disabilities. Many states adopted more strict approaches to defining disability and tightened the time period for review once a recipient has been classified as disabled (i.e., rather than offering exemptions for 6 months, a recipient's status is reviewed every 3 months). Eighteen states retained the same participation requirements as previously existed under the JOBS program for those disabled recipients, which included multiple exemptions. We classified the states based on a previous study of state welfare-to-work policies for recipients with disabilities that placed states' policies in three categories:

1 = Universal Participation
3 = Broader Participation[14]
5 = Participation requirements the same as for JOBS program

Only 12 states require universal participation, meaning that all disabled recipients are required to participate in some activity, even if it includes going to vocational rehabilitation. Most of the states that chose the universal participation option also require recipients to participate in work activities immediately after applying or receiving assistance.

*Sanctions for Non-Compliance with Work Requirements*[15]

Under the federal JOBS program, mandatory participants who did not comply with JOBS requirements without good cause faced a series of sanctions. The sanctions consisted of the removal of the adult from the unit for the purpose of benefit calculation for a certain period of

[13] Thompson, Terri, Pamela Holcomb, Pamela Loprest, and Kathleen Brennan. "State Welfare-to-Work Policies for People with Disabilities: Changes Since Welfare Reform." U.S. Department of Health and Human Services, Office of the Assistant Secretary of Planning and Evaluation. October 1998.
[14] States that give the counties discretion to design disability exemption policies are classified as 3.
[15] Gallagher, L. Jerome et al. June 1998. Pages 53-57.

time. The first sanction lasted until the affected recipient complied, the second for at least three months, and the third and subsequent sanctions for at least six months. Several states gained waivers that allowed them to extend the length of the sanction or increase the size of the benefit reduction. PRWORA gave states the flexibility to design their own sanction policies with the stipulation that states reduce the amount of assistance payable to the family pro rata (or more) for each month an individual receiving TANF assistance refuses to comply with work requirements. Therefore, states have great discretion in developing their sanction policies, including the length and amount of the sanctions. We classified states based on their policies for the first and final sanctions.

First Sanction:

1 = Termination of benefit for more than 1 month
2 = Termination of benefit (until reapply for assistance), or termination of benefit for 1 month
3 = Partial loss of benefits for more than 3 months
4 = Partial loss of benefits for 2-3 months
5 = Partial loss of benefits for 1 month or until compliance

Final Sanction:

1 = Full termination of benefit for life
2 = Full benefit sanction for 6-12 months
3 = Full benefit sanction for 1-3 months or until compliance
4 = Partial benefit sanction for 7-12 months
5 = Partial benefit sanction for up to 6 months

In both sanctioning categories, we decided that a termination of benefits or a full-benefit sanction of any length of time was more severe than a partial loss of benefits. States with an initial partial sanction that results in a termination of benefits for a specified period of time (rather than until the family decides to cooperate and reapplies for assistance) upon continued non-compliance are coded "1." For example, for the first instance of non-compliance, Iowa first removes the adult from the benefit for three months and then terminates the benefit and the

household cannot reapply for assistance for six months. Therefore, we classified Iowa as a "1" because the sanction ultimately involves a termination of the benefit for more than one month. Illinois has a progressive sanction that eventually results in a termination of the benefit if the client does not cooperate after three months. Because there is no set time after termination that the household has to wait before reapplying for assistance, it is classified as a "2." In cases where the state's sanctioning policy was a blending of partial and full sanctions or termination of benefits, we attempted to classify the state in such a manner that would reflect the severity of the policy.

Only five states terminate a client's benefit for more than one month upon the first instance of non-compliance with the work requirement (Iowa, Nevada, Maryland, Mississippi, and South Carolina). Seventeen states either terminate a clients' benefit (until they reapply for assistance) or terminate a client's benefit for one month as the first sanction. The sanction policy in 20 states is a partial loss of benefits, such as removing the parents' needs from the grant, for one month or until the head of the household complies.

The final sanction for non-compliance with work requirements varies widely across the 50 states. Six states feature a termination of benefits for life for their third sanction (Georgia, Delaware, Idaho, Nevada, Wisconsin, and Pennsylvania). This penalty is much stiffer than that of the 11 states whose final penalty is a partial benefit sanction that lasts up to six months. The majority of states (24), have a full benefit sanction that lasts one to three months or until the head of the household complies.

*Length of Lifetime Limit on Assistance*

One of the most significant components of the TANF program is the implementation of a lifetime limit on TANF benefit receipt. The federal government set the limit at 60 months, but

gave states the option of setting shorter limits or providing assistance for more than 60 months if the state covers the extension with its own expenditures rather than the federal TANF block grant dollars. After a family hits the time limit, it is no longer able to receive the full benefit amount. The vast majority of states terminate a family's benefit when the limit is hit, while others reduce a family's benefit (such as Indiana, which terminates the parent's benefit after 24 months, while continuing to provide benefits for the children until the 60-month time limit). Some states have adopted lifetime time limits while others have implemented periodic time limits (e.g., a family may only receive assistance for 36 months out of every 60-month period). We classified states in the following manner:

1 = 24 months or less, or 24 months within 120 months (South Carolina)
2 = 24 months or less within 48-60 months
3 = 36 months, 36 months within a 60-month period; or 24 months but only remove parent's needs (Indiana)
4 = 48 months
5 = 60 months (same as federal requirement)

Classifying and coding states based on their lifetime time limits was complicated because several states have unique policies that do not clearly fit into one category. South Carolina is coded "1" because it limits receipt of assistance to 24 months in every 120 months (10 years), which seems similar to a basic 24-month limit, especially since many children will age out of eligibility in that time period thus making the entire household ineligible for assistance. Florida limits most of its TANF recipients to 24 cumulative months of participation in any consecutive 60-month period, but the time limit is extended to 36 months in any 72-month period in certain cases. Because most of its recipients are limited to 24 months, Florida is coded "2." Delaware's time limit is unique in that it combines a work requirement with the lifetime limit. TANF recipients in Delaware can be on assistance for 24 months and then must participate in workfare

in order to receive assistance for an additional 24 months. Although the time limit is technically more than 36 months, we coded Delaware a "3" because of the work requirement. Illinois' time limit is more complex because it has two time limits depending on the age of the children. If the youngest child in the case is older than 13 years, the time limit is 24 months, but all other cases are subject to the 60-month time limit; thus we classified it as a "3." Indiana's time limit is 24 months, but at that point the state only removes the parent's share of the benefit, so we coded it a "3" rather than a "1." Oregon's time limit of 24 months in 84 months seems like it would warrant a "1," but if the client is cooperating with the state's work requirement or is unable to cooperate with the work requirement, the time limit "clock" does not "tick", thus it is coded "4." Texas' tiered time limit of 12, 24, or 36 months whereupon the state removes parent's needs is gentler than similar time limits that terminate assistance for the entire family, so it is also coded "4."

