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USING TANF OR MOE FUNDS TO PROVIDE SUPPLEMENTAL ASSISTANCE TO LOW-INCOME WORKING FAMILIES

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As states revisit their welfare reform approaches in the wake of the TANF changes in the Deficit Reduction Act of 2005 (DRA), a number of states have implemented or are considering policies that expand support to low-income working families, particularly those transitioning into employment and off of basic TANF assistance programs. In most states, families lose eligibility for TANF cash assistance at income levels that are well below the poverty line (and almost no state has eligibility thresholds above the poverty line). Most employed TANF leavers have low wages and research over the last decade has documented that families that have left welfare for work continue to face hardships in making ends meet.¹

Research also has shown that policies that “make work pay” by providing benefits to working families improve employment outcomes for families because they serve as an effective incentive for families to find and keep jobs. This research also has demonstrated that these policies can reduce poverty by providing income assistance on top of the earnings families receive when they go to work.²

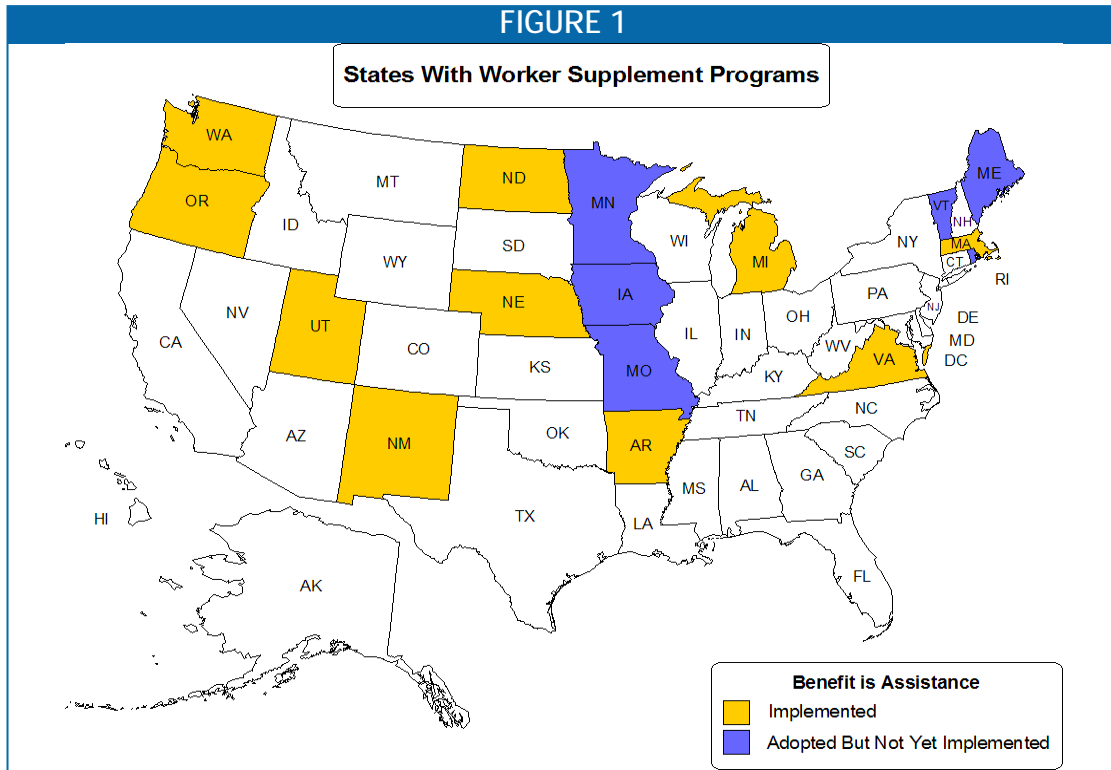
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Since the passage of the DRA, at least one-third of states have authorized or implemented a new supplemental “assistance” benefit for TANF leavers, and in some states, for a broader group of low-

¹ See, “Final Synthesis Report of Findings from ASPE ‘Leavers’ Grants,” by Greg Acs and Pamela Loprest, The Urban Institute, November 2001, <http://aspe.hhs.gov/HSP/leavers99/synthesis02/index.htm>.

² See, “Does Making Work Pay *Still* Pay? An Update on the Effects of Four Earnings Supplement Programs on Employment, Earnings, and Income” by Charles Michalopoulos, MDRC, August 2005. Executive summary at: <http://www.mdrc.org/publications/414/execsum.html>, full report at: <http://www.mdrc.org/publications/414/full.pdf>.



income working families. At least ten states have already implemented these new worker supplement payments and a number of additional states have authorized but not yet implemented them. (See Map and Appendix.). These programs take a range of approaches to the amount of and duration of monthly benefits.

- Some states provide modest monthly benefits; for example, Virginia and Washington State provide a monthly benefit of \$50 per month. Others provide a richer monthly benefit; for example, North Dakota and New Mexico provide a benefit of \$200 a month.
- Some states provide benefits for a short period after a family leaves TANF for work; for example, Washington State. Michigan and North Dakota provide a six-month post-TANF transitional benefit. Others provide a longer post-TANF transitional benefit; for example, Arkansas provides benefits for up to 24 months and the not-yet-implemented Minnesota and Maine programs will provide benefits for up to 24 and 36 months respectively.
- Several states provide a benefit to a broader group of low-income working families, specifically food stamp recipients with sufficient hours of employment. These worker supplement programs are not of limited duration and a family can qualify as long as they receive food stamps and are working. Massachusetts takes this approach; Vermont's not-yet-implemented program will as well.

Providing benefits to low-income working families helps those families make ends meet and increases work incentives. In addition, such programs can help states meet the TANF work requirements that they face under the DRA. Under the DRA — enacted in early 2006 — states must meet higher work participation rates than they were required to meet in the past and, because

of changes in the law and the choices made by HHS in implementing regulations, achieving a high work participation rate will be more difficult than in the past. By providing a TANF or MOE-funded benefit that meets the definition of “assistance” under the TANF rules, a state can count these working families towards its work participation rate and boost the rate it achieves. Thus, the approach can help states meet federal requirements and assist in avoiding federal fiscal penalties, while also supporting low-income families as they transition into employment.

This paper provides guidance for states and policymakers considering a “worker supplement” program and reviews the choices made and lessons learned by states that have already implemented such a program for TANF leavers or a broader group of low-income working families. It also analyzes and considers the design decisions that a state faces in establishing and implementing such a program. Specifically, the paper discusses:

- How families receiving assistance in a worker supplement program are considered in the TANF work participation rate calculations;
- The groups of working families a state may choose to serve in such a program — for example, families leaving TANF for work or broader groups of working families — as well as the eligibility requirements states might use in such programs;
- The benefits and services states can provide through such a program, including design issues such as how much will the benefit be, will it be a flat amount or vary based on other income or family characteristics, for how long will the benefit be provided, and the form in which the supplement payment will be provided;
- The implications of financing such a program with either TANF versus MOE funds on TANF time limit and child support-related rules. (A number of states have used TANF funds in their worker supplement programs and thus trigger federal TANF time limit provisions and child support rules, including the state owing a share of child support collections to the federal government; other states have avoided these problems by using MOE funds in a separate state program.);
- Issues relating to how the program is administered, including the enrollment process, ongoing eligibility maintenance, and verification of employment hours; and
- The interaction of this benefit with a family's eligibility for other benefits such as Medicaid, food stamps, and child care subsidies.

