

IMPLEMENTING THE TANF CHANGES IN THE DEFICIT REDUCTION ACT:

“WIN-WIN” SOLUTIONS FOR FAMILIES AND STATES

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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.

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

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 established the TANF block grant and a set of rules related to receipt of TANF-related benefits, including work participation requirements, time limits, child support-related requirements, and immigrant-eligibility rules.

The 1996 law and subsequent federal regulations also established rules about the types of benefits and services that triggered key TANF-related requirements. For example, certain requirements applied if the benefit received by a family was considered “assistance” — which typically meant the benefit was designed to meet ongoing basic needs or provide supports (such as child care and transportation) to families in which the parents were not employed. Similarly, certain requirements did or did not apply depending upon whether the benefit was funded with federal TANF funds or state “maintenance-of-effort” (MOE) funds and how the funding was structured. As states developed their TANF programs, they had to weigh when to use federal funds versus state funds as well as when to structure benefits as “assistance” or “non-assistance.”

The Deficit Reduction Act of 2005 (DRA) significantly changed the structure of federal TANF work requirements. How these changes affect states will depend in part on when states choose to structure benefits as “assistance.” States’ choices about how and when to use MOE funds also may change in light of the new rules. This chapter reviews the changes imposed by the DRA and examines when various TANF-related rules apply to benefits provided through TANF- and MOE-funded programs.

TANF Work Participation Requirements

Under the 1996 law, a specified proportion of the families in each state who were receiving assistance in a TANF-funded program had to participate in a set of federally defined work activities for a specified minimum number of hours each month. Each state had two such work participation requirements: one for all families with an adult receiving assistance (the so-called “all-families” rate) and another rate just for two-parent families receiving assistance. A state that failed to meet one or both rates could be penalized.

Starting in 2002, the work participation requirement for all families was 50 percent, and the requirement for two-parent families was 90 percent. However, these rates were adjusted downward by a “caseload reduction credit”: each state’s rate was reduced one percentage point for each percentage-point decline in the state’s TANF caseload since 1995 that occurred for reasons other than eligibility changes.

The DRA makes four key changes to the participation rate structure:

- It modifies the caseload reduction credit so that as of October 1, 2006, adjustments to participation rates are based on caseload declines after 2005 rather than after 1995.¹
- It specifies that as of October 1, 2006, a state’s participation rate calculation will be based on the combined number of families receiving assistance in TANF and state-funded programs that count toward the state’s MOE requirement. (Programs funded solely with state MOE dollars did not count toward work rates under the 1996 law.²)
- It directs HHS to adopt regulations no later than June 30, 2006, specifying uniform methods for reporting hours of work, the type of documentation needed to verify reported hours of work, whether an activity can be treated as one of the federally listed work activities for purposes of participation rates, and the circumstances under which a parent who resides with a child receiving assistance should be included in the work participation rates.³
- It establishes a new penalty of up to 5 percent of a state’s block grant if a state fails to implement procedures and internal controls consistent with the Secretary’s regulations.⁴

The resulting structure is described below.

What Work Participation Rates Must States Meet Under the DRA?

Effective October 1, 2006, the all-families work participation requirement is 50 percent and the two-parent work participation requirement is 90 percent; both rates are then reduced by the number of percentage points by which the state’s caseload falls below 2005 levels for reasons other than eligibility rule changes.⁵

In subsequent years, the base year for calculating the caseload reduction credit will remain 2005. For example;

- If the combined caseloads of a state’s TANF and MOE programs fall by 5 percent between 2005 and 2006, the state would be required to meet a 45 percent all-families rate in 2007.

¹ Deficit Reduction Act (DRA) Sec. 7102(a).

² DRA Sec. 7102(b).

³ DRA Sec. 7102(c).

⁴ DRA Sec. 7102(c)(2).

⁵ 42 U.S.C. §§607(a), 607(b)(3).

- If a state's combined caseloads fall by 5 percent in 2006 but then return in 2007 to their 2005 level, the state would face a 50 percent all-families rate in 2008.

The following rules related to the caseload reduction credit, established by the 1996 law and existing federal TANF regulations, will remain unchanged under the DRA:

- A state may *not* count caseload declines resulting from a tightening of income and resource limits or enactment of time limits, full-family sanctions, or other new requirements that deny assistance when a family fails to meet program requirements.⁶
- A state *may* count caseload declines resulting from new or more vigorously utilized enforcement mechanisms or procedural requirements adopted to enforce existing eligibility criteria, e.g., verification techniques designed to identify ineligible families.⁷

Who Is Considered in the Calculation of a State's Work Participation Rate?

The all-families work participation rate is calculated by dividing the number of adults participating in countable activities for the specified number of hours each month (discussed below) by the total number of families receiving assistance each month that include an adult or minor head of household. The participation rate applies to the combined assistance caseloads of programs funded with federal TANF and/or state MOE funds, as noted above.⁸ At state option, the following families can be excluded from this calculation:

- single-parent families that include a child under age one (such families can be excluded for up to 12 months);⁹
- families receiving assistance under a tribal family assistance plan or tribal work program;¹⁰ and
- families under penalty for failure to meet work requirements (such families can be excluded for up to three months in each 12-month period).¹¹

The two-parent participation rate is calculated by dividing the number of adults in two-parent families participating in countable activities for the specified number of hours each month by the total number of two-parent families receiving assistance in a TANF- or MOE-funded program.¹² States have the option of excluding the following two-parent families from the participation rate:

⁶ 45 C.F.R. §261.42(a)(1).

⁷ 45 C.F.R. §261.42(a)(2).

⁸ 42 U.S.C. §607(b); S. 1932, Sec. 7102(b).

⁹ 42 U.S.C. §607(b)(5).

¹⁰ 42 U.S.C. §607(b)(4).

¹¹ 42 U.S.C. §607(b)(1)(B)(ii)(II).

¹² 42 U.S.C. §607(b); S. 1932, Sec. 7102(b).

- families receiving assistance under a tribal family assistance plan or tribal work program;¹³ and
- families under sanction for failure to meet work requirements (such families can be excluded for up to three months in each 12-month period).¹⁴

If one parent in a two-parent family has a disability, the family is not included in the two-parent participation rate but is included in the all-families rate.

A state is free to exempt families that do not fall into one of the narrow categories listed above from the work requirement, but such families will still be included in the federal participation rate calculation.

How Many Hours Must a Family Participate in Order to Count?

To count toward the all-families work participation rate in a given month:

- a single parent family with a child under age 6 must participate for an average of 20 hours a week;
- all other families must participate for an average of 30 hours a week.¹⁵

To count toward the two-parent family participation rate:

- a family not receiving federally funded child care must participate for 35 hours a week;
- a family receiving federally funded child care must participate for 55 hours a week.¹⁶

What Activities Count as Participation?

The 1996 law sets forth 12 categories of work activities that can count toward work participation rates. Neither the 1996 statute nor subsequent regulations defined what could be considered in each of these 12 categories — for example, there are no federal rules which define what is meant by “community service” or “work experience.” HHS is expected to establish definitions for these activities in regulations issued by June 30, 2006. How those regulations are crafted could have a significant impact on the program design options available to states.

In the all-families participation rate calculation, nine activities — often referred to as “core” activities — can count toward any hours of participation. Three other “non-core” activities count

¹³ 42 U.S.C. §607(b)(4).

¹⁴ 42 U.S.C. §607(b)(2)(B).

¹⁵ 42 U.S.C. §607(c)(1)(A); 42 U.S.C. §607(c)(2)(B).

¹⁶ 42 U.S.C. §607(c)(1)(B).

only when the individual also has completed at least 20 per week of core activities. The nine core activities are:

- unsubsidized employment;
- subsidized private-sector employment;
- subsidized public-sector employment;
- work experience;
- on-the-job training;
- job search and job readiness assistance, for up to six weeks a year;
- community service programs;
- vocational educational training, for up to 12 months; and
- providing child care services to an individual who is participating in a community service program.

The three non-core activities are:

- job skills training directly related to employment;
- education directly related to employment; and
- satisfactory attendance at secondary school or in a course of study leading to a GED.¹⁷

In addition, for married or single-parent recipients under age 20, maintaining satisfactory attendance at secondary school (or the equivalent) or participating in education directly related to employment for at least 20 hours a week can count toward any hours of participation.¹⁸

The 1996 law limits the portion of participating families that may count through participation in certain educational activities. Not more than 30 percent of families counting toward participation rates may do so through participation in vocational educational training or by being parents under age 20 counting through school attendance or education directly related to employment. For example, if a state attains a 50-percent participation rate, no more than 15 percent (30 percent of 50 percent) can count through these activities.¹⁹ (A more detailed discussion of the circumstances under which education and training activities can count toward the participation rate can be found on page 22, in Chapter II.)

¹⁷ 42 U.S.C. §607(c)(1)(A); 42 U.S.C. §607(d); 45 C.F.R. §261.31.

¹⁸ 42 U.S.C. §607(c)(2)(C).

¹⁹ 42 U.S.C. §607(c)(2)(D); 45 C.F.R. §261.33

In the two-parent family participation rate calculation, at least 30 of the 35 hours a week of required work activities must consist of core activities. If the family receives federally funded child care, at least 50 of the required 55 hours of work activities must consist of core activities.²⁰

Of course, a state may choose to allow a family to participate in activities that do not count toward federal participation rates. In some cases, such activities may be an important part of an effective individualized self-sufficiency plan. However, a state's decisions about whether to do so are likely to be affected by the state's strategy for meeting federal participation rates.

What Happens If a State Fails to Meet a Participation Requirement?

If a state fails to meet one or both participation requirements, it will be penalized unless HHS determines that the state had reasonable cause or the state prepares a plan for corrective compliance that is then approved by HHS and implemented by the state. HHS has significant flexibility to determine "reasonable cause" though the statute does require HHS to grant reasonable cause if the reason the state failed to meet the work participation rate was that the state was providing federally recognized good cause domestic violence waivers to victims of domestic violence.²¹ HHS also can *reduce* a state's penalty based on the extent of non-compliance.

The maximum penalty for failure to meet the all-families participation rate is 5 percent of the state's adjusted State Family Assistance Grant (SFAG) for the first year of failure. (The adjusted SFAG is equal to the basic TANF block grant minus amounts transferred to the child care or social services block grants and amounts spent through tribal TANF programs.) The amount of the maximum penalty then grows by 2 percentage points for each subsequent year of noncompliance, though the total cannot exceed 21 percent of adjusted SFAG.²²

If the state fails to meet the two-parent participation rate, the maximum penalty is limited by the share of the state's cases that include two-parent families.²³ For example, if 5 percent of the state's cases are two-parent families, the maximum penalty in the first year of noncompliance is 5 percent of 5 percent, or 0.2 percent of the adjusted SFAG. If the state fails both rates, the maximum penalty is 5 percent.

If a state is penalized, the state must expend state funds in the amount by which the state is penalized to replace the reduction to its TANF block grant. Any state that fails to do so is subject to an additional penalty of up to 2 percent of its basic TANF grant.²⁴ Moreover, if a state fails to meet one or both participation rates for any reason — even if it is granted "reasonable cause" or qualifies

²⁰ 42 U.S.C. §607(c)(1)(B); 45 C.F.R. §261.32.

²¹ 45 C.F.R. §261.52(b)(1); 45 C.F.R. §260.58.

²² 42 U.S.C. §609(a)(3)(B); 45 C.F.R. §261.50.

²³ 45 C.F.R. §261.51(a)(1).

²⁴ 42 U.S.C. §609(a)(12); 45 C.F.R. §262.1(a)(12).

for a reduced penalty²⁵ — its MOE requirement for that year is equal to 80 percent of its 1994 state spending level, rather than the 75-percent requirement for states that meet both participation rates.²⁶

When Do TANF-Related Requirements and Restrictions Apply to Families Participating in a TANF- or MOE-Funded Program?

As noted previously, the issue of which TANF-related requirements apply in specific cases depends on several variables: whether the benefits being provided are considered “assistance,” whether they are paid for with federal TANF funds, and whether they are provided in a program that is funded in whole or in part with federal TANF funds. States must keep these variables in mind when they consider how to help a family.

“Assistance” includes benefits (cash or non-cash) that are designed to meet ongoing basic needs, as well as supportive services such as child care and transportation assistance that are provided to families that are not employed.²⁷ “Non-assistance” benefits are those that do not fall within the definition of assistance. They include: services that do not function as income support (such as education or counseling), non-recurring short-term benefits that provide less than four months of support, and certain supportive services provided to families in which an adult is employed, such as cash assistance used to offset work expenses and child care and transportation assistance. Wage subsidies — subsidies to employers that are used to help pay someone’s wages — are not considered assistance.²⁸

Federal work, time limit, and child support requirements apply to certain families receiving assistance in TANF- or MOE-funded programs:

- **Work requirements.** The DRA changed the rules in this area. Under the DRA, all families with an adult or minor head of household receiving “assistance” in a TANF- or MOE-funded program are counted when determining the state’s work participation rates. Previously, families receiving assistance in programs funded entirely with state MOE funds (and no TANF funds) were not subject to federal work requirements.
- **Federal time limit.** Months in which a family receives “assistance” funded in whole or part with federal TANF funds count against the family’s 60-month federal time limit on assistance. States are free to impose their own time limits on non-assistance or on assistance provided with MOE funds, but the federal rules apply only to federally funded assistance.

²⁵ 64 Fed. Reg. 17816 (April 12, 1999).

²⁶ 42 U.S.C. §609(a)(7)(B)(ii).

²⁷ 45 C.F.R. §260.31.

²⁸ Ibid.

- **Child support requirements.** Families that receive “assistance” in a program that receives federal TANF funding — whether the actual benefits the family receives are federally funded or not — are required to assign their rights to child support to the state and cooperate with child support enforcement efforts. The state has the option to pass through some or all of the collected support to the families.

In addition, federal law contains restrictions on using TANF and, to a lesser extent, MOE funds to provide assistance *or* non-assistance benefits to many immigrants. Under federal law, most benefits and services provided with federal TANF funds can be provided only to: 1) citizens; or 2) non-citizens who are considered “qualified immigrants” *and* either have been in the United States for more than five years or meet certain exceptions to the five-year bar. (“Qualified” immigrants include: legal permanent residents; refugees, asylees, and other specified groups who were allowed to enter the United States for humanitarian reasons; and several other smaller categories of immigrants.) States can, however, use state MOE funds to provide benefits and services to these qualified immigrants in their first five years in the United States and to immigrants who do not meet the definition of qualified but are in the country legally (or with certain types of government permission). A state also can use MOE funds for those non-qualified immigrants who are not legally present if it has passed a law affirmatively providing for such benefits.

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

Introduction

This chapter discusses how states can strengthen their welfare-to-work programs by increasing engagement and participation among recipients and improving the effectiveness of the employment services provided. The goals of the options discussed here are to improve employment outcomes and increase states' work participation rates, although not every recommendation meets *both* of these goals simultaneously.

More specifically, this chapter discusses the following:

- **Designing effective work activities.** Despite federal restrictions, states continue to have some flexibility in the design of their welfare-to-work programs. States can use this flexibility to develop more comprehensive welfare-to-work strategies that do more to help parents prepare for and find employment. Possible strategies include: making broader use of vocational educational training, developing creative ways to combine education and training with other countable work activities, utilizing effective subsidized employment strategies, and improving work experience and job search programs so they do more to connect recipients to higher quality unsubsidized jobs. To be effective, all work activities should include critical supports for families, including child care and transportation assistance. These components can help recipients prepare for employment by addressing their individual needs and can link recipients directly to employers who have jobs available that match recipients' skills and interests.
- **Increasing engagement in work activities.** Many states have struggled to engage a large share of recipients in work activities. In some states, a significant number of recipients referred to welfare-to-work programs do not participate successfully; some perform the required activities but do not make progress, while others do not attend consistently.

Research has shown that many recipients have barriers to employment that impede their ability to participate fully or effectively in work activities. Some states and localities have been able to

achieve high rates of engagement in program activities by improving screening and assessment procedures to identify barriers to employment, providing more-intensive case management services to families, seeking to match recipients to activities that will help them prepare for jobs in which they have an interest and the capability to succeed, and developing effective training and subsidized employment programs to help those with significant barriers transition to work.

- **Addressing the unique policy issues related to two-parent families.** Under the Deficit Reduction Act of 2005 (DRA), states are required to meet a 90-percent work participation rate for two-parent families. Most researchers and state agencies view this rate as unreachable unless states deny assistance to two-parent families who are unable to participate for the required number of hours, thereby pushing them deeper into poverty. States should consider how best to serve married families — whether inside or outside the TANF structure — but should not eliminate aid to these families because of the new work requirements.

Policies that provide income supplements and other work supports to low-income working families are an important complement to the welfare-to-work program approaches discussed in this chapter, and have been shown to increase employment rates, retention rates, and earnings of poor families. Chapter III discusses how income-supplement programs — through TANF, MOE, and child support programs and policies — can help “make work pay” and increase a state’s work participation rate. (While a detailed discussion of other work supports, such as child care assistance, state and federal earned income tax credits, food stamps, housing assistance, and health care is beyond the scope of this report, such supports are critical to the success of the programs described here. Appendix I has a resource list for information on these programs.)

Creating Effective and Countable Work Activities

During the 1990s, many states emphasized a “work-first” approach that focused on immediate job search and placement in unsubsidized employment. While many states later adopted more varied programs, most recipients in welfare-to-work programs still participate in a narrow set of activities. In 2004, two-thirds of TANF recipients who counted toward meeting federal work participation rates were participating in job search and job readiness activities or unsubsidized employment, just two of the 12 categories of allowable work activities.²⁹ This narrow “work-first” strategy, coupled with a strong economy and strengthened work supports for low-income working families (such as child care, EITC and Medicaid), helped lead many parents to leave welfare for work.

Research has shown, however, that under existing welfare-to-work programs, some parents are unable to find stable employment, while many of those who leave welfare for work remain poor. For example, according to a compilation of studies, 71 percent of former TANF recipients worked at some point in the year after leaving TANF, but only 37 percent worked in all four quarters of the year.³⁰ Similarly, a recent study of families that left the Wisconsin TANF program found that most families remained poor six years after they left TANF. In the sixth year after leaving TANF, only 16

²⁹ Office of Family Assistance, U.S. Department of Health and Human Services, 2004 Work Participation Rates, Table 4b, <http://www.acf.hhs.gov/programs/ofa/particip/2004/table04b.htm>.

³⁰ Acs, Loprest, Roberts, Final Synthesis Report of Findings from ASPE’s Leavers Grants (2001).

percent of families had earnings above the federal poverty line, and 60 percent were extremely poor, with earnings below 25 percent of the poverty line.³¹

States can improve employment outcomes for TANF recipients by making more effective use of a broader range of work activities, including vocational educational training and subsidized jobs, and improving activities that already are in use, such as job search and job readiness activities.

Research has consistently shown that the most effective welfare-to-work programs are those that adopt a “mixed strategy” — that is, programs that are heavily work focused but include significant skill-building components. The most effective programs target industries and occupations with relatively high earnings, employment growth, and opportunities for advancement; they are closely connected to employers to help TANF recipients gain access to better jobs than they could have gotten on their own; and caseworkers strive to match work activities and employment goals to individual recipients’ strengths, barriers, and interests. In short, these programs succeed in part because they do not take a one-size-fits-all approach to assigning activities to recipients.

This section discusses what is known about the effectiveness of various work activities that count toward the TANF participation rates and recommends ways to use these components to create a mixed-strategy welfare-to-work program.

While states will need to increase the number of recipients in countable work activities to move toward meeting the new participation rates, some parents may benefit — at least for a period of time — from participation in an activity that may not be considered countable toward the federal participation rates. This may include postsecondary programs that last beyond 12 months or activities tailored to the needs of individuals with disabilities or designed to address barriers to employment. (The extent to which certain activities will or will not count toward the participation rates will not be clear until the federal TANF regulations are released in June.) While states can make increased use of activities that they may count toward the work rates, they should not exclude other useful approaches.

Job Search and Job Readiness Assistance

Job search and job readiness activities — essential stepping-stones to employment — are part of every state’s TANF program. Under the federal TANF law, recipients engaged in job search or job readiness activities may count toward work participation rates for a total of six weeks in a year, but no more than four weeks consecutively.³²

Some state “work-first” approaches always assign job search as an individual’s first activity and use his or her success in the labor market search as a preliminary assessment of his or her employability. This approach was particularly popular in the late 1990s. It does not allow for the early identification of barriers, however, and given the prevalence of barriers among TANF

³¹ Chi-Fan Wu, Maria Cancian and Daniel Meyer, “Standing Still or Moving Up? Evidence from Wisconsin on the Long-Term Employment and Earnings of TANF Participants,” October 2005, DRAFT.

³² In cases where the state unemployment rate is at least 50 percent greater than the national unemployment rate, or the state has been deemed a “needy state,” 12 weeks of job search may count toward the rates.

recipients, some states that initially took this “labor market as assessment” approach have backed away from it. For example, Washington State has recently decided to change its policy of assigning nearly all recipients to job search as the first activity and instead will conduct screenings and assessments prior to assigning recipients to job search or other programs

Because federal law limits the extent to which participation in job search and job readiness activities counts toward TANF work participation rates, states should use these components efficiently. Specifically, states should avoid using up TANF recipients’ countable participation time in unstructured job search programs in which recipients are required to make a certain number of job contacts but which do not help recipients prepare for their job search, connect directly with employers who have jobs that are a good match for their skills and interests, and identify barriers to labor market success. A more structured job search and job readiness program that provides these supports (and, when appropriate, helps recipients begin addressing significant barriers) can be more successful.

Depending on the characteristics of the local TANF population and job market, a comprehensive job search and job readiness strategy may well take longer to help parents secure jobs than the four to six weeks that are countable under the federal participation requirements. States and counties should consider continuing effective job search and job readiness programs beyond the four-to-six week limitation if a large number of recipients find employment in the several weeks immediately following the countable period. However, a lengthy and unproductive job search program, during which recipients face repeated rejection from employers, will frustrate recipients and reduce the state’s work participation rate.

How Can States Design More Effective Job Search and Job Readiness Programs?

States can take several steps to improve the effectiveness of their job search and job readiness programs:

- **Job search programs should encourage recipients to look for good jobs rather than to take the first job offered.** The quality of job placement plays an important role in long-term employment outcomes. One of the reasons Portland, Oregon’s welfare-to-work program (which was evaluated in the mid-1990s as part of the National Evaluation of Welfare-to-Work Strategies, or NEWWS) was so successful, researchers concluded, was that its job search and readiness component focused on helping recipients find jobs that paid above the minimum wage and offered the best chance for stable employment. Full-time job developers worked closely with local employers and the state Employment Department to link participants with employment. They also sought positions that paid above the minimum wage and provided room for advancement.

More generally, studies have found that women, including those with a history of welfare receipt, work longer and more consistently when they find jobs that pay higher starting wages.³³

³³ See, for example, Anu Rangarajan, Peter Schochet, and Dexter Chu, "Employment Experiences of Welfare Recipients; Who Finds Jobs: Is Targeting Possible?" 1998, http://www.acf.hhs.gov/programs/opre/welfare_employ/post_employ/reports/employ_experiences/emp_experience_s.pdf; and Heather Boushey, "Staying Employed After Welfare: Work Supports and Job Quality Vital to Employment

And research has shown that for both low-wage workers and public assistance recipients alike, those employed in certain industries — such as special trade contractors (including plumbers and electricians), business services, and health services — are more likely to escape low-wage status as they gain more experience in the industry.³⁴

The evaluation of the Portland program and these other studies suggest that if job search programs did more to help recipients connect to jobs that offer higher wages in growing industries that offer advancement opportunities, recipients would be more likely to find stable employment and escape poverty. This points to the importance of building stronger connections with employers and analyzing local labor markets to identify higher-quality employment opportunities that will help families become economically self-sufficient.

- **Job search programs should include job readiness components.** Research suggests that job search programs are most effective when they include job readiness components — including “soft skills” training in which recipients are taught workplace norms, communication skills, and time management skills that can help them manage the demands of work and family responsibilities.³⁵ To introduce participants to a “culture of employment” and boost their soft skills, some successful job placement programs have made their program environments mimic the workplace. Some programs also offer workshops or other planned activities that meet regularly before recipients are connected to employers so that staff can assess participants’ soft skills and address any issues before they arise at the workplace.³⁶ Some job readiness programs have made effective use of job shadowing (allowing recipients to watch someone doing the same or similar job that the recipient may apply for) and other career exploration activities to help recipients identify jobs that match their skills and interests.
- **Job search and job readiness programs should seek to identify recipients’ skills and barriers to employment and serve as a gateway to additional services and supports for those who need more help to succeed in the labor market.** Job search and job readiness programs should seek to assess participants’ skills, abilities, and interests as well as barriers to employment. As is discussed in more detail below, assessment should start early and continue throughout parents’ engagement in the program. Since job search and job readiness programs are often one of the first activities in which recipients participate, they provide an important opportunity to begin determining whether recipients have barriers that require additional

Tenure and Wage Growth," Washington, DC: Economic Policy Institute, June 2002, http://www.epi.org/content.cfm/briefingpapers_bp128.

³⁴ Fredrik Andersson, et al, "Successful Transitions out of Low-Wage Work for Temporary Assistance for Needy Families (TANF) Recipients: The Role of Employers, Coworkers, and Location," April 2004, http://www.urban.org/UploadedPDF/410997_FinalReport_HHS.pdf.

³⁵ Rangarajan, p. 99.