*Comparable Disqualification and Reduction of Food Stamp Benefits*[16]

Under PRWORA, states gained the choice of disqualifying a food stamp participant if he or she is disqualified from another means-tested program and to use the disqualification rules for the other means-tested program in applying the food stamp disqualification. For example, a state may disqualify a food stamp recipient who fails to comply with the work requirements of their TANF or GA programs, even if they are exempt from food stamp work requirements. States that adopted the comparable disqualification option were coded "1" and those that did not were coded "0." Thirteen states adopted the comparable disqualification provision, including the following states that are more than 30 percent non-metro (according to metro/non-metro Office of

[16] Gabor, Vivian, and Christopher Botsko. "State Food Stamp Policy Choices Under Welfare Reform: Findings of 1997 50-State Survey." US Department of Agriculture, Food and Nutrition Service. May 1998.

Management and Budget designation): Maine, Kansas, Idaho, Wyoming, Mississippi, Tennessee, North Dakota, South Dakota.

PRWORA also requires that a household's food stamp benefits be frozen if its TANF benefits are sanctioned due to non-compliance with various TANF requirements (i.e., school attendance, work, immunization requirements). Previously, food stamp benefits would increase to reflect the decrease in income. States also have the option of reducing a household's food stamp benefits up to 25 percent for non-cooperation with TANF requirements. States that chose the option to reduce food stamp benefits when a household is sanctioned under TANF were coded "1" and those that did not were coded "0." Eight states took the reduction option, including Maine, Iowa, Michigan, Montana, Kentucky, Tennessee, Mississippi, and Connecticut.

*Existence of General Assistance Program*[17]

General Assistance (GA) encompasses the wide variety of assistance programs that cover low-income individuals ineligible for the major federal cash assistance programs. GA programs generally share two defining characteristics — they are entirely funded and administered by the state, county, or locality in which they operate and they provide assistance to low-income persons who are not categorically eligible for federal cash assistance programs such as Supplemental Security Income (SSI) or TANF. Therefore, they are the last resort for government assistance for many people in need, although the low benefits and restrictive eligibility requirements of most GA programs limit the amount of assistance provided to the needy.

We classified states on a three-point scale based on the existence of a GA program at the state or county level, with statewide programs providing a more equitable safety net than those

[17] Gallagher, L. Jerome, Cori Uccello, Alicia Peirce, and Erin Ready, "State General Assistance Programs: 1998" (draft). Assessing the New Federalism, the Urban Institute. January 1999.

offered at the county level (states with county-based programs often featured programs only in large, metro areas):

1 = No statewide program
3 = Programs vary by county or offered at county option
5 = Uniform statewide program

Thirty-five states, including the District of Columbia, have state GA programs. Of these, 24 states have uniform statewide GA programs, 9 states mandate that counties provide GA, and 2 states provide supervision and funding for county optional GA programs. States that offer lower TANF benefits usually lack a GA program. The ten states that lack a GA program are: Texas, Arkansas, Alabama, Tennessee, Wyoming, Oklahoma, West Virginia, Mississippi, Louisiana, and South Carolina. States lacking uniform statewide programs with county-based programs often do not have such programs in rural or non-metro areas.

**Benefits and Incentives by Rural and Urban State Residential Patterns**

Having compiled information on the benefits available to one-parent families with children in all states, we can begin by examining the benefits, tax rates, and other program parameters nationally. The baseline table presents a picture of how average benefits vary with earnings in the area where the typical individual lives. The table shows the gain in total income with added earnings averaged across all state-county observations, weighted by the population of those counties.

The package of benefits in the typical county guarantees an income of $688 for those families of three receiving TANF and food stamps. Were the family to face a sanction for non-compliance with TANF, they would lose an average of $174. On the other hand, as family earnings rise, the family's total income would increase because the gain in earnings is partly offset by losses of TANF and food stamps and contributions to payroll taxes, but is

supplemented by the EITC. Of the $775 per month rise in earnings from working 35 hours per week at the minimum wage, 80 percent ($621) would translate into increases in the family's income and only 20 percent would be subject to benefit reductions. The current benefit structure supplements earnings enough so that low-income families no longer face a "welfare trap," under which recipients gained virtually no added income from working. The modest benefit reduction rate allows recipients to keep $4 of each $5 in initial earnings. If the worker stayed on the job the entire year, the family's total annual income would reach about $15,700, or 120 percent of the poverty line for a family of three and 95 percent of the poverty line for a family of four.

Financial incentives become less generous for increases in earnings beyond $775 per month. For example, a wage increase from $5.15 to $7 per hour, which leads to a $278 rise in monthly earnings, would net only a $121 gain in net family income per month after reductions in benefits and tax payments. The net return to moving from $7 to $9 per hour is even lower. The rise in earnings of about $300 per month would yield only a $72 increase in net monthly income to the family. This represents an implicit benefit reduction rate of 76 percent. Looking over a broader range of wage increases, say a jump from $7 per hour to $12 per hour, one sees a cumulative benefit reduction rate of about 64 percent, as the $750 monthly gain in earnings translates into only a $269 increase in net family income per month.