Worker Supplement Programs and the TANF Work Participation Rates

This report focuses on a particular design of an income supplement program that uses TANF or MOE funds to provide ongoing monthly benefits to working families for some period of time. (See box on p. 9 for discussion of other income supplement approaches for working families, including an expanded earned income disregard which a number of states have recently adopted as well.) Under this approach, TANF or MOE funds are used to provide benefits that qualify as “assistance” under the federal TANF rules and, thus, these recipients are included in the state’s work

participation rate calculation. Because the benefit is provided to families that are *working*, adding these additional cases to the calculation each month will boost the work participation rate the state achieves. For example, for a recent month, Virginia estimates that its Virginia Transitional Payment program — which provided assistance to more than 2,200 working families in May 2008 — provided a 7 percentage point boost to the TANF work participation rate the state achieved.³

Research has shown that income supplements are an effective work incentive and that the combination of increased earnings and increased assistance reduces poverty. Commenting on two decades of research on income supplement programs in the United States and Canada, MDRC president Gordon Berlin concluded that “earnings supplement policies increase the range of options that policymakers have to encourage work and combat poverty. Indeed, they are the only policies consistently to have had positive effects on both work and income.”⁴ A 2005 evaluation by MDRC of four income supplement programs in the United States and Canada found that all four increased employment rates and earnings and reduced the extent and depth of poverty. Earnings supplements were particularly effective at improving employment outcomes for the most disadvantaged participants: longer-term welfare recipients with neither recent work experience nor a high school diploma.⁵

One way to supplement low earnings is through earnings disregard policies within a state’s basic cash assistance program. Under such policies, a portion of a family’s earnings are “disregarded” when determining the level of cash benefits for which the family qualifies. While nearly all states expanded their earnings disregard policies under TANF so that families could keep more of their earnings, families in most states lose eligibility for TANF with incomes well below the poverty line. In some states — those that disregard all earnings for a period of time — families will lose eligibility at very low income levels as soon as the generous, but time-limited, earnings disregard expires. A worker supplement program outside of the regular TANF caseload can provide a second stage of income supplements to working families — one targeted to families with incomes above TANF cut-off levels. This could be a transitional benefit to families that have left the regular TANF caseload or it could target a broader group of working families.

How Can Worker Supplement Programs Increase State Work Participation Rates?

The TANF work participation rates that states must meet measure the share of families receiving TANF or MOE-funded “assistance” that participate in countable work activities for a specified number of hours per week. “Assistance” is defined in the federal TANF rules as “cash, payments, vouchers, and other forms of benefits designated to meet a family’s ongoing basic needs (i.e. for food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses).”⁶ There also are ways that a state can use TANF or MOE funds to support working families by providing benefits in the form of “non-assistance.” (See box on p.9.) For example, under the federal rules support services such as child care and transportation to families that are employed are defined as not being assistance; nonrecurring payments to meet short term needs are similarly

³ Virginia Independence Program Monthly Report, Prepared by Virginia Department of Social Services, (May 2008) available at http://www.dss.virginia.gov/files/about/reports/financial_assistance/tanf/2008/vipreport_5-08.pdf.

⁴ Charles Michalopoulos, p. x.

⁵ Ibid.

⁶ 45 C.F.R. § 260.31(a)(1).

non-assistance. The discussion here, however, focuses on programs that provide assistance to working families and, thus, whose participants are included in the calculation of the state's work participation rate.

Under federal law, states must have 50 percent of families receiving TANF or MOE-funded "assistance" — and 90 percent of such two-parent families — participating in work activities for a required number of hours per week. Both rates are reduced, however, by the number of percentage points by which the state's TANF and MOE caseload falls below 2005 levels for reasons other than eligibility rule changes.⁷ The work participation rate achieved represents the share of families receiving TANF or MOE-funded assistance that are participating in countable work activities.

By providing TANF or MOE-funded assistance to working families, almost all of whom will count as meeting the work participation requirements, a state will increase the share of families receiving TANF- and MOE-funded assistance that are participating in countable work activities and thus the work participation rate that a state achieves. At the same time, however, a state may increase its average monthly "caseload" of families receiving TANF or MOE-funded assistance. States do not have to characterize these families *within* their state as TANF recipients or welfare recipients (since they are not receiving aid from the standard cash assistance program), but from the perspective of the federal government, these families will be receiving TANF or MOE-funded "assistance" and will part of the state's caseload. The addition of such families may reduce the extent that "assistance" caseloads are reduced below 2005 levels and, thus, the level of caseload reduction the state may claim.

There are several reasons why states should not dismiss a worker supplement approach simply because it does not want to lessen its caseload reduction credit. First and foremost, there are policy reasons to support working families and ease the transition from welfare-to-work. To the extent that an income supplement enables families to remain employed, lessen poverty, and avoid welfare re-entry, a state is furthering its welfare reform goals even if these outcomes are not all translated into a caseload reduction credit. Second, given that research has shown that "make work pay" policies *increase employment rates* because of the incentives they provide to families to work harder to succeed in the labor market, some of the increase in caseloads that one would expect to occur as a result of a worker supplement program may be offset by increases in employment that help families leave TANF — and worker supplement programs — altogether.

*In addition, states may be able to reduce or eliminate any loss of caseload reduction credit due to a worker supplement program because federal TANF regulations allow states to offset the effect of policy changes that increase the TANF caseload against policy changes that decrease the caseload when calculating the caseload reduction credit.*⁸ For example, a number of states have decided to serve some groups — including two-parent families and families that face barriers to employment such as disabilities — in a program funded

⁷ For a detailed discussion of TANF work participation rate requirements, see Chapter 2 of *Implementing the TANF Changes In The Deficit Reduction Act: "Win-Win" Solutions For Families And States*, Second Edition, Center on Budget and Policy Priorities and Center on Law and Social Policy, February 2007, <http://www.cbpp.org/2-9-07tanf.htm>.

⁸ 45 C.F.R. §261.42(2). Specifically, states must add to their caseload the number of cases that no longer receive assistance due to a change in eligibility when determining their caseload reduction credit. Under this provision, the state can reduce the number of cases that it "adds back" to its caseload when computing its caseload reduction credit by the number of families that *are* receiving assistance due to an eligibility expansion.

solely with state funds that are not counted toward MOE.⁹ If serving a family in a state program instead of TANF is considered by HHS to be a “policy change” that reduces the caseload, a state can use the caseload decline that results from the implementation of the solely state-funded program to offset the caseload increases that result from expanding assistance to working families.

Thus, for example, a state that establishes both a worker supplement program and a solely state-funded (SSF) program can reduce — and even eliminate — the negative impact of the increased caseload that results from a worker supplement program by offsetting those caseload increases with the caseload declines from the SSF program.

Example

Suppose that a state has a TANF caseload of 18,000 families, its caseload is 2,000 families smaller than its 2005 caseload, and the state is considering establishing a worker support program that would help 2,000 families per month. If the state makes no other policy changes, its “caseload” for caseload reduction purposes will equal 20,000 (the 18,000 families in the basic TANF caseload plus the 2,000 families in the new worker support program) and the state will not get any caseload reduction credit, despite reducing the number of families in its basic TANF program by 2,000 families.

If, however, the state also creates a solely state-funded program that assists 1,500 families formerly assisted through TANF, the 1,500-family drop in the TANF caseload will offset most of the 2,000 family increase in its caseload associated with the worker support program. The resulting caseload used in the caseload reduction credit calculation will be 18,500, and the state will receive a caseload reduction credit.

Moreover, a worker supplement program that serves a large number of working families — such as one serving working families on food stamps or that extends for several years after families leave TANF — can provide such a large boost to the state’s work participation rate that the state may not need to rely on caseload reduction credit. If a proposed rule change that would eliminate a state’s ability to claim caseload reduction credit based on state spending above the required maintenance-of-effort requirement (often referred to as “excess MOE”) is adopted, states will be left with smaller caseload reduction credit claims and strategies that increase the work rate will be even more important.¹⁰

What Groups of Families Might Be Served in a Worker Supplement Program?

Most states that are creating worker supplement programs provide a transitional benefit for families that leave the state’s basic TANF cash assistance program (or a solely state-funded cash program) and are working. They have done so for a couple of reasons. First, stabilizing and boosting the income as the families leave TANF cash assistance can support longer-lasting welfare exits. For example, the Utah worker supplement program was created in part as a response to

⁹ For additional information about design considerations for a solely state-funded program, see Liz Schott and Sharon Parrott, “Designing Solely State-funded Programs: Implementation Guide For One “Win-Win” Solution For Families And States,” Center on Budget and Policy Priorities, <http://www.cbpp.org/12-7-06tanf.pdf>.

