

Economic Benefits of Employing Formerly Incarcerated Individuals in Philadelphia | Executive Summary

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As part of its efforts to increase public safety, reduce recidivism, and decrease public spending on criminal justice functions, the City of Philadelphia has joined a growing number of local and state governments focused on connecting formerly incarcerated individuals with employment. Emerging research shows that former inmates are less likely to commit crimes causing a return to prison if they become gainfully employed.

While the social benefits associated with reduced crime are clear, a precise understanding of the economic benefits associated with employing the formerly incarcerated has been lacking. At the request of the City's Office of the Deputy Mayor for Public Safety, the Economy League of Greater Philadelphia has estimated earnings, tax revenue, and avoided cost benefits from employing the formerly incarcerated. Key findings include:

- » *Connecting 100 formerly incarcerated with employment would produce \$1.2 million in annual earnings and \$55 million in total post-release lifetime earnings.*
- » *Connecting 100 formerly incarcerated to jobs would yield \$1.9 million in additional wage tax contributions and \$800,000 in additional sales tax revenues over the employees' lifetimes.*
- » *100 fewer recidivists would result in more than \$2 million in annual cost savings to criminal justice agencies including police, courts, corrections, and probation and parole.*
- » *Employment of formerly incarcerated individuals contributing to 1,500 fewer recidivists would allow for closure of a prison facility for an annual cost savings of more than \$26 million.*



THE FORMERLY INCARCERATED IN PHILADELPHIA

There are approximately 40,000 releases of formerly incarcerated individuals from federal and state prisons and local jails back into Philadelphia each year. At current recidivism rates, 40% of released ex-offenders can be expected to return to prison within three years. These incarceration and recidivism levels come at enormous cost to taxpayers, crime victims, offenders, and their families. In fiscal year 2010, the Pennsylvania Department of Corrections spent \$1.8 billion to operate 27 prisons housing more than 51,000 inmates, while the City of Philadelphia spent \$234 million, or nearly 6% of its budget, on jails. As the economic and social challenges associated with incarceration and ex-offender populations have grown, efforts to reduce recidivism have become a priority, with a particular emphasis on the importance of employing the formerly incarcerated in lowering the chances of reincarceration.

BARRIERS TO EMPLOYING THE FORMERLY INCARCERATED

Several challenges exist in connecting the previously incarcerated to employment. These challenges center around their education levels, skills, and work experience; quality of social networks to access job opportunities; and employer willingness to hire.

Work Readiness. *Formerly incarcerated individuals have low education and literacy levels compared to the general population. In Philadelphia, approximately 55% of inmates do not have a high school diploma or equivalent. Behavioral problems, substance abuse, and/or cognitive issues compounded by limited or erratic work histories frequently put ex-offenders at a disadvantage compared to non-offenders in the same job market.*

Eroded Social Networks. *Incarceration weakens the social and referral networks that can lead to job opportunities, and often the social ties that do remain draw upon prison relationships or prior criminal activity.*

Employer Reluctance to Hire. *Employers often are hesitant to hire formerly incarcerated individuals due to concerns about skills, reliability, and legal or financial liabilities. This hiring reluctance is exacerbated by the trend of limited or negative growth in industries that have been most likely to hire former inmates, such as construction and manufacturing.*

Research indicates that ex-offenders who do succeed in securing work are subject to substantial wage and employment penalties compared to similar individuals without a criminal record. Estimates of earning losses range from 10% to 40%.

THE PHILADELPHIA CHALLENGE

In addition to the barriers detailed above, the previously incarcerated in Philadelphia face two additional challenges in securing employment: 1) lower educational attainment rates than other offender populations, and 2) intense competition for a limited number of low-skilled jobs.

Twenty-two percent of inmates nationally have had some college coursework or a degree, compared to just 4% of inmates in Philadelphia and 56% for the general US population. These low educational attainment levels come up against the reality of a shrinking number of jobs that require no high school diploma. Increased demand for workers with higher levels of educational attainment combined with a decline in demand for workers with less schooling have intensified the economic adversity that dropout residents face in Philadelphia.

ECONOMIC BENEFITS OF EMPLOYING FORMERLY INCARCERATED INDIVIDUALS IN PHILADELPHIA

The analysis that follows provides baseline estimates of some of the earnings, tax revenue, and criminal justice agency cost savings benefits associated with employment of former inmates. It is not meant to serve as a comprehensive estimation of all quantifiable benefits associated with ex-offender employment or as a cost-benefit tool for assessing specific employment programs for formerly incarcerated individuals.