³⁶ Julie Strawn and Karin Martinson, “Steady Work and Better Jobs: How to Help Low-Income Parents Sustain Employment and Advance in the Workforce,” MDRC, 2000, p. 33. Jodie Sue Kelly, “Seven Ways to Boost Job Retention,” Enterprise Foundation, 1999, <http://www.enterprisefoundation.org/resources/WSS/section5/njiac.asp>; Anu Rangarajan, p. 99. New York’s Vocational Foundation, Inc. created a five month program to mimic the workplace for participants to, among other things, help them “develop good work habits before they being paid employment, when the consequence of failing to follow the rules can be the loss of the job.” See, Tony Proscio and Mark Elliot, “Getting In, Staying On, Moving Up: A Practitioners Approach to Employment Retention,” Working Ventures, 1999.

“In my opinion, most welfare reform programs are...sending people out to work before they are ready, while they still have child care and transportation problems that will cause them to fail at work. This winds up irritating employers like me, who become reluctant to hire from this source.”

- employer who had hired TANF recipients

require additional services. These programs, therefore, should be able to refer recipients who are not succeeding in this activity for more in-depth assessments and for more intensive services, including education, training, and mental health or substance abuse treatment.³⁷

- **Job search programs should develop strong relationships with employers.** Job search and job readiness programs that develop ties to employers — and work to understand the kinds of skills individual employers need — can link recipients directly to employers who have jobs that match recipients’ skills and interests.³⁸ Programs that become adept at providing employers with job applicants who become successful employees provide a valuable service, which, in turn, will encourage employers to notify the program when future openings emerge. To improve recipients’ chances of succeeding in the workplace, job search programs can also help employers develop orientation sessions for new employees³⁹ and strategies to resolve problems that may arise, such as difficulties with child care.
- **Job search programs should connect participants to necessary work supports such as child care and transportation.** Recipients who have stable child care and reliable transportation during job search and job readiness programs will be better able to participate in these programs consistently. Recipients also need these supports to be in place when they receive a job offer so they can start working immediately. Parents are more likely to adjust to a new job successfully if they are not also trying to help their children adjust to a new child care routine, or trying to figure out how they are going to get to work, at the same time. One employer of low-wage workers commented, “In my opinion, most welfare reform programs are...sending people out to work before they are ready, while they still have child care and transportation problems that will cause them to fail at work. This winds up irritating employers like me, who become reluctant to hire from this source.”⁴⁰ Unfortunately, many states do not provide child care subsidies for those in job search programs.

Education and Training⁴¹

Education and training can promote better employment outcomes and help states meet federal work rates at the same time. Higher levels of education are closely associated with increased earnings and lower rates of unemployment. Between 1973 and 2003, the real wages of workers with less than a high school diploma declined by 20

³⁷ Rangarajan, pp. 98-99.

³⁸ Carol Clymer and Laura Wyckoff, “Employment Retention Essentials: Building a Retention-Focused Organization,” Public Private Ventures, 2003; and Frederica Kramer, “Job Retention and Career Advancement for Welfare Recipients,” Welfare Information Network, 1998, <http://www.financeproject.org/Publications/issueretention.htm>.

³⁹ Jodie Sue Kelly, “Retention and Career Advancement,” Cygnet Associates, 2001.

⁴⁰ Talor J. Combes and J. Rubin, “Engaging Employers to Benefit Low-Income Job Seekers,” Jobs for the Future, 2005.

⁴¹ For a more in-depth discussion, see Evelyn Ganzglass, “Strategies for Increasing Participation in TANF Education and Training Activities,” Center for Law and Social Policy, April 2006, http://www.clasp.org/publications/tanf_ed_training.pdf.

percent, while the wages of those with a college education increased by 18 percent.⁴² Almost half of all TANF recipients have no high school diploma⁴³ and thus lack the qualifications that are increasingly necessary to obtain good jobs. As discussed below, research has consistently shown that welfare-to-work programs that include a strong skill-building component are more successful than those that follow a narrow “work-first” approach.

Despite the clear connection between education and success in the labor market, the TANF system has invested relatively little in what should be an important component of a welfare-to-work strategy. In FY 2003 less than 2 percent of state and federal TANF funds were spent on such services. In addition, preliminary estimates by the Congressional Research Service indicate that in FY 2004, just over 5 percent of families in TANF and separate state programs who would count toward the participation rates under the DRA either participated in vocational educational training or were teens that maintained satisfactory attendance in secondary school or participated in a course of study leading to a GED. Because up to 30 percent of the recipients who count toward a state’s participation rate can consist of individuals in these activities, almost all states have room to increase the number of recipients in vocational educational training (and, for teens, participating in high school).

How Effective Are Education and Training Programs for TANF Recipients?

Research on welfare-to-work programs over the last ten years has shown that the most successful strategies for helping parents work more consistently and increase their earnings emphasize employment *and* provide a range of services that include a strong education and training component. The above-mentioned Portland program, which was more successful in achieving these goals than any other program evaluated as part of NEWWS, offered a substantial number of instructional hours in short-term education and training per week, linked training to job search, closely monitored participation, and emphasized obtaining jobs that paid above the minimum wage and offered a good chance of stable employment.

The Portland program also increased receipt of education and training credentials, including helping more high school dropouts earn both a GED and an occupational certificate. Non-experimental comparisons found that those who participated in both basic education and occupational training — components that generally took about a year to complete — were much more likely to succeed than those who participated in basic education alone.⁴⁴

⁴² L. Mishel, J. Bernstein, and S. Allegretto, *The State of Working America 2004/2005*, Economic Policy Institute.

⁴³ U.S. Department of Health and Human Services, *FY 2001 Characteristics and Financial Circumstances of TANF Recipients*.

⁴⁴ Gayle Hamilton, "Moving People From Welfare to Work: Lessons from the National Evaluation of Welfare-to-Work Strategies," U.S. Department of Health and Human Services, July 2002, <http://aspe.hhs.gov/hsp/newws/synthesis02/>.

How Do the Federal Work Rates Count Participation in Education and Training?

The 1996 federal TANF law identifies 12 specific areas of work activity that may count toward states' work participation rates.^a While all work activities may include an educational component, five of these directly involve education and training:

- vocational educational training;
- job skills training directly related to employment;
- education directly related to employment, in the case of a recipient who has not received a high school diploma or a certificate of high school equivalency;
- satisfactory attendance at secondary school or in a course of study leading to a certificate of general equivalence, in the case of a recipient who has not completed secondary school or received such a certificate;
- on-the-job training.

The law sets several limits on when states can count participation in these activities toward the work rates:

- There is a 12-month limit on the period for which a recipient who is participating in vocational education training can be counted toward the state's work rates.
- Only 30 percent of participants who are counted toward a state's work rates may do so through vocational educational training or by being a teen head of household who either maintains satisfactory attendance in secondary school or participates in education that is directly related to employment (if they have not received a high school diploma or a certificate of high school equivalency).
- For all recipients other than teens, job skills training, education directly related to employment, and secondary school/GED classes can count toward the work rates only when combined with at least 20 hours per week (30 hours per week for two-parent families) of participation in "core" countable activities. (For a list of "core" and "non-core" activities, see page 10 in Chapter I).

In considering the effects of these limits, it is important to note that many education and training activities fit into more than one of the five categories listed above. For example, a given activity could be classified as vocational education training for a TANF recipient who had not exhausted his or her 12-month limit and as job skills training for a recipient who was working 20 hours a week — and thus could be countable toward the work rates in both cases. But precisely which activities states can define as "vocational education training" will depend on forthcoming federal regulations, unlike in past years when states were able to define this term themselves.

The limits on counting various education and training activities toward the work rates will influence states' program design decisions. Sometimes, states may want to engage a recipient in education and training even when it will not count toward the work rate because, in the state's view, it will help the family move from welfare to work or secure a better job. In such cases, states may want to provide assistance outside the TANF structure (i.e., with state funds that do not count toward the MOE requirement) so these families are not included in the base population from which the work rate is calculated. This option is discussed further below.

^a For a more detailed discussion of how the participation rates are calculated, see Chapter I.

In addition, several non-experimental studies provide evidence of the substantial economic benefits for TANF recipients of *postsecondary* education. A study of TANF recipients who exited California community colleges in 1999 and 2000 found that TANF students were twice as likely to work year-round after college as they had been prior to entering the program. The study found that, in general, vocational certificate programs needed to be at least 30 units in length to yield earnings levels of more than \$15,000 by the second year out of school. Students who left with an Associate degree (which required 60 or more course units) earned, on average, five times more in their second year out of school than they had when they entered college; average earnings in this group jumped from \$3,916 to \$19,690.⁴⁵

While research suggests that combining work and skill upgrading can be effective for low-income parents, three important caveats must be considered:

- **Programs that offer education and training to current or former recipients who are also working generally suffer from very low participation.** This reflects the difficulty many single parents face in juggling work, family, and school responsibilities.⁴⁶
- **Too many hours of work can harm an adult's chances of completing his or her skill-upgrading course of study.** A recent study of the New Visions Self-Sufficiency and Lifelong Learning Project found that participants who work more than 120 hours per month were substantially less likely to participate in that program or other employment and training activities.⁴⁷ Similarly, research by the U.S. Department of Education found that students who work 15 hours or more per week were much more likely to report that work interfered with their schooling by limiting their class choices and schedules, the number of classes they could take, and their academic performance.⁴⁸
- **The *type* of skill upgrading provided matters tremendously.** Research suggests that many education-focused welfare-to-work programs have not been cost effective because they lacked a strong connection to employment and because few recipients received high enough “doses” of instruction to gain either literacy skills or a GED. Even recipients who received GEDs under such programs often did not reap the full benefit of the certificate because GED receipt was not followed by postsecondary training and degrees or certificates that have value in the labor

Many education-focused welfare-to-work programs have not been cost effective because they lacked a strong connection to employment and because few recipients received high enough “doses” of instruction to gain either literacy skills or a GED.

⁴⁵ A. Mathur with J. Reichle, J. Strawn, and C. Wisely, "From Jobs to Careers- How California Community College Credentials Pay Off for Welfare Participants," Center for Law and Social Policy, May 2004.

⁴⁶ David Fein and E. Beecroft, "College as a Job Advancement Strategy: Final Report on the New Visions Self-Sufficiency and Lifelong Learning Project," Abt Associates, Inc., January 2006. Also, H. Hill, G. Kirby, and T. Fraker, "Delivering Employment Retention and Advancement Services: A Process Study of Iowa's Post-Employment Pilot," Mathematica Policy Research, 2001; and D. Paulsell and A. Stieglitz, "Implementing Employment Retention Services in Pennsylvania: Lessons from Community Solutions," Mathematica Policy Research, 2001.

⁴⁷ Fein and Beecroft.

⁴⁸ Ali Berker and Laura Horn. 2003. "Work First, Study Second: Adult Undergraduates Who Combine Employment and Postsecondary Enrollment," NCES 2003-167. Washington, DC: National Center for Education Statistics, U.S. Department of Education, Institute of Education Sciences.

market.⁴⁹ In the New Visions program, for example, only about one-fourth of participants completed the core program (work conflicts were the most commonly cited reason for dropping out); moreover, the core program was focused primarily on increasing academic skills such as math, English, and reading rather than preparing participants for specific occupations.⁵⁰

How Can States Design Effective Education and Training Programs?

Research on effective welfare-to-work programs, the difficulty of combining training and work, and the low skill levels of TANF recipients all suggest that states should consider the following three recommendations when designing their education and training programs:

1. Engage recipients in vocational educational activities for all required hours during an initial period of time to maximize their skill building or progress toward a credential before they are expected to combine training with 20 hours of other activities.
2. Develop education and training programs that are accessible to recipients who lack the basic skills that often are prerequisites for training programs that can prepare recipients for high-demand, better-paying jobs.
3. Develop flexible training opportunities and provide appropriate supports, such as work-study jobs, child care, and intensive career and academic counseling, to increase the likelihood that a parent will successfully combine training with other core work activities and parenting.

These recommendations are explored in greater detail below.

1. *Utilize vocational educational training as a stand-alone activity.* Vocational educational training can count toward all hours of the participation-rate calculation for 12 months. After that period, training programs must be combined with at least 20 hours of participation in other core activities. Given this structure, states should maximize the effectiveness of the first 12 months of education and training programs to build pathways to postsecondary education and credentials that have a significant payoff in the labor market. In designing vocational educational training programs, states should:
 - ensure that skill-building activities are accessible to a significant number of low-income parents with low levels of basic skills and/or limited English proficiency;
 - offer intensive programs that result in a certificate and fit within the 12-month cap (or longer if states are willing to provide access to these programs as a non-countable activity or outside the TANF structure); and

⁴⁹ G. Hamilton.

⁵⁰ Fein and Beecroft, 2006.

- connect recipients who have exhausted their 12 months of full-time participation in vocational education training with further education and training that can be pursued in conjunction with other activities and that lead to postsecondary occupational credentials with demonstrated value in the local labor market.
2. *Make training accessible to recipients with low basic skills.* Given the low skill levels of many TANF recipients, states should develop skill-upgrading opportunities that are accessible and appropriate for individuals without high school diplomas, with limited English, and with other significant skill deficits.

Simply improving basic skills for such parents is unlikely to lead to jobs that can support a family, and a GED alone has been shown to have a fairly limited pay-off in the labor market. Instead, the goal should be to help such recipients upgrade their basic skills to a point where they can then participate in programs that lead to a credential with demonstrated value in the local labor market, typically an occupational credential. States can create clear paths to such credentials, even for those who initially have lower skills and/or limited English, in the following ways:

- *Support “bridge” programs for students with very low skills to master specific educational and occupational skills that are needed for immediate employment and can meet requirements for entry into postsecondary occupational training programs.* Arkansas, for example, is developing such occupation-specific bridge programs as part of a statewide career pathways initiative for TANF recipients. This program prepares students for employment in manufacturing, welding, emergency medical services, nursing and technician-level allied health professions,⁵¹ business, and education.
 - *Integrate basic skills and English-language instruction with vocational training to make ESL instruction more relevant to students’ needs and increase the likelihood that ESL students will complete workforce training and earn college credits.* Washington State’s Integrated Basic Education and Skills Training (I-BEST) model is a good example of this approach, with demonstrated results.⁵² It should be noted that if basic skills are integrated into a vocational educational program, the forthcoming federal TANF regulations may allow those hours of basic skills instruction to be counted as a core activity.
3. *Help recipients combine education and work.* Many recipients will combine education and training with other core activities, such as an unsubsidized or subsidized job. States can take the following actions to create education and training activities that are suited to the needs of parents trying to juggle education and training with parenting and other activities:

⁵¹ For information on the term “allied health” occupations, see: http://careerplanning.about.com/od/occupations/a/allied_health.htm. The web site states that the term is “is used to identify a cluster of health professions and covers as many as 100 occupational titles, exclusive of physicians, nurses, and a handful of others. Allied Healthcare jobs include cardiovascular technologists and technicians, dental hygienists, diagnostic medical sonographers, opticians, and radiologic technologists and technicians.”

⁵² See outcome data for I-BEST at <http://www.sbctc.ctc.edu/Data/rsrchrpts/Resh05-2-I-BEST.pdf>.

- *States can create education and training options that meet at times and locations that are more convenient for working parents.* For example, states can work with education and training providers to offer more classes on evenings and weekends. States also can support the development of intensive modularized courses that break longer occupational programs into shorter (two- or three-week), concentrated modules that parents can complete as their schedules allow — and for which employers may be more willing to provide release time for training.⁵³

In addition, states can create public-private partnerships with employers to hold training at or near the work site and during work hours, and to have workers paid for at least some of their time in class, if possible.⁵⁴ Such partnerships can be funded and/or managed through on-the-job training contracts (see below), industry-based training programs that are part of state economic development programs, and state or local career pathway programs that prepare low-skilled individuals for high-demand industries and occupations. Typically, businesses contribute resources to these partnerships; often, specific wage increases are linked to completion of training.

- *States can revise their financial aid and work-study programs.* One way is to link attendance in postsecondary education programs that extend beyond 12 months with the Federal Work-Study Program, which provides paid employment to students showing financial need. Work-study jobs often are easier for students to manage than regular employment because employers schedule work hours around the student's class schedule and understand that the student's main priority is his or her studies.⁵⁵

States also can use TANF, MOE, or other state funds to fill in the gaps when a student's Federal Work-Study allotment is exhausted or to provide employment over the summer or during school breaks, when some students can work more hours.⁵⁶ For example, TANF, MOE or other state funds can be used cover an extra 5-10 hours of wages above the 10-15 hours that Federal Work-Study jobs typically provide to ensure that a student has at least 20 hours of work per week during the school year.

⁵³ J. Strawn and K. Martinson, "Steady Work and Better Jobs: How to Help Low-income Parents Sustain Employment and Advance in the Workforce," MDRC, June 2000.

⁵⁴ For detailed descriptions of this approach, see Amy-Ellen Duke, Karin Martinson, and Julie Strawn, "Wising Up: How Government Can Partner with Business to Advance Low-Wage Workers," Center for Law and Social Policy, April 2006.

⁵⁵ Low-income students who are eligible for federal financial aid, such as Pell grants, through Title IV of the Higher Education Act are eligible for the Federal Work-Study Program. This includes most postsecondary students who are also receiving TANF. Federal work study jobs pay at least minimum wage and can be either on or off-campus. Off-campus jobs are largely limited to private non-profit organization or a public agency, though private, for-profit employers may be considered if the job relates directly to the student's area of study. Under the Federal Work-Study Program, the hours of employment are based on the amount of financial aid the student is awarded and the hours of attendance. Therefore, the lowest income students qualify for more hours.

⁵⁶ To be counted in a state's participation rate, an individual must be receiving "assistance" as defined by TANF regulations. The current definition of "assistance" excludes wage subsidies to employers (45 C.F.R. § 260.31). As a result, if an individual (or family) is only receiving TANF-funded wages through a wage subsidy to the employer, the individual is technically receiving "non-assistance," and therefore cannot be counted in the state's participation rate calculation. If, however, an individual receives both earnings from a subsidized job and a residual assistance grant (in a TANF or MOE-funded program), then she will be counted in the state's participation rate calculation.

In addition, states can change their financial aid policies to allow students who are attending school less than half time to qualify for state financial aid for the cost of tuition and books.

- *States can ensure that adequate supportive services (such as child care, transportation, and personalized career and academic counseling) are available to parents using TANF, MOE, or other funds.* In particular, states should support flexible child care arrangements that can accommodate parents' work schedules and provide sufficient hours to cover study time and travel time from one activity to the next.

On-the-Job Training

On-the-job training (OJT) consists of training, partially subsidized by the government, that employers provide employees to upgrade their work-related skills. The employer is reimbursed for a portion of the participants' wages to offset the cost of the training and the trainees' decreased productivity during the training period. Employers are expected to continue employing trainees after their training period ends. States can count participation in OJT towards all hours of the work participation requirement.

Within the context of the workforce development system under the Workforce Investment Act of 1998 (WIA) and its predecessor, the Job Training Partnership Act of 1982 (JTPA), OJT has been used as an incentive to employers to hire and train individuals with limited work experience or low skills. In Program Year (PY) 2004, approximately 10 percent of program completers in WIA Adult Program had received OJT while in the program.⁵⁷ Yet while the workforce development system has used OJT, TANF generally has not. Only 0.1 percent of TANF recipients subject to participation rates in FY 2004 were engaged in OJT; 21 states reported they had no TANF recipients enrolled in OJT.⁵⁸

How Effective Are OJT Programs for TANF Recipients?

Because OJT has not been used widely in TANF and former AFDC programs, there are limited data on its effectiveness are limited. The relevant research suggests that although OJT can improve participants' employment outcomes, in most cases the impact is small:

- A national evaluation of JTPA in the late 1980s and early 1990s found that women who received AFDC for more than two years and were enrolled in OJT had small earnings gains two and three years after completing OJT, but that these gains dissipated over the course of the seven-year follow-up period.⁵⁹

⁵⁷ Social Policy Research Associates. *2004 WLASRD Data Book*, prepared for the US Department of Labor, February, 2006.

⁵⁸ CLASP calculations based on Table 4A, "TANF - Average Monthly Percent Of Adults Participating In Work Activities For A Sufficient Number Of Hours For The Family To Count As Meeting The All Families Work Requirements," Fiscal Year 2004, <http://www.acf.hhs.gov/programs/ofa/particip/indexparticip.htm#2004>.

⁵⁹ JTPA National Evaluation Seven Year Follow-Up, U.S. Department of Labor unpublished table. Westat: 1998.

- An evaluation during the mid-1980s of an OJT program in New Jersey found small but statistically significant earnings gains of 11 percent for program participants in comparison to the control group.⁶⁰
- On the other hand, an evaluation of Maine's Training Opportunities in the Private Sector (TOPS) program, which provided unemployed women receiving AFDC with services such as pre-vocational training, unpaid work experience, and subsidized on-the-job training, found much larger impacts. Participants' average earnings were 31 percent above those of the control group, and these gains were sustained throughout the follow-up period.⁶¹

How Can States Design More Effective OJT Programs?

States may want to use OJT training subsidies to employers as a way to connect TANF recipients to jobs they would not be able to find through a job search alone and to provide them with enhanced training opportunities after they are employed. Since OJT programs require the employer to hire the TANF recipient, this strategy is likely to be more effective with "job-ready" individuals whom employers are willing to commit to hiring.

To improve the employment outcomes of OJT participants, programs should ensure that OJT placements are made in businesses and industries that offer opportunities for career progression and wage growth. Programs also can provide participants with additional training in skills needed to qualify for more-advanced jobs, such as moving from certified nursing assistant to licensed practical nurse.

For their part, employers can contribute additional resources to promote worker training and advancement and provide specific wage increases linked to completion of training. In designing an OJT program, states can build upon the U.S. Department of Labor's guidance for developing OJT contracts with employers to ensure that employers offer meaningful training opportunities to program participants. States implementing OJT programs for TANF recipients should develop mechanisms to ensure that participating employers:

- Commit to retaining participants who complete the training successfully and (for employers seeking renewals of OJT contracts) demonstrate a record of retaining OJT participants after the government subsidy ends. Such stipulations help ensure job stability and retention for participants and reduce the potential for employer abuse of the training subsidy.
- Develop structured training plans for program participants that clearly identify target skills and competencies and how they will be achieved.

⁶⁰ L. Plimpton and D. Nightingale, "Welfare Employment Programs: Impacts and Cost-Effectiveness of Employment and Training Activities." Unpublished, cited in Lewin Group report for the U.S. Department of Health and Human Services, "Job Retention and Advancement Strategies Among Welfare Recipients: Challenges and Opportunities," 1999.

⁶¹ D. Greenberg and M. Shroeder, *The Digest of Social Experiments* (2nd ed.), the Urban Institute Press, 1997 cited in Lewin Group, 1999.

- Pay wages and benefits to OJT participants that are consistent with the wages and benefits provided to other employees in the organization. States should target OJT contracts to jobs and employers that provide benefits and pay wages that can support a family.
- Demonstrate that they will provide program participants with opportunities for advancement.

Subsidized Employment

Subsidized employment is time-limited, wage-paying employment in which wages are subsidized by government funds. States can count participation in subsidized employment in either the private or public sector towards all hours of a TANF recipient's required hours of participation.⁶² However, only 0.1 percent of all TANF recipients who were subject to the participation rates in FY 2004 were engaged in subsidized private employment, and only 0.3 percent were enrolled in subsidized public employment.⁶³

States can use subsidized employment to help participants enter the labor market through the acquisition of work experience and enhanced connections to employers. Wage subsidies provide an incentive for employers to hire TANF recipients who may have low skills and little previous work experience. In many cases, employers are expected to hire program participants after the government subsidy expires.

Through subsidized employment, TANF participants can receive valuable work experience and training while on the job, in addition to earning wages. Moreover, they pay into the Social Security system — thus building quarters of work needed for future eligibility — and may qualify for the Earned Income Tax Credit and Unemployment Insurance. Participants also are subject to minimum wage and other Fair Labor Standards Act (FLSA) protections. Depending on a state's earned income disregard policy — the policy which determines how quickly benefits are reduced as earnings rise — participants might receive TANF assistance in addition to their paycheck.

*Transitional Jobs*⁶⁴

Transitional jobs programs hold particular promise for TANF recipients with barriers to employment. These programs provide hard-to-employ TANF recipients a bridge to unsubsidized private employment by combining time-limited, wage-paid employment (subsidized by public, or in some cases private funds) with a comprehensive set of services designed to develop participants' skills and prepare them for success in the workplace.

⁶² To be counted in a state's participation rate, an individual must be receiving "assistance" as defined by TANF regulations. The current definition of "assistance" excludes wage subsidies to employers (45 C.F.R. § 260.31). See footnote 56 on page 26 for more details.

⁶³ CLASP calculations based on Table 4A, TANF - Average Monthly Percent Of Adults Participating In Work Activities For A Sufficient Number Of Hours For The Family To Count As Meeting The All Families Work Requirements, Fiscal Year 2004, <http://www.acf.hhs.gov/programs/ofa/particip/indexparticip.htm#2004>.

⁶⁴ For a more in-depth discussion, see Allegra Baider and Abbey Frank, "Transitional Jobs: Helping TANF Recipients with Barriers to Employment Succeed in the Labor Market," Center for Law and Social Policy, May 2006, <http://www.clasp.org/publications/transitionaljobs06.pdf>.

How Are Transitional Jobs Programs Designed?

Most TANF recipients who participate in transitional jobs programs have little work experience and limited education; often they have received public assistance for a significant period of time. Many also have severe employment barriers, such as mental illness, unstable housing, learning disabilities, contact with the criminal justice system, substance abuse issues, and lack of adequate transportation, and therefore need intensive support services to move into the labor market.⁶⁵ Accordingly, transitional jobs programs typically offer some or all of the following:

- pre-placement assessment to match participants to work assignments that fit their interests, needs, and circumstances;
- short-term training both before and during employment in the transitional job to help address barriers to employment such as limited English proficiency and poor soft skills;
- intensive case management to help participants address personal problems that could make it more difficult to obtain and sustain employment over the long term;
- enhanced work-site supervision to help participants learn basic skills, acquire good work habits, and ensure that they have significant job responsibilities, receive training, and contribute to their employers;
- connection to work supports, such as child care and transportation subsidies, which can be critical to success in the labor market; and
- unsubsidized job placement and retention services.