How do these benefit packages and incentives vary across geographic areas? The tabulations in Table 1 reveal broad similarities and modest differences. First, the maximum total benefit to a family of three with no income is about 8 percent lower in non-adjacent, non-metropolitan counties than in metro counties. Second, the gap widens to 15 percent for families subject to sanctions. Although benefits are lower in the typical rural county than in urban counties, the size of the sanction is higher in absolute terms.

Third, the financial disadvantage in rural counties declines as families increase their earnings. For example, a steady worker earning $7 per hour would net only 2.6 percent less in rural than in urban counties. The fact that income differences decline with added earnings implies that financial incentives to work are somewhat higher in rural than in urban counties. The cumulative benefit reduction rate (the rate at which a family's TANF grant falls as a family's earned income grows) as one moves from a steady job paying $5.15 to one paying $9 per hour, averages 69 percent in urban counties and 58 percent in rural counties.

The benefit advantage for urban residents with virtually no earned income results from the fact that people in urban counties live in more generous states than do people in rural counties. However, as families increase their earnings, the benefit packages are increasing dominated by federal programs under which payments are constant across the country. Thus, we find that the nation's rural population is subject to lower average guaranteed benefits but higher work incentives than the nation's urban population.

The picture of geographic variations in benefits changes significantly if we consider benefits relative to county incomes instead of the dollar amount of benefits. As Table 2 shows, the maximum benefit in rural counties averages 50 percent of county per-capita incomes, or about 17 percent more than the 42 percent level in urban counties. The rural advantage in relative family income rises with earnings. For a full-time, year-round worker at the minimum wage, the differential in relative incomes is about 20 percent in favor of rural residents.

The logic of the benefit structure and rural-urban income differentials explains these patterns. Since average incomes are lower in rural than in urban counties and since the federal EITC and food stamps are the same throughout the country, it makes sense that families relying

on earnings plus federal benefits would achieve higher relative incomes in rural than in urban counties.

So far, we have examined averages by metro and non-metro location. What about variations across the nation within these types of counties? Certainly, the range between the highest and lowest benefits is dramatic, especially among recipients with no countable earnings. Monthly benefits reach $1,175 in the most generous area, as compared to only $440 in the least generous. If we exclude Alaska and Hawaii, where living costs are well above those in the rest of the country, the range narrows to about $420, still a differential of 70 percent. The gap narrows to about $180 per month (or 26 percent) if we compare benefits at the 25$^{th}$ and 75$^{th}$ percentiles of the population. As earnings rise, geographic differentials decline; only a 14 percent differential in net income separates those at the 25$^{th}$ and 75$^{th}$ percentiles of state generosity.

A comprehensive measure of the relative variations is the coefficient of variation, or the standard deviation divided by the mean. On this basis, the geographic variability is surprisingly modest. Among recipients with no earnings, the coefficient of variation in net income is only about 0.17. The geographic variability in incomes among families with earnings is even lower, falling to 0.06-0.07 in families with someone working full-time at the minimum wage. By far the widest degree of geographic variability is among families with no earnings and subject to sanctions. Among such families, the standard deviation of benefits is about 35-38 percent of the mean.

Geographic variations in net income can result both from rural-urban differences as well as from regional differences. To distinguish between the two types of variations, we fit ordinary least squares regressions to estimate the relationship between regions and the type of metro or

non-metro county and income or relative income. In calculating the impact of type of county, we first exclude and then include dummy variables representing regions outside the East. The findings appear in Table 3. Note first that at each level of earnings, incomes (and thus net transfer benefits) are lower in non-metropolitan counties than in metropolitan counties, but the county differences are generally smaller, once we take account of regional differences. Second, living in a southern state lowers access to benefits, though the shortfall declines with earnings. The percentage reduction in income associated with residence in the South falls from about 30 percent among those with no earnings to about 4-5 percent for those at a full-time job paying $7 per hour.

When we estimate area effects on relative incomes, the patterns reverse for regions as well as for metro versus non-metro counties. The regression estimate for the gain from being in a non-adjacent, non-metro county is at least about 8 percent. Tabulations (not shown in Table 3) reveal that even among recipients with no earned income, benefits relative to average per capita income in the individual's county are higher in non-metro than in metro counties (0.49 vs. 0.42); within the South, the rural disadvantage in terms of absolute incomes ($572 vs. $547) turns into a large advantage in relative terms (0.48 in non-metro to 0.37 in metro counties). The advantage for rural counties expands for those with earnings. Among families with a full-time worker at the minimum wage, relative income averages 0.98 of local per-capita income in rural counties and 0.80 in urban counties. The same family headed by a worker earning $9 per hour would achieve an income 1.18 times average per capita income in rural counties but only 0.91 of average per capita income in urban counties.

So far, we have taken account of housing costs only in so far as they affect the deduction in food stamps for excess housing outlays in relation to income. Differences in housing costs

can influence geographic variations in benefits and incentives in other ways as well. First, low-income families in counties with low housing costs can achieve a higher living standard with a fixed amount of dollars. Second, low-income families may have more or less access to subsidized housing, depending on their area of residence. Third, the extent of homeownership and availability of rent-free housing may vary across geographic counties. We use data at the sub-state level (usually counties) to determine housing costs based on the HUD fair market rent values. However, information on the use of subsidized housing, homeownership, and rent-free living among low-income recipients are accessible only at the state level and thus are identical in counties within states.

Certainly, rents vary widely across types of counties. The average rent (weighted by area population) in metro counties was $642 per month; in non-metro counties, the weighted average rents averaged $437 per month (counties adjacent to urban areas) and $420 per month (places non-adjacent to metropolitan areas). One possible adjustment is to develop a measure of relative prices using these rent differences, information on the proportion of income low-income families spend on housing costs, and the assumption that other prices do not vary. A major caveat in this approach is that the higher housing costs in urban counties may represent the fact that public goods and/or other non-priced goods or services are more valuable in urban counties. Put another way, renters in metro counties may be receiving a good deal more in return for paying higher housing costs than renters in non-metro counties.

