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COMMENTS ON TANF REAUTHORIZATION

Submitted by the Center on Budget and Policy Priorities

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Introduction

TANF reauthorization is an opportunity to evaluate the strengths and weaknesses of the current federal TANF-related provisions and make changes based on the knowledge and experience gained over the past five years. At the broadest level, we have learned several things:

- **A combination of a strong economy, strengthened supports for working families, and an increased emphasis on work within state TANF programs led to large numbers of single parents entering the workforce.** Unfortunately, the relative importance of these factors – as well as the interactive effects among them – are difficult to disentangle.
- **Caseload decline and increased employment rates among single parents outstripped the reduction in the extent and depth of poverty.** While fewer families received TANF benefits and more families had earnings, the reduction in poverty was modest over the last five years due in large measure to the types of jobs many new workers were able to secure as well as the large reductions in the amount of cash assistance and food stamp benefits families received. Despite an overall increase in earnings and employment rates among single parents, some families are now poorer while some made only modest income gains.
- **Because of significant caseload decline, states have had substantial resources to redirect from cash assistance to work programs and supports for low-income working families.** These resources have been used in many ways, but a large portion have been directed toward increasing the availability of child care subsidies and other supports for working families. If resources dwindle over time in real terms and if states must increase funding for basic assistance due to the recession, states will not be able to maintain these important initiatives. Similarly, states with very low grants relative to their needy populations cannot invest in the same kinds of supports and programs as states with substantially higher TANF grants relative to their low-income population.
- **The impacts of time limits vary substantially depending on extension and exemption policies.** While families in some states – those that implemented time limits prior to 1996 (through the waiver process) and those that adopted time limits shorter than 60 months – have begun to reach the end of their time-limited eligibility, much is still unknown about the impact of time limit policies generally and the likely impact of the federal 60-month time limit. States with shorter time limits adopted a variety of extension and exemption policies. In many cases those policies meant that families that complied with requirements but could not find jobs remained eligible for assistance. In those states, time limits often affected families who were combining work and welfare – families whose supplemental benefits were ended when they reached the time limit. The impact of the federal

60-month time limit (the only time limit in 30 states) cannot be easily predicted based on the early experiences with state time limits.

- **Many families in which the adult has barriers to employment were unable to secure stable employment.** Research shows that barriers to employment are more common among TANF recipients than among persons in the general population. In many cases, such families have been subject to sanctions – often, full-family sanctions that have resulted in a loss of all cash assistance benefits. Some families that have not been sanctioned still may be receiving TANF benefits but often are not receiving the services they need to help them overcome barriers to employment and move forward in the labor market.
- **Restrictions on benefits to immigrants have caused hardship.** Recent research by George Borjas finds that food insecurity rose significantly among immigrant-headed households in the states that did the least to ameliorate the federal restrictions, while declining among immigrant-headed households in those states that provided more generous state-funded safety nets for immigrants. Over the past five years, the proportion of immigrants who lack health insurance has also increased. These early data should serve as warning signals of the hardship that is likely to be caused as the immigrant restrictions – already severe in the Food Stamp Program – begin to affect increasing numbers of immigrants who would otherwise be eligible for TANF, Medicaid, and SSI.
- **Teen pregnancy rates have fallen, though the relationship of this trend to TANF policy is unclear.** It is likely that a variety of factors other than TANF-related policies played a major role in this encouraging trend.
- **Child support collections have risen, increasing the number of children supported financially by both parents.** In too many cases, however, child support paid by noncustodial parents is used to offset welfare costs rather than to improve the financial well-being of the children on whose behalf the support was paid. Unfortunately, too little progress has been made in other areas such as providing assistance to two-parent families on the same basis as single-parent families and assisting low-income non-custodial parents so they can provide financial and parental support (when appropriate) to their children.

Based on what we have learned, the TANF reauthorization process offers an opportunity to build on the successes of the past five years and to address some of the serious problems that have arisen. The remainder of our comments focus on how to meet these two broad objectives by providing specific recommendations in the following areas:

- Focusing on poverty reduction;
- TANF and child care funding;
- Assisting families with barriers to employment;
- Helping families succeed at work;
- Restoring benefits to legal immigrants;
- Family relationships and support;
- Making the housing connection; and
- Research and data collection.

I. A Focus on Poverty Reduction

There are many ways to measure “success” when considering TANF policies. These include increased employment among current and former recipients and declining cash assistance caseloads. Unfortunately, current law does not recognize that poverty reduction is also an important benchmark. Increased earnings do not lead to increased income if they are entirely offset by a loss of benefits. Research shows that programs that increase income have positive impacts on children that are not found in programs that increase employment without increasing income. Ultimately, efforts to help parents find and retain employment, to assist parents improve their skills so they can advance in the labor force, and to provide supports to working families should lead to a reduction in poverty among families with children. In some cases, more work needs to be done to ensure that measures of a family’s financial well-being incorporate important components such as child care costs and subsidies received, but these measurement difficulties do not negate the importance of focusing on the improvement of families’ material well-being.

Recommendation 1: The general purpose language should be amended to include poverty reduction as a specific purpose of the Act. This would send a strong signal to states and others about the importance of poverty reduction in TANF-related programs.

Recommendation 2: Poverty reduction should become a focus of research on TANF programs. As is discussed in the research section below, we are proposing that a new set of state-level studies be conducted that, unlike the so-called “leaver” studies, follow on a longitudinal basis a sample of new applicants for cash assistance and current recipients. Like leaver studies, these studies would document these families’ employment and earnings, but also would provide information about the ways in which states’ TANF and related programs interact with families while they receive assistance as well as after they leave the rolls. These studies

should focus on the poverty status of families and seek to identify program components that help reduce the extent and depth of poverty. The studies should use conventional as well as experimental measures of poverty and should assess the importance of programs, including child care assistance, to family material well-being.

II . TANF and Child Care Funding

States use the TANF block grant to fund an array of programs, benefits, and services for low-income families – including supports for low-income working families and programs to assist families with barriers to employment prepare for work. To ensure that states have the resources necessary to continue important programs while building on their experience to develop new initiatives, TANF reauthorization should strengthen the long-term funding for TANF and CCDF, make further progress in reducing the disparity in TANF block grant allocations among states relative to their needy populations, and ensure that the federal government shares in the increased costs associated with economic downturns. These funding improvements should be accompanied by additional financial accountability measures to ensure that TANF funds are being used to improve supports for low-income families.

Base Block Grant Funding

While the TANF block grant is being used for an array of important initiatives, it is falling in real value every year. Between 1997 and 2002, the block grant will have fallen in real value by 13.5 percent. Reauthorization should include automatic annual increases in State Family Assistance Grants so the block grant keeps pace with inflation.

While in the early years of TANF implementation many states accumulated unspent TANF reserves, most states are now spending nearly all of their annual grant amounts. In fiscal year 2000 (FY 2001 data are not yet available), nearly a third of the states had increased spending levels so that they drew upon unspent funds from prior years to strengthen existing programs and launch new initiatives. Data from the Department of Treasury shows that in fiscal year 2001, the states for the first time collectively spent more than the total annual block grant allocation. If the real value of the TANF block grant is not maintained, states will face a serious funding shortfall and many important programs now helping a broad array of low-income families could be cut.

Recommendation 1: Each state's base TANF block grant allocation and MOE obligation should be adjusted for inflation annually. The federal/state partnership that is embodied in the TANF statute also should be maintained. States should be required to maintain state funding of TANF-related programs and states' maintenance-of-effort requirement should increase in tandem with any across-the-board increase in federal TANF funding.

Equity Grants

While all states need increased federal TANF funding, some states currently receive very low TANF block grant allocations relative to the number of low-income families with children

residing in their state. The variation in TANF funds that states receive on a per-poor-family basis reflects state spending levels in the early 1990s when the AFDC program was much more heavily focused on cash assistance and state cash benefit levels varied substantially. The variation in allocations now makes it much more difficult for some states to fund the full array of services needed for low-income families to enter and remain in the workforce. The Supplemental Grants were designed to ameliorate to some extent this variation, and they have certainly mitigated the problem, but it is critical that further progress be made to reduce the disparity in funding levels among states. Table 1 shows each state's FY 2001 TANF block grant allocation (including supplemental grants) on a per-poor-child basis. In FY 2001, Alabama's TANF block grant (including its supplemental grant) equaled just \$398 per poor child while Alaska received \$2,750 per poor child, Connecticut received \$2,478, and Vermont received \$2,279.¹ In fact, the average TANF block grant allocation per poor child was nearly \$1,200 – three times higher than Alabama's allocation. Reauthorization legislation should allocate additional funding to lessen these large disparities.

Recommendation 2: New equity grants should be established and distributed to states with very low per-poor-child TANF block grant allocations. There are many ways to structure such grants. One possibility would be to distribute equity grants to states with per-poor-child block grant allocations below a certain level, such as 75 percent of the national average allocation. The equity grants could be distributed to the qualifying states based on the number of poor children in each of those states. To ensure that the funds are used to expand programs and services – not increase state TANF reserve balances in those states with very large balances – equity grants could be limited to states with TANF reserve balances below a certain threshold (such as balances equal to 50 percent of a state's annual block grant allocation). Once a state received an equity grant, those funds would be incorporated into the state's base TANF block grant in future years, thereby ensuring that progress is made each year to reduce the disparity in block grant allocations.² We estimate that if equity grants were established and funded at \$80 million in FY 2003, each qualifying state would receive about \$22 per poor child in additional funding.³

¹ There is a strong argument that the TANF block grant's target population is broader than families with children below poverty. Considering grant levels on a per-poor-child basis is a proxy for assessing the grant level relative to the state's population of needy families. A broader measure could be used instead. For example, Alabama's block grant provides just \$210 per child living in a family with income below 200 percent of the federal poverty level.

² If the fund were structured in this manner, some states would qualify for equity funding for one or two years. Once a state's block grant (incorporating prior year equity funds) on a per-poor-child basis equaled or exceeded the equity fund eligibility threshold, the state would no longer qualify for additional equity funding in future years.

³ This estimate assumed that the states with per-poor-child FY 2001 TANF allocations (including supplemental grants) below 75 percent of the national average and unspent funds at the end of FY 2000 below 75 percent their TANF allocation would qualify.

Table 1

TANF Grant per Poor Child by State

Sorted by TANF Grant Plus FY 2001 Supplemental Grant per Poor Child

State (Shaded states receive) Supplemental Grants)	Basic TANF Grant per Poor Child*	Basic TANF Grant Plus FY01 Supplemental per Poor Child*
Alabama	\$356	\$398
Arkansas	369	410
Texas	372	413
Idaho	381	425
Mississippi	496	547
Nevada	507	550
South Carolina	552	552
Louisiana	537	593
Virginia	729	729
Georgia	684	761
Arizona	688	763
North Dakota	766	766
Tennessee	694	772
New Mexico	736	775
Montana	823	845
Missouri	861	861
New Hampshire	868	868
South Dakota	877	877
Nebraska	882	882
Delaware	887	887
Florida	802	888
Kentucky	919	919
Oklahoma	943	943
North Carolina	851	953
Kansas	956	956
Wyoming	974	974
Oregon	983	983
Illinois	1,085	1,085
Utah	982	1,093
Colorado	1,064	1,171
Indiana	1,194	1,194
West Virginia	1,219	1,219
Ohio	1,362	1,362
Iowa	1,411	1,411
Minnesota	1,441	1,441
Pennsylvania	1,444	1,444
New Jersey	1,585	1,585
Maine	1,587	1,587
California	1,599	1,599
Massachusetts	1,640	1,640
Michigan	1,694	1,694
Wisconsin	1,771	1,771
Hawaii	1,857	1,857
Maryland	1,933	1,933
New York	1,982	1,982
Washington	2,047	2,047
Rhode Island	2,106	2,106
District of Columbia	2,217	2,217
Vermont	2,279	2,279
Connecticut	2,478	2,478
Alaska	2,462	2,750
Supplemental State Average**	607	655
Non-Supp State Average**	1,497	1,497
Total US Average**	1,181	1,198

* The number of poor children in each state is based on data from the Census Bureau's Current Population Survey between 1997 and 1999. A three-year average is used to ensure that the results are statistically significant at the state level. The definition of poverty includes earned income, unemployment compensation, Social Security, some veterans' payments, survivor benefits, disability benefits, pension or retirement income, interest, dividends, income from rents, royalties, and estates and trusts, educational assistant, alimony, and child support. It does not include means-tested benefits.