The cost of transitional jobs programs varies according to program design, services offered, and length of program. An evaluation of six transitional jobs program found that service costs ranged from \$856 to \$1,871 per participant per month. Wage costs for ranged from \$287 and \$749 per participant, per month. The duration of these programs ranged from three to nine months of transitional employment, with some programs offering one to two years of job retention services. Higher cost transitional jobs programs last longer and offer more intensive pre-placement assessment and training, on-going skill-building and retention follow-up.⁶⁶

How Effective Are Transitional Jobs Programs?

While no experimental research has been completed to date on transitional job programs, a number of non-experimental studies have found that they appear to have significant positive effects

⁶⁵ National Transitional Jobs Network, "Transitional Jobs Programs Break Through Barriers to Work," <http://www.transitionaljobs.net/Resources/Downloads/TJProgramsBreakBarriers.pdf>.

⁶⁶ Gretchen Kirby et al, *Transitional Jobs: Stepping Stones to Unsubsidized Employment*, Mathematica Policy Research, April 2002, <http://www.mathematica-mpr.com/publications/PDFs/transitionalreport.pdf>.

on employment.⁶⁷ An extensive review of six programs found high employment rates — between 81 percent and 94 percent — for individuals who completed the programs, though it is important to note that about half of the individuals who were referred to the programs did not complete them.⁶⁸

A review of participants in Washington State's Community Jobs program revealed strong program outcomes: 72 percent of those who completed the program entered employment, and their average income during their first two years in the workforce was 60 percent higher than their income before entering the program.⁶⁹

Qualitative research has shown that specific elements of transitional jobs programs, including earning a paycheck, working with an involved supervisor, and having a clear work plan, lead program participants to feel positive about their participation and help them gain skills that are transferable to future employment.⁷⁰ Similarly, the six-program evaluation discussed above reported that transitional work has a positive personal, professional, and financial impact on participants.⁷¹

How Can States Design Effective Transitional Jobs Programs?

Research and program experience suggests that the following are important elements in the effective design and implementation of transitional jobs programs:⁷²

- **Include a skill-building component.** Transitional jobs programs will be more successful at placing recipients in higher quality unsubsidized jobs if they include training and skill-building activities related to jobs in industries that are growing, pay higher wages, and offer opportunities for career advancement. (See page 20 for a discussion of the role of education and training in improving employment outcomes.)
- **Ensure that staff identify recipients with barriers to employment and develop workable plans to give those individuals the help they need.** Because transitional jobs programs are designed for individuals with barriers to employment, they must be able to identify previously undisclosed barriers and have the resources and staff capacity to provide needed referrals and intensive case management. Participants with severe barriers may also require a more supportive work environment to succeed, including intensive supervision and fewer hours of

⁶⁷ MDRC is in the process of evaluating a transitional jobs program for ex-offenders in New York City, and a transitional jobs program for TANF recipients in Philadelphia, as part of the multi-site demonstration project. MDRC is expecting results from this study by 2007. More information is available at: http://www.mdrc.org/project_20_8.html.

⁶⁸ Ibid.

⁶⁹ Erin Burchfield, "Community Jobs Program Moves People from Welfare to a Career Track: Outcomes Assessment," Economic Opportunity Institute, April 2002.

⁷⁰ Sondra Youdelman, "Wages Work! An Examination of the New York City's Park Opportunities Program and Its Participants," Community Voices Heard, March 2004, <http://www.cvhaction.org/english/reports/WagesWork.pdf>.

⁷¹ Gretchen Kirby et al, "Transitional Jobs: Stepping Stones to Unsubsidized Employment," Mathematica Policy Research, April 2002, <http://www.mathematica-mpr.com/publications/PDFs/transitionalreport.pdf>.

⁷² Ibid.

Counting the Work Participation of Non-Custodial Parents

Programs that help non-custodial parents prepare for and find jobs can help states meet their work participation rates. If a non-custodial parent with a child receiving TANF assistance participates in countable work activities, that parent can count toward the state's work participation rate.

The preamble to the existing TANF regulations notes that a state may choose to include the non-custodial parent (living apart from the child) as a member of the child's eligible family. (If non-custodial parents are included in the state's definition of "family," the family would *not* be considered a "two-parent family" for purposes of the separate two-parent work participation rate calculation.) To count the work participation of a non-custodial parent, a state must provide some benefit to that parent that meets the definition of "assistance." If it does so, the state may not retain the non-custodial parent's child support payments as reimbursement for this assistance. (See preamble to 1999 TANF rules at 64 Fed. Reg. 17761.)

States should also be aware that they can apply for new fatherhood-related funding to pay for employment services for non-custodial parents with children who receive TANF. The DRA provides \$150 million in marriage and responsible fatherhood-related funding to HHS to distribute on a competitive-grant basis. Up to \$50 million of these funds are for fatherhood initiatives and can be used for three categories of activities: (1) promoting or sustaining marriage, (2) promoting responsible parenting, and (3) fostering economic stability by helping fathers improve their economic status.

work initially. Employees can gradually build up both their hours of work and their responsibilities as they become more proficient. This gradual approach may be especially appropriate for recipients with mental health problems or low cognitive functioning.

- **Develop strong job placement and employment retention services.** Programs that include job development and job placement activities lead to stronger employment outcomes.⁷³ Retention activities will also help to ensure continued success after the transitional job placement ends.

In the past, TANF and Welfare-to-Work grants were the principal sources of funding for transitional jobs programs. Since Welfare-to-Work funds have been exhausted and there is growing competition for TANF funds, states may have trouble funding transitional jobs programs solely through TANF. Depending on the population served, states may be able to use other federal funding sources, such as Workforce Investment Act funds, Food Stamp Employment and Training funds, Hope VI funds for public housing initiatives, Federal IV-D Child Support Funds, and federal funds dedicated to serving individuals with criminal records.

Work Experience

Unpaid work experience programs (sometimes referred to as "workfare") require TANF recipients to work in public or non-profit agencies in return for public assistance. Participation in these programs counts towards all hours of a TANF recipient's required hours of participation,

⁷³ Ibid.

although federal minimum wage rules can limit the amount of hours a recipient can be required to work. (See box on page 34.)

Typically in work experience programs, welfare agencies refer welfare recipients to time-limited community work placements in government or non-profit agencies. Some work experience programs target specific geographic areas, others target the hard-to-employ population, and still others require all welfare recipients to participate. Some states and localities have tried to develop work sites where individuals can gain work skills, while others simply see the work assignment as a way to work off welfare payments.

While work experience programs do not have wage costs (since recipients work in exchange for their welfare benefit), they do have administrative costs that range from approximately \$1,000 to about \$8,000 annually per participant, depending on the design and length of the program and the extent to which the program provides work site supervision and case management.⁷⁴ Larger programs tend to be less costly to administer, as many of the upfront and overhead costs are shared among all participants.⁷⁵

How Effective Are Work Experience Programs?

Although to date no random assignment evaluations of the impact of work experience programs on earnings for TANF recipients have been completed,⁷⁶ in 1993, MDRC did an extensive review of all of the evaluations of work experience programs they had conducted in the 1980s and early 1990s. This review found little evidence that these programs consistently improve employment or earnings. Also, it was not clear from the limited evidence available that these programs lead to reductions in welfare payments or welfare receipt.⁷⁷

There are several possible reasons why work experience programs did not have more positive effects on employment.

- Work experience programs often were designed to enforce a reciprocal obligation, not to help recipients become more employable or help them find jobs.

⁷⁴ Harry Holzer, "Can Work Experience Programs Work for Welfare Recipients?," The Brookings Institution, 2002.

⁷⁵ Thomas Brock, et al., "Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research," MDRC, September 1993.

⁷⁶ MDRC is currently evaluating a program in New York City for TANF and Safety Net recipients with significant work impairments, which includes a large community work experience component. The results of the evaluation were not available at the time this report was written.

For research on the implementation of work experience programs in New York and Wisconsin, see: Nightingale, et al. "Work and Welfare Reform in New York City During the Giuliani Administration. A Study of Program Implementation," Urban Institute, 2002; and Fred Doolittle, et al., "Community Service Jobs in Wisconsin Works: The Milwaukee County Experience," MDRC, 2003.

⁷⁷ Thomas Brock, et al.

Work Experience and the Fair Labor Standards Act

In a work experience program, a TANF recipient typically “works off” the value of his or her TANF benefits (and in some cases, food stamp benefits) for a designated set of hours. The number of hours of work that can be required is governed by minimum wage requirements. Since the federal Fair Labor Standards Act (FLSA) protections apply to TANF recipients just as to other workers, TANF recipients cannot “work off” their benefits at a wage rate that is lower than the minimum wage.^a (45 CFR § 260.35)

The wage rate for these unpaid jobs is calculated on the basis of the recipient’s TANF benefits. Because TANF benefits are low, in many states FLSA protections prohibit a recipient from participating in unpaid work experience for the number of hours required by TANF rules. Even if states require recipients to “work off” the value of their food stamp benefits as well (which would require a food stamp administrative waiver to extend food stamp work requirements to all TANF recipients), many states would still not be able to reach the TANF work requirement. As a result, most states will need to combine work experience with other activities that count toward the work requirement.

^a See <http://www.dol.gov/asp/w2w/welfare.htm#How>.

- Work experience programs typically have not included skill-building components.⁷⁸ The lack of training and skill development makes it difficult for participants to gain the work readiness, basic literacy, and other occupational skills necessary to secure unsubsidized employment in the private sector.
- Many work experience programs do not include strong job development and placement programs that help recipients move from unpaid work experience to unsubsidized employment. Also, the work sites themselves are often with employers who do not have job openings that match recipients’ skills.
- Participants often do not receive individualized attention or assistance in dealing with barriers to employment.
- Workfare participants do not always get the supervision necessary to improve their skills. In a study of work experience programs in Wisconsin, researchers found that over a third of participants believed that the most important method of learning their job was instruction from their supervisor. The same study found that although 62 percent of participants received some sort of mentoring or personal support from a supervisor, at some of the worksites with more than 20 participants, designated supervisors hardly knew the participants and could not answer any survey questions about their performance.⁷⁹

In addition, qualitative research has found that lack of wages can demoralize program participants and impede success in moving into the labor market. A study of a transitional jobs program in New

⁷⁸ Gordon Berlin, "What Works in Welfare Reform: Evidence and Lessons to Guide TANF Reauthorization," MDRC, June 2002, http://www.mdrc.org/Reports2002/TANF/TANFGuide_Full.pdf.

⁷⁹ Fred Doolittle, et al.

York City found that earning wages was an important component in building participants' confidence and motivating them to move off welfare.⁸⁰

Recommendations

Since work experience programs can be costly to operate and do not have demonstrated success in increasing employment and earnings, states should consider alternatives before expanding or initiating them. However, if states do choose to implement work experience programs, they should draw upon the experience of transitional jobs and other welfare-to-work programs that appear more promising:

- **Provide education and training as part of the program.** As discussed above, education and training are an important part of a comprehensive employment program and should be combined with work experience programs. Participants in the Wisconsin work experience program who received vocational training reported greater improvements in work habits and basic skills than participants who did not receive training. In addition, participants who received training reported that they were given more responsibility at the work site; they also expected that they would receive higher wages when they found unsubsidized employment.⁸¹ Combining work experience with education and training can also enable the state to ensure that recipients meet their federal hourly work participation requirements without violating the Fair Labor Standards Act.
- **Target training and work experience to industries that offer more promising job opportunities.** Work experience positions and related skill building that help recipients prepare for industries offering higher wages and opportunities for advancement can help recipients secure a place on a career ladder.
- **Consider the needs and skill levels of program participants.** Participants with barriers to employment may need a more flexible work environment and more supportive services to succeed. States that implement unpaid work experience programs should identify an array of work assignments that can accommodate participants' strengths and limitations. Programs can also give participants gradually increasing work responsibilities.
- **Provide ongoing supervision and a supportive work environment for participants with barriers.** To ensure adequate supervision, programs should use smaller work sites and provide a sufficient number of supervisors so that participants can get the individualized attention and support they need.
- **Incorporate job search and job placement into the program.** Since most work experience programs are not designed to help participants move into unsubsidized employment with the work site employer, they must include strong job search and job development components so that when recipients are ready for unsubsidized employment, they have the time and help they

⁸⁰ Sandra Youdelman, "Wages Work! An Examination of the New York City's Park Opportunities Program and Its Participants," Community Voices Heard, March 2004. <http://www.cvhaction.org/english/reports/WagesWork.pdf>.

⁸¹ Fred Doolittle, et al.

need to search for work. As discussed above, the job search component of a work experience program should help recipients secure jobs that offer good wages and opportunities for advancement. For a fuller discussion of job search activities, see page 17.

Community Service Programs

States' use of community service programs in their TANF welfare-to-work programs varies widely. Nationally, community service constitutes about 10 percent of the activities that states count toward meeting their work rates. Many states rarely use the activity, however, while others use it extensively.

Some states use a very limited definition of community service, counting only those activities that a court orders someone to complete as part of a criminal sentence. Other states take a broader approach and include activities that contribute to the well-being of members of the community, such as caring for a disabled family member, volunteering at a sports event, or addressing one's own barriers to employment. Sometimes community service activities are formal placements much like work experience; at other times, they are self-initiated and informal, such as volunteer hours at a child's school. The June 2006 federal TANF rules will likely have a greater impact on state options in the area of community service than in any other kind of work activity.

Much like work experience, community service often focuses on requiring a reciprocal obligation rather than preparing a person for work. The concept underlying many state community service approaches — that benefit recipients should give something back in return for their benefits — allows a state to include a range of activities that help the community. Nevertheless, states can also use community service as a stepping stone toward other work activities and employment. For recipients who are ready for more employment-oriented activities, states could make community service programs more effective in leading to unsubsidized employment by building in (or linking to) other work-related services such as soft skills training, education and training, or job search assistance.

Increasing Participation in Work-Related Activities Among Recipients with Barriers to Employment

States seeking to engage a greater percentage of TANF families in work-related activities will need to step up efforts to serve recipients with barriers to employment. The prevalence of barriers to employment among TANF recipients — including mental and physical problems — has been well documented.⁸² A critical challenge during the next stage of state welfare reform is for states to identify and address these barriers in order to help families connect to work or other activities. To accomplish this, states will need a range of assessment and service strategies.

⁸² See, for example, "More Coordinated Federal Effort Could Help States and Localities Move TANF Recipients With Impairments Toward Employment," GAO-02-37, October, 2001; LaDonna Pavetti and Jacqueline Kauff, "When Five Years Is Not Enough: Identifying and Addressing the Needs of Families Nearing the TANF Time Limit in Ramsey County, Minnesota," Mathematica Policy Research, March 2006; and Eileen P. Sweeney, "Recent Studies Indicate that Many Parents Who are Current or Former Welfare Recipients Have Disabilities or Other Medical Conditions," Center on Budget and Policy Priorities, February 2000, <http://www.cbpp.org/2-29-00wel.htm>.

Given the severe barriers many families face, some parents may be unable to participate in countable activities immediately, particularly if forthcoming regulations adopt narrow definitions of the work activities. Moreover, as states step up efforts to increase engagement among families with barriers to employment, families that are not able to comply with these requirements are likely to face sanctions, including full-family sanctions. Extensive research has shown that a large share of sanctioned families faces significant barriers that impede their ability to meet program requirements.⁸³ While assessments and a more careful tailoring of work activities to match families' specific circumstances can help parents comply with work requirements, states also can make better use of the clues about families' problems when they do not successfully participate in welfare-to-work activities to try to identify barriers earlier. Noncompliance itself may signal the existence of a barrier and present an opportunity for the state to begin providing help.

A large share of sanctioned families faces significant barriers that impede their ability to meet program requirements.

Increasing Engagement

A number of states have taken “full-engagement” approaches in their TANF programs for some time. These states have few if any exemptions from participation requirements, contending that all (or nearly all) recipients must participate in one of a broad range of activities. States that have adopted or are considering this approach face some new challenges:

- **Increased prevalence of barriers to employment among TANF recipients.** As welfare caseloads have shrunk by half over the last decade, many program administrators have noted that a large share of those remaining on TANF have significant barriers to employment, including mental and physical health problems, substance abuse, learning disabilities, and low cognitive functioning levels. (Many persons who have left TANF also present these issues, particularly those who have lost assistance due to sanctions and time limits.) There is no hard data to confirm this trend, but some researchers and program administrators believe that some more difficult-to-measure barriers have become more common among TANF recipients.
- **Higher effective work participation rates.** The DRA changes increase the effective work participation rates states have to meet as compared to the rates they had to meet under prior law. When states' work participation requirements were easy to meet, states could engage recipients in activities that did not count toward the work requirements without worrying that they might fail to meet the federal target. Because the federal participation rates are now far more difficult to meet, it may be more difficult for states to engage recipients with significant barriers by placing them in activities that may not be countable, such as mental health treatment.

⁸³ See, for example, Yeheskel Hasenfeld et al., “The Logic of Sanctioning Welfare Recipients: An Empirical Assessment,” *The Social Services Review*, June 2004; “The Use of TANF Work-Oriented Sanctions in Illinois, New Jersey, and South Carolina,” Mathematica Policy Research, 2004, <http://aspe.hhs.gov/hsp/TANF-Sanctions04>.

- **Waivers that gave states broader flexibility have expired.** When TANF was established in 1996, many states opted to continue their pre-TANF waivers and thus enjoyed flexibility to count a broader range of work activities toward federal work rates during the waiver period. Many of these waivers also exempted persons with disabilities and other barriers from work activities. All of these waivers but one have now expired.

What Lessons Can Be Drawn from State Full Engagement Efforts?

Successful full-engagement strategies typically consider an individual's strengths and the family's needs while focusing on work as the ultimate goal. A Mathematica Policy Research study for the Department of Health and Human Services gleaned important lessons from selected state full engagement policies, which are highlighted below.⁸⁴ (The study also stressed the importance of early screening and specialized assessments, which are discussed in a later section.)

- *Individualized case planning.* The most successful programs gave caseworkers significant discretion to craft employability plans — including the types of activities in which a recipient would participate, the hours of participation, and the support services that would be provided — based on families' unique strengths, interests, and barriers.
- *Frequent and regular contact with recipients.* Engagement is an ongoing process. Participation in work activities does not always get easier for a recipient over time; some recipients' barriers may worsen, or new barriers may develop, while a parent is participating in work activities. In some cases, participation may exacerbate family problems as parents try to balance work with other responsibilities. To help recipients participate on a sustained basis, case managers need regular and frequent contact (at least monthly) with recipients to reassess their circumstances, modify employment goals, address barriers to employment that may surface, and provide encouragement.
- *Flexibility in setting activities.* Having a full menu of options — for example, parenting programs or mental health or substance abuse treatment — is important. Also important is the latitude to vary the number of hours of participation required, including requiring fewer hours than may be needed in order to count the recipient toward the federal work rates.
- *Allow clients to set goals.* When TANF recipients set goals, they are more willing to participate because they have a sense of ownership in the plan.

Some Work Activities for Recipients with Barriers May Not Be Countable

States seeking fuller engagement should not focus solely on placing recipients in activities that meet the federal work rates. Some recipients — particularly those with significant barriers to employment — can make more progress toward employment and self-sufficiency if they first participate in activities that address their barriers, before moving on to other (i.e., countable)

⁸⁴ Jacqueline Kauff, Michelle Derr, and LaDonna Pavetti, "A Study of Work participation and Full Engagement Strategies," Mathematica Policy Research, September 2004.

activities. This might mean assigning an individual to a non-countable activity, allowing an individual more time to complete an activity than is countable, or assigning an individual to participate for fewer than the federally required hours per week.

States that have adopted such approaches have successfully engaged a significant share of TANF recipients. Mathematica Policy Research analyzed full-engagement programs in El Paso County, Colorado and the state of Utah and found high levels of engagement in work-related activities: 90 percent and 82 percent, respectively. However, many recipients — 38 percent and 62 percent, respectively, of those assigned to any activity — were engaged at least in part in non-countable activities.⁸⁵ These non-countable activities typically were designed to address personal and family challenges (such as mental health problems or substance abuse) or to help support work by addressing transportation or child care barriers. Fewer than half of the El Paso County recipients and only one in five of the Utah participants were assigned exclusively to countable activities. (It is important to note that what states, and the researchers, may have labeled as non-federally countable activities might include activities that other states counted toward the federal participation rates and which may or may not be countable under the forthcoming federal rules.)

States can serve families who are engaged in non-countable activities either through their state's TANF or MOE-funded programs or through a separate program that does not receive any TANF or MOE funds; a state may prefer the latter option so that these families are not considered in the federal work rate calculation. This requires, of course, that the state identify resources for the program that are in addition to those used to meet the state's MOE requirement.

It is especially important for states to consider non-countable activities for TANF recipients with disabilities. States are obligated under the Americans with Disabilities Act and Section 504 of the Rehabilitation Services Act to provide access to work activities for persons with disabilities and to make accommodations in TANF-related requirements for individuals with disabilities when needed. These obligations may include requiring recipients to participate in different activities or for fewer hours than typically required. (Issues related to TANF and individuals with disabilities are discussed in Chapter IV.)

Improving Screening and Assessment

An essential step in increasing engagement is to identify barriers to employment through screening and assessment. Without identification of these barriers, states will miss opportunities to help clients participate successfully and, ultimately, gain employment. Moreover, if states do not identify barriers, they may end up assigning TANF recipients to inappropriate activities and sanctioning families that are unable to comply. The goal of assessment is not merely to identify potential barriers, but to begin developing a course of action to address them.

The discussion below focuses on identifying unobserved barriers to employment. For TANF recipients, these are most likely to be substance abuse, physical and mental health problems, learning disabilities, and domestic violence. (A discussion of other types of assessment, such as developing

⁸⁵ Jacqueline Kauff, Michelle Derr, LaDonna Pavetti, pp. 46-50.

“Non-compliance may also serve as a clue or red flag that an unobserved barrier is prohibiting compliance. When considered in this way, non-compliance offers another opportunity at which TANF and partner agency staff can screen or assess for a potential barrier to employment.”

- 2001 Urban Institute report

an employability plan based on education, job skills, and work history, is outside the scope of this report.)

Assessment typically occurs in stages, including preliminary screenings for most or all recipients and then follow-up referrals for more specialized and intensive assessments when warranted. There is no single way to conduct effective assessments, but useful lessons can be drawn from the experiences of states and localities that have worked to improve their procedures. The discussion below draws heavily from two reports prepared by the Urban Institute for the U.S. Department of Health and Human Services in 2001, which provide comprehensive analysis of assessment processes.⁸⁶

When Should Assessments Occur?

Assessments should start early, with short screening tools used broadly to identify recipients who need more in-depth assessments, and continue as recipients engage in work-related activities.

States can include screening and assessment in client contacts that focus on establishing program eligibility and employment planning process. In Utah, for example, employment counselors use an assessment tool in the up-front employability planning process that covers not only work history and education but also issues such as substance abuse, physical and mental health, and domestic violence. In Arkansas, screening for employment barriers follows soon after TANF eligibility determinations are made.⁸⁷

Screening and assessment procedures also should be built into job search and job readiness programs. (For a discussion of how to improve these programs, see page 17.) In addition, states should consider developing ways to better use information about noncompliance with work requirements — or failure to make progress in a work activity — to determine whether more in-depth assessments are warranted. For example, an individual’s repeated inability to understand and complete simple tasks in the work program may trigger an assessment for cognitive functioning. Similarly, a parent’s failure to comply with work requirements may reflect barriers to participation that may not have been identified through assessments. As one study noted, “Non-compliance may also serve as a clue or red flag that an unobserved barrier is prohibiting compliance. When considered in this way, non-compliance offers another opportunity at which TANF and partner agency staff can screen or assess for a potential barrier to employment.”⁸⁸

⁸⁶ Terri Thompson, Asheley Van Ness and Carolyn T. O’Brien, “Screening and Assessment in TANF/Welfare-to-Work: Local Answers to Difficult Questions,” The Urban Institute, December 2001 and Terri Thompson and Kelly S. Mikelson, “Screening and Assessment in TANF/Welfare-to-Work: Ten Important Questions TANF Agencies and Their Partners Should Consider,” The Urban Institute, March 2001.

⁸⁷ Terri Thompson and Kelly S. Mikelson, pp. 61-2.

⁸⁸ Ibid, p. 60.

Administrative data such as length of time on assistance could identify recipients for further assessment. In Ramsey County, Minnesota, officials focused on families approaching the TANF time limit — many of whom had not succeeded in prior work activities — and provided in-depth psychological, vocational, and functional needs assessments (described below). However, states should not wait until a family is nearing its time limit to investigate why the family is not progressing toward employment.

Who Should Conduct Screenings and Assessments?

Typically, TANF eligibility workers or case managers play a key role in identifying potential unobserved barriers to employment, but more in-depth assessments are conducted by specialized workers either within the agency or from a partner agency or contractor.

Eligibility workers and case managers have the most frequent and extended contact with clients and are the first line of observation in identifying possible barriers and situations requiring further evaluation. They are most likely to use informal methods of observation.

Relying on eligibility workers and case managers has both advantages and disadvantages. On the one hand, clients are more likely to disclose unobserved barriers to someone they trust, and some staff report that providing supportive services (such as transportation assistance) to clients can help build a trusting relationship. On the other hand, agency staff note that clients may be more comfortable disclosing barriers to persons who do not control their benefits. Also, the large caseloads many TANF workers carry may prevent them from providing anything more than limited screening.