The National Academy of Sciences suggested a price adjustment for housing based on area differences in gross rents for those at the 45$^{th}$ percentile for a two-bedroom apartment and on the allocation of 44 percent of the budgets of poor families to housing. Because housing at the 45$^{th}$ percentile may vary in quality across counties and thus may not reflect area price

differences, we use the HUD data on fair market rents to capture price differences for a fixed quantity of housing. In addition, we calculate average housing expenditures as about 35 percent of all consumption expenditures among households at the bottom 20 percent of the household income distribution.[18] Nord (1998) argues for an alternative approach that takes account of food insecurity on the argument that differences in food insecurity at the same income levels could reflect price and real income differences. While the food insecurity measure is subject to some of the same problems of a housing-related measure, Nord finds evidence suggesting cost of living for the low-income population as about 20 percent higher in metropolitan than in non-metropolitan counties, a percentage virtually identical to the average differential derived in our study.

Turning to the results of our adjustment, we find that taking account of prices reverses the advantage of urban counties for low-income families with no income. In nominal terms, the income of a family with no earnings averages about $700 in metropolitan counties and only $644 in non-adjacent, non-metropolitan counties. However, once we take account of the housing-related area price differences, the average real benefit level (weighted by area populations) is higher in rural (at $725) than in urban counties (at $697). The real income advantage of rural counties increases with earnings. For those earning the minimum wage and working 35 hours per week, monthly income adjusted for housing prices are $1,422 per month in rural counties and $1,322 in urban counties.

[18] The data come from the Consumer Expenditure Survey administered by the US Bureau of Labor Statistics. The 35 percent figure is the average amount spent on housing as a proportion of average total expenditures among the bottom 40 percent of households. See Table 1. Quintiles of income before taxes: Average annual expenditures and characteristics, Consumer Expenditure Survey, 1997, at ftp://ftp.bls.gov/pub/special.requests/ce/standard/1997/quintile.txt

Another housing-related factor important for the welfare of low-income families is the proportion owning their home, living rent-free, or receiving a housing subsidy. Data on AFDC recipients by state suggest wide geographic variation in this element of living expenses. As of 1995, the national area averages (weighted by population) for the proportions owning their home, living rent-free, and receiving a housing subsidy were 4 percent, 8 percent, and 24 percent.[19] By implication, in the typical area, over one-third of AFDC recipients did not have to pay the market rent for housing. Rural-urban differences in these data arise only from state differences in housing occupancy and in the distribution of the population between rural and urban counties. Thus, we can only observe state differences weighted by metropolitan and non-metropolitan populations. On this basis, housing expenses again are higher for recipients in urban than in rural counties. The combined state proportion in owned, rent-free, or subsidized housing reached 46 for the typical rural resident, well above the average state proportion of 34 percent for the typical urban resident.

To summarize, nominal benefits are higher for welfare-eligible families in urban than in rural states, but the advantage declines with earnings. Moreover, once we take account of the state differences in average county incomes, county housing prices, and state proportions having to pay a full rent, the financial advantages for those receiving welfare benefits shift toward those in rural states. Comparing families with no earnings, we find relative real (price-adjusted) incomes are at least as high in rural than in urban counties. At higher levels of earnings, real and relative incomes in rural counties exceed those in urban counties. These latter comparisons

[19] 1998 Green Book, pages 459-461. We combined the public housing, HUD rent subsidy, and other rent subsidy categories into one public/subsidized housing variable. The data on "owns or is buying" and "rents free" categories also come from this source.

examine families with equal earnings in each geographic location and do not consider the possibility that earnings opportunities are higher in urban than in rural counties.

**Geographic Variation in TANF Program Rules**

The availability of income support benefits depends partly on a range of special rules and requirements that can limit eligibility. Under TANF, states may apply more or less generous provisions concerning the value of assets and cars recipients own, the amount of time people can receive benefits, exemptions from work requirements for families with young children or in other special situations, the penalty applied for non-compliance with program rules, and the application of stringent work requirements to food stamp program participants. In this section, we ask whether the states with large rural populations adopt more stringent policies than states with large urban populations. Each of our measures of stringency runs from the most stringent (1) to the most liberal (5).

One would expect a state to enact policies that would reflect an overall philosophy or message that it wants sent to recipients, and thus be consistently stringent or liberal. Yet surprisingly, states are generally not consistently stringent or liberal in their program rules. Table 4 presents the correlations across states of program rules, such as asset and vehicle limits, sanction policies, exemptions from work requirements and time limits. Only 10 of 53 correlations are statistically significant and positive. Indeed, about half of the correlations are negative, implying many cases in which states applying a stringent rule in one domain use a liberal rule in another.

Turning to the relationship between program rules and geographic areas, we find few if any special program rules are more stringent in states with large non-metropolitan area

populations than in states in which the population is concentrated in metropolitan areas. In the case of asset tests, states with large rural populations have somewhat more liberal rules than other states. About 14 percent of the rural population but only 4 percent of the urban population live in states allowing $4,000 or more in assets. The entire advantage in rural counties results from liberal asset rules in the Midwestern states. Limits on the value of vehicles are higher for people in more rural states than in more urban states. Just over half of the rural population live in states allowing vehicles worth $7,500; only 37 percent of the urban population are subject to such liberal rules on vehicles.

Policies to exempt welfare recipients with young children from work requirements vary across states. In 17 states, a mother is exempt from work requirements only for newborn children up to 6 months of age. Only five states permit exemptions for children more than one year old. No connection is apparent between these exemption policies and the proportions of the state populations in rural or urban counties.

How much time a family can spend on cash assistance varies across states as well. Although Federal law mandates a five-year lifetime limit on the receipt of federal cash assistance (except for 20 percent of the caseload), several states apply shorter time limits. Surprisingly, the rural population is less subject to these more stringent policies than is the urban population. Over half (57 percent) of the urban population but only 36 percent of the rural population lived in states with time limits of three years or less. Even when holding constant for a state's region, states with relatively high proportions living in rural counties are less likely to impose shorter time limits than other states.

The severity of other policies involving sanctions and work requirements varies across states, but there is no apparent relationship between these policies and the proportions of a state's population living in rural or urban counties.