** Averages weighted by the population of poor children.

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Contingency Fund

The 1996 welfare law established a TANF block grant structure that envisioned states taking primary responsibility for absorbing increased costs that could occur for a variety of reasons, but established a contingency fund mechanism so that the federal government would share in the increased costs that could arise from a serious economic downturn. Unfortunately, the contingency fund established in the 1996 law was deeply flawed (it also expired at the end of FY 2001). There is broad consensus that had need risen substantially due to a recession prior to its expiration, it would not have provided needed help to states.

The original contingency fund would have required states to increase *state* spending by one-third before the state would be eligible for *any* federal contingency funding. This would be particularly difficult for states that are required to balance their budgets even during recessions when their revenues decline and demands for services increase. Under the original contingency fund, even if states could increase spending to the required level, they would then face a very *unfavorable* match rate – in many cases a match rate that would mean that the state share far outstripped the federal share. Finally, the “trigger” criteria were flawed so that many states that faced substantial increased costs would not have been eligible.

Some have argued that a contingency fund mechanism is not needed and that states should bear all of the fiscal risks associated with an economic downturn. The lack of a workable contingency fund, however, is problematic:

- If there is no contingency funding available for states during a recession, states that see an increased demand for basic assistance would face three undesirable choices – meet those increased costs with additional state resources (very difficult to do when state revenues are declining), cut benefits or reduce services including those designed to support low-income working families or assist those with significant barriers to employment, or limit access to benefits for the increasing numbers of families in which parents cannot find jobs.
- By placing all of the fiscal risk on states, some states may choose to accumulate very large reserve balances to protect themselves in case of recession. While the federal government should encourage prudent savings for economic downturns, if states are so worried about the prospect of a downturn that they do not invest sufficient TANF resources in programs and services during non-recession years, the TANF block grant will fail to meet its primary objectives – to assist parents find and retain stable employment support low-income working families, and to reduce child poverty.

By contrast, if a workable contingency fund is developed, states will continue to have an incentive to save prudently as no contingency fund mechanism will meet all of the increased

costs associated with a recession, but states also will know that some additional federal funding will be available in the case of a serious downturn.

Recommendation 3: Reauthorization legislation should include a contingency fund that meets the following criteria.

- States in which an increased number of families need assistance due to an economic downturn should receive additional federal resources to help meet those costs. States should be required to use TANF reserve balances before accessing the contingency fund. Thus, contingency funds should only be provided to states with TANF balances below a certain threshold, such as one-quarter of a state's annual block grant allocation.
- States should not be required to increase state spending to receive these additional federal funds. There should be no increased maintenance-of-effort requirement in order to access the contingency fund. In addition, states should not be required to match federal contingency funds. (If an increase in state spending is required, however, it should be structured as an increase in states' maintenance-of-effort obligations that states should be permitted to satisfy over two years.)
- Additional federal funding should not cover the full increased costs associated with the downturn. Instead of an explicit state match requirement, however, states should be given the flexibility to meet their portion of the increased costs either by increasing state spending or by redirecting some TANF-related funds (including MOE funds) to meet the rising basic assistance needs.
- The trigger mechanisms should be redesigned to ensure that states facing economic difficulties are eligible. We suggest allowing states to qualify based on a significant increase in unemployment (such as a 50 percent or 1.5 percentage point increase in their total unemployment rates, or a 1.0 percentage point increase in their insured unemployment rates), as well as on criteria indicating that additional families need assistance, such as a significant increase in the number of families receiving TANF cash benefits or participating in subsidized jobs programs.
- Contingency funding should be available only to states that, in fact, are providing basic assistance to additional families with children.

Accountability

The 1996 welfare law provided states broad programmatic and spending flexibility. Several important changes are necessary, however, to ensure that states are more accountable for the use of this flexible funding. In particular, while most TANF funds have been used to fund

important programs that meet the TANF purposes, some states have used federal TANF funds to supplant state funds that were once devoted to such efforts. In addition, states were asked to provide too little information about how TANF funds were spent, which left policymakers and the public unable to understand and evaluate systematically the choices states have made.

Supplantation: The 1996 welfare law prohibited states from counting any funds that replace prior state funds in non-AFDC programs toward the maintenance-of-effort (MOE) requirement. This “new spending test” was not applied to TANF funds, which means that states have been able to replace state support for non-AFDC programs that meet the broad TANF purposes with TANF funds even though they would not be able to use MOE funds for the same purpose.

Recommendation 4: The federal government should provide states with additional resources to meet the important challenges ahead, but federal law should require that states spend TANF resources in ways that supplement, rather than supplant, existing programs. A prohibition should be added to the use of TANF funds so that a state cannot increase TANF or MOE funds in a pre-existing program unless prior state funding is maintained. This restriction should not apply in cases in which a state wishes to use federal TANF funds to replace state spending that could be counted toward the MOE requirement. In these cases, the MOE requirement itself ensures that appropriate state effort is maintained.

Financial Reporting: The financial information that states currently provide to HHS about how TANF and MOE funds are spent does not include any information about the programs that are being supported with TANF funds. For example, states must report how much they spend on broad categories such as “work activities (other than education or work subsidies).” Based on this information, policymakers, the public, and HHS, do not know how many different work programs were funded, who they served, or the purpose of the programs. Similarly, no programmatic information is available related to state spending on “two-parent family formation and maintenance.” Even more disturbing, substantial TANF funding – some eight percent nationally in FY 2000 but equaling 20 percent or more in nine states – has been defined as “other” spending not fitting into any further category. Very little information is available about how these funds were spent.

Better reporting of how federal TANF and state MOE funds are spent would enhance state accountability to taxpayers and HHS’s ability to oversee program spending. Sufficient detail is needed so that even in states in which localities (such as counties) have broad authority over TANF spending, the funding decisions are transparent to state and federal policymakers as well as the public. In addition, two important technical changes to the financial reporting requirements would ensure that information was accurate and consistent across states.

Recommendation 5: The statute should require HHS to include in its annual report to Congress (thereby granting HHS the authority to collect the information from the states) more detail on the programs each state funds with its TANF grant. Program information

that should be collected includes the name of each program funded with federal TANF or state MOE funds, whether the program is authorized at a sub-state level (such as by a county), the program's purpose, the main activities of the program, the amount of TANF funds the program receives, the amount of maintenance-of-effort funds the program receives, the total funding level of the program, total program expenditures in federal fiscal year 2002, a description of the components of the program that are funded with TANF and maintenance-of-effort funds, the population served by the program, the number of individuals served, if applicable the number of individuals served with TANF and maintenance-of-effort funds, and eligibility criteria for program participation. Having such basic information organized by the fiscal reporting categories currently included in the ACF-196 reporting form would allow HHS to track activities funded with TANF and MOE funds more systematically and monitor state compliance with funding requirements more easily.

Recommendation 6: The statute should require states to close out financial reporting within a specified time frame so that states cannot continually revise spending data for prior quarters continually as they now do. Currently states may revise spending reporting for prior quarters without distinguishing those revisions from new spending. This practice makes it impossible to ascertain exactly how much federal TANF funds were expended in a particular fiscal year, as distinguished from prior fiscal years.

Recommendation 7: The statute should clarify the kinds of funding commitments that constitute an unliquidated obligation. Financial reporting by states of unspent TANF funds suggests that states are using varying definitions of unobligated balances and unliquidated obligations.

The TANF Block Grant Should Have a "Spend-Out" Rule

While we strongly support increased TANF funding that ensures that the block grant does not deteriorate in real value over time, it is important to send states a strong signal about striking a balance between spending and saving in TANF. While accumulating a prudent TANF reserve balance is an appropriate policy choice in a block grant context, it is unacceptable to amass very large balances of unspent funds.

The fixed nature of the block grant structure poses a difficult spending decision for states – to what extent TANF funds should be set aside to cover potential future cost increases due to an economic downturn rather than to serve families with immediate needs. There is a range of reasonable policy options a state may choose in allocating resources between meeting current needs and reserving funds for potential future needs. At the extremes of these policy choices, however, low-income families may not be well served. Spending TANF funds quickly and unwisely does not serve low-income families well. Nor does accumulating large reserves of unspent TANF funds while inadequately serving needy families.

Recommendation 8: States should be permitted to reserve sufficient, but limited, federal funds to cover some level of additional expenses that could occur as a result of an economic downturn or other crisis. Setting this level is, of course, somewhat difficult; we would suggest that a state be permitted to accumulate a TANF reserve balance equal to 50 percent of a single year's block grant allocation. States that have accumulated balances of unspent funds that exceed such a level should be required to spend any new TANF funds received within three years. Funds that are not spent within three years should be reallocated to states that are using a greater portion of their annual grant.

It should be noted that other block grant programs – including the Social Services Block Grant (a block grant that funds programs that also face increased demands during economic downturns) and the Child Care and Development Fund – require states to expend their funds within a fixed number of years. The lack of such a “spend-out” rule in TANF has meant that over the past several years, some states have accumulated substantial balances that seem to exceed prudent savings. Instituting a spend-out rule would send a strong signal to states that the federal government expects states to save some funds for an economic downturn, while ensuring that states use the bulk of their TANF funds to meet the pressing needs of families who, in a time-limited system of basic assistance, must find and retain stable employment if they are to make ends meet.

Recommendation 9: No additional restrictions should be placed on states' use of TANF funds awarded in prior years. Under current regulations, states can use prior year TANF funds for assistance costs, but cannot use them for activities that meet the broader purposes of TANF. There seems to be little reason to limit states' use of prior year funds; in fact, this restriction has made it difficult for some states to use TANF reserve funds to expand supports for low-income working families.

Child Care

TANF has become a significant source of child care funding in many states. In fiscal year 2000, the states collectively spent more TANF funds on child care than were available to them through the Child Care and Development Fund. Nonetheless, many low-income families still do not have access to needed child care subsidies that would help parents to maintain steady work. As an economic downturn increases the share of TANF funds needed to provide cash assistance or employment preparation services to low-income families, it is critical that child care subsidies remain available to low-income families that need them to maintain or secure a job.

Recommendation 10: Funding for the Child Care and Development Fund should be increased so states can provide subsidies to a greater portion of eligible families.

III. Assisting Families with Barriers to Employment

Research on current and former welfare recipients demonstrates that a significant number of families have various barriers to finding and maintaining employment. Many families experience several barriers at once and many are not receiving the help they need to overcome these barriers and become economically secure. TANF reauthorization presents an opportunity to revisit the needs of such families and to ensure that states are able to meet those needs.

Numerous studies have found that barriers to employment are more prevalent among current and former welfare recipients, than in the general population. These barriers include, but are not limited to, mental and physical impairments, substance abuse problems, domestic violence, low literacy and low skill levels, learning disabilities, having a child with a disability, and child care and transportation problems. Physical and mental health problems appear to be some of the most prevalent barriers for TANF families. For example, a recent study by the GAO found that 44 percent of TANF adults had one or more physical or mental impairments, and 38 percent had a severe impairment.⁴

While each of these barriers can be a serious challenge to maintaining employment, many studies find that the majority of welfare recipients have more than one barrier. A study by the University of Michigan found that 64 percent of all TANF recipients in the sample had two or more barriers to employment. Moreover, the study determined that the likelihood of working decreased substantially as the number of barriers increased. The probability of working 20 or more hours per week for women with one barrier was 71 percent while for women with two or three barriers the probability of working decreased to 62 percent. For women with four to six barriers (about a quarter of the sample) there was a sharp drop to 40 percent probability of working.⁵

Based on this research as well as information about state implementation in this area, TANF reauthorization should include policy changes in the areas of work requirements, sanction procedures, and time limits to address the needs of families with barriers so that more parents in such families are able to find and retain stable employment. In addition, the comments below discuss a state review panel mechanism that could help states identify ways to improve their services for families with barriers.⁶

Work Requirements

⁴ U.S. General Accounting Office, *Welfare Reform: More Coordinated Federal Effort Could Help States and Localities Move TANF Recipients With Impairments Toward Employment*, October 2001, (GAO-02-37).