Specialized workers or employees of partner agencies such as community-based organizations are the best equipped to conduct in-depth assessments of barriers. These persons often have more specialized training — for example, in developmental disabilities, substance abuse, or domestic violence — and can administer more in-depth assessments in these areas. Also, since they do not control the families' benefits, staff of partner agencies may be trusted more by recipients. Often these partner agencies are co-located with the TANF agency so that referrals (or even quick screenings) can happen promptly and conveniently. In the above-mentioned Ramsey County program, which uncovered significant mental health problems and high rates of low cognitive functioning among long-term recipients, the county partnered with the county's disability agency to conduct vocational and in-home functional assessments.

How Should Assessments Be Conducted?

While many states use formal screening and assessment tools, informal methods play an important role as well. Most staff interviewed in the Urban Institute's detailed study of six sites reported that informal approaches were more effective than screening or assessment tools in uncovering barriers.⁸⁹

⁸⁹ Terri Thompson, Asheley Van Ness, and Carolyn T. O'Brien.

There is no single best way to uncover barriers. Many states use tools to bring greater uniformity and structure to the process and to allow workers with less training to provide the first line of identification. Sometimes, as in the case of Rhode Island and Montana, they use a single tool to identify multiple issues. States also use issue-specific tools — for example, Washington State and Kansas use a tool specifically aimed at identifying learning disabilities, while other states use a tool aimed at identifying domestic violence. Maryland researchers compared client-reported barriers with administrative data and based on that analysis recommend that tools that make use of validated scales for measuring mental health, alcohol abuse and domestic violence may be particularly beneficial rather than solely relying on self-reporting of these barriers.⁹⁰

Psychological and occupational assessments can provide important insights about a client's barriers. Ramsey County conducted comprehensive psychological vocational assessments of TANF recipients approaching time limits through psychologists who administered standard psychometric tests of cognitive ability. The results from the vocational psychological testing provided county staff with information that enabled them to develop more individualized service plans and to account for factors they had not previously considered in assessing their clients.⁹¹

Ramsey County then looked even more deeply at the group of recipients whose assessment indicated very low cognitive ability (i.e., an IQ below 70) by assigning an occupational therapist to conduct additional in-home functional assessments. In contrast to a typical TANF assessment, which is designed simply to uncover barriers, the functional needs assessments were intended to identify *how* such barriers affect a recipient's ability to perform daily tasks and engage in work-related activities. The assessment included observing the home and asking the parent to perform a specific household task, such as preparing a packaged meal that the therapist provided.

These assessments revealed significant limitations in cognitive functioning. For example, most participants were unable to read and follow the directions to prepare a simple pre-packaged meal. Some could not determine how much change they should get from a dollar if they spent 69 cents, and some were unable to count from 1 to 10. As the Mathematica study of the Ramsey County program noted, "In addition to identifying previously unidentified barriers to employment, the assessments provided concrete suggestions for surmounting the barriers, including finding paid employment if that was a realistic goal. For case managers, the information has been invaluable, making the task of working with long-term recipients a targeted effort as opposed to a shot in the dark."⁹²

While a state or county will not want to administer these types of intensive assessments to a broad population, it can target the assessments toward recipients who are unable to participate successfully, such as those who are noncompliant or approaching time limits.

⁹⁰ Catherine Born, et al., "Barriers to Independence Among TANF Recipients: Comparing Caseworker Records and Client Surveys," University of Maryland School of Social Work, June 2005. Validated scales are ones that have been tested and approved for use by researchers.

⁹¹ LaDonna Pavetti and Jacqueline Kauff, p. 7.

⁹² Ibid, p. 17.

A Compliance-Oriented Approach to Sanctions

There is significant evidence that a large share of families that are sanctioned for failing to comply with program requirements has significant barriers to employment, including limited work history, low educational attainment, and physical and mental health problems. Moreover, families that are sanctioned tend to do worse after leaving TANF than other recipients: they have lower employment rates, lower incomes when employed, and higher rates of hardship. In a recent California study of four counties, case managers agreed that most non-compliant recipients have significant barriers and thus cannot comply with welfare-to-work requirements.⁹³

Some states looking to increase their work participation rate may consider increased use of full-family sanctions, either by adopting a full-family sanction policy or by increase the frequency with which full-family sanctions are imposed. This would be unfortunate. Despite the extensive use of such sanctions over the last decade, there is no evidence that full-family sanctions are more effective than partial-family sanctions at encouraging recipients to participate or at improving employment outcomes.⁹⁴

If the goal of a state's sanction policy is to increase compliance and participation — as opposed to imposing penalties and reducing the number of families receiving assistance — states have constructive steps they can take:

- **Communicate expectations to clients both before and after noncompliance.** Considerable research has indicated that many clients do not understand the requirements they must meet or how to come into compliance.^{95, 96}
- **Use information about noncompliance as a signal that more-intensive efforts to understand the family's circumstances may be warranted.** For example, Arizona uses a report of non-compliance as an opportunity to identify barriers to participation. Prior to imposing sanctions, the caseworker is directed to revise the employability plan to address the barriers or to make a pre-sanction referral, often to a community resource.
- **Restore full benefits upon compliance.** Imposing mandatory periods of disqualification can deepen family hardship and may reduce a family's incentive to come into compliance.
- **Continue reaching out to families even after they are sanctioned.** In some states, the agency or a community-based organization works closely with a family after a partial or full sanction has been imposed in order to achieve compliance. For example, in Tioga County, New York, the county significantly reduced the number of cases in sanction through home

⁹³ Sofya Bagdasaryan, et al., "CalWORKS Sanction Policies in Four Counties: Practices, Attitudes, Knowledge," California Policy Research Center, May 2005, <http://wprp.ucop.edu/PMBUCLAMAY2005.pdf>.

⁹⁴ See discussion in Dan Bloom and Don Winstead, "Sanctions and Welfare," Brookings Institution Policy Brief, January 2002, <http://www.mdrc.org/publications/191/policybrief.html>

⁹⁵ Ibid.

⁹⁶ For example, see, Sofya Bagdasaryan; HHS Office of Inspector General, "Education Clients About Sanctions," October 1999, <http://oig.hhs.gov/oci/reports/oci-09-98-00291.pdf>; HHS Office of Inspector General, "Improving Sanction Notices," October 1999, <http://oig.hhs.gov/oci/reports/oci-09-98-00292.pdf>.

visits to sanctioned families. These visits increased the county's knowledge of the circumstances and barriers faced by the sanctioned families. In some instances, agency workers found that the sanction was not appropriate; in others, they identified barriers and created a pathway toward compliance.

In addition, states can learn a great deal from their administrative data on sanctions. Some counties or offices may be much more successful than others at achieving high work participation rates or curing partial sanctions. Analyzing the usage of sanctions across the state may enable the state to identify best practices

TANF Work Requirements and Two-Parent Families

The DRA requires states to meet a very high work participation rate for two-parent families: 90 percent, if the state's two-parent TANF caseload is not below its 2005 level. Most program administrators and researchers believe a 90-percent participation rate is infeasible unless states deny aid to poor two-parent families who are unable to meet the work requirements for *any* reason.⁹⁷ This is because there are many legitimate reasons why families are unable to meet these requirements: illness or the need to care for an ill relative, family emergencies (including unstable housing situations and issues related to the child welfare system), or simply a lack of open slots in a work program.

As states consider how to serve two-parent families, it is important to recognize that married-couple families that receive assistance through TANF or separate state programs are very poor. The typical (or median) such family has income of just *63 percent of the poverty line*, even when its income assistance and food stamps are counted, according to HHS. Without food stamps and cash assistance, most of these families would be destitute. Moreover, nearly three-quarters of the two-parent families assisted by a TANF or separate state program have *no* cash savings to draw upon should they lose this assistance.

Poor two-parent families may need assistance for a variety of reasons. Some need temporary help during a period of joblessness. Others face problems such as poor health, mental impairments, low literacy levels, or the need to care for a severely disabled child. While married-couple families have lower poverty rates than single-parent families, those two-parent families that do find themselves in need of aid often face very difficult circumstances, and the denial of aid to these families could push many of them into deep poverty.

States that want to avoid imposing penalties on marriage for poor parents in the wake of the DRA have two main options:

- continue assisting poor two-parent families in their TANF programs and accept the very modest penalties associated with failing to meet the two-parent participation rate; or
- assist two-parent families through a state-funded program that does not count toward the state's MOE requirement, thereby avoiding federal penalties.

⁹⁷ See, for example, Gordon L. Berlin, p. 13, http://www.mdrc.org/Reports2002/TANF/TANFGuide_Full.pdf.

These two options are explored below.

Serving Two-Parent Families Inside the TANF Structure

As noted in Chapter I, states face a maximum federal penalty of 5 percent of their adjusted TANF block grant for failure to meet the federal work requirements. But if a state meets its all-family work participation rate and only fails to meet its two-parent rate, the penalty imposed is small, because the penalty is multiplied by the percentage of the TANF caseload consisting of two-parent families. For example, if a state is subject to the full 5 percent penalty and two-parent families make up 8 percent of the state's caseload, the penalty is 0.4 percent of the state's block grant (5 percent x .08).⁹⁸

If a state fails to meet both the two-parent and all-families participation rates, current regulations suggest (though the language is not entirely clear) that the penalty is the same as for failure to meet the all-families rate.

It is not entirely clear, however, whether failing to meet both work rates would harm a state's ability to avoid the resulting penalties by taking advantage of the "corrective compliance" mechanism. Under the TANF statute, states that fail to meet the work participation rates can enter into a corrective compliance plan with HHS; if they follow the terms of that plan, they are not subject to penalties. However, a state has a relatively short time — 6-18 months after HHS approves the plan — to come into compliance with the federal work rates.

Since the 90-percent participation rate is so difficult to meet, states may be unable to develop a credible corrective compliance plan that identifies steps for coming into full compliance with the work rates. Even if a state does get a plan approved, it is unlikely to meet the 90-percent participation rate and thus is likely to face some level of penalty. Presumably, if the state is unable to meet the two-parent rate during the compliance period but does meet the all-families rate, it would face only the small penalty for failure to meet the two-parent rate. Further clarification from HHS would be useful on whether a state's failure to meet the two-parent rate would prevent the state from engaging in the corrective compliance mechanism.

Serving Two-Parent Families Outside the TANF Structure

States may not want to accept the penalty for failure to meet the two-parent participation rate, or they may be concerned that failing to meet that rate could prevent them from securing penalty relief for failing to meet the all-families rate. Such states can assist two-parent families through a state-funded program that does not count toward the state's MOE requirement. In many states, the cost of assisting two-parent families is modest. States should note that they can fund employment services — but not child care and transportation assistance — for these families through TANF, as employment services are not considered "assistance" and thus work requirements do not apply.

⁹⁸ This rule is not expected to change in the forthcoming interim final TANF regulations as this issue is outside the scope of the areas for which Congress granted HHS the authority to issue new regulations on an interim final basis.

A state taking this approach can limit the amount of non-MOE state funds it spends by including *only* those two-parent families who are not meeting the federal work rate requirements in the program that is funded outside of the TANF or MOE structure. This would allow the state to get credit in its TANF and MOE-funded programs (toward the all-family and two-parent rates) for those families who are participating and, at the same time, avoid the penalty for failing to meet the two-parent participation rate.

Rhode Island currently uses a similar (though not identical) approach. Under prior law, families receiving assistance in an MOE-funded program were not considered when determining a state's work participation rate. Based on that structure, Rhode Island assigns its two-parent families that meet the federal participation standards to its TANF program and assigns those two-parent families that do not meet the participation rate standards to an MOE-funded program. States can adapt the Rhode Island approach to minimize the number of two-parent families it serves outside of the TANF and MOE structure.

CHAPTER III: Income Supplements for Working Families

Introduction

Over the past two decades, there has been growing recognition among researchers and policymakers that more needed to be done to “make work pay” and to provide supports to poor families so they are able to work. This recognition has led to expansions of the Earned Income Tax Credit (EITC) and to the extension of health insurance through Medicaid and the State Children’s Health Insurance Program (SCHIP) to children in low-income working families. (Previously, publicly funded health coverage was provided only to recipients of cash assistance.) Similarly, federal funding for child care has increased significantly since the early 1990s, though it remains insufficient to serve more than a fraction of the families that need help paying for child care.

Since the early 1990s, many states also 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 — chiefly through the use of expanded “earned income disregards” — so that families’ benefits are reduced more slowly as their earnings rise. Despite these changes, however, TANF programs still provide very modest help to low-income working families.

States should consider expanding income supplements to low-income working families further, for two important reasons:

- Research in the United States and Canada has shown that income supplements are an effective work incentive, improving employment outcomes for low-income working families, 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, Gordon Berlin, president of MDRC, concluded, “In short, earnings supplement policies increase the range of options that policymakers have to encourage work and combat poverty.

“In short, earnings supplement policies increase the range of options that policymakers have to encourage work and combat poverty. Indeed, they are the only policies to consistently have had positive effects on both work and income.”

- Gordon Berlin,
President, MDRC

Indeed, they are the only policies to consistently have had positive effects on both work and income.”⁹⁹

- Increasing assistance to working families can help a state meet the tougher work participation rates imposed by the Deficit Reduction Act (DRA), because working families that receive TANF or MOE-funded assistance count toward the work rate calculation. As more parents find jobs as a result of the work incentive and as assistance is extended to a broader group of working families, the state’s work rate will rise.

This chapter discusses several ways states can design income supplements, including:

- **Providing ongoing monthly income assistance to low-income working families.** States can provide these supplements through their standard TANF program or in a separate program that serves only working families.
- **Providing up-front lump-sum cash benefits to families likely to become employed quickly.** These programs provide one-time, short-term cash benefits — generally equal to three or four months of cash assistance — to families in which the parent has recently lost his or her job and is likely to become employed again quickly.
- **Providing bonuses to parents who leave welfare for work and remain employed.** Some states now provide (or are considering providing) bonuses to families that are working to provide an incentive for them to remain employed.
- **Increasing the amount of child support payments that are directed toward current and former TANF recipients rather than used to reimburse the state and federal governments for the cost of assistance provided to these families.** States can adopt several options that allow current and former TANF recipients to keep more of the child support that is collected on their children’s behalf. Adopting such options also can help states meet their work participation targets and other welfare reform goals.

Though not discussed in this chapter in detail, *non-cash* work supports — including child care subsidies, health insurance through Medicaid or SCHIP, child support services, food stamps, housing subsidies, and transportation assistance — and the EITC are also essential tools for promoting employment and helping families make ends meet. For more information on non-cash work supports, see the resource list in the appendix (page 97).

⁹⁹ Charles Michalopoulos, "Does Making Work Pay Still Pay," MDRC, August 2005, p. x, <http://www.mdrc.org/publications/414/execsum.html> and full report at <http://www.mdrc.org/publications/414/full.pdf>.

Ongoing Monthly Income Supplements for Low-Income Working Families

An August 2005 report by MDRC evaluating four income supplement programs in the United States and Canada found that all four programs 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 without recent work experience or a high school diploma.¹⁰⁰

States can provide monthly income supplements through their regular TANF cash assistance program (by improving the earned income and child support disregards)¹⁰¹ or in a separate program designed solely for working families. Both approaches have proven effective.

Providing Assistance Within TANF Through Expanded Earned Income Disregards

Nearly all states have increased their 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 at earnings levels that are well below the poverty line.¹⁰² (TANF earnings disregards and benefit levels vary widely from state to state, as does the level of earnings at which individuals become ineligible for TANF-related assistance.)

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

How Does an Earned Income Disregard Work?

In most states, a family's TANF benefit is calculated by subtracting the family's "countable" income from the maximum benefit for a family of a particular family size. A family's countable income generally includes all of its unearned income (such as Social Security benefits or unemployment insurance) and a *portion* of its earnings. An earned income disregard policy determines how much of a family's earnings are considered when determining its level of TANF benefits.

Example

Suppose that a state disregards the first \$100 and one-third of all remaining earnings when determining TANF benefits. If a family earns \$400 in a month, its countable earnings equal:

$$\$400 - [\$100 + 1/3 (\$400 - \$100)] = \$200$$

Suppose the family has no other income and the maximum benefit for this family (based on its family size) is \$500. The family would be eligible for TANF benefits equal to \$300, the difference between the maximum grant and its countable earnings.

Thus, if a state adopts a more generous earned income disregard, benefits are reduced more slowly as a family's earnings rise.

¹⁰⁰ Ibid.

¹⁰¹ Some states use a budgeting methodology rather than an earnings disregard policy to produce the same outcome of allowing TANF recipients to keep more of their earnings. States that employ this approach — called "fill the gap" budgeting — also could take steps to allow families to fill a larger gap with earnings or child support.

¹⁰² For information on state earned income disregard policies and cash assistance benefit levels, see Meridith Walters, Gene Falk, and Vee Burke, "*TANF Cash Benefits as of January 1, 2004*," Congressional Research Service, September 2004.

families that get jobs to remain eligible for supplemental TANF assistance, and thus “countable” in the state’s work participation rate, for a longer period of time.¹⁰³

Similarly, states can adopt or increase a child support disregard so families that are working and receiving child support will continue to qualify for ongoing income assistance and count toward the state’s work rate. (For a more detailed discussion of child support options, see the child support discussion on page 62.)

Design Issues

There are several important issues to consider when designing expanded earned income disregards:

- **How long should the expanded disregard be available to a family?** Research has found that income supplements work best when they are available to families as long as they have low earnings.¹⁰⁴ If cost or other constraints require a shorter time period, that period should be as long as possible to give families time to settle into their jobs, meet up-front work expenses (such as purchasing a uniform), and pay any past-due bills that may have accrued when they were not working. Moreover, because most families do not benefit from the EITC until they file their yearly tax returns, earned income disregards should stay in place for at least 6-12 months so families do not lose access to TANF assistance until they have received (or will soon receive) help from the EITC.

From the state’s perspective, not imposing a time limit on an expanded earned income disregard will maximize the benefit to the state’s work participation rate. If the disregard shrinks after several months, many working families will lose TANF eligibility and the state will no longer be able to count them toward its work rate.

Currently, at least nine states provide a generous earnings disregard for the first several months in which a recipient is working, but after this short period the disregard is substantially reduced and families lose TANF assistance at low levels of earnings. For example, South Carolina disregards 50 percent of earnings during the first four months a recipient is employed, but after the fourth month, the disregard falls to a flat \$100 per month.¹⁰⁵

- **Should a smaller disregard be applied to TANF applicants than to families already receiving TANF assistance?** Most states apply a much less generous earnings disregard to families applying for TANF assistance than to families already receiving assistance. This keeps state TANF caseloads at lower levels (which some policymakers view as a goal in and of itself) and reduces costs, but it also creates significant inequities among working families. Under this

¹⁰³ Increasing a state’s basic assistance grant also can increase the earnings level at which a family becomes ineligible for assistance.

¹⁰⁴ Charles Michalopoulos.

¹⁰⁵ Meredith Walters, Gene Falk, and Vee Burke.

structure, a family in which a parent never received TANF and is working in a low-wage job may be ineligible for assistance, while another family in which the parent has the same earnings is eligible for aid because the family was receiving TANF when the parent found the job.

The new work participation rates imposed by the DRA provide another reason to apply the same disregards to applicants as are applied to recipients. Extending a more generous disregard to applicants than typically applies today would enable more working families to receive assistance and thus count toward the state's work rate.

- **Should a higher disregard or bonus be provided to families in which a parent works the federally required number of hours?** States may want to consider adopting such a policy, which would give parents a stronger incentive to secure the federally required number of hours of employment. Research in the United States and Canada suggests that tying benefits to a minimum number of hours worked makes an income supplement a more effective work incentive, though such a two-tiered approach would mean that working families that cannot secure enough hours of employment receive lower benefits than if they were afforded the same disregard as working families who meet the hourly standard.

States should be careful, however, not to create overly complicated policies that families cannot understand or that impose large paperwork burdens on them. Instead, states could provide a bonus or higher disregard based on a family's *expected* hours of work and then review the number of hours actually worked on a periodic basis. States could conduct this review every six months (when they typically collect updated information for food stamp purposes) without creating a complicated and burdensome process.

- **Should months in which a low-income working family receives an income supplement count against the family's TANF time limit?** Many states do count these months, but such a policy can undermine the goals of the expanded disregard policy. Families that receive (usually modest) assistance while working can use up their TANF eligibility and thus be ineligible for any assistance at a later point if the parent loses her job. Also, placing a time limit on benefits received while working could make it harder for the state to meet its federal work rate, since some working families would likely leave TANF even if they remain eligible for aid in order to preserve their TANF eligibility for the future, while other working families would be terminated from TANF when they hit the time limit.

If a state does not want months of benefits received while working to count against a family's time limit, it should finance these benefits with MOE funds instead of TANF funds.¹⁰⁶ Several states take this approach. For example, in Illinois, families in which a parent works at least 30 hours per week receive MOE-funded assistance that does not count against the state's time limit. Delaware, Maryland, Pennsylvania, and Rhode Island have similar policies.¹⁰⁷

¹⁰⁶ For a discussion of when time limit and child support rules apply to TANF and MOE-funded assistance, see page 13 in Chapter I.

¹⁰⁷ John M. Bouman, Margaret Stapleton, and Deb McKee, "Time Limits, Employment, and State Flexibility in TANF Programming: How States Can Use Time Limits and Earnings Disregards to Support Employment Goals, Preserve Flexibility, and Meet Stricter Federal Participation Requirements," *Clearinghouse Review*, National Center on Poverty Law, September 2003.

Providing Assistance Through Stand-Alone “Worker Supplement” Programs

States may want to provide income supplements to working families in a different program from the state’s basic TANF cash assistance program. (Such a stand-alone program will be referred to below as a “worker supplement” program.) In Arkansas, for example, the “Work Pays” program provides income assistance to families that leave the basic TANF program and are working at least 24 hours each week. “Work Pays” has simpler benefit rules than TANF — all families receive the same grant level — and serves only working families.

Arkansas adopted this model, in part, to distinguish between the goals of its basic TANF program (helping families meet their basic needs and prepare for and find employment) and the goal of supplementing the incomes of low-income working families struggling to make ends meet.

States can support a worker supplement program using TANF and/or MOE funds. Families receiving assistance in a TANF- or MOE-funded program would count toward the state’s work participation rate.

Design Issues

States interested in establishing such a program should consider the following design issues:

- **Whom will it serve?** States can create a limited program just for former TANF recipients, or they can assist a larger group of low-income working families. The former approach is less costly but limits the number of working families the state can count toward its participation rate and creates inequities between working families with identical incomes based on their prior TANF receipt.
- **What level and type of assistance will be provided?** Larger benefits cost more but give families more help and provide a stronger work incentive than more modest assistance. Cash aid is the most flexible form of assistance that can be provided, but some states may want to consider providing income supplements to working families in the form of ongoing food assistance which could be provided on the same electronic benefit transfer cards that the state uses for federal food stamps. Under current food stamp rules, state-funded food assistance does not count as income for purposes of federal food stamp benefits.
- **Will the supplement be a flat amount or vary according to a family’s income?** States may want to adopt a simpler benefit structure in their worker supplement program than in their standard TANF program. States could provide a flat amount of benefits, which is easy to administer and to explain to families, or a benefit that does not fluctuate based on earnings but does vary by family size (which does not fluctuate from month to month).

Alternately, states could tie the benefit level to the family’s income, targeting higher levels of assistance on families that have lower incomes and thus greater need for assistance; under this structure, benefits would slowly phase down as incomes rise, rather than ending abruptly as they would under a flat benefit approach. This approach, however, can be more complicated to explain to families and more difficult for states to administer. States that adopt this approach should consider drawing from the food stamp rules and effectively freeze benefit levels for

Arkansas' "Work Pays" Program

In 2005, the Arkansas legislature enacted the "Work Pays" program to provide income assistance to families that leave the state's basic TANF program (called Temporary Employment Assistance, or TEA) and are working at least 24 hours each week. Work Pays is limited to former TEA recipients with incomes below the federal poverty level, and families cannot participate in the program for more than 24 months. All Work Pays recipients receive a flat grant of \$204 per month, which corresponds to the maximum TEA grant for a family of three. When implemented later this year, Work Pays will be a separate state program funded with MOE funds, so federal time limit and child support requirements will not apply. The program is limited to 3,000 families.

Work Pays represents a major expansion of assistance to Arkansas' working poor families. A family of three becomes ineligible for TEA when its earnings reach just \$696 per month, or slightly more than half of the federal poverty level.

To ensure that eligible families are enrolled in Work Pays, TEA caseworkers will transfer families from TEA to Work Pays automatically when they meet the program's eligibility criteria.

Hawaii too is considering providing income supplements to families that have left the basic TANF program and are working enough hours to meet the federal work requirement. (Hawaii also is considering expanding its earnings disregard *within* its TANF program.)

families in the program for six months at a time. (Under the simplified reporting option in the Food Stamp Program, families do not have to report changes in their income except at set six month intervals, unless their income goes above 130 percent of the federal poverty line.)

- **Will the program be funded with federal TANF funds, state MOE funds, or both?** If a state does not want federal time limit and child support requirements to apply to program participants, it should fund the program with state MOE funds and no federal TANF funds. As discussed above, time limit requirements can undermine the goals of an income assistance program for working families by reducing the number of working families that receive assistance (and that count toward the state's work rate) and by leaving some working families without months of eligibility later when they need it because a parent has lost a job. Moreover, if a state does not use TANF funds for its worker supplement program, families do not have to assign their child support to the state, and the state does not have to remit a portion of child support collected to the federal government.
- **How can families be shifted into the new program seamlessly?** One potential pitfall of a stand-alone worker supplement program is the challenge of ensuring that eligible families that want to participate are actually enrolled. New Jersey's worker supplement program, which provides \$100 per month to TANF recipients for a number of years,¹⁰⁸ has suffered from low participation, apparently due in part to the absence of a simple and seamless enrollment

¹⁰⁸ New Jersey actually structured their supplement as "non-assistance" by defining the flat \$100 benefit as an offset to work expenses. New Jersey structured its program this way so that time limits and child support requirements would not apply. Under the new work participation rate requirements, however, many states likely will want to consider such benefits to working families as "assistance" so the families count toward the state's work participation rate.

system.¹⁰⁹ This problem can be minimized if TANF recipients who become eligible for a worker supplement program are transferred into that program automatically, without a separate application process. However, automatic enrollment cannot be used if families are given a choice of which program to participate in and there are disadvantages (such as lower benefits) for families participating in the worker supplement program.