Earnings

Table 1 compares estimated annual earnings by educational attainment level for employed Philadelphia residents and for the formerly incarcerated.

Research indicates that formerly incarcerated individuals earn hourly wages that are 11% lower and work 12% fewer hours than similar persons without a criminal record.

TABLE 1: 2011 Estimated Average Annual Earnings for Employed Philadelphia Residents and Formerly Incarcerated Individuals

EDUCATIONAL ATTAINMENT LEVEL	PHILADELPHIA RESIDENT	EMPLOYED FORMERLY INCARCERATED
No high school diploma	\$10,682	\$8,366
High school diploma/GED	\$20,360	\$15,946
1-3 years of college	\$27,548	\$21,575
Bachelor's degree	\$41,796	\$32,735

Source: Harrington, Khatiwada and Fogg 2008; Economy League estimates

Because 55% of those released from prison in Philadelphia are high school dropouts, the “typical” employed ex-offender in Philadelphia is a person without a high school diploma who earns less than \$8,400 per year. With average monthly rent in Philadelphia of \$900 for a one-bedroom apartment (\$10,800 rent annually), housing costs alone exceed projected annual earnings for a formerly incarcerated individual without a high school diploma.

Given the educational attainment distribution among the formerly incarcerated in Philadelphia, connecting

TABLE 2: Estimated Wage and Sales Tax Impact of Employment of the Formerly Incarcerated

EDUCATIONAL ATTAINMENT LEVEL	AVERAGE ANNUAL EARNINGS 2011	AVERAGE ANNUAL WAGE TAX CONTRIBUTIONS 2011	AVERAGE POST-RELEASE LIFETIME WAGE TAX CONTRIBUTIONS	AVERAGE ANNUAL SALES TAX CONTRIBUTIONS 2011	AVERAGE POST-RELEASE LIFETIME SALES TAX CONTRIBUTIONS
No high school diploma	\$8,366	\$329	\$12,936	\$129	\$5,126
High school diploma / GED	\$15,946	\$626	\$25,017	\$250	\$10,073
1-3 years of college	\$21,575	\$847	\$34,182	\$354	\$14,400
Bachelor's degree	\$32,735	\$1,286	\$55,575	\$579	\$25,297

Source: Economy League estimates

a representative sample of 100 currently unemployed ex-offenders to employment could produce \$1,217,000 in annual earnings and \$55,200,000 in total post-release lifetime earnings.

City Wage and Sales Tax Revenues

Using earnings estimates for employed former inmates in Philadelphia, it is possible to derive associated tax revenues returned to city coffers (see Table 2). Although annual wage and sales tax revenues that could be contributed by a single employed ex-offender are relatively modest, connecting a representative sample of 100 currently unemployed formerly incarcerated individuals to employment would produce an additional \$1,900,000 in city wage tax revenue and \$770,000 in sales tax revenue over their post-release lifetimes. Total lifetime wage tax collections for employed ex-offenders at each educational attainment level exceed the \$10,000 Philadelphia Reentry Employment Program (PREP) tax credit amount that the City will pay employers for hiring a former inmate.

Cost Savings from Reduced Recidivism

A reduction in recidivism will lower costs for government agencies overseeing law enforcement, courts, corrections, and post-release supervision in addition to post-release health care and social services costs. Reduced crime also will yield benefits in the form of lower victim costs, including tangible costs such as property loss or damage and health care and victim services, as well as intangible costs related to pain, suffering, and lost productivity.

A common method for deriving cost savings estimates for prisons is to divide the total corrections budget by number of inmates. However, this average cost approach can significantly overstate savings because fixed expenses do not change with relatively small changes in the inmate population. In fact, most incarceration costs are fixed, and only some items, such as food and medical care, can be saved with small changes in inmate population. Thus, significant prison cost savings can be achieved only through a large enough reduction in the number of inmates that corrections facilities reduce their capacity and personnel. Measuring marginal costs instead of

average costs is a much better measure of the savings associated with crime reduction and, therefore, is used in the estimates that follow.