**Conclusions about Rural-Urban Differences in Benefits and Incentives**

Overall, rural-urban differences in benefit packages are modest and vary with the earnings level of the family and with the income concept. Living in a rural area translates into a lower monetary income level for those families with no earnings but who qualify for and utilize benefits under the Temporary Assistance to Needy Families (TANF) program. However, as earnings increase, the gap in net incomes narrows as the supplements to earnings increasingly depend on federal policies that are common across states and less on state differences in TANF. As a result, the gain from working is actually higher in rural counties than in urban counties.

The geographic pattern of benefits looks more favorable to rural residents once one adjusts for price and income differences across counties. Because housing costs are considerably lower in rural than in urban counties, the average price-adjusted basic income floor increases in rural counties and actually exceeds the price-adjusted benefit levels in urban counties. The rural advantage becomes more pronounced as earnings increase and families become less reliant on state benefits that are lower in rural than urban states and more reliant on federal programs that are constant throughout the country. A family with earnings obtained from working 35 hours per week at the minimum wage would achieve a price-adjusted monthly income of $1,422 per month in rural counties and $1,322 in urban counties.

Another way of taking account of area differences is to examine incomes of low-income families in particular circumstances relative to the average incomes in the community. Because average incomes are substantially lower in rural than in urban counties, geographic comparisons show rural recipients at an advantage in terms of real income. Even among those with no earnings and thus most reliant on state benefits, rural recipient families attain higher incomes relative to local incomes than do urban recipients. The comparisons based on relative income look especially favorable for rural residents among those combining benefits and earnings. The income of a family headed by a worker earning $9 per hour for 35 hours per week reaches 1.18 times average local per-capita income in rural counties but only 0.91 in urban counties.

A final set of analyses examined whether rural residents were concentrated in states with especially stringent rules under the TANF program regarding asset tests, limits on the value of vehicles, work requirements, exemptions from work requirements, and time limits. In general, no particular geographic pattern emerged with regard to the stringency of rules put in place or kept in place by states after the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). For some categories of rules, rural residents and Southern residents were subject to the most stringent requirements. For others, urban residents and those outside the South faced harsher policies. Strikingly, states did not fall into clear categories with regard to program stringency; state differences in the severity of rules along several domains were often uncorrelated or negatively correlated.

Several caveats to this analysis are in order. First, the application of program rules may be more or less strict in rural than urban locations. Second, while the income support system mandates tough work requirements and rewards work, jobs for low-income families may differ in accessibility between rural and urban areas. Third, access to child care and health services and

high transportation costs may vary between rural and urban areas and thereby affect the ability of residents in rural and urban locations to achieve self-sufficiency. Future research on this project will address these issues through additional data analysis and case studies.

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**Table 1:** *Average Effects of Earnings on Net Income of One-Parent Families with Two Children, By Metropolitan and Non-Metropolitan Counties, Weighted by State and County Populations*

| Work Scenario | Earnings | National Average | Metropolitan Counties[1] | Non-Metropolitan Counties, Adjacent to Metropolitan Counties | Non-Metropolitan Counties, Not adjacent to Metropolitan Counties |
|---|---|---|---|---|---|
| No Earnings, Sanctioned | $0 | $514 | $526 | $476 | $451 |
| No Earnings | $0 | $688 | $700 | $637 | $644 |
| Minimum Wage, 20 Hours/Week | $443 | $1,057 | $1,071 | $1,000 | $996 |
| Minimum Wage, 35 Hours/Week | $775 | $1,309 | $1,322 | $1,257 | $1,253 |
| $7 per hour, 35 hours/week | $1,054 | $1,430 | $1,438 | $1,398 | $1,401 |
| $9 per hour 35 hours/week | $1,355 | $1,502 | $1,504 | $1,492 | $1,498 |
| $12 per hour 35 hours/week | $1,806 | $1,699 | $1,704 | $1,691 | $1,689 |

Source: Tabulations by authors from TANF, Food Stamp, and tax and transfer rules.

[1] In Connecticut, Massachusetts, and Rhode Island, population data was not available for Metropolitan Counties. In lieu of this data, the populations of Metropolitan Statistical Areas were used to calculate fair market rents in Metropolitan Counties for these three states.

**Table 2:** *Net Income of One-Parent Families with Two Children As A Percent of County Per-Capita Income, By Metropolitan and Non-Metropolitan Counties, Weighted by State and County Populations*

| Work Scenario | Earnings | Metropolitan Counties[1] | Non-Metropolitan Counties, Adjacent to Metropolitan Counties | Non-Metropolitan Counties, Not adjacent to Metropolitan Counties | Percent Difference, Non-Adjacent Non-Metropolitan Counties Vs. Metropolitan Counties |
|---|---|---|---|---|---|
| No Earnings, Sanctioned | $0 | 32(%) | 35(%) | 35(%) | 9.6(%) |
| No Earnings | $0 | 42 | 46 | 50 | 16.7 |
| Minimum Wage, 20 Hours | $443 | 65 | 73 | 78 | 18.2 |
| Minimum Wage, 35 Hours/Week | $775 | 80 | 92 | 98 | 20.6 |
| $7 per hour, 35 hours/week | $1,054 | 87 | 103 | 110 | 23.5 |
| $9 per hour 35 hours/week | $1,355 | 91 | 110 | 118 | 25.9 |
| $12 per hour 35 hours/week | $1,806 | 103 | 125 | 133 | 25.5 |

Source: Tabulations by authors from TANF, Food Stamp, and tax and transfer rules.

[1] In Connecticut, Massachusetts, and Rhode Island, population data was not available for Metropolitan Counties. In lieu of this data, the populations of Metropolitan Statistical Areas were used to calculate fair market rents in Metropolitan Counties for these three states.

