***Overview of state earnings disregard approaches***

States typically disregard a percentage of earnings and some states also first exclude a designated portion as a work expense allowance. Some states’ disregard policies vary over time, with higher amounts of earnings disregarded in initial months of employment followed by stepped-down disregards for subsequent periods.[[1]](#footnote-1)

* ***Work expense portion:***  About half the states first disregard a portion of earnings for work expenses and then also typically disregard a percentage of the remainder as a work incentive. The work expense disregard is usually a flat dollar amount each month – state amounts range from $90 to $250 – and is intended to recognize work expenses such as payroll deductions and extra costs of working such as transportation or lunches. (States consider gross income, not take-home pay, when budgeting earnings in TANF.)
* ***Flat percentage disregard:***  Most states disregard a percentage of earnings, such as 50 or 75 percent of earnings. Many use a single flat percentage disregard for all months of earnings. A key advantage of a constant and flat percentage is that it offers a clear and simple message that a caseworker can deliver that work pays and that a family can always keep a portion of earnings, such as $2 of every $3 earned (with a 67% disregard). It also offers a smooth slope down to the exit level and does not lead to any abrupt cliffs.
* ***Time-limited or stepped down earnings disregards:***  Some states use a variable approach, disregarding all or nearly all earnings for the first several months of earnings, and then stepping down the percentage of earnings that is disregarded. A handful of states disregard all earnings for an initial period, typically 1-3 months and up to 12 months in one state. These time-limited high disregards can provide a smoother transition to work and are particularly useful in a state with very low benefit levels, where even a very modest amount of earnings would otherwise lead to immediate ineligibility. It also allows the family to get the full grant amount for these months as no earnings are budgeted.

At the same time, these approaches are often designed in an overly-complicated way, limiting the generous disregard to one-time in a year, or in a lifetime, which can require tracking or a minimum number of work hours. The complexity can also undercut conveying a clear message on how work pays. A time-limited or tepped down earnings disregard approach can also lead to cliffs rather than slopes as benefits may end abruptly when the time-limited disregard expires, rather than ramping down gradually over time. A more streamlined, simplified stepped-down design – for example, disregarding the first two months of earnings for any new spell of earnings – could address some of these issues.

There is no “best” approach and there are trade-offs and considerations that come with various approaches. The context of your state benefit level and computation approach matters greatly. For example, once the time-limited 100% disregard ends in Alabama, a working family would lose TANF with earnings of just $268 monthly; for this very low benefit state, the 12-month period of the 100% disregard makes good sense. In Illinois, which has moderate benefit level, the flat 75% earnings disregard for all months of earnings (even with no extra work expense deduction) means that families will not lose eligibility until income is above the federal poverty line.

1. State policies discussed here are in Table II.A.1. Earned Income Disregards for Benefit Computation, July 2020

   of the Welfare Rules Database. [↑](#footnote-ref-1)