¹⁰ See Notice of Proposed Rulemaking at 73 Federal Register 46230 (August 8, 2008).

disappointing research findings that a large share of families that leave the Utah TANF cash assistance program for work were returning to the program within three months of their exit. The state wanted to target assistance to families in that difficult transition period.¹¹ Second, former TANF recipients are already known to the state agency and the state often already has information (and verification) of their employment status. And, finally, targeting former recipients is less expensive than providing a benefit to a broader group of low-income working families.

A number of states are serving some families in cash assistance programs funded with neither TANF nor MOE dollars, including two-parent families, families with barriers to employment, and students in college.¹² A state serving families in a solely-state funded program will want to be sure that the worker supplement program serves families leaving the SSF for employment as well as families leaving the regular TANF program. For example, Vermont and Minnesota's new worker supplement programs will include families leaving the solely state-funded program as well as those leaving the TANF-funded program.¹³

However, states may want to consider targeting this benefit at a *broader* group of low-income working families without regard to their recent receipt of TANF. This could include families receiving food stamps or subsidized child care — families that also are known to the state human service agencies and whose income and employment status either is already known or easily obtained. Vermont law (not-yet-implemented) provides for a worker supplement benefit both to families that leave the state's basic cash assistance program and to employed families with children that are receiving food stamps.¹⁴ Massachusetts provides a supplemental assistance benefit to working families receiving food stamps and several other states are considering this approach as well. Reaching a broader group has advantages. It could allow a state to add in a larger group of working families to its work participation rate calculation than if it simply served former TANF recipients, providing a greater boost to the state's TANF work participation rate. Providing the benefit without regard to recent TANF receipt eliminates inequities that otherwise could result from treating families with identical current earnings differently. And, finally, a broader program could help additional families make ends meet, an important goal in itself.

A state that chooses to target families leaving the state's basic TANF assistance program should be sure to also include families that have participated in any state "front-end" programs — programs in place in some states that provide TANF- or MOE-funded benefits to families for a brief period before they begin to receive ongoing TANF cash assistance.¹⁵ A state would want to ensure that

¹¹ Norma Harris and Mary Beth Vogel-Ferguson, "Building a Foundation for Success: What Does It Take?" Social Research Institute, University of Utah, October 2005.

¹² For additional information about design considerations for a solely state-funded program, see Liz Schott and Sharon Parrott, "Designing Solely State-funded Programs: Implementation Guide For One "Win-Win" Solution For Families And States," Center on Budget and Policy Priorities, <http://www.cbpp.org/12-7-06tanf.pdf>.

¹³ For ease of language, references to families leaving TANF in this paper may also include those groups of families leaving a solely state-funded program. In some states, it is clear that the worker supplement program will include the families leaving a solely state-funded program. In other states, these design issues have not yet been addressed.

¹⁴ The Vermont law also provides worker supplement benefits to employed families not receiving food stamps in which the parent is under 21 and would receive food stamps but for residing with his or her parents.

¹⁵ A number of states have implemented up-front programs that provide several months of benefits to families before they enter ongoing TANF programs; states had designed these program to provide "non-assistance" benefits to some new recipients for a period before they were included in the work rate. Under a recent HHS Program Instruction on

families that participate in the up-front program and become quickly employed — one of the goals of the up-front program — do not lose access to this worker supplement benefit, particularly because caseworkers could use the worker supplement program to provide a further incentive to families to secure employment whenever possible. Moreover, by providing these families with the workers supplement benefit, the state can further increase its work participation rate and get credit for helping these families transition to employment. Both Minnesota and Vermont plan to extend their worker supplement program to families that participate in their front-end program and then find jobs and do not become ongoing TANF recipients. For the same reasons, a state should also consider including families that receive an up-front lump-sum payment, sometimes referred to as a lump sum diversion payment, and quickly become employed in the post-TANF worker supplement program. (Over half of the states provide some type of lump sum diversion benefit option to TANF applicants.). Washington State recently revised its worker supplement program to include lump sum diversion recipients.

Should an Income Test Be Imposed?

States need to consider whether to impose an upper income limit on families participating in the worker supplement program. Such an income limit can be imposed at the point of initial eligibility or at the time when the family is reviewed for ongoing eligibility. For example, New Mexico, Oregon and Nebraska impose an income eligibility limit. (See Appendix.) Arkansas imposes one income limit on new applicants — families must have incomes below the poverty line to enter the program — but then allows families to continue receiving assistance as long as their incomes remain below 150 percent of the poverty line. A number of other states do not impose any income limit.

On the one hand, imposing an income limit targets the benefits to those families most in need. On the other hand, the benefits in these states are already targeted to families likely to have low incomes — families leaving basic cash assistance programs or families receiving another means-tested benefit such as food stamps — and imposing an income limit may simply make the program more complicated to administer. Particularly when benefits are for a short period of time — for example, six months — adding an income test may not be worth the trade-off of added complexity. A state providing a benefit for a longer period — for example, 24 months — may want to ensure periodically that families have incomes below a certain threshold. (A state taking this approach could check family income at six-month intervals when it confirms continued employment and, often, review certain elements of food stamp eligibility.)

TANF Diversion Programs, (TANF ACF-PI-2008-05, issued May 22, 2008), some of these benefits may be considered "assistance" effective October 1, 2008. To the extent that states continue to operate "front-end" programs — and whether or not the benefits provided are considered "assistance" — the issue of whether families leaving the "front-end" program can receive a worker supplement benefit is an important issue for a state to consider.

Other Approaches to Using TANF or MOE Funds to Supplement Family Earnings

This report focuses on one particular approach to providing income support to working families: using TANF or MOE funds to provide monthly “assistance” payments to working families outside of a state’s basic TANF cash assistance program. There are other ways a state could provide supports to working families and some of these also can aid a state in meeting TANF work participation rates.

Increase earnings disregards within the TANF program. Nearly all states have increased their TANF earnings disregards from the very limited disregards that were in place in the former AFDC program. Nevertheless, families in many states become ineligible for TANF income assistance when their earnings are still well below the poverty line. By increasing their earned income disregards, states can provide low-income working families with greater assistance — and a more powerful work incentive. A higher disregard also will enable families that get jobs to remain eligible for TANF assistance (and thus “countable” in the state’s work rate) for a longer period of time. Since the passage of the DRA, a number of states have further increased TANF earnings disregards. For example, Michigan’s new earnings disregard policy, when fully implemented, will disregard two-thirds of earnings. New Jersey recently enacted a 75 percent disregard for six months for families working 20 hours per week (or fewer, if disability prevents a person from working 20 hours.) Alabama and North Carolina both decided to extend the period of time for which 100 percent of earnings are disregarded from three to six months. (Some states with particularly low benefits, disregard all earnings for a period of time since counting even a small amount of earnings will generally result in ineligibility.) Iowa, Nevada, Tennessee, and Vermont also have recently increased their earnings disregard.

Periodic bonus payments to employed TANF leavers. Some states provide lump-sum or periodic incentive or bonus payments to help families that have left TANF for work to remain employed. Under this bonus approach, when a family finds a job and leaves TANF, it receives a bonus that helps the family make ends meet and provides an incentive for the family to continue working. Since parents are most likely to lose their jobs in the first few months after leaving TANF, providing additional financial support during this crucial period may help prevent families from quickly returning to the TANF caseload. Generally, periodic nonrecurring bonus payments funded with TANF or MOE dollars will be considered “non-assistance,” even if more than one payment is received in a year. Thus, TANF time limits and child support requirements are not triggered, and families are not included in the calculation of a state’s TANF work rate.