Comparing the Earned Income Disregard and Worker Supplement Approaches

Of the two options discussed here by which states can extend ongoing assistance to working families, an expanded earned income disregard may be easier for some states to implement quickly, because it is only a modification of an existing TANF benefit rule and thus requires less computer re-programming and staff training. On the other hand, an earnings disregard may be more difficult to explain to families, and confusion about the rules may reduce its effectiveness as a work incentive.

The stand-alone worker supplement program, in contrast, may take longer for a state to establish and require more extensive computer programming and staff training. Moreover, care will have to be taken to ensure that families can easily and seamlessly shift from TANF to the worker supplement program. Despite these challenges, this model has several advantages: it does not cause a large increase in the number of families in the state's basic TANF program which may be important to some policymakers, and states may have less trouble adopting simple rules for working families in a worker supplement program than in their basic TANF program.

Under either approach, states should consider funding the benefits with MOE funds so that time limit rules do not apply.

Lump-Sum Payments Can Help Families That Are Likely to Find Employment Quickly

Some families that apply for TANF benefits have significant recent work experience and are likely to find employment quickly. These families may benefit more from a one-time, sizable lump-sum payment (often called a “diversion” payment) than from smaller, ongoing benefit payments.¹¹⁰ A lump-sum payment can help a family make ends meet during a temporary period of unemployment and pay for immediate significant expenses such as back rent, car repairs, and expenses related to a new job. In other words, it can help a family get “back on its feet” and obviate the need for the family to become TANF recipients at all. An HHS-funded study noted that “[w]elfare agencies that

¹⁰⁹ This does not appear to be the only reason for the low take-up rate. Families receiving TANF benefits were eligible for certain housing assistance benefits while families receiving the worker allowance were ineligible for the housing benefit. This meant that some families that would have received a higher cash grant through the worker allowance program chose to remain in TANF (despite the fact that their time limit was running) to secure needed housing aid.

¹¹⁰ A lump-sum “diversion” program is quite different from other, often informal, diversion efforts through which states discourage or divert applicants from pursuing applications by means other than providing a meaningful one-time benefit. To reduce the number of families whose applications for aid are approved, states sometimes impose requirements on applicants — such as a set number of job search contacts or participation in other welfare-to-work activities — that must be completed in order for the state to approve the family's application for assistance. Other states do not impose formal pre-eligibility requirements but push caseworkers to discourage applicants from pursuing TANF and to instead pursue only other benefits such as food stamps. These forms of diversion can serve to restrict access to families that have serious barriers to employment or who are in a short-term crisis.

have made use of this type of targeted financial assistance are generally finding it a low-cost and effective way to provide minimal support yet reap a sizeable benefit through reduced caseloads.”¹¹¹

More than half of the states include some type of lump-sum aid program as part of their TANF initiatives, although the extent of utilization varies. These programs typically offer a family a cash payment in lieu of ongoing TANF cash assistance; the payment can be equivalent to several months of TANF benefits, though some states tie the size of the payment to particular short-term bills faced by the family, such as car repairs. Families that receive this payment typically are ineligible for ongoing TANF assistance for a period of time. (In some cases, families that become eligible for ongoing TANF assistance during the period of ineligibility are permitted to receive assistance if they repay the lump-sum benefit.)

Because short-term benefits (for less than four months) are not considered “assistance” under federal TANF regulations, TANF time limit and child support rules do not apply to lump-sum payments, and recipients of these payments are not counted in the calculation of the state’s work participation rates. (For a discussion of the rules that apply to “assistance” versus “non-assistance,” see page 13 in Chapter I.)

Many states have lump-sum policies in place, but the extent to which TANF applicants receive these payments in lieu of ongoing TANF assistance varies among states — or even within a state — and tends to be relatively small. One study notes that in some states with lump-sum policies — Maryland, Wisconsin, and Virginia — the number of families receiving a lump-sum benefit is less than 5 percent of the size of the state’s TANF caseload.¹¹²

A Lump-Sum Benefit Program Can Help States Increase Their Work Participation Rate

A policy of offering lump-sum benefits can help states as well as families. Many families, even if they find jobs quickly, do not meet the hourly work participation requirements in their first couple of months of TANF receipt. Families often are coping with other short-term crises or attending mandatory orientation sessions, screenings, and assessments as caseworkers and recipients develop an employment plan. Since many families are unlikely to meet the hourly requirements in these early months of benefit receipt, removing them from the state’s TANF caseload — and thus from the work participation calculation — will increase the state’s work rate.

State administrative data can help policymakers determine whether this approach is likely to boost a state’s work rate significantly. States should examine their data to determine whether a significant number of recipients who find work quickly do not meet the hourly work participation requirements in their first several months on TANF. If there are many such recipients, the state may be a good candidate for an expanded lump-sum benefit program.

Lump-sum benefit programs also can help reduce the number of families receiving ongoing TANF assistance, thereby lowering the cost of a state’s TANF program and potentially helping the state secure a caseload reduction credit. (To qualify for the credit, a state’s caseload must drop

¹¹¹ Amy Johnson and Alicia Meckstroth, "Ancillary Services to Support Welfare to Work," Mathematica Policy Research, June 22, 1998, <http://aspe.hhs.gov/hsp/isp/ancillary/front.htm>.

¹¹² Ibid.

Child Care: An Important Work Support

Affordable child care for families that are engaged in education, training, job search, or employment is an important component of a state's welfare-to-work strategy. Child care costs are particularly burdensome for low-income families, who pay a significantly higher share of their income for child care than do more affluent families. In 2001, 40 percent of poor single working mothers who paid for child care paid at least *half* of their cash income for child care.^a Subsidies have been shown to help families meet these costs, which in turn helps them find and retain jobs.

Without child care subsidies, families can be forced to limit their work hours, put educational plans on hold, and forgo household necessities. A recent survey found that 75 percent of families on waiting lists for child care assistance in Minnesota had changed their work or education plans as a result of their lack of child care assistance. More than one-quarter of parents on waiting lists had used their savings to pay for child care, and more than one-third of parents said they had to forgo paying other household expenses due to child care costs.^b

Research has also shown that child care assistance can improve employment outcomes and help states meet their welfare reform goals. "Receiving a subsidy for child care promotes longer employment durations among women, regardless of marital status or educational attainment," concluded a study analyzing longitudinal Census Bureau data to look at women's employment experience during the 1990s. The study found that single mothers of young children were 40 percent more likely to still be employed after two years, and former welfare recipients were 60 percent more likely to still be employed after two years, if they received help paying for child care.^c

^a Richard Wertheimer, "Poor Families in 2001: Parents Working Less and Children Continue to Lag Behind," Child Trends, 2003.

^b Karen Schulman and Helen Blank, "In Their Own Voices: Parents and Providers Struggling with Child Care Cuts," National Women's Law Center, 2005.

^c Heather Boushey, "Staying Employed After Welfare: Work Supports and Job Quality Vital to Employment Tenure and Wage Growth," Economic Policy Institute, 2004.

below its 2005 level, which will not be easy since caseloads are already at historically low levels.) A detailed study in Maryland found that over 90 percent of those diverted from TANF through lump-sum payments did not receive TANF cash assistance in the subsequent 12 months.¹¹³ Other state studies have also found that a high percentage of families receiving a lump-sum payment do not come onto TANF.¹¹⁴

¹¹³ Darren Lacey, Andrea Hetling-Wernyj, and Catherine E. Born, "Life Without Welfare: The Prevalence and Outcomes of Diversion Strategies in Maryland," University of Maryland School of Social Work, August 2002. The study also noted that these lump-sum diversion families were less likely to subsequently receive TANF than those who were diverted by an alternate approach, including receiving employment services but not a lump-sum cash payment. About 79 percent of this latter group did not receive TANF within the subsequent 12 months as compared with 90 percent of the lump-sum group.

¹¹⁴ North Carolina has tracked subsequent TANF receipt of all families that have received lump-sum payments since 1996. More than 85 percent (some 56,000 families) of those receiving a diversion payment never came back on TANF. North Carolina State data available at http://statweb.unc.edu/cgi-bin/broker8?_service=default&_program=wrkfirst.idemog.sas&label=&county=North%20Carolina. An HHS-funded study that included diversion strategies noted that since 1995, 85 percent of those who received up-front lump-sum

States also should consider combining a lump-sum approach with policies that extend ongoing assistance to working families. Under such a combination approach, the state would provide lump-sum benefits to families that are likely to become employed quickly and then provide income supplements (through the state's basic TANF program or a worker supplement program) to families that find jobs but continue to have low earnings. Under this approach, a family would not be considered in the state's work participation rate during the initial months when it is looking for work. Later, if the parent found a job but had low earnings, the family could receive ongoing monthly assistance — and the state would get to count that family's work participation toward its work rate. This approach helps states meet the work requirement in two ways: by reducing the number of non-working families that count toward the work requirement while increasing the number of working families that count toward the requirement.

Policy Design Issues

Research on lump-sum benefit policies suggests that states considering such policies should:

- **Identify the niche population for whom this is a good match.** Lump-sum benefit programs are most successful when a family has good employment prospects and reliable child support income and thus is likely to need only short-term assistance. For example, Maryland's program primarily served families with recent work experience (89 percent had worked within the prior two years) and little prior welfare receipt (a large majority had little or no past welfare receipt in the prior five years).¹¹⁵
- **Avoid complex programs.** It is important that caseworkers understand and communicate to clients the tradeoffs they face. If these tradeoffs are too complicated, or authorizing and processing the lump-sum payments (and any periods of subsequent disqualification from the TANF program) are too burdensome for caseworkers, they might be reluctant to offer the program and clients might be reluctant to accept.
- **Avoid imposing a large risk on the client.** Typically, individuals who accept a lump-sum payment are then ineligible for ongoing TANF assistance for several months or longer; clients seeking TANF during the disqualification period may face a penalty or be required to repay the lump sum. If a state wants to make the lump-sum option attractive for families, it should not make the potential risk associated with accepting the payment too large. The period of TANF disqualification should be approximately the period of time covered by the lump-sum payment. (For example, if the lump-sum payment is equivalent to three months of cash assistance benefits, the period of disqualification should be three months.) This will avoid the need for complicated repayment options and cause fewer families to forgo this benefit because they fear they will need ongoing assistance before the disqualification period ends.

payments in Virginia and 75 percent of those in Utah had not re-applied for cash assistance as of February 1998. See, Amy Johnson and Alicia Meckstroth, June 1998.

¹¹⁵ Darren Lacey, Andrea Hetling-Wernyj, and Catherine E. Born. Maryland had two types of formally diverted cases: those receiving lump-sum diversion grants and those receiving other employment services. The data cited here applies to those receiving the lump sum payment, called a Welfare Avoidance Grant in Maryland.

- **Ensure that families are connected to support services that can improve their chances of finding and retaining employment and making ends meet when they are working.**

These supports include Medicaid, food stamps, child care, help collecting child support, and income supplements for working families, including those provided through TANF earned income disregards and stand-alone worker supplement programs.

States should consider treating families that receive lump-sum benefits and subsequently find low-wage jobs as if they were TANF recipients when they found the job. That is, these families could be provided the typically more generous earnings disregard provided to TANF recipients (as compared to applicants) or could be allowed entry into a worker supplement program that is otherwise open only to former TANF recipients. Such policies can help ensure that these families get the help they need, can reduce the risk that families opt not to participate in the lump sum program because of the risks associated with participation, , and can increase the number of working families the state can count toward its work participation rate.

Two design issues — defining the group of families eligible for the lump-sum benefit program and setting the benefit levels — are discussed in more detail below.

Who Should Be Eligible?

Typically, states require families to meet TANF eligibility criteria in order to receive a lump-sum benefit. This means that only very low-income families qualify. The theory behind such limitations is to target this funding to those who otherwise would become ongoing TANF cash assistance recipients — and to keep down the program’s cost. In some states or counties, however, one-time lump-sum benefits are available to a broader group of low-income persons, such as those with incomes higher than the TANF eligibility cutoff but still below the poverty line.¹¹⁶ Helping such families *before* they become so destitute that they qualify for TANF can help prevent a major crisis which could lead to, among other things, the need for ongoing TANF receipt. For example, money for a car repair might prevent a low-income worker from losing his or her job.

Whether or not they limit lump-sum benefits to families that meet the TANF eligibility criteria, states often set additional eligibility requirements for lump-sum benefits (such as recent work experience or near-term job prospects) in order to target families that are likely to find employment quickly. Some states are flexible in their eligibility standards and allow caseworkers discretion in determining who should be offered lump-sum benefits.

What Size Should a Lump-Sum Payment Be?

Most states set a fixed ceiling on lump-sum payments, typically either the equivalent of two to four months of TANF benefits or a fixed dollar amount, such as \$1,000 or \$1,500. These payment amounts are short-term, non-recurrent benefits that are not considered “assistance” under federal

¹¹⁶ For example, Ohio allows counties to provide diversion assistance through its Prevention, Retention, and Contingency program and to choose the income level at which families qualify. A number of Ohio counties provide lump-sum diversion payments to families above TANF eligibility levels. Cuyahoga County, for example, provides lump-sum diversion to families with income up to 200 percent of the poverty line who otherwise meet the diversion criteria.

TANF rules. This means that federal TANF funds can be used to operate these programs without triggering TANF time limits, child support rules, or work requirements.

Some states simply use a lump-sum benefit formula — such as the lump sum equaling four times the maximum TANF benefit (based on the number of people in the family) — while other states take each family's specific costs — such as the cost of a needed car repair — into account in calculating payment amounts. (This approach is more prevalent in lump sum programs designed to meet emergency needs, such as evictions or car repairs.) Some states allow lump-sum recipients to come back for a supplemental payment if their initial payment did not reach the ceiling, an approach that can target resources to families' specific needs but can also be difficult for states to administer and for families to understand.

Families receiving lump-sum benefits generally qualify for other support services such as Medicaid, food stamps, child care, and help securing child support their children are owed. For a lump-sum benefit to work, it is essential that recipients be linked to such services; otherwise, many families that find relatively low-paid work will not be able to make ends meet or sustain their employment. Among other things, states need to ensure that their food stamp and Medicaid policies do not bar eligibility to recipients of lump-payments.¹¹⁷

Many lump-sum recipients will need child care to enable them to look for work and then to succeed in their new jobs. States should consider authorizing child care for recipients, both while they are seeking employment and after they are employed. An upfront investment in child care for job search can help a family find a job quickly and start work, saving the state money over the long term.

Moreover, states that give TANF recipients priority in the allocation of limited child care resources should consider extending that preference to recipients of lump-sum benefits. For example, low-income working families in California face waiting lists for child care subsidies unless they qualify for CalWORKS child care, which is available only to current and recent TANF recipients *and* families receiving up-front lump-sum payments. Extending this child care priority status to recipients of lump-sum benefits makes good sense, since families that need child care assistance might otherwise be compelled to decline the lump-sum benefit program and instead go on TANF simply to obtain child care.

¹¹⁷ Up-front lump-sum payments will not ordinarily affect applicants' eligibility for food stamps. The Food Stamp regulations exclude from income calculations any funds received in the form of nonrecurring lump-sum payments. (7 C.F.R. §273.9(c)(8)) Although non-recurring lump-sum payments can count as resources, persons receiving diversion payments from a TANF-funded program are exempt from food stamp resource limits. (7 C.F.R. §273.8(e)(17)) Up-front lump-sum payments also need not affect eligibility for Medicaid. All states have options to disregard this benefit as income and as resources. For further discussion, see Liz Schott and Cindy Mann, "Assuring That Eligible Families Receive Medicaid When TANF Assistance Is Denied or Terminated," Center on Budget and Policy Priorities, November 1998, <http://www.cbpp.org/11-5-98mcaid.htm>.

Additional “Front-End” Options for States

Some states have (or are considering instituting) a brief “precursor” program for some or all TANF applicants before they become ongoing TANF recipients. This approach is similar to a lump-sum benefit program but typically provides several monthly payments and may target a broader group of applicants.

A precursor program can be designed to assess families’ circumstances, develop an appropriate employment plan, help families secure child care, engage parents in work activities, help job-ready parents find jobs quickly, and/or help identify the appropriate program (ongoing TANF assistance, a stand-alone worker supplement program, or a program outside the TANF structure) for the family. While participating in the precursor program, families receive monthly payments, typically in the same amount as TANF benefits.

A precursor program can help states increase their work participation rates if they structure the program so that the participants are not receiving TANF or MOE-funded assistance and thus are not included in the work rate calculation. Since many families do not participate in work activities for the required number of hours in the first months of benefit receipt, removing these families from the work rate calculation may increase the state’s participation rate.

If designed well, a precursor program can provide an opportunity for thoughtful employment planning and identification of barriers. But if designed poorly, such a program can place barriers between application and receipt of aid for needy families by imposing one-size-fits-all requirements and more limited work activities. Important design considerations include:

- *Which TANF applicants should participate in the program?* A state might place all TANF applicants in the precursor program, treating it as an opportunity to identify the appropriate activities or programs for each family. Alternately, a state might limit participation to work-ready applicants who may find jobs quickly in an up-front job search program or to families that are unlikely to be ready to participate in federally countable work activities in their first several months of aid receipt.
- *What services and activities should the program provide?* A precursor program is an opportunity to conduct assessments, address barriers, and develop employability plans without the pressure of trying to maximize the number of parents participating in federally countable activities immediately. If the program accepts only work-ready applicants, it might focus on helping parents reconnect to the job market quickly and secure needed work supports. If the program primarily serves applicants who are not work-ready, it might focus on identifying and addressing barriers to employment.
- *How should the program be financed?* A state that wants to remove families in the precursor program from the state’s work rate calculation can either finance the program with state funds that do not count toward the MOE requirement or provide short-term, non-recurrent benefits that are not considered assistance to participants using TANF or MOE funds.
- *What happens at the end of the program?* Generally, families still in need at the end of the front-end period would shift to ongoing TANF cash assistance or to a stand-alone worker supplement program, if applicable. It is important that the transition to TANF or a worker supplement program be seamless so the precursor program does not become a barrier to accessing needed assistance. States also should ensure that families that find a job during the precursor program are eligible for TANF assistance, worker supplements, child care, and other supports on the same basis as families that find employment while receiving TANF assistance. (That is, they should be eligible for higher recipient earnings disregards, if applicable, or preferences for child care provided to former TANF recipients.)

Using Bonus or Incentive Payments to Encourage Employment Retention

Some states provide lump-sum or periodic incentive/bonus payments to help families that have left TANF for work remained employed for a certain length of time. (States also can provide bonuses to employed TANF *recipients* to encourage employment retention.) This approach is similar in some ways to the lump-sum benefit programs discussed above.

Under this “back-end” bonus approach, when a family finds a job and leaves TANF,¹¹⁸ 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 incentives to encourage recent TANF leavers to remain employed is important.

Bonus payments can be designed as either “assistance” or “non-assistance.” If provided as “non-assistance,” TANF time limits and child support requirements are not triggered, and families are not included in the calculation of a state’s TANF work participation rate. For states that *want* to include these families in their work rate calculation, the payments can be designed as “assistance” by, for example, combining them with ongoing income supplements.

Several states have adopted bonus payment programs:

- Ohio plans to implement its new Employment Retention Incentive (ERI) program in July 2006. The program will provide up to \$1,000 in four payments over a period of nine months: \$200 at the outset and again at the third and sixth months and another \$400 at the ninth month. The program is open to persons who had earnings in their last month on TANF, who have left TANF (even if their TANF case was closed for a reason unrelated to their earnings), and who are working at least 25 hours a week or making at least \$128.75 per week. An individual can receive these four ERI payments once in a 36-month period.¹¹⁹ Ohio intends to structure these payments as non-assistance.
- Mississippi provides four periodic payments that total \$1,000 over the course of the year after a family leaves TANF, if the exit was due to earnings and the individual remains employed. The first payment of \$100 is made if the individual is still employed 90 days after leaving TANF; the final payment of \$400 is made if the individual remains employed for one year after leaving TANF.

The differences between the Ohio and Mississippi payment schedules illustrate some of the design choices states face. Ohio has chosen to provide greater benefits up-front in order to stabilize the family and keep it from returning to welfare, while Mississippi has chosen to provide bigger benefits over time to encourage the family to remain employed.

¹¹⁸ A state also could provide back-end bonus payments to families that receive up-front lump-sum benefits and subsequently find employment.

¹¹⁹ This description is based on draft Ohio state documents which seek input and comments on program design so specifics described here may change before July 2006 implementation.

New Child Support Options Can Help States Meet their Welfare Reform Goals

Background

In 2004, states retained \$2 billion in support payments collected for current and former TANF recipients, sending more than half of the money to the federal treasury.

Child support is a critical component of single-parent families' budgets. Families that can combine earnings and child support from non-custodial parents are better able to make ends meet, sustain their employment, and remain off of TANF assistance than single-parent families that do not receive child support.

While child support can provide an important income source for current and former TANF recipients, many of these families do not receive child support that is collected on their behalf. In 2004, states retained \$2 billion in support payments collected for current and former TANF recipients, sending more than half of the money to the federal treasury.¹²⁰

Currently, when a state collects child support on behalf of a family receiving TANF cash assistance, the state generally retains most or all of the child support to offset the cost of the family's assistance. (The federal government gets a share — 50-76 percent — of this retained child support, based on the state's federal Medicaid match rate, called "FMAP.") In addition, many *former* TANF recipients do not receive all of the child support payments collected on their behalf. Payments collected on behalf of former TANF recipients through the "tax intercept" mechanism — a procedure which withholds the federal income tax refunds of non-custodial parents who owe child support — are retained by the state and federal governments to offset the cost of prior TANF assistance.

Over the past few years, there has been a growing consensus that when non-custodial parents pay child support, this support should go to their children to improve the children's well-being. This consensus — based in part on research showing that non-custodial parents are more likely to pay child support if the money goes to their children — led to the inclusion of a set of new child support options in the DRA.

Under these provisions, states have new options and incentives to direct more child support to current and former TANF recipients. Under the new rules, states can:

- direct (or "pass through") child support collected on behalf of children receiving assistance in a TANF-funded program to the families owed that support;

¹²⁰ In 2004, the federal government's share of retained collections \$1.15 billion, while the states' share was \$927 million, before deducting amounts passed through to TANF families (support passed through to families is paid from the state share and is not included in data reported to HHS). Office of Child Support Enforcement, U.S. Department of Health and Human Services, Preliminary Report FY 2004, table 1, http://www.acf.hhs.gov/programs/cse/pubs/2005/reports/preliminary_report/.

- disregard some or all of the child support passed through to families so that when a family receives child support, the family's TANF assistance benefits (or benefits in an MOE-funded program) are not reduced or are reduced more slowly;¹²¹ and;
- direct child support collected on behalf of *former* TANF recipients through the tax intercept mechanism to families, rather than retaining that support to offset the cost of previous TANF-related assistance.

States can best simplify their child support rules and ensure that child support is available as an income and work support by adopting a “full distribution” policy, under which *all* collected child support is distributed to current and former TANF recipients. Such a policy also allows states to harmonize their child support distribution rules across all families.

Like other income supplement strategies discussed above, the child support changes in the DRA give states new options that can help them meet their welfare reform goals, including increasing their work participation rates.

Child Support Is an Important Work Support and Source of Income

Many poor families rely on child support. Roughly 35 percent of families with incomes below the poverty line receive child support; for those poor families that receive it, child support represents a third of family income. Also, half of the families with incomes between 100 percent and 200 percent of the federal poverty line receive child support.¹²²

Child support can be a relatively stable source of income for families leaving TANF. An analysis of several welfare-to-work studies conducted by MDRC and others found that most current and former welfare recipients who receive child support receive fairly steady payments, at least for a period of time.¹²³

The likelihood that child support is collected on behalf of children receiving TANF assistance depends in part on a state's child support and TANF policies. An evaluation of a Wisconsin program that passed through all child support to TANF families and fully disregarded that child support when determining families' TANF benefit amounts found impressive results: the fathers established paternity faster, paid more child support, and worked less in the underground economy, and TANF receipt among the custodial parents and their children declined. Moreover, the program

¹²¹ The DRA does not change the child support options available to states with respect to families receiving assistance in an MOE-funded program. Under the pre-DRA rules and the DRA provisions, states are required to pass-through all ongoing support collected on these families' behalf and can adopt any disregard rule that they wish. However, as discussed in the text, states may withhold some of the past-due support for those families that previously received TANF assistance.

¹²² Elaine Sorensen, "Child Support Gains Some Ground," Urban Institute, 2003.

¹²³ Cynthia Miller, Mary Farrell, Maria Cancian, and Daniel Meyer, "The Interaction of Child Support and TANF: Evidence from Samples of Current and Former Welfare Recipients," MDRC, 2005, <http://www.mdrc.org/publications/397/full.pdf>.

When Can States Retain Child Support Payments?