**Table 3:** *Effects of Geographic Location on Net Monthly Income at Alternative Levels of Wage Rates and Hours Worked for One-Parent Family with Two Children*

| Area Variables | No Earnings | Minimum Wage, 35 Hours/Week | $7 per Hour, 35 Hours/Week | $9 per Hour, 35 Hours/Week |
|---|---|---|---|---|
| *Effects on Nominal Income* | | | | |
| *No Regional Adjustments* | | | | |
| Adjacent Non-Metro | -$63 | -$65 | -$40 | -$12 |
| Non-Adjacent, Non-Metro | -$56 | -$69 | -$37 | -$7 |
| *Regional Adjustment* | | | | |
| Adjacent Non-Metro | -$26 | -$42 | -$25 | -$8 |
| Non-Adjacent, Non-Metro | -$26 | -$47 | -$23 | -$1 |
| South | -$215 | -$123 | -$66 | -$30 |
| Midwest | -$91 | -$93 | -$65 | -$33 |
| West | $0 | -$5 | $3 | -$12 |
| *Effects on Relative Income* | | | | |
| *No Regional Adjustments* | | | | |
| Adjacent Non-Metro | 3.8% | 12.2% | 15.9% | 19.0% |
| Non-Adjacent, Non-Metro | 7.7% | 18.3% | 23.1% | 26.9% |
| *Regional Adjustment* | | | | |
| Adjacent Non-Metro | 6.2% | 13.4% | 16.5% | 19.0% |
| Non-Adjacent, Non-Metro | 7.9% | 16.7% | 20.8% | 24.0% |
| South | 3.3% | 23.4% | 29.2% | 32.9% |
| Midwest | 4.5% | 11.3% | 13.7% | 16.0% |
| West | 24.1% | 41.7% | 44.7% | 44.7% |

Source: Ordinary least squares regression coefficients on area dummy variables based on federal and state tax and transfer policies and on county population and income data. The regressions are weighted by the populations in each type of geographic area within each state.

**Table 4:** *Correlation Between Sets of State Program Rules, Weighted by State Populations*

| Program Rule | Young Child Exemption | Asset Test | Vehicle Limit | General Assistance | First Work Sanction | Final Work Sanction | TANF Sanction linked to Food Stamps | Linked cutback in food stamps and TANF | Work Requirement | Exemption for Disability |
|---|---|---|---|---|---|---|---|---|---|---|
| Asset Test | -0.066 | 1 | | | | | | | | |
| Vehicle Limit | -0.072 | 0.243* | 1 | | | | | | | |
| General Assistance | -0.314* | 0.134 | 0.124 | 1 | | | | | | |
| First Work Sanctions | 0.158 | -0.02 | -0.248* | 0.156 | 1 | | | | | |
| Final Work Sanctions | 0.223 | 0.259* | -0.357* | -0.001 | 0.471* | 1 | | | | |
| TANF Sanction Linked to food stamps | -0.297 | -0.037 | -0.083 | 0.279* | -0.109 | 0.127 | 1 | | | |
| Linked cutback in food stamps and TANF | -0.21 | 0.187 | 0.067 | -0.077 | -0.226 | -0.071 | 0.239* | 1 | | |
| Work Requirement | 0.061 | 0.1 | 0.292* | 0.293* | -0.009 | -0.157 | -0.294* | -0.053 | 1 | |
| Disability Exemption | 0.260* | -0.186 | -0.239* | -0.201 | 0.264* | 0.172 | -0.083 | -0.153 | -0.139 | 1 |
| Time Limit | -0.106 | -0.037 | 0.302* | 0.297* | -0.023 | -0.143 | -0.17 | 0.149 | 0.449* | -0.298* |

Note: * denotes statistical significance at the 10% or higher threshold. Source: Tabulations by authors from program rules. See appendix on sources.