⁵ Sandra Danziger et al, *Barriers to the Employment of Welfare Recipients*, University of Michigan Poverty Research and Training Center, February 2000, <http://www.ssw.umich.edu/poverty/pubs.html>.

⁶ See section VII for a discussion of housing barriers and recommendations for changes in the TANF statute that could encourage states to address housing-related barriers and use housing assistance to assist recipients with other barriers to employment.

Under current law, adults must participate in a narrow set of work activities for a specified number of hours in order to count toward a state's work participation requirements. In general, to be counted toward the work rates, adults must participate in job search programs, work in subsidized or unsubsidized jobs, participate in work experience or community service programs, or participate in vocational educational training (though the number of adults who can participate in education activities is subject to special limitations). Families with barriers often need to participate in activities to address those barriers rather than in the limited set of countable work activities defined in current law. Activities such as substance abuse or mental health counseling, rehabilitation services, programs to address learning disabilities, programs designed to address severe housing problems, or tailored programs to assist those with very limited literacy and numeracy skills can be important steps toward helping a parent find and retain stable employment. Without access to such activities, parents may be forced into inappropriate work-related activities and ultimately may be unable to comply with the requirements. This could lead to inappropriate sanctions and greater insecurity for families affected. States should be encouraged to provide – rather than being discouraged from providing – such services.

Recommendation 1: Individuals participating in a broad range of activities designed to address barriers to employment should be counted toward a state's work participation requirements. States should be given broad flexibility to determine appropriate activities and hourly participation obligations in light of an individual's circumstances.

Sanctions

Sanctions can be a tool for increasing compliance with program requirements. Unfortunately, substantial evidence exists that barriers to employment – rather than willful disregard for requirements – are a frequent contributing factor to noncompliance.

Research has demonstrated that barriers to employment are especially prevalent among families that are sanctioned for noncompliance with TANF requirements, suggesting that policy changes are needed to ensure that sanctions are imposed only on those families in which an adult is refusing to comply with program requirements – not on families in which barriers are preventing a parent from meeting program expectations. A recent study by MDRC found that the more health problems a woman has, the greater the likelihood that she will be sanctioned.⁷ State studies of families that have left welfare also have found that sanctioned families are more

⁷ Denise Polit, Andrew London, and John Martinez, *The Health of Poor Urban Women: Findings from the Project on Devolution and Urban Change*, Manpower Demonstration Research Corporation, May 2001, <http://www.mdrc.org/Reports2001/UC-HealthReport/UC-HealthRpt-FullRpt2001.pdf>.

likely to have health problems, domestic violence problems, lower education levels and more serious child care and transportation problems than families that leave welfare for other reasons.⁸

State studies also have shown that sanctioned families tend to fare poorly in the labor market. They are less likely to be employed after leaving welfare and, if employed, have lower earnings than families who leave welfare for other reasons. In a South Carolina study on sanctioned families, only 31 percent of families that left welfare as a result of a sanction were employed and the median earnings of these families were \$1,064. For families that left welfare for reasons other than a sanction, 58 percent were employed and their median earnings were \$1,730.⁹

An individual's noncompliance may provide a state with a signal that the family does not understand what is required, or that it faces barriers that were not identified or accommodated previously. Some states have addressed this issue by developing procedures that use the sanction process to assess the family's circumstances, provide information to the families, and offer, when needed, additional supports and services to families to facilitate compliance. In states and localities that have adopted pre-sanction procedures, sanction rates have fallen while program compliance rates have increased.

Several states have implemented pre-sanction procedures designed to assist families to comply with TANF requirements, including Maine, Pennsylvania, and Tennessee, as well as two counties in Colorado.

- In both Tennessee and Maine, the state reviews the family's circumstances prior to imposing a sanction to determine whether the family has a good reason for the noncompliance. The individual is given a second opportunity to come into compliance which can prevent the sanction from being imposed. Such procedures help ensure that families understand the requirements with which they are being asked to comply. (Confusing notices – particularly for individuals with limited literacy skills – often can leave families unsure of what they have been asked to do.)

⁸ Karen Westra and John Routley, *Arizona Cash Assistance Exit Study, First Quarter 1998 Cohort*, Arizona Department of Economic Security, December 1999, <http://www.de.state.az.us/links/reports/exitstudy.html>; Catherine Born, Pamela Caudill, and Melinda Cordero, *Life After Welfare: A Look at Sanctioned Families*, University of Maryland, School of Social Work, November, 1999; Michelle K. Derr, *The Impact of Grant Sanctioning on Utah's TANF Families*, University of Utah, October 1998; Lucia Nixon, Jacqueline Kauff, and Jan Losby, *Second Assignments to Iowa's Limited Benefit Plan*, Mathematica Policy Research, Inc., August 1999, <http://38.150.5.70/secondlbp.pdf>.

⁹ Marilyn Edelhoeh, Qiduan Liu and Linda Martin, *The Post-welfare Progress of Sanctioned Clients*, South Carolina Dept. of Social Services, November 1999.

- In Tennessee, families with barriers to employment also can enter the Family Services Counseling program where they work closely with a counselor who conducts a thorough assessment and provide services to address barriers that are identified in the assessment. The counselor can revise the individual's work plan to include participation in activities that are appropriate to the family's situation, such as mental health counseling or educational activities. The counselor also can suspend work activities or time limits for the family if necessary. As a result of these procedures, many families that were slated to receive a sanction have come into compliance and avoided the sanction (and many others never faced a sanction in the first place because of early steps to assist them in coming into compliance).

The substantial evidence now available on the extent to which states are sanctioning families in which barriers may have prevented full compliance, coupled with what has been learned about the effectiveness of pre-sanction procedures, warrants further federal requirements in this area.

Recommendation 2: Federal law should require all states to adopt sanction procedures that promote and encourage compliance by assessing family circumstances and addressing families' barriers to participation prior to imposing a sanction. Specifically, a pre-sanction review should be conducted to determine the cause of the noncompliance and to address any barriers that prevent the individual from complying. Each state's pre-sanction review procedures should include:

- an examination of the circumstances of the individual and the family to determine why the individual did not comply with program requirements and whether the family has a good cause reason (as defined by the state) for noncompliance;
- a comprehensive assessment of any barriers preventing compliance; and
- a process for adjusting the requirements imposed on a recipient when necessary and for providing services to address the barriers identified.

These procedures should be conducted by an individual who is trained in how to undertake assessment procedures and identify barriers to participation including, but not limited to: learning disabilities, mental or physical impairments, developmental disabilities, other disabilities that require specialized services, domestic violence, or unstable housing (or homelessness). Part of that training should include help in knowing when it is necessary to seek professional assistance in making the evaluation. In addition, HHS should be given resources to develop materials that provide information on successful pre-sanction programs and model screening and assessment tools.

Recommendation 3: Finally, federal law should reflect the compliance-oriented goals of sanctions by requiring states to restore benefits to families when the individual comes

into compliance. Currently, many states continue sanctions for several months, even if the individual complies sooner. Some states impose minimum sanction durations that last as long as 12 months, or even 36 months in one state. Long sanction periods can provide a disincentive to an individual to comply since the family will not see its benefits restored despite compliance. Restoring benefits upon compliance sends the message that compliance is the ultimate goal, helps the family move toward employment sooner, and alleviates family hardships that result when a family is sanctioned.

Time Limits

States need broader flexibility to continue providing assistance to families that reach the federally mandated 60-month time limit in those cases in which the state determines further assistance should be provided. The federal 60-month time limit policy does not include the kinds of categorical exemption and extension criteria that many shorter state time limits include. Instead, current federal law simply allows states to provide extensions to a certain *number* of recipients such that no more than 20 percent of the caseload can consist of families that have exhausted their 60-months of time limited benefits. While in the short run the 20 percent exception limitation may pose few problems, as more families exhaust their time limited benefits over time, it is unclear whether this limitation will be sufficient to ensure that needy families are not left without any means of meeting their families' basic needs.

Many have noted that states can use state MOE funds to provide benefits to families that exhaust their 60 months of federally-funded benefits. While this is certainly true, the ability to use MOE funds does not provide sufficient flexibility for states. First, some poor states have very limited MOE funds based on their high historical federal match rate in the former AFDC program. Second, state policymakers are hesitant to use MOE in ways which appear to be contrary to the broad direction of federal law, even when such spending is wholly legal. If federal policymakers believe states should have flexibility in the application of time limits, the law should provide that flexibility explicitly.

Recommendation 4: States should be given broader flexibility to determine the circumstances under which they will continue providing assistance to families that have reached the 60-month time limit. Federal law should not impose a numerical limitation, but states should be required to submit their time limit extension policies to HHS. These policies should be made public. In this way, federal policymakers can evaluate the choices states make (and make a determination about whether further legal changes are needed) while providing states with greater flexibility.

It should be noted that in order to administer the current 20 percent limitation, states need to adopt certain criteria on which to base a decision about granting an extension to any particular family. The administrative difficulty presented by the 20 percent limitation is that states must worry about whether the categories they set will fit within this limitation and what to do if their

estimates are off – or economic conditions in the state change – and they miss this arbitrary limitation.

Given states' demonstrated commitment to reducing caseloads and limiting the amount of time families receive assistance, the 20 percent limitation seems unnecessary. Granting broader state flexibility in this area would not result in states becoming lax in their efforts to move families from welfare to work; it would, however, allow states to adopt simpler operating rules without having to worry about exceeding an arbitrary limit.

Barrier Review Panel

In discussions about improving policies for individuals with barriers, program design and implementation changes are often identified as the key to improving outcomes for families with barriers. States, experts in service provision to various groups of individuals (such as those with physical or mental impairments or those with substance abuse problems), advocates who represent or work with low-income families, and recipients themselves are well-positioned to review state policies, programs, and procedures and develop innovative ways of improving services.

Recommendation 5: States should be provided with funding to create a panel of state and outside experts (including representatives of people who have some of the barriers to employment states are seeking to address as well as TANF participants) to review the state's policies, procedures, and programs designed to address barriers to employment.

The panel would meet over a three-year period to identify areas that need improvement and develop recommendations to address these areas. The group should submit to HHS publicly-available annual reports identifying areas in which improvements are needed and reporting on the steps underway to make those improvements. Additional funding also should be given to HHS to provide technical assistance to states on how best to serve people with barriers.

Transitional Jobs Programs and Other Innovations

Finally, federal policies that encourage continued innovation in and research of programs to assist families with barriers will help all states improve their services to such families. Transitional jobs programs are one of the best examples of state innovations that should be encouraged and supported by the federal government. Transitional jobs programs provide short-term, wage-paying subsidized jobs designed to assist parents with few skills or limited work experience. These programs generally require 20 to 30 hours of work per week in a supervised setting and usually have an on-site training component. There are currently 35-40 such programs in the United States. The largest program is in Washington State with about 2,000 participants. Individuals that obtain employment after participating in the Washington program tend to have higher wages and better retention rates than other individuals leaving welfare for work in Washington.

Recommendation 6: States should be provided with funding for transitional job programs. Funding for such programs would encourage more states to adopt such approaches. Moreover, many of the transitional jobs programs that are currently operating rely primarily on federal welfare-to-work funds. These programs may not be sustainable in the absence of an ongoing funding stream after authorization for the welfare-to-work program expires.