Federal rules limit the circumstances under which states may retain child support:

- Child support may be retained only to repay the cost of cash assistance provided in a TANF-funded program (or foster care maintenance payments funded under title IV-E of the Social Security Act). States may *not* retain child support to repay assistance provided in other federally funded or state programs, including MOE-funded programs.
- State may *not* retain child support to repay the cost of “non-assistance” such as short-term TANF benefits and child care for working families.
- States may retain child support to reimburse TANF assistance only if the assistance is “paid to the family” in the form of cash, checks, or other money payments. States may not retain child support to reimburse assistance provided through vouchers or third-party payments.^a

^a HHS Action Transmittal OCSE-AT-99-10, issued September 15, 1999, <http://www.acf.hhs.gov/programs/cse/pol/AT/at-9910.htm>.

did *not* increase state costs, as the cost of passing through the child support was fully offset by increased child support payments and reduced TANF receipt.¹²⁴

Researchers associated the positive effects of the Wisconsin program with its disregard component rather than its pass-through component, finding in a separate 50-state analysis that the disregard policy improved paternity establishment and collection rates.¹²⁵ In fact, researchers failed to find similar positive effects for a Minnesota policy that passed through support but did not disregard it when determining TANF benefits.¹²⁶

A number of studies show that dependable child support payments — even if those payments are modest — increase job retention rates among custodial parents, supplement low-wage earnings, and reduce public assistance use. A Washington State study found that former TANF recipients who receive regular child support find work faster, stay employed longer, and work more hours than similar families without child support. They also are much less likely to enter TANF or to return to it once they have left.¹²⁷

¹²⁴ Daniel Meyer and Maria Cancian, *W-2 Child Support Demonstration Evaluation, Phase 1: Final Report* (2001) and *Phase 2: Final Report* (2003), Institute for Research on Poverty, University of Wisconsin.

¹²⁵ Judith Cassetty, Daniel Meyer, and Maria Cancian, “Child Support Disregard Policies and Program Outcomes: An Analysis of Data from the OCSE” in *W-2 Child Support Demonstration Evaluation Report on NonExperimental Analyses*, Volume III: Quantitative Nonexperimental Analyses; Background Reports, 2002. Wisconsin Child Support Demonstration Evaluation research reports can be accessed at <http://www.irp.wisc.edu/research/childsup/csde/csdepubs.htm>.

¹²⁶ Jane Venohr, David Price, Laurie Davis Van Wert, and Christa Anders, “Child Support Pass-through in Minnesota: A Process and Outcomes Evaluation,” Policy Studies, Inc, 2002.

¹²⁷ Carl Formoso, “Beneficial Impacts of Child Support Services on Custodial Family Self-Sufficiency,” Washington Department of Social and Health Services, 2004.

DRA Child Support Provisions

Under the pre-DRA child support rules (which will be in effect until 2008), families that apply for assistance in a TANF-funded program are required to sign over to the state their rights both to child support that becomes due during the assistance period *and* to past-due child support already owed to the family. The state and federal governments retain collected support as reimbursement for the cost of providing cash assistance to families in a TANF-funded program.

Even after families stop receiving assistance, states keep the child support that is collected through the federal income tax intercept mechanism. (Such families would receive child support collected through other means, except in the infrequent cases in which the custodial parent is not owed any past-due support.) More than half of the child support retained by states — 56 percent — is collected on behalf of families who no longer receive TANF assistance. Nearly all of this is collected through the tax intercept mechanism.¹²⁸

The DRA makes several changes intended to increase the amount of child support paid to current and former TANF recipients:

- **A new limitation on assignment.** States no longer will be permitted to require families to sign over their rights to past-due child support payments that accrued before they applied for TANF assistance. States must implement this change by October 1, 2009, but may implement it a year earlier.
- **Waiver of the federal share of child support if the support is passed through and disregarded.** Under the pre-DRA rules, states have the option to pass through support to families receiving assistance in a TANF-funded program and disregard that assistance when determining a family's TANF benefits. However, states that do so are still required to send the federal government its share of the collections.¹²⁹ Under the new law, if a state passes through and disregards some or all child support payments, the federal government will waive its share of collections, up to \$100 per month for one child and \$200 per month for two or more children. (This provision is effective October 1, 2008.)
- **New option to distribute more support to *former* TANF families.** Under the pre-DRA rules, states are required to retain child support collected on behalf of former TANF recipients through the tax intercept mechanism. Under the DRA, states are permitted to direct all child support collected through the tax intercept mechanism to those families. If states elect this option, the federal government would waive its share of those collections, with no limits. This option could significantly increase the amount of support provided to former TANF recipients, since about one-third of all arrears collected on behalf of former TANF recipients are retained because of the tax intercept provision. (This provision is effective October 1, 2008.)

¹²⁸ Office of Child Support Enforcement, U.S. Department of Health and Human Services, Preliminary Report FY 2004, table 1, http://www.acf.hhs.gov/programs/cse/pubs/2005/reports/preliminary_report/.

¹²⁹ 42 U.S.C. 657(a)(1)(A).

Pass-Through and Disregard Policies in TANF-Funded Programs

By expanding the child support pass-through and disregard policies in their TANF programs, states can increase the number of families that can combine work, child support, and assistance receipt. This can help states meet work participation rates. Because child support is disregarded, the level of earnings a family needs to become ineligible for assistance is higher. Thus, an expanded child support disregard functions in much the same way as an earnings disregard. By allowing more working families to remain eligible for assistance in a TANF-funded program, such policies can provide needed aid to low-income working families and increase the number of working families that are counted toward the state's work participation rate.

The Mechanics of Pass-Through and Disregard Policies

The following illustrates how pass-through and disregard policies affect TANF benefit calculations:

Example

Suppose a state passes through all support collected and disregards up to \$100 per child when determining TANF benefits. If \$250 in child support is collected on behalf of Ms. Smith's two children, she will receive a \$250 child support check from the state child support agency. When the TANF agency determines her TANF benefit, it will reduce her TANF benefits by \$50 (\$250 - \$200).

Under federal law, child support that is *not* passed through and disregarded must be split between the federal and state governments.¹³⁰ Thus, states that expand their pass-through and disregard policies can reduce the amount of child support collections they send to the federal government, ensuring that those funds are used to help families instead. For example, a state with a 65-percent FMAP rate sends nearly two-thirds of the child support it collects to the federal government (since the federal share of child support collections is based on each state's FMAP rate). The higher a state's FMAP, the more the state stands to benefit from expanding its child support pass-through and disregard policies.

Example

Suppose Ms. Smith in the example above lives in a state with a 65-percent FMAP. If the state does *not* pass through and disregard her \$250 in child support, it would be required to send \$162.50 (65 percent of \$250) to the federal government; the state would keep \$87.50. If the state passes through and disregards \$200 of the collected support, however, it is only required to send \$32.50 (65 percent of \$50) to the federal government.¹³¹

¹³⁰ In addition, the state must pay the federal government its share of any support passed through to families to the extent that it exceeds the \$100 and \$200 limits on the amount of support qualifying for a waiver of the federal share.

¹³¹ If the state passed through and disregarded all child support — rather than capping the amount at \$100 per child — then the state would still have to send the federal government its share of the amount over \$200 — \$32.50.

Finally, states can claim MOE credit for their share of child support that is passed through and disregarded to recipients in TANF-funded programs, including support in excess of the \$100 and \$200 limits on the amount of support qualifying for a waiver of the federal share.

Example

If the state passes through and disregards \$200 in child support collections for Ms. Smith, it can claim \$70 (35 percent of \$200) toward its MOE requirement.¹³²

Also, adopting a generous pass-through and disregard policy could increase the amount of federal child support performance incentive payments a state receives. These incentive payments are made on the basis of performance measures such as a state's paternity establishment rate and its child support collection rate. If these rates improve as a result of expanded pass-through and disregard policies, the state could see its incentive funding increase.

Policy Design Issues

States considering expanding child support pass-through and disregard policies in their TANF-funded programs will need to consider several design issues:

- **How much child support should be passed through and disregarded?** Under federal law, states can decide how much child support to pass through to families and how much to disregard when determining assistance levels. Larger pass-throughs and disregards will have a greater impact on non-custodial parents' willingness to establish paternity and pay child support.

Larger pass-throughs and disregards also will have a greater impact on a state's work participation rate. The higher the child support disregard amount, the higher a family's earnings must be before the family is ineligible for assistance. With higher disregards, more working families will retain eligibility — and thus count toward the state's work rate.

Example

Suppose a family earns \$750 per month and the non-custodial parent pays \$200 per month in child support. The maximum TANF grant for the family is \$400, and the state disregards 50 percent of all earnings when determining TANF eligibility. If the state passes through and disregards all \$200 in child support, the family will be eligible for a small amount of TANF assistance (\$50) and will count toward the state's work rate. If the state disregards only \$100 in child support, the family will be ineligible for TANF assistance and will not count toward the state's work rate.

¹³² In this example, if the state decided to pass through and disregard *all* child support collections instead of capping the amount at \$100 per child, then the state could claim \$120 toward its maintenance-of-effort requirement — the state share of the first \$200 plus the full \$50 in support in excess of the \$200 federal limitation.

States that elect to pass through and disregard some, but not all, child support collections must decide whether to set a fixed dollar amount (for example, \$100) for the disregard or an amount that varies based on the number of children covered by the support, and whether to adopt different rules for families owed child support by more than one non-custodial parent.

The most important principle in designing a partial pass-through and disregard policy is to avoid overly complex policies, which can confuse custodial parents, non-custodial parents, and agency staff alike. Research shows that both parents and caseworkers must understand these policy changes in order for them to influence parental behavior.

Another option for states is to pass through all child support but disregard only a portion of it. States might want to take that approach if they want to make sure families understand the extent to which their needs are being met by child support rather than by TANF-related assistance and if they want to simplify their child support distribution rules.

A “full distribution” policy that directs *all* child support to families (even if not all of it is disregarded) can give non-custodial parents an incentive to pay support and smooth the family’s transition off of TANF. A study by the Office of the Inspector General for the Department of Health and Human Services found that many families experienced delays in getting child support in the critical months after leaving TANF because states were not able to shift seamlessly from retaining the child support (when the family was on TANF) to directing the support to the family (after it had left TANF).¹³³ The research suggests that transitions off of TANF would be smoother if families began to receive child support payments directly from the child support agency while still receiving assistance, even if the support is not fully disregarded.

A full distribution policy also can greatly simplify the state’s child support distribution rules. Under the existing system, states have different rules for the distribution of child support to families receiving TANF-funded assistance, families receiving MOE-funded assistance, former TANF recipients, and families with no connection to TANF. A full distribution approach — even if the state does not disregard all child support payments — makes it easier for states to harmonize their rules across assistance programs. Policy Studies, Inc. estimated that states could save 6-8 percent of their total expenditures on child support (roughly the amount they receive in federal child support performance incentive payments) if they simply distributed all child support to families.¹³⁴

- **How can states minimize the impact of fluctuating child support payments?** States that choose not to disregard *all* child support will need to consider how to manage fluctuating child support payments, which (under standard benefit rules) likely would require modifying a family’s benefit amount. This can be a particular problem for states with TANF retrospective

¹³³ HHS Office of Inspector General, “Distributing Collected Child Support to Families Exiting TANF,” OEI-05-01-00220, Oct. 2001.

¹³⁴ Estimate reported in testimony of Vicki Turetsky before Senate Finance Committee on May 16, 2002. http://www.clasp.org/publications/Turetsky_5-16-02_testimony.pdf.

budgeting rules.¹³⁵ To minimize these modifications, which create administrative hassles for families and states, states may want to consider policies similar to those used in the Food Stamp Program that effectively freeze benefits for a six-month period.

Under the food stamp “simplified reporting” option, food stamp households are not required to report changes in their income and other circumstances that occur during the six-month period between recertifications (or between certification and the six-month report form families submit in some states). Households are permitted, however, to report changes in that would qualify them for higher benefits, so families that face deteriorating circumstances can receive the extra help they need.

States can adopt a similar structure in TANF, effectively freezing benefits for six-month periods regardless of fluctuations in child support or earnings income while also ensuring that families have access to increased aid if their income declines during the six-month period.

Disregarding Child Support for Families Receiving State-Funded Assistance

States that assist families in MOE-funded programs (such as worker supplement programs discussed above) or programs outside the TANF structure are required to pass through all ongoing child support collected on these families’ behalf.¹³⁶ States can, however, set their own child support *disregard* policies in these programs.

Disregarding child support — particularly in worker supplement programs — can help states increase their work participation rates in the same way that expanding a child support disregard in a TANF program can increase the number of working families receiving aid and counting toward the participation rate. With respect to designing the disregard, the same considerations apply to these state-funded programs as to TANF programs.

States should try to harmonize their child support policies across a range of assistance programs, including TANF-funded programs, MOE-funded programs, and programs outside the TANF structure. As noted above, states can achieve the greatest harmonization by adopting a full pass-through policy in their TANF program and then harmonizing their disregard policies across all of their assistance programs. Such harmonization will make it easier for states to seamlessly shift families among the various assistance programs.

¹³⁵ Jane Venohr, David Price, Laurie Davis Van Wert, and Christa Anders.

¹³⁶ If, however, the family is a former TANF recipient, child support collected through the federal tax intercept mechanism must be retained to offset prior assistance costs. The DRA gives states the option to direct these payments to families.

Adopting the Tax Intercept Option So Former TANF Recipients Receive All of the Support Collected on Their Behalf

Under pre-DRA rules, all past-due child support collected on behalf of former TANF families through the tax intercept mechanism must be retained by the state, and a share must be sent to the federal government. Under the DRA, states can elect to distribute past-due child support to families when it is collected through the federal income tax intercept mechanism. States that distribute tax intercept collections to families are not required to send the federal government its share of those collections. Thus, this option allows states to treat tax intercept collections like all other collections for former TANF recipients, removing a complicated feature of the current rules.

In addition, this option allows states to increase the child support income of former TANF recipients — supplementing their income and helping them avoid further TANF receipt — and to reduce inequities between working families that have a history of TANF assistance (whose support is retained) and those who never received TANF assistance (who receive all support collected from the tax intercept mechanism). Adopting the option builds on other TANF-related strategies that help families avoid the need to enter the TANF caseload.¹³⁷

Considerations for Determining How to Assist Low-Income Working Families

As is clear from the discussion above, there are many ways that states can provide income supplements to low-income working families and help families that are temporarily out of a job. Ongoing monthly income supplements through TANF or a worker supplement program can provide families with help in meeting monthly expenses. New child support policies can ensure that current and former TANF recipients have access to child support. Lump-sum benefits can provide a one-time benefit to families that are likely to find jobs quickly or that may face large, non-recurring costs (such as car repairs, the need to buy a uniform or meet other job start-up costs, or payment of back rent). Back-end bonuses can provide an incentive for parents to stay employed (or quickly find new employment if they lose their job) and help make ends meet. Each of these approaches can be structured in ways to help the state increase its work participation rate.

The right approach in any particular state depends on the available resources, the state's goals, and its current policies. For example, a state that wants to increase supports for working families quickly may want to expand its earnings disregard, while a state that does not want to expand its TANF caseload may opt for a worker supplement program. A state that has a large number of TANF recipients who find jobs quickly but do not meet the hourly participation requirements for several months may want to explore a lump-sum approach, while a state that wants to address low job retention rates may want to focus on back-end bonuses.

¹³⁷ The DRA does not specifically authorize states to claim MOE credit for state funds spent on expanding distribution to former TANF families, but a new DRA provision allows MOE funds to be used to meet the third and fourth TANF purposes, including reducing out-of-wedlock births and encouraging the maintenance of two-parent families. Research shows that child support enforcement efforts help accomplish both purposes and, thus, these funds may be countable toward the MOE requirement.

CHAPTER IV: Making TANF Work for Individuals with Disabilities

Introduction

As states seek to increase engagement in welfare-to-work activities, it is important to consider the special circumstances of families that include individuals with disabilities. In some cases, recipients with disabilities (or caring for children with disabilities) can participate in the same welfare-to-work activities as other recipients, though some may need additional supportive services. In other cases, they may need different activities and/or for different durations to help them move toward employment. Also, some TANF recipients may have disabilities that are so severe that they would be more appropriately served in SSI (Supplemental Security Income).

This chapter examines the legal framework for how TANF programs serve individuals with disabilities and then discusses how states can tailor work activities to meet the needs of families that include individuals with disabilities.

TANF and Federal Disability Protections

The 1996 law that created the TANF program specifically provides that federal civil rights laws, including Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act (ADA) of 1990, apply to TANF programs.¹³⁸ The HHS Office for Civil Rights (OCR) has issued guidance to help states and counties understand their obligations under Section 504 and the ADA in their TANF programs.¹³⁹ States must ensure that TANF recipients with disabilities have meaningful

¹³⁸ 42 U.S.C. §§608(c)(2) and (3). Section 504 of the Rehabilitation Act of 1973 appears at 29 U.S.C. §794, and the Americans with Disabilities Act of 1990 appears at 42 U.S.C. §12101 et seq. Title VI of the Civil Rights Act of 1964, 42 U.S.C. §2000d et seq., and the Age Discrimination Act of 1975, 42 U.S.C. §6101 et seq., also apply to TANF programs. 42 U.S.C. §§608(c)(1) and (4).

¹³⁹ Office for Civil Rights, U.S. Department of Health and Human Services, “Prohibition Against Discrimination on the Basis of Disability in the Administration of TANF (Temporary Assistance for Needy Families),” 2001, <http://www.hhs.gov/ocr/prohibition.html>, hereinafter cited as “OCR Guidance.” In 2005, HHS OCR posted a training video about the Guidance on their website, <http://www.hhs.gov/ocr/tanf/ocrguidance.html>. HHS OCR also

“The inclusion of these civil rights protections [ADA and Section 504] ensures equal opportunity for persons with disabilities to benefit from all aspects of welfare reform, including access to the proper support services to enable such individuals to work and to keep their families healthy, safe and intact.”

- 2001 HHS Guidance on TANF and ADA/504

access to all aspects of TANF — including welfare-to-work programs — and that reasonable accommodations are made to TANF-related requirements when needed because of an individual’s disability. This legal structure provides important protections for families while giving states flexibility to determine how best to serve recipients with disabilities in their TANF programs.

Which Entities Are Covered?¹⁴⁰

Section 504 prohibits discrimination on the basis of disability and covers all entities that receive federal financial assistance from HHS, either directly or indirectly, through a grant, contract, or subcontract. The ADA prohibits discrimination on the basis of disability by both public and private entities, whether or not they receive federal financial assistance.

These laws cover all states, counties, and other local governments administering all or part of a TANF program and related programs.¹⁴¹ Programs are covered regardless of whether they receive TANF funds, other federal funds, or state or county funds, and regardless of whether funds are used to meet the state’s MOE requirement.

Which Individuals Are Covered?

The ADA and Section 504 define an individual with a disability as a person who has a physical or mental impairment that substantially limits one or more of his or her major life activities, a person who has a record of such an impairment, or a person who is regarded as having such an impairment.¹⁴² The laws apply to both adults and children, so TANF programs need to ensure that their programs are accessible and accommodating to families in which either an adult or a child has a disability. The ADA and Section 504 have much broader definitions of disability than the one used for disability-related cash benefits provided through the Social Security Disability Insurance program or SSI.

issued earlier, less detailed, guidance on civil rights and TANF in 1999, “Civil Rights Laws and Welfare Reform — An Overview and Technical Assistance for Caseworkers on Civil Rights Laws and Welfare Reform,” Office for Civil Rights, U.S. Department of Health and Human Services, August 1999, <http://www.hhs.gov/ocr/tanfintro.htm>.

¹⁴⁰ For more detailed discussions of the OCR Guidance, see Eileen P. Sweeney, “HHS Guidance Explains How Federal Laws Barring Discrimination Against People with Disabilities Apply in State and County TANF Programs,” Center on Budget and Policy Priorities, February 2001, <http://www.cbpp.org/2-26-01wel.htm>. For more information about the ADA and Section 504 as applied to the TANF program, see Cary LaCheen, *Using the Americans with Disabilities Act to Protect the Rights of Individuals with Disabilities in TANF Programs: A Manual for Non-Litigation Advocacy*, Welfare Law Center, September 2004, http://www.welfarelaw.org/contents/ADA2004_manual.html.

¹⁴¹ OCR Guidance, Part A.1.

¹⁴² OCR Guidance, Part C.2.

What Do the ADA and Section 504 Require?

Two key principles underlie OCR's analysis of the legal requirements of Section 504 and the ADA in TANF: *individualized treatment* and *effective and meaningful opportunity*.

- **Individualized treatment.** According to the guidance, this “requires that individuals with disabilities be treated on a case-by-case basis consistent with facts and objective evidence. Individuals with disabilities may not be treated on the basis of generalizations and stereotypes.” For example, it is not legal to deny TANF recipients with disabilities access to part of the TANF program “based on the stereotypical view, unsupported by any individual assessment, that people with disabilities are unable to participate in anything but the most rudimentary work activities.”¹⁴³
- **Effective and meaningful opportunity.** The guidance states that “individuals with disabilities must be afforded the opportunity to benefit from TANF programs that is as effective as the opportunity the TANF agency affords to individuals who do not have disabilities, and must also be afforded ‘meaningful access’ to TANF programs.”¹⁴⁴

These principles have implications for all of the TANF agency's (and its contractors' and vendors') policies and practices. OCR identifies three legal requirements that flow from these two principles. TANF agencies must:

- ensure equal access through the provision of appropriate services to people with disabilities;
- modify policies, practices, and procedures to provide such equal access unless doing so would fundamentally alter the program; and
- adopt non-discriminatory methods of administering the program.

The OCR guidance makes clear that states or counties can meet these obligations in a number of ways. While providing examples of best practices, the guidance does not imply that all states must adopt a particular policy or procedure.

What Do the Three Legal Requirements Mean for States' Policies and Procedures?

Requirement #1: Ensure equal access through the provision of appropriate services. The guidance states that “TANF agencies must afford qualified individuals with disabilities an opportunity to participate in or benefit from TANF programs that is equal to the opportunity the agency offers to individual without disabilities.” To comply with this requirement, “TANF agencies must provide TANF beneficiaries with disabilities with services that are appropriate, and that give these beneficiaries an equal opportunity to benefit from the agency's job placement, education, skills training, employment

¹⁴³ OCR Guidance, Part B; internal footnotes omitted.

¹⁴⁴ OCR Guidance, Part B; internal footnotes omitted.

and other TANF activities.”¹⁴⁵ This requirement applies to the full range of programs and services provided by the TANF agency.

The guidance also states that, “The programs must be provided in the most integrated setting appropriate to the needs of the individuals with disabilities.” In other words, states must ensure that individuals with disabilities “can participate in all programs and services for TANF beneficiaries, not just those programs and services that are designed solely for individuals with disabilities.”¹⁴⁶ While the guidance stresses the importance of trying to integrate recipients into the work activities that are available to recipients *without* disabilities by providing extra supports and services as needed, it also suggests that some recipients may need more specialized activities, at least for some period of time.

In addition, the guidance explains the procedures states need to have in place to determine a TANF applicant’s or recipient’s needs. “It is critical that TANF beneficiaries with disabilities receive an assessment that allows them equal opportunity to benefit from the TANF programs and the assessment process,” the guidance states. Also, before reaching the assessment step, TANF agencies must provide screenings by trained personnel using reliable screening tools. The guidance notes that “at a minimum,” intake workers should be able to recognize potential disabilities and to conduct an initial screening to identify possible disabilities.¹⁴⁷

The TANF agency also has the “obligation to ensure that service providers have the requisite knowledge, experience, and expertise to serve beneficiaries with disabilities.” This applies to both agency staff and contractors, such as welfare-to-work providers, that provide services to TANF recipients.¹⁴⁸

In short, the guidance directs states to: (1) integrate individuals with disabilities into work activities that other recipients participate in when appropriate, by providing them with the additional help and supports they need; (2) provide specialized work activities when necessary; (3) put in place effective screening and assessment procedures; and (4) ensure that service providers are equipped to provide quality services to individuals with disabilities.

Requirement #2: Modify policies, practices, and procedures to provide equal access. As the guidance makes clear, states need to ensure that the full range of state TANF policies, practices, and procedures — including the application and eligibility review procedures, employment services provided, requirements (such as work requirements) imposed on families, work-program exemption rules, and sanction policies¹⁴⁹ — promote rather than deny equal access for individuals with disabilities.¹⁵⁰ The guidance recommends that state and county agencies try to determine the extent

¹⁴⁵ OCR Guidance, Part D.1.

¹⁴⁶ Ibid.

¹⁴⁷ Ibid., 42 U.S.C. §608(b)(1).

¹⁴⁸ Ibid. For a discussion about ways in which to structure contracts and ensure that contractors are meeting their federal civil rights obligations, see Eileen Sweeney, Barbara Bezdek, Sharon Parrott, Carol Medaris and Cary LaCheen, “Language Matters: Designing State and County Contracts for Services Under Temporary Assistance for Needy Families,” 35 *Clearinghouse Review* 508, Jan.-Feb.2002, <http://www.welfarelaw.org/contents/privatization/LanguageMatters.pdf>.

¹⁴⁹ OCR Guidance, Parts D.2 and D.3.

¹⁵⁰ OCR Guidance, Part D.2.

to which various groups of people with disabilities participate in their programs and then use that information to analyze “each step of the TANF program to determine what changes are necessary to ensure people with disabilities have an equal opportunity to access and benefit from TANF programs and related activities.”¹⁵¹

Some states have made significant changes in their policies to ensure that individuals with disabilities have access to TANF benefits and services, as explained below. For example, states have helped individuals with disabilities gather required documentation to complete their TANF applications, modified hourly work requirements for these individuals, modified the types of activities in which they must participate, and allowed them to participate in certain work activities (such as education and training) for longer periods when their disability made it difficult for them to complete the program in the standard allotted time.

The guidance explains that states are not obligated to make “fundamental alterations” in their TANF programs in order to ensure equal access for individuals with disabilities. While the guidance does not define “fundamental alteration,” a separate OCR letter of findings on an investigation in Massachusetts makes clear that OCR takes a broad view of what states must do to make their programs accessible and a narrow view of what constitutes a “fundamental alteration.”