Non-assistance work support payments. A state can also provide ongoing supports to employed families — for example, families that have left the TANF caseload — that, while funded with TANF or MOE dollars, are not considered “assistance.” Because transportation and other work supports for families that are employed are not considered assistance under the federal TANF rules, a state could provide a payment designed as a work support on a monthly basis and not trigger TANF time limit or child support provisions. Of course, neither would a state with such a program get credit in its work participation rate for serving these working families. New Jersey, Hawaii, Georgia and Kentucky each have some type of TANF-funded non-assistance worker support payment, although take-up rates in these programs generally have been low.

State Earned Income Tax Credit. Some 24 states provide a state EITC with 21 of these providing a refundable credit under which a payment is made to the family. Refundable state EITC expenditures are a permissible use of TANF or MOE funds and are considered “non-assistance.” In 2006, 10 states funded some portion of their refundable EITCs with TANF or MOE funds.

If a state does choose to set an income limit, it should be high enough to serve low-income working families who are working full-time at wages that, while low, are somewhat above minimum

wage. Arkansas found that its income limit of 100 percent of the federal poverty line was a major reason for denying or closing Work Pays benefits, and that it is denying a substantial share (nearly half) of all applications. (Because of this, Arkansas revised its law and raised the income limit for Work Pays *recipients* to 150 percent of the federal poverty line though families must still have income below the poverty line to qualify for the program initially).

To avoid this experience, a state choosing to set an income limit would be well-advised to set a somewhat higher limit such as twice the poverty line. A state may also want to set a higher income limit for those already enrolled in the program so that they do not lose benefits when they work additional hours or their earnings increase in a month. While a large share of former TANF recipients have incomes below the poverty line over the course of the year, these families' annual incomes are often affected by months of joblessness or under-employment. In the months when they are working 30 hours, many families have incomes in that month that are somewhat above the poverty line

What Amount of Work Will Be Required of Participants?

Most states set a required number of hours that an individual must be working to qualify for the worker supplement benefit. (See Appendix for more details.) New Mexico, Utah, Washington State and Virginia, for example, require 30 hours per week of employment. Some states, such as Massachusetts, require an amount of work sufficient to count as meeting the federal work participation requirements. Because one goal is to help boost the state's TANF work participation rate, states may want to target the benefit toward families that are working sufficient hours to count as participating in employment.¹⁶ At the same time, a state may not want to preclude families working fewer hours from receiving this benefit; these families are likely to have lower total earnings and be in great need of the supplemental income.

Since many families can meet the federal work participation rates with 20 hours a week of employment — those that are single-parent families with a child under age six — states that require 30 hours of employment as an eligibility criteria for a worker supplement are excluding families that could help them meet the work rate, that are engaged in substantial work activity, and that could benefit from additional income support.

Additional Eligibility Criteria

Beyond these basic issues, states may not want to add other eligibility requirements to their worker supplement programs. Adding additional eligibility factors could increase complexity of administration and lessen the take up of the benefit by working families. For example, New Mexico's legislation requires that a family have received TANF for at least three months — including at least one of the prior three months — in order to qualify. Arkansas requires three

¹⁶ Single-parent families generally must participate for 30 hours per week to count toward the work rate except that those with a child under age six count with 20 hours of participation. States that require 30 hours of work for all families will not pick up those families who could count towards the work participation rate with 20 hours of employment. To count toward meeting the two-parent rate, a family not receiving federally-funded child care must participate for 35 hours a week and a family receiving federally-funded child care must participate for 55 hours a week.

months of past TANF receipt and application for the supplement within six months of TANF closure. Such requirements mean that families that become employed quickly after TANF benefits are approved or families that received only a lump-sum diversion benefit — something that a state might otherwise want to promote — are ineligible for the worker supplement program. Such requirements also make it more complicated to determine eligibility for the program and muddles the “work pays” message for new TANF recipients.

What Benefits or Services Will a State Provide?

The hallmark of a worker supplement program is to provide cash or cash-like assistance that can help a family make ends meet. The central design issues here are the amount of the monthly benefit, the duration of the benefit and how the benefit is delivered. While the amount of funding that the state has decided to invest in the program will be the key factor in determining benefit amount and duration of benefit, the state should consider its policy goals in making these choices. In addition, a program of this type can also be a vehicle for providing services to assist a family to remain employed and to advance in the workforce, through increased hours or earnings or moving to a better job.

What Level of Benefits Will be Provided?

States should strongly consider setting a benefit at a level that actually helps a family meet basic needs, supplements earnings, and — for families leaving TANF — eases the transition from welfare to work. While a nominal benefit can be considered “assistance,” a program providing very low benefits may appear to be designed solely to boost participation rates without actually improving outcomes for families.

The states that have implemented worker supplement assistance programs run the gamut in the benefit amount, ranging from \$10 a month in Michigan to the full monthly TANF benefit (e.g. \$474 for a family of three) in Utah. Several states provide a substantial monthly benefit; for example, New Mexico and North Dakota provide \$200 per month, Oregon provides a monthly payment of \$150 and Arkansas provides one of \$204. (See Appendix for more details.)

All of the implemented programs and pending proposals would provide a standard benefit amount; when a family qualifies for the program, it receives a standard amount which is not reduced based on a family’s earnings or other income. Since the benefit supplements earnings, this approach makes sense and makes it easier for the agency to administer. It likely will be easier for a caseworker to explain — and easier for families to understand — a program in which families that work sufficient hours to qualify for the program receive a standard benefit. Most states provide the same flat benefit amount for all family sizes, while Utah and Nebraska relate the size of the benefit to the amount of the TANF grant which varies by family size (but, like others, these states do not vary the benefit amount based on income).

A state also might want to consider providing different benefit amounts for different months — either stepping down the benefit over time or boosting the benefit to provide an additional bonus when certain milestones are met.

- *Decreasing benefits over time:* Utah provides an amount equal to a full TANF grant for the first two months, and 50 percent of the grant amount for the third month. The new Maine program will provide \$100 for the first 12 months, followed by \$75 for another 12 months, followed by \$50 for a final 12 months. Similarly, the Vermont law provides a higher benefit (\$100 a month) for the first six-month period and a reduced benefit (\$50 a month) for the second six-month period.
- *Periodic additional bonus payments:* Arkansas provides additional bonuses when job retention targets are met. Clients receive a \$400 bonus after meeting the federal work participation requirements for three consecutive months and a \$600 bonus after an additional six consecutive months of meeting the work participation federal requirements. Arkansas also provides a Work Pays exit bonus of \$1,200 when income exceeds the federal poverty level. Washington State provides periodic additional bonus payments tied to actions by the employed individual — including participating in a Career Services assessment and an employment planning interview.

Unfortunately, there is not sufficient research evidence to know which of these approaches — increasing or decreasing the benefit over time — is better; both have a foundation in the experiences of low-income working families. By decreasing benefits over time, the program provides a transition from receipt of cash assistance to non-receipt and recognizes that many families face financial difficulties in the first couple of months of employment when they may need to purchase uniforms or other clothing, buy necessary equipment, pay for child care up-front, and begin to pay new transportation costs. States that provide bonuses are trying to promote certain outcomes — such as retaining employment or, under the Washington State approach, participating in advancement planning.

How Long Will Families Qualify for Assistance?

Most states are likely to provide the worker supplement for a limited duration, although a state could provide the supplement until the earnings exceed a certain income level without any durational limit. Research suggests that when income supplements are ended by a time limit, the impacts on family income are time-limited as well — that is, when income supplements end, families do not make up the difference with increased earnings to fill in for the loss of benefits and, thus, incomes fall.¹⁷ Moreover, by providing benefits for a longer period of time, the state will be able to count the family as participating in the work rate for more months.

One approach is to provide a worker supplement benefit to a broad set of employed low-income families — such as those receiving food stamps — and then continue those benefits for as long as the family qualifies for the assistance in the other program (in this example, food stamps). Both Massachusetts and Vermont take this approach. These programs are not of limited duration.

