
EXECUTIVE SUMMARY

Background

In the coming months, states will face key choices as they decide the next direction for their Temporary Assistance for Needy Families (TANF) programs. After a lengthy and contentious reauthorization process, Congress enacted changes to TANF in the Deficit Reduction Act of 2005 (DRA) that substantially increases the proportion of assistance recipients who must participate in work activities for a specified number of hours each week. The new requirements will be challenging for most states to meet and likely will require increased investments in welfare-to-work programs and work supports.

Under the DRA, states must have 50 percent of all adults receiving TANF assistance — and 90 percent of two-parent households receiving assistance — in a set of work activities defined in the law. The work requirements are lower for states that reduce their TANF caseloads below 2005 levels, but few states are likely to accomplish this unless they choose to restrict poor families' access to assistance, given that caseloads already are at historic lows. TANF now assists fewer than half of the families with children who qualify.

Thus, the DRA gives states a stark choice: increase work participation rates in ways that improve families' employment outcomes, or focus solely on meeting the work rates even if it hurts families. States choosing the former option will need to explore strategies that improve the quality of their welfare-to-work programs, increase engagement in those programs, and extend supports to low-income working families. States also should consider whether some families would be better served in state programs outside the TANF structure — that is, in programs that receive neither federal TANF nor state maintenance-of-effort (MOE) funds. Implementing many of these strategies likely will require additional resources and creative problem-solving. States choosing the latter option need only sanction families with the greatest barriers to employment or otherwise make their TANF and MOE programs less accessible.

Research and states' experience over the last decade have exposed the strengths and weaknesses of current TANF programs, and the changes needed to improve families' outcomes. Research has shown that:

- **Over the past decade, many TANF recipients found employment and subsequently left TANF assistance programs.** Indeed, employment rates of single mothers increased significantly during the mid- and late 1990s. (However, employment rates for this group fell during the recession of the early 2000s and the prolonged period of labor market weakness that followed.)
- **Most parents who left TANF for work had low earnings and were unable to increase their wages or earnings significantly over time.** This fact points to the need for new ways to help parents find better jobs and advancement opportunities, as well as the need for new strategies to provide supports to low-income working families.
- **Many families that have been unable to secure stable employment face serious barriers, ranging from mental and physical health problems and low cognitive functioning to domestic violence, substance abuse, and unstable housing.** If these families are to engage in welfare-to-work activities consistently and ultimately move toward employment, more creative and intensive approaches tailored to meet their challenges will be needed.

This guidebook provides information to state policymakers, human service agency staff, policy analysts, and others about strategies that can help states as they consider their policy options for this next phase of welfare reform. The best policy choices in any particular state will depend on a number of factors, including the state's goals, the labor market, the characteristics of poor families in the state, the fiscal situation both generally and within the state's TANF-related programs, and the service providers in the state. Thus, the guidebook includes a broad range of strategies for states to consider.

Its five chapters are summarized briefly below:

CHAPTER I: Changes to TANF Requirements Under the Deficit Reduction Act

As noted above, the DRA increases the work participation rates most states will have to meet. This chapter describes the new work requirement structure under the DRA in more detail, including how the work participation rates are calculated, what activities count toward the participation rates, the hourly participation requirements, how the revised caseload reduction credit is calculated, the penalties states face if they fail to meet the participation rates, and the new regulations the Department of Health and Human Services (HHS) is authorized to issue related to TANF work participation requirements. The chapter also reviews the rules that detail when time limit, child support, and immigrant-eligibility requirements apply to assistance and other benefits provided in TANF programs and programs funded with state maintenance-of-effort (MOE) funds.

CHAPTER II: Improving Welfare-to-Work Programs and Increasing Engagement

This chapter reviews the relevant research on various welfare-to-work activities and engagement strategies and discusses program design options. It also outlines how HHS's forthcoming TANF regulations could affect states' policy design choices.

To increase work participation rates significantly, states will have to engage more recipients in welfare-to-work activities. For this increased engagement to lead to improved employment outcomes, however, the activities must be tailored to meet individual recipients' interests, skills, and barriers and respond to employers' workforce requirements. Thus, states must consider two related sets of policy and programmatic changes: changes that improve welfare-to-work activities, and changes that improve participation in those activities.

- **Research has shown that the most successful welfare-to-work programs adopt a “mixed strategy” rather than a narrow “work-first” approach.** A mixed strategy focuses on work but also offers opportunities for skill-building and recognizes that some recipients need to address barriers to employment before they can succeed in the labor market.

As states consider how to expand their welfare-to-work programs, they also should consider expanding components that have been shown to help families prepare for and secure good jobs, not just the first job offered. Thus, states will want to ensure that job search and job readiness programs connect recipients to the best available jobs that match their skills, pay adequate wages, and offer opportunities for advancement. States should also consider increasing the use of education and training programs that help recipients attain needed skills and credentials for jobs available in the local labor market and implementing or expanding transitional jobs programs that help those with barriers to employment secure meaningful work experience in a wage-paying job and skills training that can lead to unsubsidized employment.