IV. Helping Parents Succeed at Work

Over the past five years, the number of single-mothers who work has increased substantially. This was due in part to a strong economy, in part to an increasing focus on work within the welfare system, and in part to enhanced supports (such as the EITC, Medicaid and SCHIP) for working families. While many TANF recipients and former recipients are now working, they typically earn low wages.

- In FY 2000, some 28 percent of TANF cash assistance recipients were employed in a typical month. This figure rose as high as 40 percent in some states. These are families in which a parent is working but earns so little that the family remains eligible for assistance. In many instances, the parent earns more than the basic TANF grant, but remains eligible because of enhanced earned income disregards the state has instituted to provide wage supplements to low-wage workers.
- Data from leaver studies show that families that leave TANF and are working also have low earnings. While the studies differ, median quarterly earnings for families that left TANF and were working were typically between \$2,000 and \$2,500 – roughly 33 percent below the poverty level for a family of three.¹⁰

The 1996 welfare law focused on increasing employment among welfare recipients. Reauthorization should build on the law's initial success in this area by helping to ensure that low-income working families are able to advance in the workforce and have sufficient income to make ends meet.¹¹

Benefits that Supplement Earnings Should Not Be Time Limited

As noted above, a substantial number of TANF recipients work – their TANF benefits supplement their low wages. The proportion of recipients who work has increased in part because states have adopted enhanced earned income disregard policies which phase down cash assistance benefits more slowly as earnings rise than was the policy under the former AFDC

¹⁰ Elise Richer, Steve Savner, and Mark Greenberg, *Frequently Asked Questions about Working Welfare Leavers*, Center for Law and Social Policy (forthcoming, December 2001).

¹¹ See Section VIII for information on changes that can be made in reauthorization to make it easier for states to provide TANF-funded housing assistance to working families.

program. In many states, recipients lose no cash assistance until their earnings rise above \$100 to \$200 per month and after this, benefits often are reduced at a rate far less than dollar-for-dollar. Enhanced earned income disregard policies are part of a “make-work-pay” strategy that seeks to ensure that families are better off financially when a parent is able to increase his or her earnings. Rigorous, random-assignment evaluations have shown that welfare-to-work programs that combine work requirements and supports with enhanced earned income disregards increase both earnings and overall income, thereby reducing the depth and extent of poverty among TANF recipients.

Nearly all states expanded their earned income disregards either in response to the 1996 welfare law or through the waiver process prior to 1996. Unfortunately, these expanded disregard policies are in conflict with time limits. Expanded disregard policies seek to send a message to recipients that if they find jobs, the TANF program will help them by providing continued support to supplement earnings from low wage jobs. Under current federal rules, however, months in which a family works and receives supplemental TANF benefits (funded with federal TANF funds) count against the family’s federal 60-month time limit. Thus, while earned income disregards allow families to remain eligible for supplemental benefits while a parent works but earns too little to support a family, the time limit policy in effect punishes working families for receiving these benefits.

Families in which a parent combines work and aid receipt for a period of time can become wholly ineligible for cash assistance due to the time limit. When the family reaches the time limit, it will no longer receive those supplemental benefits. Moreover, if the parent loses the job, the family may not be permitted to receive TANF cash assistance since it has exhausted its 60 months of benefits.

Recommendation 1: Cash benefits that supplement earnings should not be subject to the federal 60-month time limit restriction. If such a change were made, states would still have the flexibility to count these months against the state’s time limit. Thus, such a policy change would expand, not impinge, state flexibility. States that wished to provide wage supplements without applying the time limit to those months could do so without being forced to separate or segregate funding streams or worry about surpassing the 20 percent limitation on federal time limit exceptions. States that wanted these months to count against time limits would be free to do so since every state has the authority to impose a time limit that is more stringent than the federally-mandated time limit.

Some have noted that states already have the flexibility required to continue aid to families in which a parent works without regard to the federal time limit rules and have concluded that a change in federal law is, therefore, unwarranted. Such a conclusion is, however, problematic.

- **The signals embedded in federal law influence state-level policy substantially.** While states have flexibility to do many things under the TANF rules, states in

large measure have adopted policies over the past five years that follow the overarching signals sent by the federal law. For example, while states had broad authority to establish time limits of any length, some 30 states adopted the federal 60-month time limit. Similarly, many states adopted in their own rules a 20 percent limitation on time limit exceptions, despite flexibility to have more or less restrictive policies. If federal policy does not apply the time limit to months in which a parent is working, states likely will reconsider their own time limit policies and some – though probably not all – may decide that helping low-income working families need not be time limited.

- **The 20 percent exception may be insufficient in the future.** While a state now may think the 20 percent time limit exception allowed in current law will be sufficient to continue providing assistance to the set of families it wishes to extend benefits to, this exception limitation could pose problems for states in several years. In the first few years, only a small proportion of states' caseloads will reach the 60 month time limit mark as few families receive assistance for this period of time on a consecutive – or nearly consecutive – basis. Over time, however, as more families that have cycled on and off the rolls accumulate 60 months of assistance, the 20 percent limitation may make it difficult for states to continue providing assistance to families combining work and assistance receipt.
- **States are reluctant to bifurcate the TANF and MOE funding streams.** While a few states have committed to using MOE funds to continue providing benefits to certain groups of families after their federal eligibility limit has been reached, most states have not adopted such options. Some think that doing so is somehow subverting federal law, despite wide recognition that it is perfectly legal to do so. Ultimately, if federal policymakers think that states should be encouraged to provide supplements to families in which a parent works, federal law should not require states to go through the administrative hoops of separating funding streams to do so.

Wage Advancement Strategies

As discussed above, most TANF recipients who find employment earn low wages. Research suggests that these workers do not tend to have large wage gains over time. Thus, there is growing interest in developing strategies to assist recipients to find better initial jobs and, whatever their initial job, to advance in the labor market over time.

Recommendation 2: Funds should be available to states that wish to operate experimental programs designed to foster labor force advancement. Unlike other aspects of welfare policy, little is known about the best way to help low-income parents (often single parents for whom juggling work and parenting responsibilities is particularly difficult) advance in the labor market. Evidence from Portland, Oregon suggests that helping recipients find better

initial jobs can lead to substantially larger wage gains over time, but how best to secure better entry-level jobs as well as how to assist those whose first jobs do not promise significant advancement are largely unknown. To fill in this knowledge gap, the federal government should fund states to experiment in this area and conduct evaluations of their experiments.

Recommendation 3: States should be given broader flexibility to allow parents to participate in vocational educational training by lifting the cap on the number of recipients who can participate in such activities (and be counted toward the work participation rate) and allowing participation for longer than 12 months. When the 1996 law was passed, there was substantial concern that welfare programs had allowed too many recipients to linger for long periods of time in training programs that did not prepare individuals for jobs. This concern led to tight restrictions on the number of parents who could participate – and the length of time they could participate – in vocational training. The restriction sent a strong message to states to limit this type of activity; states heeded the message and, in many cases, restricted access to such programs even more severely than the federal law required.

States have little interest in allowing parents to squander time in ill-performing training programs. In fact, states have shown that they are committed to implementing work programs that focus on immediate job placement. It appears, however, that the limitations on vocational education have gone too far. While there are some promising training models that provide intensive training for a particular job or field – often coupled with components designed to help individuals with very low basic skills acquire the specific skills needed for a particular job or field – the federal law’s limitation on participation in such activities may have dampened states’ interest in developing such programs.

It should be noted that random assignment evaluations of welfare-to-work programs have shown repeatedly that the most successful programs combine a strong work and job placement focus with appropriate training opportunities. Despite these research findings, the federal law discourages states from adopting such a “mixed strategy” by limiting artificially the number of parents who can participate in such training programs.

Work Rates Should Reward States in which Parents Leave TANF and are Employed

The current structure of the work participation rates is problematic. States with large declines in their caseload see their work participation rates fall substantially through the caseload reduction credit mechanism, regardless of whether large numbers of the families that have left have earnings. In short, the caseload reduction credit rewards states for caseload decline, however it is achieved.

Recommendation 4: The caseload reduction credit should be eliminated and in its place a new credit should be established that rewards states in which families have left the TANF rolls and a parent is working. This approach sends a far more positive signal to states –

it recognizes that states should be rewarded for their programs' successes, namely, the families that have left welfare for work.

Technically, there are many ways to structure such a credit. Optimally, such a credit would not be too difficult for states or HHS to compute and would be computed prior to or at the beginning of a fiscal year so that states would know the size of their credit and could plan their programs accordingly. One way to structure such a credit would be to determine the number of families in a calendar quarter who left the rolls and who were working in the second subsequent calendar quarter following their exit (we are suggesting the use of calendar quarters so that unemployment insurance data could be used). These individuals could count toward the work rate for either six or twelve months.

The IEVS Requirement and TANF-Funded Work Supports and Non-assistance

Under section 1137 of the Social Security Act, states must have an income eligibility and verification system in effect which meets the requirements of the statute. Prior to the welfare law's passage, the IEVS requirement applied to AFDC cash assistance, but did not apply to Emergency Assistance and, to the best of our knowledge, did not apply to other assistance and services funded under title IV-A, such as At-Risk Child Care assistance.¹² In a policy interpretation issued during the final month of the previous administration, HHS specified that the IEVS requirement applies to ". . . all [TANF] benefits, not just 'assistance.' . . . where income or citizenship and alienage are a condition of eligibility."¹³

This policy interpretation appears to vastly expand substantially the scope of the IEVS requirement to include all means-tested work supports and non-assistance funded with TANF, including services provided by non-profit agencies and other non-governmental entities. If enforced, such an expansion could impose substantial new burdens on states and create access barriers for working parents who are applying for non-cash work supports and services. The 1996 law removed the IEVS mandate in the Food Stamp Program, instead leaving the decision to use IEVS up to each state.

Recommendation 5: The IEVS mandate should be removed in TANF. If IEVS is maintained as a mandate in TANF, it should be limited to TANF cash assistance designed to meet ongoing basic needs.

¹² See 51 Fed. Reg. 7178, Feb. 28, 1986 (explaining that "[p]ursuant to the statute, the EA program is not subject to the IEVS requirements.").

¹³ TANF Policy Q's & A's, Income Eligibility and Verification System (IEVS), Q1-Q3.

V. Immigrants and Limited-English-Proficient Persons

The welfare law placed far-reaching restrictions on the availability of public benefits for legal immigrants in the United States. Most newly arrived legal immigrants are ineligible for SSI until they become citizens and are barred from receiving federally-funded TANF and Medicaid benefits during their first five years in the United States. The food stamp program has even more onerous restrictions. Most legal immigrants are ineligible for food stamp benefits regardless of their date of entry, except for a few categories of persons who entered the United States before the law was enacted, including children, the elderly, and disabled persons.

The law also shifted new burdens onto immigrants' sponsors. Sponsor deeming was extended to Medicaid and the three-year limit on deeming that was in place prior to the law's enactment was eliminated. In addition, states and the federal government may now sue sponsors for reimbursement of benefits provided to sponsored immigrants.

Welfare reauthorization provides an opportunity to reconsider the restrictions and other immigrant provisions in the welfare law in a more comprehensive manner than has been undertaken to date. In addition, a somewhat neglected topic, the effect of the shift from AFDC to TANF on legal immigrant families with children who remain eligible for benefits, merits inclusion on the reauthorization agenda.

The welfare law changes came at the same time as the immigrant population reached nearly record levels while becoming more dispersed throughout the United States. A surprising number of low-income children in the United States – more than one in five – now live in non-citizen families.¹⁴ For the most part, immigrants' low income levels are not explained by lack of work effort or family structure. Most low-income children of immigrants live in working, married two-parent families. Their parents have low-wage jobs with limited benefits and are less likely than low-income native families to receive health or welfare benefits. Perhaps because of their low-incomes and lower rate of participation in benefit programs, children of immigrants face greater hardship levels than native-born children who do not have immigrant parents.¹⁵

¹⁴ Some 22 percent of low-income children (under 150 percent of poverty) lived in low-income families headed by a non-citizen in 2000. CBPP calculations based on 2001 CPS.