State worker supplement programs that are of limited duration range from 3 months (Utah) to 36 months (Maine) in duration. (See Appendix for more details.) While the duration of benefits will largely relate to how much the state has committed to spend, as with the monthly benefit amount, policy considerations should help shape these choices. Utah decided to provide a richer benefit for a shorter period of time to focus resources heavily on the period immediately following exit from

¹⁷Michalopoulos.

TANF. Arkansas, however, also provides a substantial benefit — it is the same amount of the TANF grant for a family of three — while continuing to provide the benefit for 24 months as long as the family remains employed and poor. New Mexico provides \$200 for up to 18 months. Maine's new program will provide a stepped down benefit over a 36-month period.

States also need to consider what is meant by the durational period. Does it represent the maximum number of months for which a family can receive a payment or does it represent the period of time in which benefits are available, even if a family does not receive a payment in every month? Under the Washington State approach, the worker supplement benefit is only available for a six-consecutive-month period after the family's basic TANF grant closes; it also requires that a family enroll within two months after leaving TANF. A family that does not enroll until the second month after TANF closure, would not receive six months of payments because by not applying immediately, the family is forced to forgo the first month of benefits. Arkansas, on the other hand, provides up to 24 months of Work Pays benefits (as long as the family is otherwise eligible) even if the family does not apply immediately after leaving TANF. (Arkansas requires that family apply for Work Pays within six months after leaving TANF, but a family that does not apply until the fifth month, for example, could still receive benefits 24 months of benefits.)

Setting a short fixed-window for this benefit will decrease take-up rates. Some families may not provide the state enough information about its earnings or hours worked for the state to immediately place the family in the worker supplement program. However, many of these families will provide that detailed information at the next food stamp recertification (or when the semiannual report is due). States can maximize participation in the program by encouraging families to provide the needed information when their case closes and, if that does not happen, determining eligibility when the family next provides information to the agency for food stamp (or Medicaid or child care) purposes.

In What Form Can Benefits Be Provided?

Two issues arise here: what is the nature of the benefit and, literally, how is it provided. In order to qualify as "assistance" under the federal TANF rules the benefit needs to be something that can meet a family's basic needs for items such as shelter, food or clothing. (The rules specify that child care or transportation help for families that are employed are *not* considered assistance.)

The benefit need not necessarily be in the form of a cash payment; it can be in the form of a voucher or other form of payment. States that already provide TANF cash assistance through an Electronic Benefit Transfer system might want to continue to provide a transitional benefit through EBT. Michigan, Utah, and Arkansas take this EBT approach, while Virginia issues a check. Washington State, which issues TANF cash assistance from the state human services agency through EBT, issues a check because the worker supplement benefits are provided through a different agency, the state's employment agency.

Cash assistance provided to families will generally count as unearned income in the Food Stamp Program and, thus, result in a reduction in food stamp benefits. (See additional discussion and exceptions at p. 20-21.) If states do not want the benefit to reduce families' food stamps, they should consider providing some type of benefit that would not count as income for food stamps, such as *food assistance*. Massachusetts, Maine, and Vermont take this approach. Under federal rules,

in-kind benefits such as food assistance are not considered income when determining federal food stamp benefits and, thus, if the benefit is provided as food assistance it would not result in a reduction in federally-funded food stamp benefits. Since working families typically receive far less in food stamp benefits than they spend on food in a month, the family can put the additional state-funded nutritional assistance to good use. A worker supplement food assistance benefit could be added to a family's EBT card and only be used for the types of food purchases that food stamps can buy.

Finally, in addition to providing income assistance, a worker supplement can serve as a vehicle to other services to aid the family in retaining continued employment and advancing in the workforce. Case management or other support services could also be provided to these families. Arkansas, for example, provides case management services during the 24-month Work Pays period and for up to 12 months after a family leaves Work Pays due to its income exceeding the eligibility limit. Washington provides worker supplement payments as part of employment retention and wage advancement services. Michigan considers these families categorically eligible for child care, providing them the same child care guarantees as those families on the regular TANF caseload.¹⁸

Will the State Use TANF or MOE to Finance the Program?

For the families in a worker supplement program to count toward the state's work participation rate, the families must be receiving "assistance" that is funded with either federal TANF funds or state funds that are counted toward a state's maintenance-of-effort requirement. Important consequences follow, however, from which funding source — TANF or MOE — a state uses and how those funds are structured. If a state wants to count families in the work participation rates but does not want federal time limit and child support requirements to apply to the families, the best design approach is to provide this benefit with MOE funds through a program that is separate from the state's TANF-funded program. A number of states follow this model including Virginia, Washington State, and Oregon; Maine and Missouri's new programs will also take this approach.

Federal and State Time Limits

The federal 60-month time limit applies to assistance (to a family that includes an adult) provided with federal TANF funds, except that a state can provide assistance beyond 60 months to up to 20 percent of the caseload. States also can set their own state time limits, and can decide when its state time limits do not apply to groups of families. A state can choose not to run its state time limit on families in the worker supplement program, even if it uses federal TANF funds to provide assistance. The federal time limit will run, however, on a family that receives TANF-funded worker supplement assistance. The federal 60-month time limit is not triggered by receipt of MOE-funded

¹⁸ In Michigan, families receiving TANF (FIP) or the worker supplement (Extended FIP) are categorically eligible for child care and receive a full subsidy. After a family leaves extended FIP, it then can qualify for a transitional child care period for **only** the first 6 consecutive biweekly pay periods following the last month of TANF or Extended FIP receipt. Because Michigan does not start the transitional period until the family leaves the Extended FIP program, it thus delays the point at which the family loses the guarantee of a full child care subsidy. The result is that worker supplement program provides a guaranteed and higher-value child care subsidy in addition to the \$10 monthly payments for a period of six months. See discussion on childcare interactions at p. 21-22.

assistance, whether it is within a wholly MOE-funded program or in a program that is funded with both TANF and MOE funds.

Most states do not count months in which families receive assistance through the worker supplement program against their *state* TANF time limit on receipt of assistance. Running time limits on working families receiving supplemental benefits can leave some families without months of eligibility later when they may need assistance because a parent has lost a job.

In some states, however, months in which a family receives assistance through the worker supplement program do count against the families' 60-month time limit on federally-funded benefits. (See Appendix for more details.) Arkansas uses federal TANF funds to finance their Work Pays program and, thus, the months in which families receive Work Pays benefits count against the federal 60-month time limit. Arkansas does not count such months against the state's 24-month time limit on TANF cash assistance. Michigan also uses federal TANF funds and, thus, the federal time limit applies, but the state does run its state 48-month time limit on families that are participating in work for the required amount of hours. New Mexico also uses TANF funds for some families — those that have not reached 30 months of receipt of TANF assistance — and for these families the federal time clock will run for months.

In a number of other states — for example, Oregon, Washington, Utah and Virginia — months in which a family receives assistance through the worker supplement programs do not count against the federal time limit because these states use state MOE funds (rather than federal TANF funds) to finance the benefit.

Even if state time limits do not run, using federal TANF funds — and thus running federal time limits — could leave families ineligible for any aid should they move to another state. Moreover, if a state provides worker supplements to families that have received 60 months of TANF-funded assistance, deciding to extend the time limit for these families, the state could use up some of its space to serve up to 20 percent of the caseload beyond 60 months. States can avoid imposing state or federal TANF time limits on these families by using MOE rather than TANF funds to provide benefits.

