

Income Support Caseload Reduction Brings New Challenges

Introduction

Since the passage of the law creating the Temporary Assistance for Needy Families (TANF) block grant in 1996, and even before then in some states, significant policy changes have occurred as states have restructured their welfare programs to move families from welfare to work.¹ The entitlement to cash assistance, in effect for more than 60 years, has been eliminated. Instead, states have received broad flexibility under TANF to help low-income families with children move to self-sufficiency. The result has been a wide variety of policies across states – and, in states that have devolved TANF implementation to the county level, within states as well.

Welfare reform remains a work in progress. The policy choices that states are making will significantly affect their ability to address the needs of low-income families, including those who are working as well as those with barriers to work.

Statistical Portrait

Cash assistance caseloads have dropped dramatically in recent years, from 14.4 million recipients in 1994 under AFDC to 5.8 million recipients in June 2000. Since enactment of the welfare law in 1996, the caseload has fallen by at least 50 percent in 29 states and by at least 20 percent in every state.

Caseload decline is sometimes cited as evidence of welfare reform's success, but the caseload can fall either because families no longer need assistance or because families who need assistance are no longer receiving it. Part of the caseload decline is clearly due to reduced need: child poverty fell from 21.8 percent in 1994 to 16.9 percent in 1999. However, welfare participation fell much more rapidly than child poverty. In 1994, 62 percent of poor children were receiving AFDC assistance; by 1999, only 37.8 percent of poor children were receiving TANF assistance.²

The Urban Institute reports that 66 percent of single parents who left welfare between 1995 and 1997 were employed and that the employment rate increased to 71 percent for those single parents who left welfare between 1997 and 1999.³ In addition, median monthly wages for former recipient families were \$1,093 in 1999, approximately the federal poverty level for a family of three. However, as the Urban Institute notes, some adults may work only a portion of the months in a year, leading to lower annual earnings levels than this monthly figure would suggest.

Welfare reform has increased employment among single parents, but it largely has not helped newly working parents escape poverty. While incomes have risen for many, there are troubling findings related to the lowest-income quintile of families headed by single mothers.

A Center on Budget and Policy Priorities study, based upon the Current Population Survey, reports that the average disposable incomes of the poorest fifth of all single mothers fell 3 percent between 1995 and 1999, despite increased earnings. Some 700,000 single-mother headed families had significantly less income in 1999 than their counterparts in 1995.⁴ These negative results could have been largely reduced if more working families were participating in safety net programs. Because the earnings of many working parents are not sufficient to support a family of three, government supports such as food stamps, health insurance, subsidized child care, and the Earned Income Tax Credit are essential.

However, the Urban Institute reported in 2001 that only 43 percent of families that left welfare and had incomes below 130 percent of the poverty line received food stamps. Even more disturbing, only half of families that left welfare and had incomes below *50 percent* of the poverty line received food stamps.⁵ Among citizen children in immigrant families, food stamp participation declined by 75 percent between 1994 and 1998.⁶

Similarly, while Medicaid provides 12 months of transitional coverage to adults that leave welfare for

work, state leaver studies report that roughly half of parents in families that left welfare had lost Medicaid.⁷ Administrative complexities such as frequent recertifications and limited welfare office hours may make it more difficult for families to remain enrolled once they begin working, despite ongoing eligibility. Many immigrants also face significant cultural and linguistic barriers.

In addition, studies show that many families that have left cash assistance return to the program. Like many families still receiving TANF cash assistance, these families often have multiple barriers to work and need additional assistance to succeed in a work setting.

The Urban Institute's national survey of current welfare recipients found that 48 percent had either poor general or mental health.⁸ A recent MDRC report found a high incidence of severe impairments among women in TANF families and their children.⁹ Other recent state studies report a high incidence of mental impairments among TANF parents, such as clinical depression, learning disabilities, and low intelligence. Some parents have physical impairments or substance abuse problems. Often a parent with a disability faces multiple barriers to work.