¹⁵ Immigrants, like other low-wage workers, benefitted from a strong economy. In fact, immigrant unemployment rates fell at a greater rate than native unemployment rates during the 1990s. In spite of these gains, however, overall levels of hardship for immigrants remain high. Nationwide, 37 percent of all children of immigrants lived in families that worried about or encountered difficulties affording food, compared with 27 percent of natives. Children of immigrants are more than twice as likely to live in families that pay more than 50 percent of their income in rent or mortgage costs, and are four times as likely to live in crowded housing. Randy Capps, *Hardship among Children of Immigrants: Findings from the 1999 National Survey of America's Families*, Urban Institute, February 2001.

Several states sought to attenuate the impact of the immigrant restrictions by using their own funds to restore benefits for all or some legal immigrants who lost federal eligibility. Seventeen states now provide state-funded food stamps to some or all legal immigrants who are ineligible for federal benefits. Twenty-three states provide state-funded TANF-like cash assistance to some or all legal immigrant families with children who are ineligible for federal benefits. However, these programs fall far short of a complete restoration of the 1996 eligibility cuts. Only about one-third of noncitizens in the United States live in one of the eight states that provide a complete or nearly complete restoration of both cash assistance and food stamps.

There is now strong evidence that the eligibility restrictions have had an adverse impact on many legal immigrants and citizen children. Recent research by George Borjas examines differences in food insecurity trends between states that provided more generous state-funded safety nets for legal immigrants and states that provided only limited or no state-funded safety nets. All other things held equal, Borjas finds that food insecurity rose significantly among immigrant-headed households in the states that did the least to ameliorate the federal restrictions, while declining among immigrant-headed households in those states that provided more generous state-funded safety nets for immigrants.¹⁶

Insurance coverage for low-income immigrant families also has deteriorated since the passage of the welfare law. National data show that the number of noncitizen children and parents receiving Medicaid has fallen significantly since 1996. Moreover, the percentage of low-income noncitizen children and parents who lack health insurance, including job-based insurance, has climbed, even as uninsurance rates for native children fell over the same time period.

These early findings of increases in immigrant hardship levels came during a strong economy when a limited number of immigrants (except in the food stamp program) were subject to the new benefit restrictions. By 2002, the Urban Institute estimates that immigrants admitted after August 1996 will comprise approximately one-third of the legal permanent resident population. This fact combined with the adverse effect that the recent economic downturn is likely to have on immigrant employment levels suggests that hardship levels for immigrant families could increase considerably in coming years.

Finally, the shift from AFDC to TANF has had important implications for those immigrants and refugees who remain eligible for benefits. While immigrants are less likely to receive TANF cash assistance benefits than comparable U.S.-born persons, those immigrants who do receive TANF are quite disadvantaged. A small but growing body of research suggests that immigrant TANF recipients have significant barriers to employment, including limited proficiency in English and very low skill levels, and lower employment and earnings levels than

¹⁶ George J. Borjas, *Food Insecurity and Public Assistance*, unpublished working paper, Harvard University (May 2001).

U.S.-born TANF recipients.¹⁷ While some welfare-to-work programs have shown some success in raising immigrant welfare recipients' employment and earnings levels, immigrant employment and earnings remain low even relative to other TANF recipients.¹⁸

Immigrant Eligibility for Benefits

Recommendation 1: Legal immigrants should have the same access to public benefits as U.S. citizens; sponsor deeming, with reasonable limitations, should be retained. As taxpayers, immigrants help pay for the costs of education, roads, and national defense, and to provide benefits and services for low-income families. They should not be excluded from programs that could help them attain skills needed to advance in the labor market and provide a safety net when temporary hardship interrupts their employment. If TANF and Medicaid benefits are not fully restored, at a minimum the restrictions imposed by the welfare law on states' flexibility to provide federally-funded TANF and Medicaid benefits to recently-arrived immigrants should be lifted.

Effective work supports and welfare-to-work programs could help speed the economic mobility and integration of legal immigrants. The concern about rising levels of welfare use by immigrants that motivated the 1996 eligibility restrictions is best addressed through policy interventions that do not discriminate between legal immigrants and citizens. Given that TANF already includes mandatory work requirements and a five-year limit on assistance that apply regardless of immigration status, additional restrictions that specifically apply to immigrants serve no useful purpose. Finally, federal restrictions on states' ability to use federal funds for an important and growing segment of the low-income population are inconsistent with the general emphasis on devolution that otherwise characterizes the welfare law.

Sponsors clearly should have some responsibility for helping the immigrants that they sponsor settle in the United States, locate housing, obtain employment, and meet basic subsistence needs during their first few years in the United States. However, decisions about the appropriate length and scope of a sponsor's responsibility present more difficult questions. Should a sponsor's responsibility last for an indefinite time period? Does it extend beyond ensuring that basic subsistence needs are met to providing goods that cannot be easily obtained in the private market, such as health insurance? Should it apply even when an unforeseen

¹⁷ See, e.g., Shawn Fremstad, *Immigrants and TANF: What Do We Know?*, Center on Budget and Policy Priorities, November 2001; *Minnesota Family Investment Program Longitudinal Study: One Year After Baseline*, Minnesota Department of Human Services, December 2000 (noncitizens had lower employment and earnings levels compared to white citizens); Anthony P. Carnevale and Donna M. Desrochers, *Getting Down to Business: Matching Welfare Recipients' Skills to Jobs that Train, Technical Report*, Educational Testing Service, 1999 (foreign-born welfare recipients had lower skill levels than native-born recipients).

¹⁸ See, e.g., Stephen Freedman, Jean Tansey Knab, Lisa A. Gennetian, David Navarro, *The Los Angeles Jobs-First GAIN Evaluation: Final Report on a Work First Program in a Major Urban Center*, Manpower Demonstration Research Corporation, June 2000.

circumstance, such as a disabling condition or temporary job loss, limits the earnings ability of a sponsor or a sponsored immigrant? Do sponsors have an obligation to support unsponsored members of an immigrant's family, such as U.S. citizen children born after a sponsored immigrant was admitted to the United States?

By extending sponsor deeming requirements until citizenship and holding sponsors liable for any benefits provided, including health care benefits, the law effectively shifts the full burden of immigrant support onto sponsors for an indefinite time period. While we generally support sponsor deeming, we believe the new rules go too far in this respect.

In TANF, sponsor deeming should remain in place, but subject to reasonable limits on the length of the deeming period and the scope of the sponsor's obligation. Here, we recommend a return to the deeming rules that applied to the AFDC program, including the three-year limit that these rules placed on sponsor deeming. Deeming should only apply to benefits that are defined as "assistance" within TANF, rather than applying to the full scope of services funded with TANF resources. Income should only be deemed after an amount to meet the sponsor's own basic needs is excluded (we recommend an income exclusion equal to 130 percent of the federal poverty line). Efforts also should be made to ensure that the deeming rules can adjust when the circumstances of the sponsor change substantially. While we would retain sponsor deeming rules in cash and food assistance programs, we believe they are inappropriate in health care programs. The private market for health care is such in the United States that few sponsors can reasonably be expected to purchase coverage for sponsored immigrants.

Improving Employment Outcomes for Immigrants and Limited-English Proficient Individuals

Immigrant TANF recipients' employment and earnings levels remain low even relative to other TANF recipients. This is largely due to immigrants' low skills and levels of English proficiency. The following changes should be made to improve employment outcomes for immigrants and LEP persons:

Recommendation 2: English-as-a-Second language (ESL) instruction and other language acquisition activities should be included as a separate work activity without restrictions on the extent to which it can count toward the work participation rates. While most states allow some LEP persons to participate in ESL courses, anecdotal and other reports suggest that access is limited in many states. This may be due in part to the treatment of ESL for federal work participation rate purposes. The TANF law does not explicitly list ESL as a work activity that counts toward work participation rates. The federal activities that most clearly encompass ESL (job skills training and education related directly to employment, job readiness assistance, and vocational education) all have limitations on the extent to which they can count toward the federal work rates. These restrictions limit states' ability to place LEP persons in intensive and vocational ESL courses.

Recommendation 3: Congress should provide demonstration and planning grants to states and localities for research, technical assistance, and demonstration projects to

promote and fund best practices in the following areas: improving employment and earnings outcomes for LEP persons, increasing English proficiency of LEP persons, and enhancing the linguistic and cultural competence in TANF and child care services generally.

Recommendation 4: TANF data reporting requirements should be amended to include "primary language spoken" as a data element in state reports to HHS. Pursuant to HHS guidance on Title VI, states already should be "identifying the language needs of each LEP [person] and recording this information in the client's file."¹⁹ Including this data in the quarterly reports of data submitted to HHS will assist in measuring the extent to which TANF is successful in meeting the purposes of the law for limited-English-proficient persons.

VI. Family Relationships and Support

Most Americans strongly support marriage and recognize its benefits to children. In general, adults and children in married families have lower poverty rates and children in married biological parent families fare better on various measures of child well-being. Marriage is not, however, a poverty-reduction panacea, nor is it a feasible or desirable outcome for everyone. The most important role for government is to create a better environment for supporting marriage and strengthening families by reducing out-of-wedlock births, promoting job creation, providing needed work supports for both mothers *and* fathers, and improving economic security for all families. Essential elements of an agenda to improve child well-being and strengthen families include:

- a safety net that does not discriminate against two-parent families and ensures that those families eligible for benefits receive them,
- a strong child support enforcement system,
- programs that assist non-custodial parents meet their financial and parenting responsibilities (when appropriate),
- initiatives that decrease unintended pregnancies, and
- a research agenda that would enable us to learn more about the policies and programs that can improve families' outcomes.

In a recent paper entitled "Marriage as Public Policy," Daniel Lichter, director of the Initiative in Population Research at The Ohio State University, writes that "Marriage promotion

¹⁹ Department of Health and Human Services, *Policy Guidance on the Prohibition Against National Origin Discrimination As It Affects Persons with Limited English Proficiency*, 65 Fed. Reg. 52762, Aug. 30, 2000.

must begin by discouraging out-of-wedlock childbearing, which arguably is the single greatest threat to forming healthy and satisfying marriages that last.”²⁰ He concludes that:

In the final analysis, a marriage-plus agenda should be an important part of the dialogue over the reauthorization of the welfare bill. But the cautionary lesson from previous research is clear: Economically disadvantaged unwed mothers face significant obstacles to marriage. And the government does not have a good track record in developing and implementing family policies that actually work. Instead, we should redouble our efforts through state, community, and faith-based programs aimed at preventing unwed childbearing in the first place. Until we learn more about which state TANF marriage programs are effective through careful evaluations, the best approach to marriage promotion policies is a slow one.

Some proponents of marriage promotion have suggested that states should be required to spend a certain proportion of their TANF block grant for marriage-related policies. Such an earmark would be ill-advised. Based on the evidence available, too little is known about recent trends in this area – including encouraging reductions in teen pregnancy rates and increases in the proportions of low-income children living in married-couple families – and the policies and programs that will produce desirable results to warrant such a federal mandate. In fact, there are reasons to be cautious about the manner in which government policy attempts to affect marriage decisions. Domestic violence is a serious concern in many relationships. Moreover, policies that in any way coerce marriage are unlikely to garner public support or lead to healthy, low-conflict relationships that enhance child well-being.

Many claim that one reason funds need to be directed to “marriage promotion” activities is to reduce so-called marriage penalties. While frequent claims are made about large marriage penalties embedded in the social welfare system in the United States, such claims are misguided. In particular, the social welfare system does not present significant marriage penalties for couples with a biological child in common.