Child Support Collections

Under federal law, if a family receives assistance in a TANF-funded program, then the state must pay the federal government a share of child support collected on behalf of the family *even if the family receives assistance that is funded entirely with state MOE funds*. Typically, states send the federal government a share of the collected support and then the state keeps most or all of the remaining support to offset the cost of providing assistance to the family.¹⁹

¹⁹ This discussion addresses current monthly support payments; different rules apply to distribution and federal reimbursement of child support arrears. When the child support agency collects past-due child support for a former TANF family, the state must send a portion of those collections to the federal government (even if the family is also owed past-due support) *if* the child support was collected through the federal tax intercept mechanism. In October 2008, states will have a new option to adopt a “family-first” distribution rule for past-due support that is collected through the federal tax intercept mechanism. States electing this option, would only send the federal government a share of collected support (and retain the remaining portion) if the family was owed no past-due child support themselves. For more information about this new state option, see: “Child Support Provisions in the Deficit Reduction

If a state wants families in its worker supplement program to receive all of the child support collected on their behalf and does not want to send the federal government a share of collected support, then it should provide the worker supplement benefits through a program that receives *no TANF funds*, often referred to as an “MOE separate state program.” Under federal law, child support payments collected on behalf of families that are not receiving assistance in a TANF-funded program must be distributed to the family; the state may not retain these payments and does not owe the federal government a share of them.²⁰ *The structure of the funding matters here; for this result; the MOE funds should be in a program that is separate from the TANF-funded program.* Otherwise, MOE-funded worker supplements provided with MOE funds within a TANF-funded program — often referred to as “segregated” MOE funded assistance — would be treated the same as assistance funded with TANF for child support-related purposes; the state would owe the federal government a share of collections and could retain the collections in whole or in part.²¹

In a number of states — for example, Washington State, Oregon, and Virginia — the worker supplement program is structured as an MOE-funded separate state program and, thus, families receiving assistance through the program receive current support collected on their behalf by the child support agency. This ensures that the worker supplement program is providing an *additional* income source for families transitioning from welfare to work and is not being offset by child support retained by the state. As noted above, the state will not owe a share of child support collections for these families to the federal government.

States are free to count all, some, or none of the child support a family receives as income when determining eligibility and benefits for a worker supplement program. A state that has decided to provide a flat monthly benefit has already decided that it is not considering monthly income in setting the worker supplement benefit amount. A state can make more families eligible for the program — and add more working families to the state’s work participation rate — by disregarding child support (and other) income. Finally, disregarding the distributed child support payments also

Act,” by Vicki Turetsky, Center for Law and Social Policy, June 2006, http://www.clasp.org/publications/childsupport_budgetsum_updt_0606.pdf.

²⁰ A recent HHS instruction confirmed these requirements and limits. “Questions and Responses on Coordination between TANF and Child Support Enforcement Programs since enactment of the Deficit Reduction Act of 2005,” TANF-ACF-PI-2007-02/OCSE-AT-2007-02, May 18, 2007. The instruction noted that, when directed by the parent owed support, a state could disburse the child support to the non-TANF program (such as a separate state MOE-funded program). This disbursement procedure is not relevant in the case of a worker supplement program where the state’s goal in using an MOE-funded separate state program would be to distribute the child support to the families rather than devise a way for the state to keep the payments.

²¹ Beginning October 2008, states have a new option to pass-through and disregard child support collected on behalf of families receiving assistance under a TANF-funded program. Under this new federal option, the state would not have to send the federal government a share of the child support collected for such families as long as the amount collected in a month was less than \$100 per child or \$200 per family. If a state adopts this option, then it can pass-through and disregard this amount of child support in a TANF-funded worker supplement program. There would still be significant advantages to funding such a program with MOE-only funds, however. First, it removes an important source of complexity in the program — states would not have to track child support collections and administer the pass-through. Second, it ensures that all families that receive more child support in a particular month can still participate in the worker supplement program and the states can get credit in the work participation rate for the families with child support payments exceeding this disregard.

would provide an incentive to non-custodial parents to work and pay child support, because that support would benefit their children.²²

Administering the Worker Supplement Benefit: Enrollment and Ongoing Eligibility

The best way to reach the target group of eligible families is to have an extremely easy enrollment process. While states need certain information to identify families eligible for the program, states will need a simple enrollment process if they want a high take-up rate among eligible families.

Under the federal TANF rules implementing the Deficit Reduction Act changes, states must verify hours of participation in work activities, but for those recipients who are working, the state can project hours of employment for up to six months based on initially verified information.²³ Thus, a state will want to confirm hours of employment at enrollment and, if the benefit is provided for more than six months, again at that time. Beyond that, states need not set up elaborate reporting requirements and should minimize access barriers to maximize take-up of the work supplement.

Enrollment of Families

If a state is targeting employed families leaving ongoing cash TANF (or a solely state-funded program or front-end program), it can automatically enroll families in the transitional cash benefit without requiring any formal application. Utah and Virginia automatically enroll families in the worker supplement program when the TANF benefits are closed and the state has verified information about employment hours. Michigan automatically enrolls the family for the transitional cash benefit when the family's income includes earned income and exceeds the eligibility limit for ongoing TANF cash assistance. For example, when a TANF recipient reports and verifies earnings and hours of employment to the agency that results in the family exceeding the TANF income limits, the worker will have all of the information needed to directly transfer the family to the post-employment program. In contrast, Arkansas requires that families apply for the Work Pays program; it provides information about the program both when a client enters the TANF program and when the TANF case closes due to employment. Washington State requires the family to separately apply and to do so within two months after TANF closes.

To enroll families automatically, the agency will likely need to know information about the families' income (if it imposes an income limit in its program) and hours of work to identify whether the family meets the eligibility criteria the state has established. To count the family as employed for purposes of the state's work participation rate, the state will also need verification of hours of employment.

Because some families that find employment simply request that their TANF assistance case be closed, it is important for states to develop mechanisms for reaching out to families that leave

²² For more information about the importance of child support to families see, "The Child Support Program: An Investment That Works," by Vicki Turetsky, Center for Law and Social Policy, July 2005, http://www.clasp.org/publications/cs_funding_072605.pdf.

²³ 45 C.F.R. § 261.60(c).

TANF but for whom information about employment is unknown.²⁴ This could include encouraging recipients to report employment status, even if they are asking for their case to be closed; educating welfare-to-work program providers about the worker supplement program so that they can encourage families to report their employment status rather than just requesting that their case be closed; and sending easy-to-read flyers to families that leave TANF but for whom insufficient information is available to determine whether they are eligible for the worker supplement program.

States also can review whether a former TANF recipient may be eligible for the worker supplement program when the family's eligibility for other benefits, such as food stamps or child care assistance, is renewed. While the family's TANF case may have been closed a couple of months before, the state can allow them to enroll in the program based on information provided at the food stamp or child care eligibility review. Since most states collect updated information on earnings for purposes of the food stamp program every six months, many families whose TANF benefits have closed will be interacting with the agency and updating eligibility information within a few months of closing their TANF case.

While Utah generally automatically enrolls families at TANF closure when they have income and hours information, the state allows families that verify hours and income in the month following TANF closure to enroll. This is useful, particularly if coupled with other outreach methods such as sending a flyer about the program to the family or following up with a phone call.

Ongoing Eligibility Requirements

In considering any ongoing eligibility requirements, states should limit the administrative burdens on families and on the agency. Since hours of employment can be projected for six months once initially verified, a worker supplement program that provides six months or less of benefits need not require any additional contact or information from the family to provide assistance to the family or to count the hours of employment in the work participation rate.

Within the six-month projection period, any time that a state receives information that a participant's hours have changed, it must re-verify actual hours.²⁵ If a state's goal is to ease access and reduce administrative burdens, it should not require more frequent reporting of hours or other circumstances within the six-month period. For example, Oregon requires worker supplement recipients to report hours only every six months unless the agency specifically requests additional information. However, it is important that families are informed that, if they lose their job and need further assistance, they should contact the TANF agency. (In addition, as discussed further below, to the extent that the state gets updated information during this period due to reporting requirements in another program, it can use the new information to project a new period of worker supplement eligibility for up to six months.)

Several states are asking for more information or more client contacts than is required to track hours of participation as required for TANF work participation rate purposes. Some states require

²⁴ The challenge here is similar to the challenge states have in ensuring that families report information about their earnings so that they get benefit of the earned income disregard, rather than asking for their case to be closed when they find a job.