## **Appendix Table 1:** *Net Income and Benefit Reduction Rates, by State and County Designation*

| State/County Designation | Earnings from Work per Month | | | | | | Benefit Reduction Rates (Between Earnings Levels of $0 Without Sanctions and $775 per month) | Benefit Reduction Rates (Between Earnings Levels of $775 and $1355 per month) |
|---|---|---|---|---|---|---|---|---|
| | $0: Sanctions in Effect | $0: Sanctions Not in Effect | $443 | $775 | $1,054 | $1,355 | | |
| Alabama | | | | | | | | |
| Metro | $444 | $485 | $901 | $1,209 | $1,362 | $1,463 | 6.6(%) | 56.1(%) |
| Non-metro, non-adjacent | $444 | $485 | $877 | $1,188 | $1,362 | $1,463 | 9.3 | 52.5 |
| Alaska | | | | | | | | |
| Metro | $756 | $1,171 | $1,515 | $1,728 | $1,793 | $1,785 | 28.1 | 90.3 |
| Non-metro, non-adjacent | $762 | $1,177 | $1,520 | $1,734 | $1,798 | $1,785 | 28.1 | 91.2 |
| Arizona | | | | | | | | |
| Metro | $581 | $668 | $986 | $1,253 | $1,406 | $1,496 | 24.6 | 58.0 |
| Non-metro, non-adjacent | $581 | $668 | $960 | $1,225 | $1,388 | $1,496 | 28.2 | 53.2 |
| Arkansas | | | | | | | | |
| Metro | $321 | $525 | $903 | $1,223 | $1,388 | $1,473 | 9.9 | 56.9 |
| Non-metro, non-adjacent | $321 | $525 | $882 | $1,202 | $1,388 | $1,473 | 12.6 | 53.3 |
| California | | | | | | | | |
| Metro | $723 | $832 | $1,209 | $1,438 | $1,515 | $1,512 | 21.8 | 87.2 |
| Non-metro, non-adjacent | $695 | $804 | $1,171 | $1,404 | $1,493 | $1,505 | 22.6 | 82.7 |
| Colorado | | | | | | | | |
| Metro | $547 | $623 | $1,000 | $1,256 | $1,409 | $1,496 | 18.3 | 58.6 |
| Non-metro, non-adjacent | $547 | $623 | $991 | $1,245 | $1,398 | $1,496 | 19.7 | 56.7 |
| Connecticut | | | | | | | | |
| Metro | $668 | $761 | $1,218 | $1,539 | $1,713 | $1,517 | -0.3 | 103.7 |
| Delaware | | | | | | | | |
| Metro | $546 | $659 | $1,002 | $1,259 | $1,403 | $1,477 | 22.6 | 62.4 |
| District of Columbia | | | | | | | | |
| Metro | $619 | $700 | $1,031 | $1,276 | $1,447 | $1,483 | 25.7 | 64.2 |
| Florida | | | | | | | | |
| Metro | $321 | $624 | $1,034 | $1,262 | $1,407 | $1,504 | 17.6 | 58.3 |
| Non-metro, non-adjacent | $321 | $624 | $1,004 | $1,233 | $1,388 | $1,504 | 21.5 | 53.1 |
| Georgia | | | | | | | | |
| Metro | $531 | $601 | $1,048 | $1,253 | $1,403 | $1,492 | 15.8 | 58.8 |
| Non-metro, non-adjacent | $531 | $601 | $1,008 | $1,213 | $1,385 | $1,492 | 21.0 | 51.9 |
| Hawaii | | | | | | | | |
| Metro | $963 | $1,080 | $1,441 | $1,629 | $1,658 | $1,700 | 29.1 | 87.8 |
| Non-metro, non-adjacent | $963 | $1,080 | $1,438 | $1,620 | $1,649 | $1,690 | 30.3 | 87.8 |
| Idaho | | | | | | | | |
| Metro | $321 | $597 | $917 | $1,232 | $1,388 | $1,504 | 18.0 | 53.2 |
| Non-metro, non-adjacent | $321 | $597 | $901 | $1,216 | $1,388 | $1,504 | 20.2 | 50.3 |
| Illinois | | | | | | | | |
| Metro | $510 | $698 | $1,074 | $1,323 | $1,418 | $1,473 | 19.3 | 74.1 |
| Non-metro, non-adjacent | $477 | $665 | $1,008 | $1,272 | $1,386 | $1,473 | 21.7 | 65.2 |
| Indiana | | | | | | | | |
| Metro | $550 | $609 | $949 | $1,217 | $1,362 | $1,466 | 21.5 | 57.1 |
| Non-metro, non-adjacent | $550 | $609 | $923 | $1,192 | $1,361 | $1,466 | 24.8 | 52.7 |
| Iowa | | | | | | | | |
| Metro | $412 | $718 | $1,047 | $1,294 | $1,391 | $1,504 | 25.6 | 63.8 |
| Non-metro, non-adjacent | $393 | $699 | $1,028 | $1,282 | $1,391 | $1,504 | 24.7 | 61.7 |
| Kansas | | | | | | | | |
| Metro | $293 | $722 | $1,050 | $1,274 | $1,419 | $1,520 | 28.8 | 57.5 |
| Non-metro, non-adjacent | $271 | $700 | $1,028 | $1,251 | $1,419 | $1,520 | 28.8 | 53.6 |
| Kentucky | | | | | | | | |
| Metro | $321 | $583 | $931 | $1,218 | $1,361 | $1,458 | 18.1 | 58.6 |
| Non-metro, non-adjacent | $321 | $583 | $907 | $1,194 | $1,361 | $1,458 | 21.1 | 54.5 |
| Louisiana | | | | | | | | |
| Metro | $459 | $511 | $904 | $1,224 | $1,383 | $1,486 | 8.0 | 54.8 |
| Non-metro, non-adjacent | $459 | $511 | $882 | $1,202 | $1,383 | $1,486 | 10.9 | 50.9 |
| Maine | | | | | | | | |
| Metro | $620 | $726 | $1,146 | $1,375 | $1,396 | $1,499 | 16.2 | 78.5 |
| Non-metro, non-adjacent | $605 | $711 | $1,132 | $1,369 | $1,388 | $1,499 | 15.1 | 77.6 |
| Maryland | | | | | | | | |
| Metro | $320 | $708 | $976 | $1,296 | $1,439 | $1,504 | 24.1 | 64.1 |
| Non-metro, non-adjacent | $311 | $699 | $964 | $1,250 | $1,376 | $1,504 | 29.0 | 56.1 |
| Massachusetts | | | | | | | | |
| Metro | $741 | $832 | $1,206 | $1,448 | $1,471 | $1,545 | 20.4 | 83.4 |
| Non-metro, non-adjacent | $741 | $832 | $1,216 | $1,473 | $1,493 | $1,586 | 17.2 | 80.5 |
| Michigan | | | | | | | | |
| Metro | $0 | $754 | $1,074 | $1,248 | $1,390 | $1,478 | 36.2 | 60.4 |
| Non-metro, non-adjacent | $0 | $720 | $1,040 | $1,215 | $1,376 | $1,478 | 36.2 | 54.6 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Missouri | | | | | | | | |