For example, regarding the Massachusetts TANF agency’s failure to properly identify and serve adult recipients with learning disabilities, OCR rejected the state’s claim that meeting the needs of these recipients would fundamentally alter the TANF program. OCR noted that a main purpose of TANF is to “end dependence of needy parents on government benefits by promoting job preparation, work and marriage”; thus, modifying a state’s welfare-to-work program to ensure that it promotes job preparation and work for those with learning disabilities would not constitute a fundamental alteration of the program. In addition, OCR noted that a number of other states have crafted programs that provide equal access to those with learning disabilities.¹⁵² Both of OCR’s arguments will apply to most — and perhaps all — changes that would be needed to enable people with disabilities to participate in state TANF programs.

Requirement #3: Adopt non-discriminatory methods of administration. In explaining the requirement that TANF agencies adopt non-discriminatory methods of administration, OCR has stated that the phrase “methods of administration” applies both to “official written policies” of the TANF agency and the “actual practices” of the agency.¹⁵³ In other words, having good policies on paper is only part of the agency’s responsibility. Training staff to implement the policies and providing the resources to ensure that implementation occurs are essential as well.

OCR identifies a number of steps a TANF agency should take to ensure that its policies and practices are not discriminatory:

¹⁵¹ Ibid.

¹⁵² See HHS OCR letter of findings to Claire McIntire, Commissioner, Massachusetts Department of Transitional Assistance, 2001, pages 20-21, http://www.masslegalservices.org/doc/5428_OCR-to-McIntire.pdf.

¹⁵³ 28 C.F.R. Part 35, Appendix A, §35.130 at 467 (1996) (commentary to Title II ADA regulations).

- train staff to provide equal access to TANF programs for individuals with disabilities and ensure that trainings occur for staff of service providers that have contractual or vendor relationships with the TANF agency;
- establish clear written policy that incorporates modifications to policies, practices, and programs to ensure equal access;
- conduct regular oversight of TANF programs and services to ensure equal access; and
- take any additional steps to otherwise ensure that its policies and practices (or those of its contractors or vendors) do not subject individuals with disabilities to discrimination.¹⁵⁴

TANF Work Participation Requirements and People with Disabilities

The DRA imposes significantly higher effective work participation requirements on states. Until the TANF regulations are released, it is difficult to know precisely how much flexibility states will have both to determine which work activities can count toward the participation rates and to tailor appropriate work-related activities to the individual circumstances of recipients with disabilities (and count that participation toward the work participation requirements). Nevertheless, states can begin planning now to meet the goals of providing effective services for individuals with disabilities while increasing their work participation rates. Possible steps include:

- **Improving screening and assessments.** As previously noted, states must provide assessments in any case in which there is any suspicion that the person has a disability. For a detailed discussion about screening and assessment, see page 39 in Chapter II.
- **Developing a system of supportive services to help individuals with disabilities succeed in a range of welfare-to-work activities.** Individuals with disabilities may be able to succeed in a broad array of welfare-to-work programs with additional help. Regardless of the activity to which they are assigned (vocational training, work experience, job search, etc.), though, they may need additional supports. These may include intensive case management, assessments to determine whether a learning disability or other condition is impeding the person's ability to understand and follow instructions or training material, interventions designed to help the individual overcome the impediments posed by the learning disability, and help in solving transportation difficulties.
- **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 or serious substance abuse problems, tailored interventions may be necessary before they can participate in standard work activities, such as vocational education, job search, or transitional jobs programs. For others, in contrast, established employment services targeted to individuals with disabilities may be effective. The key is for states to have as broad a set of activities in their "tool box" as possible and then use screenings and assessments to match recipients to appropriate activities. Also, the agency may want to develop new work

¹⁵⁴ OCR Guidance, Part B.c.

activities aimed at individuals with disabilities, such as supported work programs that provide meaningful workplace experience and training coupled with intensive case management and other supports that can help individuals move toward employment.¹⁵⁵

- **Partnering with state and county agencies that specialize in assisting 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. These organizations may be able to develop effective programs on a shorter timeframe than other providers of employment-related services.

In a special project to identify TANF recipients with serious barriers to employment and provide employment-related services to them, the Ramsey County, Minnesota, TANF agency partnered with psychologists and service providers from other government and nonprofit agencies with expertise working with individuals with disabilities (see page 42 in Chapter II for more information). A Mathematica report found that these partnerships proved valuable both in helping diagnose individuals' disabilities and in developing workable employment plans for individuals with disabilities. The TANF agency noted that its partners in this project had a different perspective on the barriers and strengths of TANF recipients and knew about other available resources in the community to assist clients.¹⁵⁶

- **Using the “community service” work activity to help individuals overcome barriers that prevent them from participating in certain work activities and engaging fully in the community.** Many states require some individuals to engage in community service activities to fulfill some or all of their required hours of participation. Some states have counted activities designed to help a recipient overcome a barrier to employment as “community service”—a work activity that is fully countable toward the federal work participation rate. Depending on how the TANF regulations are written, the community service work activity may provide states and counties with a real opportunity to help recipients with disabilities move to greater independence, both in their level of functioning in the community and in their ability to secure employment.
- **Counting as work the time a parent spends caring for a child with a disability or an adult relative with a disability.** According to the General

“[B]y hiring staff that had worked in employment-related programs for seriously mentally ill individuals, Ramsey County [MN] was able to link its TANF program with a broad range of programs to address the broad range of personal and family challenges recipients faced.”

- Mathematica Policy Research, Inc., March 2006

¹⁵⁵ For a discussion of lessons that can be learned from the work in the disability community over the past couple of decades in helping people with disabilities to secure and retain employment, see “Employing Welfare Recipients with Significant Barriers to Work: Lessons from the Disability Field,” The Lewin Group for the Annie E. Casey Foundation, October 2000, <http://www.aecf.org/publications/welfareanddisabilities.pdf>.

¹⁵⁶ La Donna A. Pavetti, Jacqueline Kauff, “When Five Years is Not Enough: Identifying and Addressing the Needs of Families Nearing the Time Limit in Ramsey County, Minnesota,” Mathematica Policy Research, March 2006, page 22, http://www.mathematica-mpr.com/publications/redirect_pubsdb.asp?strSite=pdfs/timelimitramsey.pdf.

Accountability Office (formerly the General Accounting Office), 15 percent of TANF families include a child with a disability, and half of those families include both a child and an adult with a disability.¹⁵⁷ In some states, caring for a child with a disability or an adult relative with a disability counts as community service or another form of countable work activity. Depending on how the final TANF regulations are written, states should be sure to make appropriate accommodations in their work requirements for families that are caring for children and other family members with a disability.

While many of these parents will need to devote considerable time to caring for the family member with a disability, states should afford them opportunities to engage in other work activities (such as education and training) that can help them move toward employment if appropriate. Many of these parents will be able to participate in standard work activities for fewer hours than the federal work participation requirements call for and will need additional supports (including help in caring for the child or other family member) to make progress in these programs.

- **Serving some individuals with disabilities outside TANF if the services they need do not count toward the participation rates.** Some recipients with disabilities may need services that are not countable toward the federal work rates. States should consider establishing a separate program outside of the TANF structure (that is, a program that is not funded with TANF or MOE funds) that can provide income assistance to such recipients. Moreover, states can still use TANF or MOE funds to finance *services* for these families — such as employment or pre-employment services, substance abuse treatment, or mental health services — as long as the family’s income assistance is provided through a program that does not receive TANF-related funds.

(Note that the extent to which a significant number of families will need services that are not countable toward the federal work participation rate will depend to a very large degree on how HHS crafts its regulations related to countable work activities.)

What Have States Done to Help Recipients with Disabilities Move Toward Employment?

States have taken a variety of approaches to make their TANF programs accessible and effective for families that include members with disabilities. Some brief examples are given below.

Comprehensive Policy and Procedure Review

Virginia conducted a comprehensive review of its policies and procedures to determine whether there were areas that either did not comply with the ADA and Section 504 or could be made more

¹⁵⁷ Fifteen percent of TANF families with an adult recipient had a child with a disability, compared to three percent of the non-TANF population. Eight percent of TANF families included both an adult and a child with disabilities. (Among non-TANF families, this figure is one percent.) See, “Welfare Reform: Outcomes for TANF Recipients with Impairments,” General Accounting Office, GAO-02-884, July 2002, page 13, <http://www.gao.gov>.

accessible to applicants and recipients with disabilities.¹⁵⁸ On the basis of this review, the Department of Social Services made numerous changes throughout its TANF and welfare-to-work program rules. For example, a revised manual for state employees spells out accommodations that must be made in the application process, stating that people with disabilities are entitled to help with completing the application and with collecting the needed verification documents.¹⁵⁹ If a disability prevents an applicant from attending an intake interview at the welfare agency, the TANF agency must provide home visits or telephone interviews or interview a claimant's authorized representative.¹⁶⁰ Also, employability assessments must be scheduled at a time that does not conflict with the applicant's medical, mental health, or other appointments for treatment, to the greatest extent possible.¹⁶¹

The Virginia policy manual also explains the types of changes to the state's standard work requirements that should be made for an individual when needed because of a disability. These changes include:

- a waiver of the requirement that the person engage in a second work activity if needed to bring the total work hours up to the federal standard;
- reduced required job contacts during job search;
- an allowance to remain in work activities for longer than typically permitted;
- not assigning recipients to activities in environments that could prove harmful for a person with their disability, such as ensuring that someone with asthma is not assigned to a worksite that is very dusty;
- assigning recipients to work activities that are consistent with the person's limitations; and
- additional notice of program appointments and additional explanations of program rules.¹⁶²

¹⁵⁸ In addition to the state examples discussed here, the OCR guidance itself includes a discussion of many "best practices" in areas ranging from quality of notices to sanction and time limit policies. There are a number of other helpful publications that also provide numerous examples of steps that states and counties can take (and have taken). See, for example, Gretchen Kirby and Jacquelyn Anderson, "Addressing Substance Abuse Problems Among TANF Recipients: A Guide for Program Administrators," Mathematica Policy Research, July 2000, <http://www.mathematica-mpr.com/publications/PDFs/addresssubstance.pdf>; Michelle K. Derr, Heather Hill, LaDonna Pavetti, "Addressing Mental Health Problems Among TANF Recipients: A Guide for Program Administrators," Mathematica Policy Research, July 2000, <http://www.mathematica-mpr.com/publications/PDFs/addressmental.pdf>; Amy Brown, "Beyond Work First: How to Help Hard-to-Employ Individuals Get Jobs and Succeed in the Workforce," MDRC, 2001, <http://www.mdrc.org/publications/15/full.pdf>.

¹⁵⁹ The Virginia Department of Social Services TANF and VIEW manual provisions appear at <http://www.dss.virginia.gov/benefit/tanf/manual.cgi>. The notice of manual changes related to the ADA and Section 504 (and Virginia's Human Rights law) appears in Transmittal #27, issued November 18, 2004, see <http://www.dss.virginia.gov/files/division/bp/tanf/policy/transmittals/27.pdf>. The portions cited in this footnote appear at sections 305.10.1.C, 401.1.D, 401.2.A.10, and 401.2.B.1.

¹⁶⁰ Ibid., Section 401.2.A.

¹⁶¹ Ibid., Chapter 1000.4.A.4.

¹⁶² Ibid., Chapters 901.1.2.C, 1000.7.C and pages 43, 45; Chapter 1000.7.A.3; Chapters 1000.4.B.3.0 and 1000.5.A.7.

The policy manual recognizes that disabilities are often the reason for non-compliance with TANF program rules and states that individuals should not be sanctioned or disqualified from other aspects of the TANF program if their failure to comply is the result of a disability.¹⁶³

The manual made clear to staff what the rules are, how they are to be implemented, and who is responsible for various tasks, such as deciding on the accommodations needed by a particular recipient.

Helping Recipients with Disabilities Succeed in Work Programs

Some states have designed programs or policies that give people with disabilities the extra help they need to succeed in welfare-to-work programs. For example, Tennessee created the Family Services Counseling (FSC) program to identify and assist families with barriers to employment, including mental health or substance abuse problems, domestic violence, learning disabilities, or children's health/behavioral health problems.¹⁶⁴

In FSC, families are referred to a social worker at a private non-profit agency that is under contract with the state's TANF agency. These social workers help identify barriers faced by the families and provide case management and other supports (such as placing individuals in mental health counseling or substance abuse treatment where appropriate) to help families address those barriers so they can participate successfully in work programs. While just 14 percent of families are working when they begin FSC, 49 percent are working by the time they successfully leave the program. (Families leave the program when the FSC case manager determines that the barrier has been resolved or the family no longer needs FSC services.)

It is important to understand that such families' path to success is not necessarily linear. One-fifth of families that successfully leave FSC have a subsequent referral to the program and need additional help.¹⁶⁵ Further, among those who are successful, the state and its staff worked with the individuals or families for significant periods of time, averaging 110 days but ranging from two days up to 330 days.¹⁶⁶

¹⁶³ Ibid., Section 901.6.B; Chapter 1000.12.A.2.

¹⁶⁴ "The services offered in this work component [Family Services Counseling] include comprehensive screening and assessment, short-term counseling services, intensive case management, referral, and advocacy for eligible Families First [TANF] participants and their families who have been identified as having barriers which appear to be interfering with their ability to become self-sufficient. Masters level mental health professionals have been contracted to provide these services to Families First participants throughout the state. Services are community based in locations convenient to Families First clients, such as county DHS offices, other service provider locations, and in contract agencies. Family Services Counseling is not intended to duplicate services funded by TennCare or replace existing resources in the community." *Families First Contractor Manual, Fiscal Year 2005-2006*, Tennessee Department of Human Services, page 42, <http://tennessee.gov/humanserv/contractor-manual.pdf>. For a detailed discussion of the FSC program, see pages 42 through 59 of this document.

¹⁶⁵ Deborah Godwin Perkins, Karen Homer, "2002 Family Services Counseling Evaluation Report," University of Tennessee College of Social Work, Office of Research and Public Service, June 2003, Appendix E.

¹⁶⁶ Ibid. The median time was 101 days. 6.3 percent were served in less than thirty days; 38.2 percent in 30 to 90 days; 39.9 percent were served in 91 to 180 days; 14.5 percent were served in 181 to 270 days; and 1.1 percent were served in over 270 days.

Another example of a successful state program to serve families with barriers is Iowa's Family Development and Self-Sufficiency (FaDSS) program.¹⁶⁷ The Department of Human Services contracts with the Department of Human Rights, Division of Community Action Agencies, to administer the FaDSS Grant Program. That agency then subcontracts with 18 organizations across the state to provide FaDSS services.¹⁶⁸ As FaDSS explains:

The foundation of FaDSS is regular home visits with families, using a strength-based approach. Core services include support, goal setting, and assessment. Support is given in many ways such as referrals, group activities, linking families to communities and advocacy. Assessment aids the family to identify strengths that they possess that may be used to eliminate barriers to self-sufficiency. Goal setting helps families break down goals that seem out of reach into small steps that will lead to success.¹⁶⁹

A large number of FaDSS participants have mental health problems, and the FaDSS program has been successful at helping a large share of those with identified mental health issues secure treatment.¹⁷⁰

In addition, FaDSS provides a 90-day transition component for those leaving welfare, keeping in touch with them over a follow-up period, helping them address any obstacles that may arise, and otherwise supporting their move into employment. More than 73 percent of families who received transition services were still off welfare a year later.¹⁷¹

Partnering with the State Vocational Rehabilitation Agency

Some states, like Vermont, have partnered with the vocational rehabilitation (VR) agency to provide services to people with disabilities on TANF, often using TANF funds to expand the VR agency's capacity to provide vocational services to TANF recipients with disabilities.¹⁷² In Vermont,

¹⁶⁷ The Iowa state plan describes the FaDSS program this way, "This program provides intensive family development services to families receiving FIP and identified as having multiple or severe barriers to self-sufficiency. FaDSS participants leaving FIP for reasons other than a sanction can continue to receive services for a limited period after leaving the program. Former cash recipients receiving FaDSS services continue to receive monthly home visits during the limited period to help enable them to progress toward permanent self-sufficiency. Former cash recipients receiving FaDSS services are not required to complete any type of application form or to meet any income or resource eligibility criteria. The program is available statewide and services are provided by contracted agencies." See, "State of Iowa State Plan for Temporary Assistance for Needy Families (TANF), Effective October 2004," page 11, http://www.dhs.state.ia.us/dhs2005/dhs_homepage/docs/TANF_STATE_PLAN_AMENDMENT_10-01_FINAL.doc.

¹⁶⁸ See the FaDSS website, <http://iowafadss.org>. For an excellent description of the program and how it works, see the "big book" on the website. Section 2.1 describes the FaDSS concept in greater detail. http://www.iowafadss.org/big_book/bigbook_docs/2.1-2.3_conceptpaper.doc. See also annual report, <http://www.iowafadss.org/outcomes/FY03-r-annual%20report.pdf>.

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

¹⁷¹ Outcomes, fiscal year 2004, page 2, <http://www.iowafadss.org/outcomes/FaDSSSummaryFY04.doc>.

¹⁷² For a discussion about thinking through TANF and VR agreements and work arrangements, see Jean Radtke, Sue Scholfield, "Report from the Study Group on TANF and Vocational Rehabilitation: Partnering for Employment Success," 28th Institute on Rehabilitation Issues, Washington, DC, May 2003, available at

counselors from the Division of Vocational Rehabilitation who are specifically identified to work with TANF recipients work collaboratively with TANF case managers to develop a mechanism for identifying recipients with disabilities and other barriers to work and to develop an employment plan for them.¹⁷³

Since its inception in 2001, the Vermont program has helped 278 welfare recipients with disabilities become successfully employed. Over that same period, a similar number of recipients have become successfully employed through the state's regular VR program, which provides less-intensive services than those provided by the VR-TANF program. On average, though, participants in the VR-TANF program needed significantly less time to become successfully employed: 15 months on average.¹⁷⁴

Helping TANF Recipients with Disabilities Navigate the SSI Application Process

The vast majority of people with barriers to employment in the TANF program are not sufficiently disabled to qualify for Supplemental Security Income (SSI). However, some people now receiving TANF have disabilities that do meet the rigorous SSI standard of disability.

Helping individuals with disabilities this severe to transfer from TANF to SSI can benefit both the state and the individual. For the state, an adult who receives SSI is no longer counted in the state's work participation rate, and TANF funds are no longer spent for the parent (although they generally continue at a lower level for the children in the family). For the individual, monthly SSI benefits generally are substantially more than the individual's portion of the TANF grant. (In 2006, the federal SSI benefit is \$603 per month for an individual.) And, to the extent that the person may be able to attempt to work in the future, SSI provides significant work incentives and supports.

Brief Background on SSI

SSI provides needs-based assistance to people with disabilities and those who are elderly (aged 65 and older). Since its creation in 1974, it has become a key source of support for people with disabilities.¹⁷⁵ About 5.1 million people with disabilities receive SSI, some 2.8 million of whom have severe mental impairments such as schizophrenia, severe depression, or mental retardation. SSI also provides benefits to children with severe disabilities living in low-income families.

http://www.rlr.uwstout.edu/pdf/iri/28th_IRI_Final.pdf. At tables 4 and 5, pages 65 - 68, there are lists of state and local VR and TANF partnerships.

¹⁷³ Johnette T. Hartnett, "Vermont's Response to Welfare Reform for People with Disabilities: An Evaluation of Vermont's Vocational Rehabilitation (VR) and PATH Partnership," University of Vermont, Fall 2002, page 4.

¹⁷⁴ Email correspondence with Michael Collins, Vermont Department of Vocational Rehabilitation, DAIL, March and April 2006.

¹⁷⁵ For a longer discussion of the accomplishments of the SSI program, see Eileen P. Sweeney and Shawn Fremstad, "Supplemental Security Income: Supporting People with Disabilities and the Elderly Poor," Center on Budget and Policy Priorities, August 17, 2005, <http://www.cbpp.org/7-19-05imm.pdf>.

Individuals with disabilities who are poor enough to qualify for TANF almost always meet SSI's income and asset eligibility criteria, which are often more generous than state TANF eligibility rules.

The SSI eligibility criteria for disability are stringent. SSI's definition of "disability" is the same as the one used in the Social Security disability program: a person must have a physical or mental impairment that will last at least 12 months or is expected to end in death and must prove that he or she is not able to engage in "any substantial gainful activity" as a result of the impairment or combination of impairments. The definition of disability for children is somewhat different, but equally stringent. Children must show that they have "marked and severe functional limitations."¹⁷⁶

States Can Be Reimbursed for Assisting Individuals Awaiting SSI Eligibility Determination

Because SSI approval generally takes many months and is retroactive, a successful applicant can receive back benefits. This money often can provide a family with a small reserve fund or cushion to meet needs. Alternately, a state may be reimbursed for "interim assistance" it provides to an SSI applicant if the applicant is ultimately found eligible for SSI. The state would be reimbursed for this assistance out of any lump-sum payment owed to the applicant for retroactive benefits. (Applicants would first have to sign an interim assistance agreement with the state.)

Under HHS rules, a state can provide MOE-funded assistance to a family in which an individual is awaiting an SSI determination and then, if the individual is found eligible for SSI, receive reimbursement for that individual's share of the MOE-funded assistance provided to the family. The funds reimbursed to the state become income to the state's TANF program and can be spent in a TANF program or in a separate MOE-funded program. (They cannot, however, be claimed toward the state's MOE requirement.¹⁷⁷) Thus, states can help TANF recipients with serious disabilities gain access to SSI and use the reimbursement for interim assistance to partially finance TANF benefits and assistance applying for SSI (discussed below) provided during the SSI application period.

States Can Help Individuals Navigate the SSI Application Process

Over the past few decades, some states have undertaken initiatives to help some recipients of state assistance with severe disabilities to apply for SSI. They have done this either by contracting with legal services organizations or private attorneys to represent individuals when they apply for SSI, or by assigning in-house state human service agency staff to help individuals apply for SSI. Originally, states set up these arrangements for representation to help general assistance recipients with serious

¹⁷⁶ Section 1614(a)(3)(A) of the Social Security Act, 42 U.S.C. §1382c(a)(3)(A) (adults); section 1614(a)(3)(C) of the Social Security Act, 42 U.S.C. §1382c(a)(3)(C) (children).

¹⁷⁷ Section 1631(g) of the Social Security Act, 42 U.S.C. §1383(g). Interim assistance "means assistance financed from State or local funds and furnished for meeting basic needs" during the period following the month of application for SSI for which the person is eligible for benefits. It also can cover a period during which SSI benefits have been terminated and an appeal is pending. Reimbursement is available "upon written authorization of the individual." The state must have an interim assistance agreement in effect with SSA. Sections 1631(g)(1), (3) and (4), 42 U.S.C. §§1383(g)(1),(3), and (4). Information on how reimbursement can be sought for benefits funded with MOE funds was received via email communication with the Department of Health and Human Services.

health conditions to apply for SSI. Over time, some states expanded their programs to assist children with severe disabilities in the foster care system and, most recently, to assist some TANF parents and children with severe disabilities.

It is important to recognize that because SSI's definition of disability is restrictive, few TANF recipients will be eligible for SSI. Nevertheless, it is clear that there are parents and children on TANF with serious health conditions who may qualify for SSI. Helping such individuals gather the necessary medical evidence to support an SSI application can make a significant difference in whether their application is approved or denied. Further, this form of assistance can help individuals provide the necessary information earlier in the application process, reducing processing delays and the likelihood that an application will be denied only to be approved on appeal.

The following are examples of state-funded SSI application assistance efforts:

- **Wisconsin.** The Wisconsin Department of Workforce Development recently entered into a three-year contract with three organizations in Milwaukee County (United Migrant Opportunity Services, La Causa, Inc., and Legal Action of Wisconsin, Inc.) to provide SSI application assistance to TANF recipients in the county who appear eligible for SSI.¹⁷⁸
- **Maryland.** The Disability Entitlement Advocacy Program (DEAP), run by the Maryland Department of Human Resources, helps people file for SSI and Social Security disability benefits. To be eligible for DEAP, individuals must be receiving some form of state-administered cash assistance (TANF or Adult Public Assistance), and their treating physician must certify that their disability will last at least 12 months.

Local social services departments refer such individuals to the DEAP office. People whose condition has lasted at least 12 months are required to participate in DEAP; those whose conditions are expected to last 12 months but have not yet reached that benchmark can volunteer for the program. DEAP staff help individuals complete the application for SSI (and SSDI) and assist with appeals at the Social Security Administration (SSA), including providing legal representation.¹⁷⁹

Families that are required to apply for SSI and are eligible for TANF assistance (as opposed to other state aid programs) are placed in a separate state MOE-funded program. This ensures that the state can be reimbursed for the interim assistance it provides the individual before SSI benefits are paid.¹⁸⁰

¹⁷⁸ "DWD Selects W-2 Agencies for 2006-09 Contract Period," Wisconsin Department of Workforce Development News Release, September 9, 2005, http://dwd.wisconsin.gov/dwd/newsreleases/2005/070905_w2_contract_selection.htm.

¹⁷⁹ <http://63.236.98.116/how/srvadult/deap.htm> and <http://63.236.98.116/fia/deap.htm>.

¹⁸⁰ *Temporary Assistance to Needy Families State Plan, October 2005 Revision*, State of Maryland, <http://www.dhr.state.md.us/fia/doc/newtanfplan.pdf>.