Table 3 gathers estimated cost savings for Philadelphia associated with different levels of recidivism reduction. Employment leading to one fewer recidivist is estimated to bring \$4,500 in annual savings across criminal justice agencies. The largest portion of these savings for one fewer recidivist would be due to the elimination of marginal food, clothing, and pharmacy costs while incarcerated. This figure rises to \$36,900 if the inmate has to be housed in a facility outside the Philadelphia prison system. These estimates do not include corrections or probation staff

TABLE 3: Estimated Annual Cost Savings Due to Recidivism Reductions in Philadelphia

AGENCY FUNCTION	PER 1 FEWER RECIDIVIST	PER 100 FEWER RECIDIVISTS	PER 1,500 FEWER RECIDIVISTS
Arrest	\$400	\$40,000	\$600,000
Court processing	\$700	\$70,000	\$1,050,000
Corrections			
Philadelphia prison			
Staff	—	\$1,589,575	—
Direct costs	\$3,450	\$345,000	—
Facility closure	—	—	\$24,000,000
Sent to other facility	\$36,500	\$3,650,000	—
Supervision (probation, parole)	—	—	\$635,940
TOTAL SAVINGS			
Philadelphia inmates	\$4,550	\$2,044,575	\$26,285,940
Inmates sent to other facilities	\$37,600	\$3,760,000	—

Source: Economy League estimates

reductions because one fewer inmate would not result in a staffing adjustment. However, if 100 fewer former inmates returned to prison, staff reductions could lead to a total cost savings across agencies of more than \$2 million.

Reducing the City's inmate population by 1,500 would allow for closure of the House of Corrections (\$24 million per year to operate). It is assumed that this scale of decrease in the number of recidivists would also result in a reduction in probation officer staff, producing total annual savings across agencies of more than \$26 million. It is important to note, however, that these estimated cost savings associated with reduced recidivism will not necessarily translate into actual budget savings as agencies may use cost savings to fill existing gaps or needs or to reduce high staffing or caseload ratios.

CONCLUSION

Given the education and skill level most of the formerly incarcerated possess and the wage discount associated with having a record, human capital investments are necessary if the economic benefits potential to the city, region, and to individuals is to be realized.

Five policy recommendations to improve employment efforts for formerly incarcerated individuals emerged from this study.

Prioritize education along with employment programs and other services

The figures in this study show that education investments can make a significant difference in earnings and overall employment prospects for the formerly incarcerated. However, only 10% of all inmates attend educational, vocational, or treatment programs on a given day, and just 2% of Pennsylvania's Department of Corrections budget is allocated for education and training programs. Greater investment in these areas, alongside other in-prison and follow-up programs (including drug treatment, health care, and housing support) could reduce the chance of re-arrest.

Increase suburban outreach, and focus on industries likely to hire the formerly incarcerated

Philadelphia already has a large number of low-skilled, unemployed individuals without prison records who are the first choice of most employers. This situation requires a clear focus on the types of industries and occupations that historically have offered the best employment opportunities for the formerly incarcerated, such as construction, food service, wholesalers, maintenance/repair, and manufacturing. With three-quarters of the region's jobs outside of the city of Philadelphia, employment program providers must develop relationships with suburban employers.

Increase utilization of the PREP tax credit

The City of Philadelphia created a tax credit for employers of up to \$10,000 for hiring formerly incarcerated individuals through the Philadelphia Reentry Employment Program (PREP). While some employers have signed on to participate in the program, none has yet claimed the credit. A factor in this lag may be due to the significant gap between expected

wages for the formerly incarcerated and the qualifying wage threshold for the credit. Addressing individuals' educational deficiencies will help decrease this gap by improving their earnings potential.

Make work pay for the formerly incarcerated

Child support, victim restitution, court-ordered fines and fees, and unpaid debts can reduce individuals' take-home pay enough to encourage a return to crime in place of full-time, legitimate work. Financial liens and garnishments, when combined with regular taxation, can result in an effective tax rate as high as 65%. Limiting garnishments per paycheck, extending repayment schedules over a longer period of time, and providing wage supplements or other work incentives could encourage formerly incarcerated individuals to seek employment at the low wage levels offered by employers.

Evaluate program effectiveness

Rigorous evaluation of reentry programs is needed to ensure the effectiveness of investments. Assuring that the right outcomes are being evaluated will be key to successful measurement. Many organizations engaged in employing the formerly incarcerated are evaluated primarily by the number of placements in jobs, whereas gauging job retention may prove even more important in achieving the overarching goal of reducing recidivism.

For more information, contact the Mayor's Office for Reintegration Services for Ex-Offenders.

34 S 11th Street, 6th Floor, Philadelphia, PA 19102

- » www.phila.gov/reentry
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