States have begun to recognize that these families often will need additional supports that are more intensive, require more resources, and of greater duration than other families need. Much more remains to be done in this area.¹⁰

Many families have lost cash assistance as the result of state sanctions for violating TANF work requirements or other rules. The Center on Budget and Policy Priorities estimates that about 540,000 families nationwide lost assistance following a full-family sanction sometime from 1997 through 1999. Approximately two-thirds of these families (370,000) are likely to have remained off of assistance at the end of 1999. Those who leave because of a sanction often have greater barriers to work, lower employment rates, and (when working) tend to earn less than others who have left TANF for other reasons. They often do not understand why they lost benefits or how to come into compliance.¹¹ MDRC recently reported that women with multiple health problems and women who have been physically abused were more likely than other women to have been sanctioned by the welfare agency in the previous year.¹² Also, strong statistical correlations have been found between states that had high proportions of minorities on TANF and the use of strong sanctions, a factor which affected income security.¹³

In addition, families have begun to reach time limits in 21 states. The welfare law generally imposes a five-year limit on receipt of TANF-funded assistance; states also may impose shorter time limits. Sixteen of these

states terminate benefits completely when the limit is reached; the other five states reduce benefits. In most of the remaining states, families will start to reach time limits this fall or next year. However, a few states either do not terminate benefits at all when time limits are reached, including New York, Michigan, and Maine, or continue providing benefits at a reduced level, most notably California.¹⁴

Based on information gathered directly from states, the Center on Budget and Policy Priorities estimates that approximately 130,000 families have had their cash assistance benefits reduced or terminated due to time limits. The potential impact nationally of time limits is much greater, since many of the states with short time limits have exempted large portions of their caseloads from time limits or provided them with extensions.

Approximately \$27 billion is available annually for the TANF program. In fiscal year 2001, this includes about \$17 billion of federal funds and about \$10.4 billion of state "maintenance of effort" funds, which states are required to spend in order to receive their federal grants. The amount of federal funds a state receives is based on its spending levels from the early 1990s, when caseloads were high. The recent drop in caseloads has freed up funds that states can use to meet the needs of low-income families.

It took a while for many states to understand the flexibility that Congress had given them to decide how to spend their TANF funds. In the early years of the program, many states had large unspent TANF balances: through October 2000, states had a total of \$8 billion in unspent or unobligated TANF funds. By the end of fiscal year 2000, however, states were using, on average, 95 percent of their annual TANF allocations.¹⁵

State Strategies & Innovations

- Recent experiments show that policies that increase family economic resources can help families move to self-sufficiency and increase children's well-being. For example, Milwaukee's New Hope program and the Minnesota Family Investment Program (MFIP) combine mandatory work with increased income (by allowing workers to keep some of their welfare check) and a good service-delivery system that ensures families receive the entire package of supports available. Evaluations of these programs show positive effects for families and children, such as less stress and fewer hardships for New Hope participants and better educational outcomes for children in both programs.¹⁶