- **Minnesota.** As part of initiative to get a better sense of the barriers facing families about to hit the time limit, Ramsey County, Minnesota, contracted with Southern Minnesota Regional Legal Services and a private attorney to help TANF recipients who had serious health problems as they applied for SSI. Individuals received help filing applications and obtaining medical and psychological evidence, transportation to appointments, legal counsel at meetings related to the application, and links to community resources while they awaited the SSI decision.¹⁸¹ The project also included health and in-depth psychological assessments and home visits by professional clinical staff who served as project consultants. The information gleaned from these exams and visits not only helped the county agency design strategies to assist particular families, but also provided important reports that were submitted to SSA. Unfortunately, many of the services provided under the program were cut back due to budget constraints, but the county continued the part of the program that helped individuals through the SSI application process.
- **Vermont.** As part of its larger contract with the Vermont TANF agency (described above), the Vermont Division of Vocational Rehabilitation helps TANF recipients with severe disabilities apply for SSI. The VR agency reports that some long-time TANF recipients have serious disabilities that were never properly diagnosed and that these individuals should have been referred to SSA to apply for SSI many years earlier.¹⁸²

¹⁸¹ La Donna A. Pavetti and Jacqueline Kauff, page 8.

¹⁸² Email correspondence with Michael Collins, Vermont Division of Vocational Rehabilitation, April 2006.

CHAPTER V: Examining TANF Spending Priorities

Introduction

The Deficit Reduction Act (DRA) requires states to meet significantly higher work participation requirements. If states try to increase their work rates by engaging more families in work activities (rather than simply restricting poor families' access to TANF assistance programs), they will need to devote additional resources to enhanced welfare-to-work programs, child care for participants in those programs, and other aid to low-income working families.

Most states no longer have significant unspent TANF funds from prior years to use to augment their annual federal TANF block grant. Thus, to increase the resources available for welfare-to-work programs, child care, and other TANF-related initiatives, states will either need to redirect existing TANF and MOE funds away from other activities or to increase state funding for these areas. If a state chooses to redirect TANF resources away from other areas, it likely will need to increase state funding to compensate for the reduction in TANF-related funds — or cut its TANF-funded services significantly.

The DRA also imposes significant cuts in funding for child support enforcement efforts. These cuts create potential challenges for state TANF programs. If the effectiveness of state child support efforts lag, as is likely, states could face federal penalties — in the form of a reduced TANF block

TANF Spending Basics

Federal TANF Funding Under DRA

Basic Block Grant: \$16.4 billion/year

Supplemental Grants: \$319 million/year

Additional TANF funds provided to 17 states. The DRA extended the supplemental grants through 2008.

Out-of-Wedlock Bonus: eliminated

High Performance Bonus: eliminated

Marriage/Fatherhood Grants: \$150 million/year

These grants will be awarded by HHS on a competitive basis and are available not only to states but to localities, non-profit and for-profit entities.

State Spending Requirement

States are required to meet a “maintenance-of-effort” requirement equal to 80% of its spending on AFDC-related programs in 1994. States that meet the work participation rates (all family and two-parent family) meet this state spending requirement if they spend at least 75% of what they spent in 1994.

grant — for failing to meet child support performance standards. Moreover, if fewer families receive the child support they are owed, more families may need TANF-related assistance.

This chapter discusses:

- how states use TANF and MOE funds;
- the impact of inflation on TANF funding;
- the impact on TANF funding of cuts in federal funding for child support;
- issues for states as they reexamine their TANF and MOE spending priorities; and
- the small additional child care funding included in the DRA.

Background: National Trends

The federal TANF statute permits states to use federal TANF and state MOE funds for a wide variety of programs and activities. Over the past decade, the share of TANF and MOE funds used for the combination of traditional cash assistance and welfare-to-work programs has declined. In 2004, only slightly more than one-third (36 percent) of TANF and MOE funds were used for basic assistance and just 8 percent were used for on “work related activities” (which includes employment and training, work subsidies, and other work-related programs). See Figure 1. A significant share of TANF funds are now used for work supports, particularly child care. In 2004, 18 percent of TANF and MOE funds were spent on child care assistance or transferred to the child care block grant.

TANF and MOE funds also have increasingly been used to fund an array of services outside of cash assistance, child care, and welfare-to-work programs. In particular, some states now spend a significant share of their TANF and MOE funds on services provided through state child welfare agencies. In some cases, TANF-related funds have been used to augment the services provided by these or other agencies; in others, they have been used to fill budget holes. As a result, welfare-to-work programs receive only a small share of TANF and MOE funds.

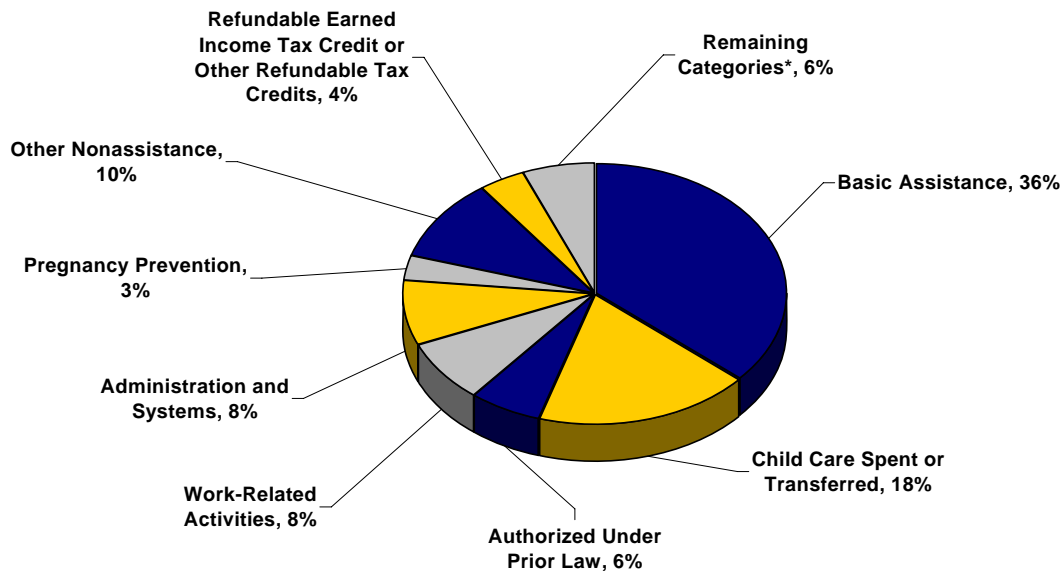
Spending priorities vary widely among states. For example, 11 states spent 50 percent or less of their total TANF and MOE funding on basic assistance, child care, and welfare-to-work activities in 2004, while another 11 states spent at least 75 percent of their TANF and MOE funding in these areas.

Unfortunately, because of the paucity of information that states are required to submit to HHS on how they spend TANF funds, it is impossible to get a full accounting of the set of services that are being funded with TANF and MOE resources. States are required only to divide their TANF and MOE spending into a set of broad programmatic categories, such as “basic assistance,” “child care,” and “employment and training.”¹⁸³ Three of the programmatic categories — “other non-assistance,”

¹⁸³ State-by-state tables on TANF and MOE spending in 2004 are available at http://www.clasp.org/publications/state_moe_fy04.htm.

FIGURE 1

STATES SPEND TANF AND MOE FUNDS FOR A BROAD RANGE OF ACTIVITIES



*Remaining Categories: Nationally, less than 3 percent of total funds used were used in each of the following categories: Funds transferred to the Social Services Block Grant, Individual Development Accounts, Nonrecurrent Short-Term Benefits, Two-Parent Formation, and Transportation and Supportive Services.
Source: Center for Law and Social Policy based on data from the U.S. Department of Health and Human services.

“transfers to the Social Services Block Grant,” and activities that were “previously authorized” under the former AFDC program — are particularly vague and often include some services provided through child welfare agencies. It seems likely that a number of child welfare-related services are provided with these funds— including prevention and family support services, investigations, case management, counseling, parenting classes, substance abuse treatment, and mental health services — for families at risk of abuse or neglect or for whom abuse or neglect has been substantiated. More details about the particular programs or activities funded under these broad categories are often available from state human service agencies or state budget offices.

TANF and MOE Funds Are Not Keeping Pace with Inflation

Funding for the basic TANF block grant and each state’s MOE requirement have been frozen since the inception of the TANF block grant structure in 1996. While inflation has been relatively low by historical standards, the purchasing power of these funding sources has declined quite substantially over the past decade.

- In 2007, the basic TANF block grant will be worth *22 percent less* than it was worth in 1997, the first year states received the block grant. By 2011, the block grant will be worth just 70 percent of its 1997 value.

- **States now spend significantly less on TANF-related programs than they did in 1994.** A state that meets the MOE requirement in 2007 of spending 80 percent of what it spent on AFDC-related programs in 1994 is actually spending *42 percent less* in this area than it did in 1994, once inflation is taken into account. By 2011, a state spending at the 80-percent MOE level will be spending just 53 percent of what it spent in 1994, after adjusting for inflation. Even when one takes into account the additional funds that states now spend in order to receive matching federal child care funds, state spending in this area remains more than one-third below what states spent in 1994.

The Impact on TANF of Cuts in Federal Child Support Enforcement Funding

The DRA significantly cut funding for child support enforcement programs.¹⁸⁴ The Congressional Budget Office estimates that even if states replace half of the lost federal funds with state funds, the reduction in federal funding for child support enforcement efforts will result in \$8.4 billion in child support going *uncollected* over the next ten years that would have been collected in the absence of these cuts. This loss of child support collections creates three potential problems for state TANF-related programs:

1. **If states collect less child support, they will retain less of that child support and thus will have less funding available to meet their MOE requirement.** As discussed in chapter III, the federal and state governments typically retain the child support collected on behalf of a family receiving TANF assistance in order to offset the cost of providing assistance to the family. (The federal government retains 50-76 percent of the child support collected; the state retains the remainder.) In addition, the federal and state governments retain some child support collected on behalf of former TANF recipients to offset the cost of aid provided in the past. Many states use the child support they retain to fund TANF-related programs.¹⁸⁵ The retained child support funds spent in this way can count toward the state's MOE requirement.
2. **If states are unable to meet their child support performance standards, they could face a fiscal penalty, which is imposed through a reduction in their TANF block grant.** Under federal law, states are required to meet certain child support performance benchmarks. States failing to meet those standards can face up to a 5-percent reduction in their TANF block grant. Unlike with other TANF penalties, states cannot enter into a corrective compliance plan that would allow them to correct the violation without penalty.
3. **If less child support is collected, more families may need assistance from TANF-related programs.** The cut in federal child support enforcement funding will likely force states to scale back their child support enforcement efforts, which means they will collect less child support — an important source of income for many single-parent families. That,

¹⁸⁴ See Vicki Turetsky, "Families Will Lose At Least \$8.4 Billion in Uncollected Child Support If Congress Cuts Funds — and Could Lose Billions More," CLASP, 2006, http://www.clasp.org/publications/incentivepayments_jan18.pdf.

¹⁸⁵ Michael Fishman, Kristin Dybdal, and John Tapogna, "State Financing of Child Support Enforcement Programs, 1999, <http://www.acf.hhs.gov/programs/cse/rpt/financing.htm>.

in turn, means that more poor families will have trouble making ends meet and may need assistance from TANF programs.

States can avoid these negative consequences by increasing *state* funding for child support enforcement, which would entitle them to more federal child support enforcement matching funds. In order to eliminate the effect of the cut in federal child support funding on overall child support enforcement funding, the state needs to increase state funding by two-thirds of the amount the state receives as performance incentive payments from the federal government (incentive payments are made on the basis of child support performance measures, including the child support collection rate).

Reexamining Spending Priorities and Funding Levels

In response to the new TANF work requirements, states are likely to need to invest more resources in welfare-to-work programs, aid for working families, supports such as child care, and child support enforcement.

- **States should count on meeting the 80-percent MOE requirement, rather than the lower 75-percent requirement.** Under TANF's "maintenance-of-effort" requirement, a state that meets the federal work participation rates must spend an amount on low-income programs that is at least 75 percent of what it spent (in nominal terms) on AFDC-related programs in 1994. A state that fails to meet either or both of the federal work rates in a particular year is required to meet a higher level of MOE spending — 80 percent of its 1994 AFDC-related spending — *in that same year* that the state failed to meet the work rates. For example, if a state fails to meet the work rates in FY 2007, it must meet the 80-percent MOE requirement in FY 2007.

States will not know whether they met the work rates in FY 2007 until sometime in FY 2009, but if they failed to meet the rates, they will have to be able to show that they met the 80-percent MOE requirement in FY 2007. Since most states are at risk of failing to meet the new work rates (at least initially), it is prudent for all states to plan to meet the higher MOE level. States that fail to meet the MOE requirements are subject to significant fiscal penalties.

States can meet the 80-percent MOE requirement in two ways. First, and most straightforward, they can spend more state funds on TANF-related programs and use these added funds to provide more services. Alternatively, states can identify existing areas of state spending that are not currently being counted toward the MOE requirement and count those expenditures toward the MOE requirement. As discussed more below, if states rely largely on this second strategy, the level of assistance and services provided to poor families through TANF-related programs will erode as inflation reduces the purchasing power of the TANF block grant and MOE funds.

- **States should consider identifying some state funding that can be used to assist families outside the TANF structure.** As discussed in earlier chapters, the set of work activities that are countable toward the federal participation rates may not be the most appropriate activities for some recipients. Thus, states may want to provide assistance to some families in programs that are funded with state funds that are not counted toward the MOE requirement. States can

establish their own rules in such programs, including the work activities in which program recipients must participate. Families assisted by state-funded programs outside the TANF structure are not considered when determining the federal TANF work rate.

States that want to provide state-funded assistance in this manner to some families have two options for securing the needed resources. First, as in the MOE discussion above, the state can increase the overall level of state funding for TANF, MOE, and state-funded assistance programs. Alternatively, the state can identify existing state services or benefits (that do not meet the definition of assistance) that are financed with state or local resources that *could* be financed with TANF or MOE funds. The state then can “swap” funding streams. The state can use state funds (that don’t count toward the MOE requirement) to provide assistance to families that once participated in TANF- or MOE-funded programs and use the TANF or MOE funds that once were spent to provide aid for those families to pay for programs that once were funded with state funds unrelated to the TANF structure.

- **States may need to redirect TANF and MOE resources so they can fund welfare-to-work, child care, and other supports for low-income working families adequately.** To be sure, other areas that now receive TANF and MOE funds may be critical to the well-being of children and families. Thus, if states redirect TANF and MOE funds to welfare-to-work activities and related programs, additional resources likely will need to be secured from those areas that are losing these resources.
- **States should consider replacing lost federal child support enforcement funding with increased state resources.** As discussed above, federal cuts in child support enforcement funding could harm states’ TANF and MOE-funded programs — as well as families that rely on child support income. States can reduce or eliminate this harm by increasing their own funding for child support enforcement.

Ultimately, to ensure that benefits and services for poor families do not erode, states will need to increase overall resources for TANF-related programs — and state-funded assistance programs outside the TANF/MOE structure. As described above, there are ways that states can meet a higher MOE requirement or identify resources for assistance programs outside the TANF structure without investing net additional state funds. Such strategies are legal and may be necessary in the short run. Over the longer term, however, the set of programs that provide assistance, welfare-to-work programs, and work supports to low-income families will need additional funding if these programs are going to be effective at helping vulnerable families make ends meet and find and sustain employment.

Child Care Assistance

Child care assistance is critical to helping families move from welfare to work and helping working families remain employed and make ends meet. The increased TANF work requirements in the DRA will require states to reexamine their approach to funding child care assistance for low-income families, including those receiving TANF, those leaving TANF, and those that have no connection to TANF but need child care assistance in order to work. Unfortunately, the lack of significant new federal resources for child care, coupled with the large increase in the number of TANF families that will need child care while they work or participate in welfare-to-work activities, may create difficult

Using “Healthy Marriage” Funds for Services That Also Promote Employment

A growing body of research suggests a connection between earnings and marriage. Individuals who are stably employed are more likely to marry, and marriage has a positive effect on men’s hours worked and wage levels.^a Thus, the funding provided in the DRA for “healthy marriage” initiatives could be used for employment-related programs and services to TANF recipients and their partners.^b

Public and private entities can use these DRA funds to operate demonstration projects that provide one or more of eight specified services. Many of these services involve improving basic relationship skills such as “commitment to a task” and “anger management.” Since skills like these are useful in employment as well as relationships, states and organizations should consider applying for healthy marriage grants for programs that seek to improve both marriage readiness and employability.

Healthy marriage funding also could be used for programs designed to reduce or prevent domestic violence. Significant research shows that many low-income women are prevented from obtaining stable employment by physical and psychological violence from partners.^c Stopping this violence, therefore, is key to women’s employment success as well as the success of the relationship. States should consider using the DRA’s healthy marriage funding to design anti-violence components of their programs for TANF recipients and their partners, as well as two-parent TANF families. It is worth noting that the federal legislation requires applicants to consult with domestic violence experts in designing their healthy marriage programs.

Finally, the DRA specifically authorizes the use of healthy marriage funding for programs targeted on non-married pregnant women and their partners. In addition to marriage/relationship skills, these programs may include financial management, conflict resolution, and *job/career advancement*. Thus, healthy marriage funds could be used for programs that would increase employment among this population, such as education and training.

HHS is expected to release the “request for proposals” (RFP) for the health marriage funds in May 2006. The RFP will clarify the options available to states and other entities that wish to apply for these funds.

^a See, e.g. Avner Ahituv & Robert Lerman, "How Do Marital Status, Wage Rates, and Work Commitment Interact?" a paper presented at the 27th annual Research Conference of the Association for Public Policy and Management, Nov. 3, 2005, Washington, DC.

^b For a more detailed description of this money and its potential uses see Paula Roberts, "Update on the Marriage and Fatherhood Provisions of the 2006 Federal Budget and the 2007 Budget Proposal," Center for Law and Social Policy, 2006, http://www.clasp.org/publications/marriage_fatherhood_budget2006.pdf.

^c See, for example, "Keeping Women Poor: How Domestic Violence Prevents Women from Leaving Welfare and Entering the World of Work," in *Battered Women, Children, and Welfare Reform: The Ties That Bind*, Brandwein ed., 1999.

choices for states that want to continue serving both TANF families and other low-income working families.

The increase in the number of TANF families likely to need child care will vary significantly across states.¹⁸⁶ A few states already meet (or nearly meet) the federal TANF work rates, while other states will have to move thousands of families into work programs or employment to meet the work

¹⁸⁶ For state-by-state estimates, see Mark Greenberg, "Conference TANF Agreement Requires States to Increase Work Participation by 69 Percent, but New Funding Meets Only a Fraction of New Costs," Center for Law and Social Policy, 2006, http://www.clasp.org/publications/tanfagreement_update_jan12.pdf.

rates and avoid fiscal penalties. Thus, states will need to estimate how many additional TANF families are likely to need child care assistance as a result of increased participation in work activities and employment and project the cost of providing that assistance. States then will need to see which federal and state funds are available to meet these increased child care costs.

Because the available resources are limited, states may be tempted to cut child care for non-TANF families in order to direct resources to TANF families that will be required to work. Such an approach, however, would not only harm low-income families, but also undermine states' efforts to reduce the need for cash assistance by helping working families make ends meet. Research has shown that low-income families are more likely to sustain their employment if they have help paying for child care.¹⁸⁷ Thus, states should consider expanding rather than shrinking the number of low-income working families receiving child care assistance.

How States Can Access the Additional Child Care Funding Provided by the DRA

The DRA includes \$200 million per year in additional federal child care funding (as compared to nominal funding levels in 2005) through the Child Care and Development Block Grant (CCDBG).¹⁸⁸ This money must be matched by state funds, so most states will need to increase their child care spending to obtain their share of these additional federal funds. (Some states may not need to spend additional resources if they have been spending more than the amount required to match the federal child care funds currently available.) In total, states will have to spend about \$150 million in additional state funds to draw down the \$200 million in additional federal funding.

Several types of state and private expenditures can be used as the state match for these federal funds. In addition to state spending on a basic child care subsidy program, they include:

- **Public expenditures on pre-kindergarten.** States are permitted to count funds spent on public pre-kindergarten programs for up to 20 percent of either the CCDBG maintenance-of-effort (MOE) requirement or the state match requirement for CCDBG. To count public pre-kindergarten funds toward the CCDBG MOE requirement, a state must ensure that it will not reduce expenditures on full-day and full-year child care services. To count public pre-kindergarten funds as state matching funds, a state must describe in its annual plan how the pre-kindergarten program meets the needs of working parents.
- **Privately donated funds.** States may meet their state match and MOE requirements in part by using funds that private, non-governmental agencies have donated to the state or to an entity designated by the state to receive these funds. There is no limit on the amount of private funds states may use towards the match and MOE requirements. (Donated funds can count toward

¹⁸⁷ For a review of the impact of child care on employment outcomes, see, Hannah Matthews, "Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment," Center for Law and Social Policy, 2006, http://www.clasp.org/publications/ccassistance_employment.pdf.

¹⁸⁸ The Child Care and Development Block Grant includes multiple funding streams, including discretionary (sometimes referred to as "appropriated") child care funding whose level is set each year through the appropriations process and mandatory (also called "entitlement") funding whose level is set in the Social Security Act. The DRA increases *mandatory* child care funding from \$2.717 billion per year to \$2.917 billion.

the match or MOE requirements only if they are donated without limitations that would require the funds to be used for a particular individual, organization, or facility.)

In some cases, states may be able to use existing funds in these areas to meet the match requirement for the additional federal resources provided in the DRA. However, most states will need to consider increasing state support for child care programs if they are going to meet the increased child care costs associated with TANF work requirements without reducing child care assistance to low-income working families not receiving TANF. Moreover, most states have a significant unmet need for child care assistance, which can be addressed only by committing additional resources. As revenues in many states begin to recover from the declines that occurred in recent years, these states should carefully consider making new investments in child care and other early education initiatives.

APPENDIX: Additional Resources on Work Support Programs

There are several programs that provide key supports to low-income working families. These programs “make work pay,” helping parents make ends meet and providing them the help they need to retain employment.

The following provides a brief resource list for information about the following work support programs: child care, child support enforcement, federal and state Earned Income Tax Credits, the Food Stamp Program, housing assistance programs, and the Medicaid and SCHIP programs.

Child Care

Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment, Center for Law and Social Policy,
http://www.clasp.org/publications/ccassistance_employment.pdf

Using TANF for Child Care: A Technical Guide, Center for Law and Social Policy,
http://www.clasp.org/publications/using_tanf_for_child_care.pdf

The Child Care and Development Fund: An Overview, Center for Law and Social Policy,
http://www.clasp.org/publications/the_child_care_and_development_fund.pdf

Child Care Assistance in 2004: States Have Fewer Funds for Child Care, Center for Law and Social Policy, <http://www.clasp.org/publications/childcareassistance2004.pdf>

Child Support Enforcement

Families Will Lose at Least \$8.4 Billion in Uncollected Child Support If Congress Cuts Funds — and Could Lose Billions More, Center for Law and Social Policy,
http://www.clasp.org/publications/incentivepayments_jan18.pdf

In Everybody's Best Interests: Why Reforming Child Support Distribution Makes Sense for Government and Families, Center for Law and Social Policy,
http://www.clasp.org/publications/cs_cooperation_requirements.pdf

Child Support Cooperation Requirements and Public Benefits Programs: An Overview of Issues and Recommendations for Change, Center for Law and Social Policy,
http://www.clasp.org/publications/cs_brief_1_final.pdf

Recent State Efforts in Medical Child Support, Center for Law and Social Policy,
http://www.clasp.org/publications/medical_supp_updated081205.pdf

Federal and State Earned Income Tax Credits

A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006, Center on Budget and Policy Priorities, <http://www.cbpp.org/3-8-06sfp.htm>

The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor, Center on Budget and Policy Priorities, <http://www.cbpp.org/7-19-05eic.htm>

Make Tax Time Pay: An EITC Outreach Kit, Center on Budget and Policy Priorities,
<http://www.cbpp.org/eic2006/>

Food Stamp Program

The Food Stamp Program: Working Smarter for Working Families, Center on Budget and Policy Priorities, <http://www.cbpp.org/3-15-05fa.htm>

Food and Nutrition Programs: Reducing Hunger, Bolstering Nutrition, Center on Budget and Policy Priorities, <http://www.cbpp.org/7-19-05fa.htm>

Transitional Food Stamps: Background and Implementation Issues, Center on Budget and Policy Priorities, <http://www.cbpp.org/11-10-03fa.htm>

Aligning Policies and Procedures in Benefit Programs: An Overview of the Opportunities and Challenges Under Current Federal Laws and Regulations, Center on Budget and Policy Priorities,
<http://www.cbpp.org/1-6-04wel.htm>

Housing Assistance

Introduction to the Housing Voucher Program, Center on Budget and Policy Priorities,
<http://www.centeronbudget.org/5-15-03hous.htm>

Promoting Work Among Residents of Public Housing: The Role of Welfare Agencies in Implementing the Earned Income Disregard, Center on Budget and Policy Priorities, <http://www.cbpp.org/10-17-01hous.htm>

The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth, Center on Budget and Policy Priorities, <http://www.cbpp.org/4-12-01hous.htm>

Medicaid and SCHIP

Medicaid: Improving Health, Saving Lives, Center on Budget and Policy Priorities, <http://www.cbpp.org/7-19-05health.htm>

Improving Children's Health: A Chartbook About the Roles of Medicaid and SCHIP, Center on Budget and Policy Priorities, <http://www.cbpp.org/1-31-05health.htm>

A Success Story: Closing the Insurance Gap for America's Children Through Medicaid and SCHIP, Georgetown University Health Policy Institute, Center for Children and Families, <http://ccf.georgetown.edu/pdfs/success.pdf>

In a Time of Growing Need: State Choices Influence Health Coverage Access for Children and Families, Center on Budget and Policy Priorities, <http://www.cbpp.org/10-18-05health.pdf>

Other

State Policies to Assist Working-Poor Families, Center on Budget and Policy Priorities, <http://www.cbpp.org/12-10-04sfp.htm>