- **Safety net programs such as TANF cash assistance programs and the Food Stamp Program make no distinction between married parents who live together and unmarried parents who live together with their children.** The income of both parents is counted when determining eligibility for and level of benefits, regardless of the marital status of parents who live in the same household with their children. In states that impose stricter eligibility requirements on two-parent families, these rules are applied to both cohabiting and married-couple two-

²⁰ Daniel T. Lichter. “Marriage as Public Policy,” *Progressive Policy Institute*, September 2001.

parent families. *Thus, there is no “penalty” if a cohabiting couple with a child in common decides to marry.*²¹

- **In fact, there are generally strong incentives for such a couple to live together, rather than apart.** If the parents decide not to live together, neither parent is likely to be “better off” financially. Two separate households must now be maintained. The custodial parent – who now must pay for her or his housing with just one income – and her or his child may be more likely to qualify for means-tested benefits due to the loss of income that often occurs when a parent leaves the home, but these benefits will not leave the family with higher disposable income than when both parents were together. Finally, the noncustodial parent – in addition to paying his or her housing costs – must pay child support to the custodial parent. In short, neither parent generally has a financial incentive to separate.

Marriage penalties can exist in other situations – notably when a custodial parent marries someone other than the child’s other parent. In this case, the social welfare system may “deem” some income from the step-parent to the custodial parent and child when determining some types of benefits. Such deeming would not occur if the adults cohabited rather than married. (Food stamp benefits, however, are not affected by the decision to cohabit rather than marry since these benefits are based on total household income.)

Because marriage penalties do not present a serious problem in the case of parents with a child “in common,” it is important that such arguments not be used to justify providing enhanced benefits or preferential treatment to two-parent families or to reduce assistance to single-parent families.

While earmarking funds to devote to “marriage promotion” is problematic and while dramatic changes are not needed at the federal level to reduce marriage penalties that often do not exist, TANF reauthorization should address family strengthening issues. Family well-being could be enhanced and child poverty reduced if policy changes are made to ensure that (1) two-parent families are treated fairly (but not preferentially) in income-support programs, (2) child support payments reach the children for whom they were intended, (3) efforts are made to assist low-income non-custodial parents to meet their financial and parenting responsibilities, and (4) further progress is made to reduce teen pregnancy rates.

Recent Family Formation Trends

When considering family formation policy options, it is important to recognize the encouraging changes that have occurred over the past several years.

²¹ It should be noted that there may be a marriage penalty in the tax system, though there also might be a marriage bonus, depending on the earnings levels of the parents.

- **A larger percentage of children, particularly among low-income families, are living in two-parent families and a smaller percentage are living in single-parent families.** Overall, the number of children living with single mothers fell by 1.5 percentage points between 1995 and 2000. The drop was larger among lower-income children. In 2000, 32.7 percent of lower-income children (roughly, children in the bottom two quintiles of the income distribution) lived with single mothers – a drop of 3.9 percentage points since 1995. Furthermore, the proportion of lower-income children living with married parents rose by 2.2 percentage points over the same period. In a more disturbing trend, however, more children now are living with neither natural parent.
- **Teen birth rates have fallen significantly since the early 1990s, particularly among blacks.** The teen birth rate is defined as the number of women under age 20 per thousand who give birth in a given year. Between 1990 and 1994, the average teen birth rate for all races was 60.2. It dropped to 52.8 in the second half of the decade, a decrease of 7.4 percentage points or 12.3 percent. For black teenagers, the decrease was even steeper, from 110.8 in the first half of the 1990s to 88.4 in the second. This represented a 22.3 percentage point or 20.2 percent decline, a substantial change for such a short period.
- **Out-of-wedlock birth rates have fallen.** The birth rate for unmarried women increased during the first half of the 1990s, but then decreased so that the rate now has returned roughly to its level in 1990.

Research should be conducted at HHS and elsewhere to establish the likely causes of these favorable trends. Information about the root causes of these trends could inform future policy decisions. There are many possible factors behind these trends, including the strong economy in the second half of the 1990s, the effects of welfare reform, tougher child support enforcement, and other factors including AIDS awareness and public education about the impacts of teen pregnancy.

Providing Supports to Two-Parent Families

While means-tested programs rarely differentiate between married and cohabiting two-parent families, TANF cash assistance programs often impose more stringent eligibility criteria on two-parent families as compared to single-parent families. In addition, even in TANF and other means-tested programs such as the Food Stamp Program that do not impose discriminatory eligibility policies, two-parent families often participate in assistance programs at a lower rate than similarly-situated single-parent families. Thus, despite the fact that many states eased their restrictions on serving two-parent families as a result of welfare reform, two-parent families continue to participate at very low rates: of the 2.6 million families receiving welfare in fiscal year 1999, less than 5 percent were two-parent families.

Both qualitative and quantitative data indicate that economic security is a key aspect of sustaining relationships among both married and cohabiting couples, and an important determinant in the decision for a cohabiting couple to marry or separate.²² Thus, efforts to ensure that two-parent families receive the assistance they need can help reduce economic insecurity and stabilize or strengthen these families.

Evidence from Minnesota's "MFIP" welfare demonstration project suggests that assistance programs that increase the employment rates, earnings, and overall income of two-parent families can increase marriage rates as well. The MFIP demonstration program – through a combination of mandatory work services and an enhanced earned income disregard – increased employment rates *and* income of both single and two-parent families, thereby reducing the extent and depth of poverty among families participating in the program. Two-parent families (cohabiting and married couples) in the experimental group – in addition to having higher incomes – were significantly more likely to be married three years after the program began than were such families in the control group. The differences were large – 67 percent were married in the experimental group versus 48 percent in the control group that did not participate in the special demonstration project. While further research needs to see if such results can be replicated, this study suggests that shoring up a two-parent family's economic circumstances can strengthen and stabilize the family.

There are several areas in which policies can be improved to provide additional support for two-parent families:

Recommendation 1: States should not be permitted to discriminate against two-parent families in establishing eligibility for benefits and services under TANF.

Approximately 33 states allow two-parent families to qualify for TANF assistance solely on financial circumstances. Some 17 states and the District of Columbia, however, impose additional restrictions on two-parent families that limit their access to benefits.²³ In most of these states, two-parent families that meet the financial eligibility requirements are eligible only if a) one parent is incapacitated or b) one parent (or the principal wage earner, if not a parent) is unemployed. Once they are found eligible, to continue receiving benefits two-parent families must meet requirements such as the 100-hour rule, which requires that a two-parent family's principal wage earner work no more than 100 hours per month.

Recommendation 2: The separate work participation rate for two-parent families should be eliminated. Under current law, states face a penalty if they fail to meet a higher work participation rate for two-parent families than for single-parent families. There is no need for the

²² Kathryn Edin. *What Do Low-Income Single Mothers Say About Marriage?* JCPR Working Paper 100, July 1, 1999.

²³ These states include Arizona, California, Georgia, Indiana, Kentucky, Maine, Massachusetts, Mississippi, Missouri, New Hampshire, North Dakota, Oklahoma, Oregon, Pennsylvania, South Dakota, Tennessee, and Washington.

separate work participation rate since two-parent families are included in the overall work participation rates that states must meet. The separate work rate serves as a disincentive to provide TANF assistance to two-parent families. Some states have opted to provide such benefits through MOE-funded programs to which federal work rates do not apply, but states should not have to create such separate programs to serve these families. Moreover, some states' ability to use MOE funds in this manner are constrained by other claims on those funds. Federal law should not include any disincentive (even if it is one that some states can "get around") to serve two-parent families.

Recommendation 3: States should be required to forgive child support arrears owed to the state if a low-income, separated couple marries or remarries and to hold child support arrears owed to the state in abeyance when a separated couple with children reunites but does not marry. Financial barriers to family formation need to be eliminated. If a separated couple marries or remarries, arrears owed to the state should be forgiven. Couples that live together and support their children on a limited income do not have sufficient resources to repay the arrears owed to the state. Requiring them to repay could strain their relationship and lead to another break-up.

Recommendation 4: Low-income parents – in both single- and two-parent families – should have access to public health insurance. While both single- and two-parent families would benefit from improved access to health care, married parents are disproportionately affected. Some 61 percent of all low income, *uninsured* parents live in two-parent families. According to the March 2000 Current Population Survey, there were 4.2 million low-income married parents who did not have health insurance in 1999. It should also be noted that evidence suggests that children are more likely to participate in Medicaid or SCHIP if their parents are also eligible for coverage. (The SCHIP block grant does not have enough existing SCHIP funds to provide coverage for low-income parents who need it.)

Child Support Enforcement

In addition to removing barriers and improving support for two-parent families, a strong child support enforcement system will help improve child well-being and strengthen families. There is substantial evidence that strong enforcement of child support obligations promotes marriage by reducing out-of-wedlock births and divorce rates.²⁴ A strong, well-funded child support enforcement system helps government enforce parental responsibility while helping children receive the financial support they need. The following are recommendations for modifications to the child support enforcement system that would increase support paid and improve the financial well-being of children.

²⁴ Irwin Garfinkel, *Assuring Child Support in the New World of Welfare*, in *The New World of Welfare*, (Rebecca Blank and Ron Haskins, eds, 2001).

Recommendation 5: The child support incentive caps should be lifted. All states that meet performance goals should receive child support incentive payments. States should receive funds based on the extent to which they improve their own performance, not based on a competition with other states.

Recommendation 6: Federal law should provide incentives for states to disregard child support passed through to TANF families. If the child support collected for a family goes to the family but is counted for public assistance purposes, the family may be no better off than it was without support. This is not the case if some or all of the payment were disregarded when determining TANF eligibility and benefit levels. The federal government should provide a financial incentive for states to disregard some or all of the support collected and passed-through to TANF recipients, though states should have discretion in setting the size and structure of the disregard as the appropriate level depends on many factors, including TANF benefit levels.

Recommendation 7: The separate distribution rules for funds collected through federal tax intercept should be eliminated. This provision would mandate that once a family has left welfare, that family has the first claim on all child support paid by the father. Under current law, child support collected by intercepting the federal tax refunds of non-custodial parents is first applied to reimburse the state for cash assistance provided to the child and custodial parent. Child support payments collected by intercepting tax refunds begin to repay debts owed to custodial families only after all debts to the state have been repaid entirely. This change in the child support system would help custodial families that have left welfare to stay off welfare by providing additional resources to them at a time when they are likely to be vulnerable to economic hardship. (This provision was part of H.R. 4678, the Child Support Distribution Act of 2000, which passed in the House by a vote of 405 to 18.)

Recommendation 8: The child support assignment provisions in TANF should be eliminated. Child support is children's money. It is owed to the custodial family and should not be "assigned" to the government to offset welfare costs. While we think states should disregard some or all of the support collected and passed-through to families, states should have the flexibility to count some or all of the child support received when determining TANF eligibility. For states that counted a portion of the support collected when determining TANF eligibility, child support would continue to offset some of the costs associated with providing assistance to families. (This provision is consistent with the assignment provisions in H.R. 4678, but it goes further. Under this recommendation, the elimination of assignment provisions would be mandatory rather than optional and assignment provisions would be eliminated entirely rather than abridged.)

Recommendation 9: States should be prohibited from recovering Medicaid-related birthing costs from low-income non-custodial parents. Under current law, at the time that the child support order is initially set, states may seek to recoup prenatal, birthing, and newborn care costs paid by the Medicaid program. There is some evidence that this practice causes some mothers to forego prenatal care. This practice also may discourage voluntary paternity

establishment. (A provision to prohibit the recovery of Medicaid-related birthing costs also was included in H.R. 4678.)

Recommendation 10: States should be required to provide custodial parents with information about Medicaid and SCHIP programs and assist families in applying for them.

As part of the process for setting a child support order, the state child support agency is supposed to determine whether private health care coverage is available to the child at reasonable cost. The information that is used to determine whether reasonable-cost coverage is available can be used to determine whether a child is potentially eligible for Medicaid or SCHIP. The child support system should be required to provide information to parents about Medicaid and SCHIP programs, assist families in applying for these programs, and make presumptive eligibility determinations. In that way nearly every child who comes through the child support system (21 million children) could be assessed and enrolled in appropriate coverage. Consideration also should be given to simplifying the task of the Child Support Enforcement Agency by concentrating on the enforcement of “cash” assistance and paying less attention to medical support enforcement. (These recommendations were made by the Medical Child Support Working Group.)