- Many states have invested more of their TANF funds in key areas, including supports for low-income working families and more-intensive supports for families with barriers to work. For example, state spending of TANF dollars on child care, state earned income tax credits, transportation assistance, education and training, and programs that help address barriers to work has increased. Some states are designing their programs to help parents retain employment and advance to better-paying jobs.¹⁷
- Sixteen states and two counties have enacted an earned income tax credit to build on the federal EITC, helping to move more families out of poverty.¹⁸
- Texas initiated a pilot program in 2000 to promote job stability among former welfare recipients by providing intensive case management services and stipends of at least \$1,200 per year to help families meet work-related costs, such as transportation, uniforms, or training.¹⁹
- Some states are using TANF funds to provide work supports for families with incomes up to 200 percent of the federal poverty level (roughly \$29,000 for a family of three and \$35,000 for a family of four), including those with no connection to the cash assistance program. Some states have moved decisively in this area; others have not.²⁰
- Some states are designing programs that are better able to assist families with barriers to work. For example, under Tennessee’s Family Services Counseling program, families that are not immediately ready to work have an option to enter a more intensive program through which masters-level social workers from local counseling agencies under contract with the TANF agency provide intensive case management and referrals. The counselors can redesign individual responsibility plans, make reasonable accommodations for disabilities, and help families secure the services and support they need to move to work.²¹
- Some states and counties, such as Mesa County, Colorado, and Cuyahoga County, Ohio, have designed conciliation procedures that help families come into compliance with TANF requirements and avoid sanctions. While most states impose a minimum of one month of sanction at the first instance of noncompliance, and some are far longer, at least eight states restore benefits upon compliance for any instance of noncompliance.²²
- Some states, such as Arizona, Delaware, Illinois, Maryland, and Rhode Island, exempt some working families from federal and state welfare time limits – called “stopping the clock” – by using state funds to support their benefits.²³

Implications for Federal Policy

There are now vast differences across the states in the safety net. Time limits on receipt of cash assistance range from none to five years. State sanction and conciliation procedures vary widely. Some states place a premium on helping parents find jobs and advance in them, while others do not. Some states focus on providing services for families with significant employment barriers, while others simply exempt them from work requirements. Some states spend all of their TANF funds to support low-income families, while others leave funds unspent or use part of them to replace other state spending.

An important part of the next phase of welfare reform will be to identify, strengthen, and promote policies and programs that help move families to work and out of poverty. Reducing family poverty and promoting family economic well-being should be made explicit goals of TANF.

As states that are seriously working to achieve these goals understand, however, and as demonstrations like MFIP and New Hope show, the services and supports that families need to succeed require financial resources. Maintaining a strong federal financial commitment to TANF will therefore be essential.

That commitment will become even more critical during a significant economic downturn. The nation’s strong economy has facilitated the goals of TANF; a reversal would make it extremely challenging for states to continue expanding the safety net for low-income families while also addressing increased demands for basic cash assistance. The federal government needs to assure states that it will maintain a level of support to TANF that will help them in bad times as well as good ones.

Given the clear indication that race and ethnicity may be factors in prohibiting a significant number of families from achieving income security, states TANF programs should be mandated to collect race and ethnic data related to their TANF population and provided with disincentives for the application of strong sanctions without adequate justification.

Working Group:

Juliane Baron, *Johns Hopkins University*
Harold Leibovitz, *The Urban Institute*
John Martinez, *Manpower Demonstration Research Corporation*
Eileen Sweeney, *Center on Budget and Policy Priorities*
Sheila Zedlewski, *The Urban Institute*

Endnotes:

- ¹ Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Public Law 104-193, signed August 22, 1996.
- ² Wendell Primus and Kathryn Porter, *Changes Since 1995 in the Safety Net's Impact on Child Poverty* (Center on Budget and Policy Priorities, December 1999), available on the Internet at www.cbpp.org/12-23-99wel.pdf. This report includes data through 1998. Data on 1999 will be in a forthcoming CBPP report.
- ³ Pamela Loprest, *How Are Families That Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers*, Policy Brief B-36 (Washington, DC: Urban Institute, April 2001).
- ⁴ Wendell Primus et al., *The Initial Impacts of Welfare Reform on the Economic Well-being of Single Mother Families* (Washington, DC: Center on Budget and Policy Priorities, August 1999), available on the Internet at www.cbpp.org/8-22-99wel.pdf. This report includes data through 1997; a forthcoming CBPP report will include 1999 data.
- ⁵ Sheila Zedlewski, *Former Welfare Families and the Food Stamp Program: The Exodus Continues*, Policy Brief B-33 (Washington, DC: Urban Institute, April 2001.) available on the Internet at <http://www.urban.org>
- ⁶ Center on Budget and Policy Priorities tabulations of food stamp quality-control data for 1994 and 1998.
- ⁷ Jocelyn Guyer, *Health Care After Welfare: An Update of Findings from State-level Leaver Studies* (Washington, DC: Center on Budget and Policy Priorities, August 2000), available on the Internet at www.cbpp.org/8-16-00wel.pdf.
- ⁸ Sheila Zedlewski, *Work Activity and Obstacles to Work among TANF Recipients*, Series B No. B-2 (Washington, DC: Urban Institute, September 1999). Available on the Internet at <http://www.urban.org>.
- ⁹ Denise F. Polit, Andrew S. London, John M. Martinez, *The Health of Poor Urban Women: Findings from the Project on Devolution and Urban Change* (Manpower Demonstration Research Corporation, May 2001). Available on the Internet at <http://www.mdrc.org>.
- ¹⁰ Eileen P. Sweeney, *Recent Studies Indicate that Many Parents Who Are Current or Former Welfare Recipients Have Disabilities and Other Medical Conditions* (Washington, DC: Center on Budget and Policy Priorities, February 2000), available on the