| Metro | $555 | $613 | $949 | $1,227 | $1,385 | $1,491 | 20.8 | 54.4 |
| Non-metro, non-adjacent | $555 | $613 | $923 | $1,201 | $1,385 | $1,491 | 24.1 | 50.0 |
| Montana | | | | | | | | |
| Metro | $636 | $728 | $1,053 | $1,227 | $1,367 | $1,467 | 35.5 | 58.6 |
| Non-metro, non-adjacent | $632 | $724 | $1,049 | $1,223 | $1,367 | $1,467 | 35.5 | 58.0 |
| Nebraska | | | | | | | | |
| Metro | $321 | $685 | $909 | $1,202 | $1,376 | $1,482 | 33.3 | 51.6 |
| Non-metro, non-adjacent | $299 | $663 | $887 | $1,180 | $1,376 | $1,482 | 33.3 | 47.9 |
| Nevada | | | | | | | | |
| Metro | $553 | $669 | $1,005 | $1,268 | $1,421 | $1,504 | 22.8 | 59.2 |
| Non-metro, non-adjacent | $553 | $669 | $1,005 | $1,256 | $1,409 | $1,504 | 24.3 | 57.1 |
| New Hampshire | | | | | | | | |
| Metro | $752 | $821 | $1,133 | $1,361 | $1,438 | $1,506 | 30.4 | 75.1 |
| Non-metro, non-adjacent | $732 | $801 | $1,106 | $1,334 | $1,411 | $1,504 | 31.2 | 70.7 |
| New Jersey | | | | | | | | |
| Metro | $631 | $733 | $1,071 | $1,309 | $1,441 | $1,517 | 25.7 | 64.1 |
| New Mexico | | | | | | | | |
| Metro | $581 | $709 | $1,050 | $1,244 | $1,398 | $1,501 | 30.8 | 55.7 |
| Non-metro, non-adjacent | $552 | $680 | $1,018 | $1,213 | $1,388 | $1,501 | 31.2 | 50.3 |
| New York | | | | | | | | |
| Metro | $650 | $840 | $1,213 | $1,455 | $1,519 | $1,564 | 20.6 | 81.2 |
| Non-metro, non-adjacent | $615 | $805 | $1,156 | $1,396 | $1,461 | $1,540 | 23.8 | 75.1 |
| North Carolina | | | | | | | | |
| Metro | $543 | $593 | $1,009 | $1,268 | $1,391 | $1,492 | 12.9 | 61.3 |
| Non-metro, non-adjacent | $543 | $593 | $986 | $1,245 | $1,388 | $1,492 | 15.8 | 57.4 |
| North Dakota | | | | | | | | |
| Metro | $656 | $756 | $1,054 | $1,252 | $1,388 | $1,500 | 36.1 | 57.2 |
| Non-metro, non-adjacent | $627 | $727 | $1,025 | $1,224 | $1,388 | $1,500 | 35.9 | 52.4 |
| Ohio | | | | | | | | |
| Metro | $321 | $683 | $1,059 | $1,287 | $1,385 | $1,493 | 22.1 | 64.4 |
| Non-metro, non-adjacent | $301 | $663 | $1,037 | $1,270 | $1,385 | $1,493 | 21.6 | 61.5 |
| Oklahoma | | | | | | | | |
| Metro | $321 | $613 | $974 | $1,220 | $1,380 | $1,486 | 21.7 | 54.1 |
| Non-metro, non-adjacent | $321 | $613 | $952 | $1,198 | $1,380 | $1,486 | 24.5 | 50.3 |
| Oregon | | | | | | | | |
| Metro | $708 | $758 | $1,063 | $1,251 | $1,402 | $1,474 | 36.3 | 61.6 |
| Non-metro, non-adjacent | $688 | $738 | $1,043 | $1,232 | $1,385 | $1,474 | 36.3 | 58.1 |
| Pennsylvania | | | | | | | | |
| Metro | $640 | $731 | $1,025 | $1,243 | $1,370 | $1,466 | 33.9 | 61.6 |
| Non-metro, non-adjacent | $608 | $699 | $992 | $1,211 | $1,358 | $1,466 | 34.0 | 55.9 |
| Rhode Island | | | | | | | | |
| Metro | $715 | $820 | $1,171 | $1,400 | $1,476 | $1,504 | 25.1 | 81.9 |
| South Carolina | | | | | | | | |
| Metro | $522 | $522 | $979 | $1,265 | $1,388 | $1,504 | 4.2 | 58.7 |
| Non-metro, non-adjacent | $522 | $522 | $973 | $1,259 | $1,388 | $1,504 | 4.9 | 57.7 |
| South Dakota | | | | | | | | |
| Metro | $517 | $732 | $1,132 | $1,327 | $1,395 | $1,504 | 23.2 | 69.5 |
| Non-metro, non-adjacent | $488 | $703 | $1,108 | $1,309 | $1,388 | $1,504 | 21.8 | 66.4 |
| Tennessee | | | | | | | | |
| Metro | $321 | $506 | $994 | $1,220 | $1,331 | $1,429 | 7.8 | 64.0 |
| Non-metro, non-adjacent | $321 | $506 | $962 | $1,197 | $1,331 | $1,429 | 10.8 | 60.0 |
| Texas | | | | | | | | |
| Metro | $431 | $509 | $907 | $1,246 | $1,399 | $1,504 | 4.9 | 55.4 |
| Non-metro, non-adjacent | $431 | $509 | $888 | $1,208 | $1,388 | $1,504 | 9.8 | 48.9 |
| Utah | | | | | | | | |
| Metro | $623 | $723 | $1,056 | $1,284 | $1,388 | $1,494 | 27.6 | 63.8 |
| Non-metro, non-adjacent | $605 | $705 | $1,038 | $1,266 | $1,387 | $1,494 | 27.6 | 60.7 |
| Vermont | | | | | | | | |
| Metro | $734 | $836 | $1,147 | $1,332 | $1,388 | $1,498 | 36.0 | 71.3 |
| Non-metro, non-adjacent | $756 | $858 | $1,164 | $1,347 | $1,397 | $1,498 | 36.9 | 73.9 |
| Virginia | | | | | | | | |
| Metro | $321 | $675 | $1,135 | $1,448 | $1,616 | $1,548 | 0.2 | 82.8 |
| Non-metro, non-adjacent | $310 | $664 | $1,091 | $1,442 | $1,616 | $1,548 | -0.4 | 81.7 |
| Washington | | | | | | | | |
| Metro | $707 | $813 | $1,118 | $1,347 | $1,423 | $1,504 | 31.2 | 72.8 |
| Non-metro, non-adjacent | $678 | $784 | $1,089 | $1,317 | $1,401 | $1,504 | 31.2 | 67.8 |
| West Virginia | | | | | | | | |
| Metro | $490 | $574 | $897 | $1,209 | $1,371 | $1,478 | 18.0 | 53.6 |
| Non-metro, non-adjacent | $490 | $574 | $883 | $1,195 | $1,371 | $1,478 | 19.9 | 51.2 |
| Wyoming | | | | | | | | |
| Metro | $321 | $661 | $969 | $1,235 | $1,389 | $1,504 | 25.9 | 53.6 |
| Non-metro, non-adjacent | $317 | $657 | $950 | $1,217 | $1,388 | $1,504 | 27.8 | 50.5 |