Assistance for Non-Custodial Parents

Government can, and should, help low-income non-custodial parents (NCPs) – typically fathers – meet their parental responsibilities. Fathers who pay child support are more likely to be actively involved in their children’s lives, though the direction of the “causation” between these two phenomenon is unclear. Unfortunately, many low-income NCPs do not pay child support regularly because they are unemployed or under-employed. These low-income fathers have limited incomes, but often face child support orders that exceed the amount they are able to pay (even though the orders fall short of what it costs to raise a child). In many cases, low-income non-custodial parents see little change in their disposable income as earnings rise due to the high marginal tax rates imposed by both the tax and child support systems. The child support system needs to impose fair child support obligations on NCPs and government needs to do more to help low-income NCPs meet these obligations.

Recommendation 11: States should be given grants to review policies related to the setting of child support orders, services provided to NCPs, and family formation. States should be given one-time grants to conduct policy reviews and develop programmatic recommendations in the following areas:

- the level of child support orders;
- arrearage policies;
- order modification procedures when the circumstances of the NCP change;

- the availability of employment and parenting services to NCPs; and
- protections so that victims of domestic violence are able to receive child support without putting themselves or their children at risk.

States should be required to issue a report detailing current policy in these and other relevant areas, areas slated for change, and recommendations for policy changes.

Recommendation 12: States should be given some credit in meeting their TANF work requirements if NCPs are paying a sufficient amount of child support or are engaged in work activities. While TANF funds can be used to enhance the employability of NCPs, states have little incentive to do so. The work requirements should be modified so that states are given some credit when NCPs are engaged in work activities. States also could be given credit when the noncustodial parent is working (and paying sufficient child support so that it is clear that there is substantial work effort) just as states get credit when a custodial parent is employed. (States should not be required to determine the number of hours worked by the NCP but should be able to "impute" this based on the amount of child support paid.) In order to receive such credits toward the work participation rates, there should be no diminution of the effort states are making to secure, retain and enhance the wages of custodial parents.

Recommendation 13: In addition to providing increased access to health insurance to custodial parents (in both single and two-parent families), states should have the option to extend access to health care coverage to low-income non-custodial parents who are paying child support regularly. Providing health insurance to noncustodial parents who are paying child support would increase the incentive to pay support while promoting better health outcomes among such parents. Under current law, however, providing Medicaid coverage to noncustodial parents requires a federal waiver.

Reducing Unintended Pregnancies

Teen pregnancy rates fell in the second half of the 1990s. Reauthorization legislation should seek to build on this encouraging trend.

Recommendation 15: States should have more flexibility in how they use abstinence education funds. According to Douglas Kirby, "the few rigorous studies of abstinence-only curricula that have been completed to date do not show any overall effect on sexual behavior or contraceptive use," and studies on other types of programs show only mixed results.²⁵ Given this, states should have broader flexibility in how they utilize these funds.

Research Agenda

²⁵ Douglas Kirby, *Emerging Answers: Research Findings on Programs to Reduce Teen Pregnancy*, The National Campaign to Prevent Teen Pregnancy, May 2001.

There is substantial interest in developing programs that further reduce nonmarital births, foster and strengthen healthy two-parent families, and increase the proportion of children supported and cared for by both parents, regardless of whether these parents live together. Research in these areas is critical to developing a knowledge base on which to build future successful programs.

Recommendation 14: A Research and Development Fund should be established, using monies previously allocated to the out-of-wedlock bonus, to encourage the replication of proven policies and to conduct research on programs that could enhance the well-being of families and children. The Secretary of HHS could use this fund to provide technical assistance or to fund evaluations of pilot or demonstration projects. In determining which demonstrations or policies should be replicated, the Secretary should receive recommendations from a multi-disciplinary board of nationally recognized experts in the fields of income security, employment, child and family well-being, domestic violence, marriage and family, and child support enforcement. This Board should represent a wide range of views. Grant awards should be made on a competitive basis.

While there are many ways to distribute such funds, we recommend that one-third be dedicated to research on proposals designed to strengthen marriage and improve the marriageability of low-income men and women. (Replication of the MFIP results would further our understanding of the interplay between income security and family formation.) The remainder of the fund should be used to:

- replicate proven teen pregnancy prevention programs,
- experiment with child support-related programs including child support assurance models, programs that provide financial incentives to NCPs who work and pay child support, and programs that link NCPs to employment and parenting services, and
- develop additional projects related to family formation, family strengthening, and child well-being.

The Research and Development Fund should be financed by the repeal of the out-of-wedlock bonus which appears to have provided substantial bonuses to states that saw reductions in nonmarital births unrelated to major policy or programmatic initiatives.

Children Cared for by Relatives

Many children unable to live with parents receive assistance while living with relatives. The child welfare system generally is not appropriate for many of these families. If these adults also receive TANF assistance, federal time limits and work requirements apply to them. To ensure that family members do not face a disincentive either to care for children who need them

or to themselves receive assistance when they are poor, states should have an option to not apply these requirements – designed with parents in mind – to families other than parents are caring for children.

Recommendation 16: States should be given an option to exclude non-parental caregivers receiving assistance from the TANF work participation rate and time limit.

VII. Making the Housing Connection

Housing-related issues too often are ignored when TANF-related policies are discussed. This is unfortunate because housing can serve as a significant barrier to employment for those individuals who have unstable or inadequate housing. Moreover, the high cost of housing can pose a serious burden to low-income families struggling to transition from welfare to work. While TANF reauthorization legislation will not restructure housing assistance programs, there are important changes to the TANF statute that can be made that would make it easier for states to use TANF funds to provide supplemental rental assistance to families not receiving TANF cash benefits, encourage states to consider housing needs in TANF planning and implementation, foster better coordination between the TANF and housing agencies, and facilitate the implementation of programs that combine housing assistance with intense services for families with barriers to employment.

Nationally, only about 30 percent of families that receive TANF benefits have federal housing subsidies to help them afford their rent. The percentage of TANF families with housing assistance varies in each state from about 12 percent to 50 percent. In only three states are TANF benefits high enough for families to obtain modest housing with less than their entire TANF grant. Most families that leave welfare for work do not have housing assistance and do not earn enough to afford decent-quality housing. Recent data indicate that the average total monthly income of households that previously received welfare benefits and have at least one working member is \$1,261 (in 2002 dollars). This typical “welfare leaver” family must pay 57 percent of its total income for decent, modest housing.²⁶ Because housing costs vary so dramatically across the country, it is important to look at state and local data on the ability of welfare leavers to afford housing. In the 14 jurisdictions with HHS-financed studies on the earnings of recent

²⁶ The median total income of leaver households is based on 1999 data from the National Survey of American Families, adjusted for inflation to 2002, and includes earnings and benefits for all household members in households with at least one employed member. See Pamela Loprest, *How Are Families That Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers*, Urban Institute, April 2001. The housing cost used in this calculation (\$720 per month) is the estimated median FY 2002 two-bedroom national Fair Market Rent calculated by the National Low Income Housing Coalition, *Out of Reach, 2001*. It is based on HUD’s proposed 2002 FMRs weighted by the number of renter households reported by the 2000 Census.

welfare leavers, modest housing costs would consume 52 percent to 129 percent of estimated monthly earnings.²⁸

High housing costs can leave families with insufficient remaining income for basic necessities or to pay for child care, clothing for work, transportation, and other expenses that often must be met for families to move from welfare to work. In addition, families that pay too much of their income for housing or live in severely inadequate or overcrowded housing may have to move frequently. Such moves may interrupt work schedules, jeopardize employment, and adversely affect children's educational progress. A recent study in Ohio found that 42 percent of families that had recently left welfare and paid more than half of their income for housing moved in the six-month period after leaving welfare.²⁹ In contrast, roughly eight percent of the general population moves in a six-month period.

Conversely, lack of housing subsidies or other assistance can prevent families from making moves that could improve their economic prospects, such as moves to areas with greater employment opportunities or areas where parents feel safe enough to go to work and leave older children unattended or to return from work at night on public transportation. According to a survey of 77 metropolitan areas, more than 80 percent of newly-created, low-skill jobs in the early 1990s were created in the suburbs.³⁰ While relative job growth in cities improved somewhat later in the decade, about two-thirds of new retail and service sector jobs were still being created in the suburbs. In addition, manufacturing jobs increased in the suburbs during the 1990s, while decreasing in cities.³¹ These newly-created jobs often are inaccessible to welfare recipients and working poor families living in central cities or rural areas.

Affordable housing also may enhance welfare reform efforts. Research increasingly suggests that vouchers and other government housing subsidies can promote work among long-term welfare recipients when combined with a well-designed welfare reform program. Of particular note is the recently released evaluation of the Minnesota Family Investment Program (MFIP) by the Manpower Demonstration Research Corporation. This evaluation is particularly significant because, taken as a whole, the gains it found – including reductions in poverty,

²⁸ These percentages are based on median wages of employed welfare leavers, derived from median quarterly earnings in the last quarter of the first year after leaving welfare as reported in ASPE-financed studies, found at <http://aspe.os.dhhs.gov/hsp/welf-ref-outcomes01/appb.htm>, adjusted for inflation to 2002, compared with the 2002 State FMRs calculated as discussed in the note above. The calculations assume that families pay no more than 30 percent of income for rent and have no income other than the earnings of the welfare leaver. The State FMRs published by NLIHC are updated to reflect final FMRs.

²⁹ Claudia Coulton et al., *Issues of Housing Affordability and Hardship among Cuyahoga County Families Leaving Welfare Quarter 4, 1998 - Quarter 3, 1999*, Center on Urban Poverty and Social Change, Special Topics in Welfare Reform Report No. 1, 2001.

³⁰ U.S. Department of Housing and Urban Development, *The State of the Cities*, 1997.

³¹ U.S. Department of Housing and Urban Development, *The State of the Cities*, 2000.

increases in employment and earnings, and even increases in marriage – are among the strongest ever documented for a welfare reform undertaking in the United States.

Most of MFIP’s success was due to the substantial increases in employment and earnings it generated among families receiving housing assistance (primarily Section 8 vouchers); families without housing assistance had little or no gains.³² This is one of a growing number of studies that find significantly greater welfare reform effects among families with housing vouchers (and sometimes other forms of housing assistance) than among other low-income families, suggesting that housing assistance may enhance the effects of welfare reform strategies in promoting employment.

Housing-Related TANF Recommendations

Recommendation 1: Reauthorization legislation should make it simpler for states to use TANF funds to provide supplemental rental assistance to families not receiving TANF cash benefits by considering such benefits “non-assistance.” Nine states and several counties in two additional states have committed TANF and/or maintenance-of-effort funds to provide ongoing housing assistance. Many of these jurisdictions were unable to implement the types of housing assistance programs they wanted to provide to working families due to the constraints posed by current HHS rules that consider any TANF-funded housing subsidy provided for more than four months as “assistance,” even if families are working and not receiving TANF cash benefits.

Recommendation 2: States should be encouraged to consider housing needs in TANF planning and implementation. There is a growing body of evidence that families’ housing status affects employment and other goals of welfare reform initiatives. Increasingly, states are becoming aware of the barriers posed by lack of affordable housing to families remaining employed. Through new TANF state plan or other requirements, states should be encouraged to design policies that help families attain sufficient income and benefits to be able to have adequate, affordable housing. States also should have methods to identify barriers to work posed by the living arrangement, housing cost and housing location of individual families and provide services to help families overcome such barriers. To assist states in planning and implementing policies that take into account families’ housing situations, states need better data on the housing status of families receiving TANF than most states currently have. Reauthorization legislation should direct HHS to work with HUD to develop a procedure for inter-agency data matching or other uniform data collection protocol on the housing status of families receiving cash benefits.

Recommendation 3: Cooperation among welfare agencies and public housing agencies should be encouraged. As a parallel to the current requirement in the U.S. Housing

³² Miller, Cynthia, Virginia Know, Lisa A. Gennetian, Martey Dodoo, Jo Anna Hunter, and Cindy Redcross, *Reforming Welfare and Rewarding Work: Final Report on the Minnesota Family Investment Program, Vol. 1: Effects on Adults*, Manpower Demonstration Research Corporation, August 2000.