²⁵ 45 C.F.R. § 261.61.

monthly reporting of hours (for example, North Dakota and Arkansas) or require recipients to report if hours fall below a set weekly amount (for example, Washington and Virginia.) There are trade-offs here — more frequent contact may further a state’s case management goals, but may mean that some working families unable or unwilling to comply with paperwork or meeting requirements may lose access to assistance (and the state may have fewer working families that it can count toward its work participation rate).

If a state provides worker supplement benefits for longer than six-months, it will need to re-verify hours of employment at least every six months. These states should consider how to best align any reporting or ongoing eligibility reviews for the worker supplement program with reporting and review requirements of other benefit programs a client may be receiving. The six-month projection of earnings requirement in the federal TANF rules may dovetail nicely with the simplified (also known as semiannual) reporting option that most states use in their Food Stamp Program, although initial synchronization may be required. To best synchronize, a state can use the information it receives in the Food Stamp Program to project hours of employment forward up to six months for the worker supplement program, even if a six-month worker supplement review is not yet due. In many cases, pay-stubs may provide both the information needed for continuing food stamps and verification of hours needed for the state to project hours forward for up to another six months.

For example, Arkansas' Work Pays program (which reviews eligibility for worker supplement benefits every six months) first looks to food stamp recertification or semiannual reports or Medicaid renewals to determine if it has enough (notably, hours of employment) information to renew eligibility for Work Pays. If it has the needed information, it renews benefits based on the information already provided. If the family does not receive food stamps (or is not a food stamp semi-annual reporter) and does not receive Medicaid, the state then uses its renewal form for the worker supplement benefit. In this way, Arkansas avoids an additional form and process when it does not need one. (Although, as noted above, Arkansas also requires monthly reporting of employment information, somewhat undercutting the simplification it has achieved on renewals.)

Interaction with Other Benefits – Food Stamps, Medicaid, and Child Care Subsidies

Most low-income working families that will be served in a worker supplement program will qualify for food stamps, Medicaid or SCHIP and child care subsidies. These programs provide important and substantial supports to low-income working families. The income cut-off levels for these programs are much higher than TANF cut-offs and serve families above the federal poverty line. (In a state that decides not to set an income limit for its limited-duration worker supplement program, a few families may have income above the eligibility levels for some of the other benefit programs.)

Several issues may arise with respect to the interaction of worker supplement benefits and the family’s eligibility for and amount of benefits:

- What effect, if any, does the status of the family as a recipient of a TANF or MOE-funded assistance payment (worker supplement) have on eligibility for other programs?

- Is the worker supplement benefit considered income in determining eligibility and amount of benefits (or size of co-payment amounts) for food stamps, Medicaid and child care subsidies?
- What is the relation between receipt of a worker supplement benefit for families leaving TANF and other transitional benefits that a family may receive?

Because different considerations apply for each different benefit program, these issues are discussed below for each program separately.

Food Stamps

Most families receiving a worker supplement are likely to qualify for food stamps. In general, families with incomes below 130 percent of the federal poverty line qualify for food stamps. Some families in a worker supplement program could have incomes modestly above that level and still qualify for food stamp benefits because, as recipients of a TANF or MOE-funded benefit, they are “categorically eligible” for the Food Stamp Program. Under federal food stamp rules, states can extend categorical eligibility to households receiving a benefit that is funded with TANF or MOE funds. When a household is “categorically eligible” for the program, the gross income limit — the requirement that the household’s income be under 130 percent of the poverty line — and the asset limits do not apply. However, to qualify for a benefit, the family’s income — net of deductions — must still be low enough to qualify for a positive food stamp benefit.²⁶

If the worker supplement benefit is provided as cash either by a check or on an EBT card in the form of cash and not as nutrition assistance, the amount of the benefit generally will count as unearned income in calculating food stamp eligibility and benefit amount. Under food stamp law, all income counts in the food stamp calculation unless it is specifically excluded (although see discussion below for impact of Transitional Benefit Alternative on this issue). A cash worker supplement benefit, therefore, will likely reduce food stamps somewhat but the family will still come out with an increase in household income

If the worker supplement is provided as a benefit that is not income for food stamps — such as food assistance that is subject to all the limitations on use that apply to food stamps — the benefit can be excluded as income for food stamp purposes. Since working families typically receive far less in food stamp benefits than they spend on food in a month, the family can put the additional state-funded nutritional assistance to good use by increasing its spending on food or using less of its cash income for food allowing it to use those freed up funds to meet other household expenses. Massachusetts, Maine and Vermont take this approach.

Families receiving a worker supplement may also qualify for transitional food stamps at same time, on the same basis as other TANF leavers. Under the food stamp Transitional Benefit Alternative option — which at least 20 states have taken — food stamp benefits can continue for five months after families leave TANF cash assistance in an amount equal to the food stamp

²⁶ 7 C.F.R. 273.2(j). For further discussion about this provision, see Stacy Dean, Colleen Pawling and Dorothy Rosenbaum, “Implementing New Changes to the Food Stamp Program: A Provision by Provision Analysis of the 2008 Farm Bill,” Center on Budget and Policy Priorities, pp. 61-8, at <http://www.cbpp.org/7-1-08fa.pdf>.

amount before TANF closure adjusted for the loss of TANF benefits.²⁷ There are two key points to note here relevant to program design

- *Families leaving TANF that receive an MOE-funded worker supplement can receive transitional food stamps at the same time.* USDA has confirmed that since TBA food stamps can be triggered when a family stops receiving TANF-funded assistance, a state can continue to provide five months of transitional food stamps following TANF closure even if it also provides an MOE-funded worker supplement at the same time. This is important because states with TBA generally have automated the TBA trigger based on TANF closure and might not want to re-program their automated systems to delay the TBA period for those families that go to a worker supplement program. A state that wishes to provide TBA food stamps concurrently with worker supplements should thus use MOE, not TANF, to fund its worker supplement program. If TANF funds are used, the TBA period would not run until after the family left the TANF-funded worker supplement program.
- *The worker supplement benefit — even if provided as cash — will not count as income for food stamps during the five-month TBA period.* TBA is designed so that benefits are frozen for a five-month period based on the amount the family received before leaving TANF (adjusted for the loss of TANF benefits.) Thus, new income such as increased or new earnings and any worker supplement payment would not be counted as income during the five-month TBA period. This is a key exception to the general rule that worker supplement provided as cash count as income and result in a food stamp benefit decrease.

Virginia and Washington State, which have both Transitional Benefit Alternative food stamps and a worker supplement program, take this approach. Both states use MOE funds in its worker supplement program for employed TANF leavers and provide TBA for the first five months after TANF is closed. Under this approach, Virginia and Washington State do not decrease a family's food stamps due to the worker supplement for the five-month TBA period. After the TBA period, the food stamps would be adjusted and the worker supplement income would be considered as income.

Medicaid/SCHIP

Most of the families in the worker supplement program are likely to qualify for family Medicaid coverage or Transitional Medical Assistance. In 1996, the Personal Responsibility and Work Opportunity Reconciliation Act, which established TANF, de-linked eligibility for Medicaid from receipt of TANF cash assistance (under AFDC, eligibility for family Medicaid had been largely linked to receipt of AFDC). Now, families are eligible for Medicaid coverage under the low-income families' category — sometimes referred to as “Section 1931 coverage” in reference to the section of the Social Security Act that creates this eligibility category — based upon their income without regard to their status as TANF recipients. Under de-linking, families qualify for a period of up to 12 months of Transitional Medical Assistance when they exceed the Section 1931 eligibility limits due to earnings not necessarily when they leave TANF cash assistance.

²⁷ For more information about the food stamp Transitional Benefit Alternative, see Dorothy Rosenbaum, “Transitional Food Stamps: Background and Implementation Issues,” Center on Budget and Policy Priorities, November 10, 2003.