- **States need to improve their screening and assessment procedures and give people with barriers the extra help they need.** Serious barriers to employment often go undetected by TANF and welfare-to-work caseworkers. Families facing these problems often fail to participate consistently in program activities or fail to make progress toward employment; many ultimately face program sanctions. States need to do more to uncover these problems and help families address them, such as by: conducting up-front screenings, using poor program participation as a clue that further assessments may be warranted, drawing on the expertise of agencies with experience in assessing disabilities, providing intensive case management to recipients who are struggling, and permitting caseworkers to devise flexible employment plans tailored to families' unique circumstances (even if the assigned activities are not countable toward the work requirements).

CHAPTER III: Income Supplements for Working Families

Since the early 1990s, many states have adopted policies in their TANF programs that provide more help to low-income working families. Most notably, nearly all states have changed their benefit rules so that families' benefits are reduced more slowly as their earnings rise. Despite these changes, families still typically must have earnings well below the poverty line to qualify for assistance through TANF and MOE-funded programs.

Research has shown that providing income supplements to low-income working families increases employment rates and earnings and that the combination of increased earnings and assistance reduces poverty. Expanding income supplements for working families also can help states meet the higher work participation rates under the DRA, since low-income working families that receive TANF or MOE-funded assistance count toward a state's work rates. That makes the policy a "win-win" for families and states. Moreover, since income supplements have been shown to increase employment rates among TANF recipients, expanding the availability and size of these supplements would improve a state's work rate further.

States can provide income supplements in a number of ways:

- **Expanding assistance in TANF programs for working families.** States can change the benefit rules in their basic TANF program so that working recipients remain eligible for assistance until their earnings reach higher levels.
- **Assisting low-income working families in a stand-alone program using TANF or MOE funds.** Such a program, separate from the state's TANF cash assistance program, can be tailored to the needs of working families. For example, it can feature simpler rules and fewer paperwork requirements so it is more accessible to families juggling work and family responsibilities.
- **Provide up-front lump-sum benefits to families in which a parent is likely to find employment quickly.** Such policies can help families weather a temporary period of joblessness and help some families avoid ongoing aid entirely.
- **Provide bonuses to parents who leave TANF for work and remain employed.**

Also, to complement these strategies for working families, states can adopt a set of new child support options that direct more child support collections to the children on whose behalf the child support was paid.

This chapter discusses these policy options and the program design issues associated with each.

CHAPTER IV: Making TANF Work for Individuals with Disabilities

This chapter discusses the laws related to the treatment of individuals with disabilities within TANF-related programs and ways to improve the effectiveness of employment-related services for families that include individuals with disabilities.

Research consistently shows that a significant share of TANF recipients has disabilities. If states are to reach their welfare-to-work goals, they will need to do a better job of serving these individuals.

Under the Americans with Disabilities Act and Section 504 of the Rehabilitation Services Act, state TANF programs must be appropriate for individuals with disabilities and must give them the same level of help other individuals receive. States can provide more effective services for individuals with disabilities while increasing their work participation rates by, among other things:

- **Improving screening and assessments of persons with disabilities.**
- **Developing a set of work activities tailored to the needs of individuals with certain types of disabilities.** For some individuals, such as those with untreated (or unsuccessfully treated) mental health problems, substance abuse problems, problems related to domestic violence, or unstable housing, tailored activities that help recipients address these issues may be necessary before they can participate in standard work activities. Vocational rehabilitation training and supportive work placements may be needed for some recipients, such as those with developmental disabilities.
- **Partnering with state and county agencies that specialize in helping individuals with disabilities.** While developing effective employment programs for individuals with disabilities has not been a primary focus of many state TANF programs, other government agencies and non-profits have been working on this issue for many years. These organizations can provide employment services for TANF recipients with disabilities or advise TANF agencies about how best to do so.
- **Serving some individuals with disabilities outside TANF if the services they need do not count toward the federal work rates.**

CHAPTER V: Examining TANF Spending Priorities

This chapter provides an overview of how TANF and MOE funds are used nationally and discusses issues states need to consider as they plan for the fiscal implications of the DRA.

Strengthening welfare-to-work programs and extending supports to low-income working families will require additional resources. Since most states no longer have significant unspent TANF funds from prior years, they will need to reexamine both their level of TANF and MOE spending and their current spending priorities. More precisely, they will need to:

- Consider how they will meet the higher level of state spending that is required if they fail to meet the work participation rates, and how penalties may affect their TANF budget.
- Seek to identify state funds that can be used to provide assistance to some families outside the TANF structure.

- Look for ways to provide the increased child care funding that will be needed to meet the new work requirements *without* reducing child care funding for low-income working families, which would contradict states' welfare reform goals.
- Examine the potential impact of the DRA's cuts in funding for child support enforcement on state TANF programs.