Act that public housing agencies (PHAs) seek to enter into cooperation agreements with welfare agencies, require states to cooperate, directly or through counties, with PHAs on:

- Implementation of housing program earnings disregards. (Public housing residents that currently receive or recently received TANF-funded benefits are eligible for a two-year phased disregard of earnings in determining their rent, but many PHAs are not fully implementing this requirement.³³)
- Coordination of work-promoting services and programs, including continuing eligibility for Medicaid, SCHIP and Food Stamps and participation in PHA Family Self-Sufficiency programs.³⁴
- Use of TANF funds to help families with vouchers locate housing more accessible to employment.

Recommendation 4: Federal law should allow states to determine what constitutes "minor rehabilitation" costs payable with TANF funds. It is now permissible to use TANF funds for "minor rehabilitation" but there is no HHS guidance on what types or cost of repairs is allowable, making it difficult for states to determine the extent to which using TANF funds in this area is permissible.

Recommendation 5: HHS should fund – in conjunction with the Department of Housing and Urban Development – a demonstration project that would evaluate the effectiveness of providing service-enriched housing assistance to families with severe barriers to employment. The funds from HHS should be used for the services provided to families, while HUD should provide resources for the housing assistance component.

³³ See the recent Center paper, *Promoting Work Among Residents of Public Housing: The Role of Welfare Agencies in Implementing the Earned Income Disregard*, available on the internet at <http://www.cbpp.org/10-17-01hous.htm>.

³⁴ Family Self-Sufficiency (FSS) is a HUD program that promotes employment and earnings increases through case management and savings. See Barbara Sard, *The Family Self-Sufficiency Program: HUD's Best Kept Secret for Promoting Employment and Asset Growth*, available on the internet at <http://www.cbpp.org/4-12-01hous.htm>.

VIII. Research and Data Collection

During the last five years, data submitted by states and the research projects funded by HHS have yielded important information that is now useful in considering reauthorization proposals. Reauthorization should include funding for a research agenda that will provide both

state and federal policymakers will more information about the operation of TANF programs and the elements of programs that lead to successful outcomes for families.³⁵

Recommendation 1: Funds should be allocated for a set of demonstration projects to test innovative approaches to assisting families with barriers prepare for, find and retain stable employment and to fostering labor force advancement among current and former TANF recipients and other low-wage working parents. There is little question that the demonstration projects conducted over the past two decades have provided invaluable information to state and federal policymakers about how best to structure welfare-to-work programs, the likely impacts of such programs, and policy designs that improve both employment rates and earnings. Currently, two of the biggest challenges facing states are how to improve services to families with a variety of barriers and how to assist those who are able to find employment to advance in the labor market to stable, higher-paying jobs that can better support their families. By providing funding to encourage states both to experiment in these areas and to evaluate the policies or programs that are developed, this proposal could help develop a body of information that will help all states.

Recommendation 2: Funds should be allocated for longitudinal studies in ten states of a sample of families that receive cash assistance and a sample of applicant families. The purpose of these studies would be to follow families for five years to learn about their interactions with the TANF program as well as other public programs, how those interactions or program interventions affected families' outcomes, and how families that left TANF – for a variety of reasons – fared.

The set of TANF leaver studies provided important information about the circumstances of families that left TANF. These new studies would go further, however, by focusing not only families' experiences *after* leaving TANF, but by also focusing on their experiences *while on TANF*, and by studying families that apply for cash assistance but may end up receiving only other services or benefits through TANF. Such studies – if provided ample funding – could try to investigate questions such as: To what extent does participation in different work-related activities affect family outcomes? What services were provided to families with barriers to employment and were they effective? In addition to going beyond what was investigated in the TANF leaver studies, such studies also could provide more information than random assignment evaluations have in the past about the nature of the programs in which people participated.

Recommendation 3: Funds should be allocated to enable HHS to use the administrative data to which the federal government has access – such as data from the unemployment insurance system, the National Database of New Hires, child support enforcement, TANF, and Medicaid – to do more comprehensive tracking of the

³⁵ Several recommendations related to data collection and financial accountability have been made above. Specifically, for a discussion of the need for improved financial data reporting, see section II. For a discussion of the importance of improved reporting on the number of recipients with limited English proficiency, see section VI. For a discussion of research related to family strengthening, family formation, and child well-being, see section VII.

employment rates, earnings, and child support receipt of current and former TANF recipients. These data sources, coupled with data states already provide to HHS on current TANF recipients and closed TANF cases, could allow HHS to follow the employment rates, earnings, and child support receipt of these parents for long periods of time and across state lines to learn more about their labor market experiences. These data sources also should be used to track the employment, earnings, and child support payment histories of low-income non-custodial parents.

Recommendation 4: Reauthorization legislation should ensure that a comprehensive set of case closure reasons be developed for data reporting purposes. These case closure reasons should be developed in consultation with states, users of the data, and policy experts. One goal of this change would be to reduce substantially the number of case closures for which a reason is not known.

IX. Conclusion

Over the past five years, important strides have been made to increase the employment rates and earnings of low-income families. Recent trends in teen pregnancy prevention rates, paternity establishment, and the proportion of children living in married-couple families also are encouraging. Data also suggest, however, that many families with barriers to employment have not moved forward in the labor market and some have been left without earnings and income support due to sanction procedures that did not include adequate screening of and services for barriers. Similarly, many recipients who have found jobs have not yet attained stable employment that can support a family. While child support enforcement has been strengthened, low-income non-custodial parents face many of the same barriers to employment and advancement as custodial parents. Overall, caseloads in TANF as well as the Food Stamp program have fallen more than poverty rates and some families have been left worse off, while others saw only modest income gains.

The TANF reauthorization process provides a good opportunity to consider carefully what we have learned over the last five years and institute federal policy changes that build on the lessons learned.

X. Summary List of Recommendations

Poverty Reduction

Recommendation 1: The general purpose language should be amended to include poverty reduction as a specific purpose of the Act.

Recommendation 2: Poverty reduction should become a focus of research on TANF programs.

Funding

Recommendation 1: Each state's base TANF block grant allocation should be adjusted for inflation annually.

Recommendation 2: New equity grants should be established and distributed to states with very low per-poor-child TANF block grant allocations.

Recommendation 3: Reauthorization legislation should include a contingency fund that meets the following criteria.

Recommendation 4: The federal government should provide states with additional resources to meet the important challenges ahead, but federal law should require that states spend TANF resources in ways that supplement, rather than supplant, existing programs.

Recommendation 5: The statute should require HHS to include in its annual report to Congress (thereby granting HHS the authority to collect the information from the states) more detail on the programs each state funds with its TANF grant.

Recommendation 6: The statute should require states to close out financial reporting within a specified time frame so that states cannot continually revise spending data for prior quarters continually as they now do.

Recommendation 7: The statute should clarify the kinds of funding commitments that constitute an unliquidated obligation.

Recommendation 8: States should be permitted to reserve sufficient, but limited, federal funds to cover some level of additional expenses that could occur as a result of an economic downturn or other crisis.

Recommendation 9: No additional restrictions should be placed on states' use of TANF funds awarded in prior years.

Recommendation: Funding for the Child Care and Development Fund should be increased so states can provide subsidies to a greater portion of eligible families.

Assisting Families with Barriers to Employment

Recommendation 1: Individuals participating in a broad range of activities designed to address barriers to employment should be counted toward a state's work participation requirements.

Recommendation 2: Federal law should require all states to adopt sanction procedures that promote and encourage compliance by assessing family circumstances and addressing families' barriers to participation prior to imposing a sanction.

Recommendation 3: Finally, federal law should reflect the compliance-oriented goals of sanctions by requiring states to restore benefits to families when the individual comes into compliance.

Recommendation 4: States should be given broader flexibility to determine the circumstances under which it will continue providing assistance to families that have reached the 60-month time limit.

Recommendation 5: States should be provided with funding to create a panel of state and outside experts (including representatives of people who have some of the barriers to employment states are seeking to address as well as TANF participants) to review the state's policies, procedures, and programs designed to address barriers to employment.

Recommendation 6: States should be provided with funding for transitional job programs.

Helping Parents Succeed at Work

Recommendation 1: Cash benefits that supplement earnings should not be subject to the federal 60-month time limit restriction.

Recommendation 2: Funds should be available to states that wish to operate experimental programs designed to foster labor force advancement.

Recommendation 3: States should be given broader flexibility to allow parents to participate in vocational educational training by lifting the cap on the number of recipients who can participate in such activities (and be counted toward the work participation rate) and allowing participation for longer than 12 months.

Recommendation 4: The caseload reduction credit should be eliminated and in its place a new credit should be established that rewards states in which families have left the TANF rolls and a parent is working.

Recommendation 5: The IEVS mandate should be removed in TANF.

Immigrants and Limited-English-Proficient Persons

Recommendation 1: Legal immigrants should have the same access to public benefits as U.S. citizens; sponsor deeming, with responsible limitations, should be retained.

Recommendation 2: English-as-a-Second language (ESL) instruction and other language acquisition activities should be included as a separate work activity without restrictions on the extent to which it can count toward the work participation rates.

Recommendation 3: Congress should provide demonstration and planning grants to states and localities for research, technical assistance, and demonstration projects to promote and fund best practices in the following areas: improving employment and earnings outcomes for LEP persons, increasing English proficiency of LEP persons, and enhancing the linguistic and cultural competence in TANF and child care services generally.

Recommendation 4: TANF data reporting requirements should be amended to include primary language spoken as a data element in state reports to HHS.

Family Relationships and Support

Recommendation 1: States should not be permitted to discriminate against two-parent families in establishing eligibility for benefits and services under TANF.

Recommendation 2: The separate work participation rate for two-parent families should be eliminated.

Recommendation 3: States should be required to forgive child support arrears owed to the state if a low-income, separated couple marries or remarries and to hold child support arrears owed to the state in abeyance when a separated couple with children reunites but does not marry.

Recommendation 4: Low-income parents – in both single- and two-parent families – should have access to public health insurance.

Recommendation 5: The child support incentive caps should be lifted.

Recommendation 6: Federal law should provide incentives for states to disregard child support passed through to TANF families.

Recommendation 7: The separate distribution rules for funds collected through federal tax intercept should be eliminated.

Recommendation 8: The child support assignment provisions in TANF should be eliminated.

Recommendation 9: States should be prohibited from recovering Medicaid-related birthing costs from low-income non-custodial parents.

Recommendation 10: States should be required to provide custodial parents with information about Medicaid and SCHIP programs and assist families in applying for them.

Recommendation 11: States should be given grants to review policies related to the setting of child support orders, services provided to NCPs, and family formation.

Recommendation 12: States should be given some credit in meeting their TANF work requirements if NCPs are paying a sufficient amount of child support or are engaged in work activities.

Recommendation 13: In addition to providing increased access to health insurance to custodial parents (in both single and two-parent families), states should have the option to extend access to health care coverage to low-income non-custodial parents who are paying child support regularly.

Recommendation 14: A Research and Development Fund should be established, using monies previously allocated to the out-of-wedlock bonus, to encourage the replication of proven policies and to conduct research on programs that could enhance the well-being of families and children.

Recommendation 15: States should have more flexibility in how they use abstinence education funds.

Recommendation 16: States should be given an option to exclude non-parental caregivers receiving assistance from the TANF work participation rate and time limit.

Making the Housing Connection

Recommendation 1: Reauthorization legislation should make it more feasible for states to use TANF funds to provide supplemental rental assistance to families not receiving TANF cash benefits by considering such benefits “non-assistance.”

Recommendation 2: States should be encouraged to consider housing needs in TANF planning and implementation.

Recommendation 3: Cooperation among welfare agencies and public housing agencies should be encouraged.

Recommendation 4: Federal law should allow states to determine what constitutes "minor rehabilitation" costs payable with TANF funds.