Many states have set their family Medicaid income cut-off levels at the same level they use for their regular TANF program. In these states, a family that leaves TANF due to earnings might receive a worker supplement program at the same time that the family is receiving TMA. In a state that uses a *higher* income eligibility cut-off for family Medicaid than for TANF, families that leave TANF and receive a worker supplement benefit might still qualify for ongoing family Medicaid and not yet have started the 12-month TMA period. A low-income family that does not qualify for family Medicaid or TMA is likely to qualify for Medicaid or SCHIP for the children.

A state can choose whether to count or disregard the worker supplement payment as income in determining eligibility for its family or children's Medicaid categories and its SCHIP programs. The additional monthly income, if counted, might affect eligibility for family or children's Medicaid benefits, but is less likely to have an impact on ongoing TMA or SCHIP as the income cut-offs for those programs are higher.²⁸ To maximize access to these programs and ensure that no families or children lose access to health insurance due to receiving the worker supplement, a state can disregard the worker supplement benefits in Medicaid and SCHIP. On the other hand, a state might want to treat the worker supplement income similarly across multiple programs and count it as income if it will be counted for food stamp purposes, particularly if the eligibility limits in Medicaid and SCHIP are high enough that eligibility for these programs will be unaffected by worker supplement benefits.

Child Care Subsidies

Whether a family's status as a worker supplement recipient affects the family's child care assistance eligibility depends on how a state has structured its child care subsidy program and what choices it makes in designing its worker supplement program. Some states provide child care subsidies on the same basis (and without waiting lists) to all low-income working families. For these states, a family's status as a current or recent TANF recipient, or worker supplement recipient, has no bearing on its child care eligibility; only income and child care needs affect eligibility. In other states, however, child care subsidies are not guaranteed to low-income working families that are not part of the regular TANF program and some families may face waiting lists or closed enrollment. In some states, families that have recently left TANF qualify for some type of transitional child care assistance without going to the end of a waiting list.

States that provide favored child care subsidy status to current or recent TANF recipients should consider extending that status to worker supplement program recipients. Michigan considers recipients of its Extended FIP supplement categorically eligible for child care assistance on the same basis as TANF recipients; after the work supplement ends, the family then begins a period of transitional child care. The Extended FIP recipient status thus delays the start — and the end — of the transitional child care period. Utah provides a six-month transitional child care period after a family leaves regular TANF cash assistance during which a family has no co-pay and child care is guaranteed. Utah has designed its Transitional Cash Assistance worker supplement to run

²⁸ Families can qualify for children's Medicaid or SCHIP with incomes up to twice the poverty level in all states. In many states, children may become ineligible for children's Medicaid, and thus qualify for SCHIP instead, at income levels of 100 or 133 percent of the federal poverty level. The SCHIP program might have cost-sharing obligations that do not apply to children's Medicaid. At six months of TMA, a family can continue to receive TMA a second six-month if family income is below 185 percent of the federal poverty line.

concurrently with the transitional child care period — both transitional cash and child care start when a family leaves the regular TANF cash assistance caseload.

As with Medicaid and SCHIP, a state can decide whether to count or disregard the worker supplement payment as income in determining eligibility for its subsidized child care program programs and its copayment levels. Utah excludes the worker supplement amount as income for child care assistance. The Oregon law specifies that the worker supplement benefit is excluded as income in its child care subsidy program.

Conclusion

A worker supplement program provides an opportunity to further state welfare reform goals and boost the work participation rates that states can achieve. In recent years, a substantial number of states have adopted such programs, boosting their work rates and helping low-income working families make ends meet.

**APPENDIX : OVERVIEW OF POLICY DESIGN CHOICES FOR STATES
PROVIDING "ASSISTANCE" IN A WORKER SUPPLEMENT PROGRAM**
(States in italics have authorized but not yet implemented the program)

State and Program Name	Date Started	Who Qualifies	Amount of Work Hours Required	Monthly Benefit	Duration	Funding Source	Time Limits Run?	Child Support Treatment
Arkansas: Work Pays	7/06	Employed families leaving TANF; income under 100% FPL to enter (and under 150% FPL to remain eligible)	24 hours per week	\$204	24 months	TANF	State: No Federal: Yes	Retained by the state*
<i>Iowa</i>	<i>No date yet</i>	<i>Employed families leaving TANF</i>	<i>***</i>	<i>\$100 a month</i>	<i>3 months</i>	<i>***</i>	<i>***</i>	<i>***</i>
Maine	9/08	Families leaving TANF for work	***	\$100/mo. for 1 st 12 mos.; \$75/mo. for next 12 mos.; \$50/mo. for last 12 months; benefits are food assistance	Up to 36 months	MOE-SSP	No	Distributed to family
Massachusetts	10/07	Working families receiving food stamps	Sufficient hours to count as meeting TANF work participation rate	\$7 per month in food assistance	No limit	MOE-SSP	No	Distributed to family
Michigan: Extended Family Independence Program (FIP)	2/07	Employed families leaving TANF due to income	No minimum hourly requirement	\$10	6 months	TANF	State: No Federal: Yes	Retained by the state except that \$50 passed through to family*

Minnesota	2/09	Families leaving TANF or the front-end Diversionary Work Program with a job	87 or 130 hours a month (depending upon age of children)	\$75 a month	24 months	***	***	***
Missouri	10/08	Families leaving TANF with employment	20 or 30 hours per week (whichever is required to meet TANF work rate)	\$50 a month	6 months	MOE-SSP	No	Distributed to family
Nebraska	10/07	Families leaving TANF with income under 185% FPL and working	No minimum hourly requirement	20% of TANF benefit amount (e.g., \$73 for a family of 3)	5 months	TANF and MOE	Federal: Yes	Retained by the state*
New Mexico	7/08	Recent TANF leavers with income under 150% FPL	30 hours per week	\$200	18 months	TANF & MOE**	Federal: Yes for some families)**	Retained by the state except that \$50 passed through to the family*
North Dakota	9/07	Families that lose TANF due to earned income	Remain ineligible for TANF due to earnings	\$200	6 months (consecutively)	TANF	Federal: Yes	Retained by the state*
Oregon	10/07	Employed persons leaving TANF or pre-TANF under 250% FPL	Sufficient hours to meet federal work rates (can supplement hours with other activities)	\$150	12 months	MOE	No	Distributed to family

<i>Rhode Island</i>	<i>No date yet</i>	<i>Employed TANF leavers</i>	<i>30 hours (35 for 2-parent families)</i>	<i>Not set in law but expected to be \$100 per month</i>	<i>12 months</i>	<i>***</i>	<i>***</i>	<i>***</i>
Utah: Transitional Cash Assistance	2/07	Employed families leaving TANF due to income	30 hours per week (60 for 2-parent families)	\$474 for 2 mos; \$237 for 3 rd mo. (e.g., \$73 for a family of 3)	3 months	MOE	No	Retained by the state*
<i>Vermont</i>	<i>10/08, TANF leavers 10/09, other families</i>	Employed families leaving TANF and employed families with children receiving food stamps	<i>***</i>	<i>Food assistance on EBT card of \$100 per month for 6 months; \$50 per month for months 7-12</i>	<i>12 months</i>	<i>***</i>	<i>***</i>	<i>***</i>
Virginia: Virginia Transitional Payment	10/06	Employed families leaving TANF	30 hours per week	\$50	12 months	MOE	No	Distributed to family
Washington	7/07	Employed families who apply within two months after leaving TANF	30 hours per week	\$50 per month plus up to \$350 in bonuses	6 months	MOE	No	Distributed to family

* In these states, when current child support amount retained by state exceeds the amount of the transitional assistance benefit, the family no longer qualifies for the transitional benefit. The case is closed and the child support is distributed to the family. New Mexico will increase the pass-through and disregard of child support to \$100 for one child (\$200 for two or more) effective January 1, 2009.

**New Mexico provides TANF-funded worker supplement benefits to those who have received less than 30 months of TANF; for these families the federal TANF time limits run. The state may revisit the funding source to fund all as MOE in a separate state program which would change the time limit and child support consequences as well.

*** These entries are blank because CBPP was not able to obtain this information.