Internet at <http://www.cbpp.org/2-29-00wel.htm>

¹¹ Heidi Goldberg and Liz Schott, *A Compliance-oriented Approach to Sanctions in State and County TANF Programs* (Washington, DC: Center on Budget and Policy Priorities, October 2000), available on the Internet at <http://www.cbpp.org/10-1-00sliip.htm>.

¹² Polit, London, and Martinez, *The Health of Poor Urban Women*.

¹³ Joe Soss, Sanford F. Schram, Thomas P. Vartanian and Erin O'Brien, "Setting the Terms of Relief: Explaining State Policy Choices in the Devolution Revolution," *The American Journal of Political Science*, Vol. 45, No. 2, April 2001, pp. 378-395.

¹⁴ State Policy Documentation Project, a joint project of the Center for Law and Social Policy and the Center on Budget and Policy Priorities.

¹⁵ Ed Lazere, *Unspent TANF Funds at the End of Federal Fiscal Year 2000* (Washington, DC: Center on Budget and Policy Priorities, January 2001), available on the Internet at <http://www.cbpp.org/1-22-01sfp00surplus.htm>.

¹⁶ Dan Bloom and Charles Michalopoulos, *How Welfare and Work Policies Affect Employment and Income: A Synthesis of Research* (Manpower Research Demonstration Corporation, May 2001), available on the Internet at <http://www.mdrc.org/Reports2001/NG-AdultSynthesis/NG-AdultResearchSyn-May2001.pdf>.

¹⁷ Julie Strawn and Karin Martinson, *Steady Work and Better Jobs: How to Help Low-income Parents Sustain Employment and Advance in the Workforce* (Manpower Demonstration Research Corporation, June 2000). Available on the Internet at <http://www.mdrc.org>.

¹⁸ Colorado, District of Columbia, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oklahoma, Oregon, Rhode Island, Vermont, and Wisconsin; Montgomery County, Maryland, and Denver County, Colorado. Ed Lazere, Shawn Fremstad, and Heidi Goldberg, *States and Counties Are Taking Steps to Help Low-Income Working Families Make Ends Meet and Move Up the Economic Ladder* (Washington, DC: Center on Budget and Policy Priorities, May 2001), available on the Internet at www.cbpp.org/11-27-00sfp.htm. Since issuance of this paper, Oklahoma and Denver County, Colorado have also enacted earned income credits.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Goldberg and Schott, *A Compliance-oriented Approach to Sanctions in State and County TANF Programs*.

²² Arizona, Arkansas, Kentucky, Massachusetts, Oregon, Rhode Island, Utah, and Washington. Ibid.

²³ Lazere, Fremstad, and Goldberg, *States and Counties Are Taking Steps to Help Low-Income Working Families Make Ends Meet and Move Up the Economic Ladder*.