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## ***Windows of Opportunity*** **Strategies to Support Low-Income Families in the Next Stage of Welfare Reform<sup>1</sup>**

Three years have passed since sweeping federal legislation gave states broad authority to restructure their welfare programs. New state welfare policies emphasizing work — coupled with policies such as an expanded federal earned income tax credit and strong economic growth — have led to increased employment. Yet daunting challenges remain. Most parents leaving welfare for work earn too little to support their families adequately, other families have left or been dropped from the welfare rolls without work, and many of the families remaining on welfare have very serious unmet needs.

This is an auspicious time to address the unfinished agenda of welfare reform. States have very substantial federal and state financial resources to invest in low-income families.<sup>2</sup> The final federal welfare rules issued in April 1999 clarify and expand state flexibility to use welfare funds to help low-income families, particularly those that are not otherwise receiving cash welfare. In addition, families in many states will be reaching time limits on receipt of cash welfare in the next two years. It is crucial that states use the remaining time to help families prepare for employment.

This memo lists an array of innovative strategies and practical ideas for helping needy families with children. These proposals, 19 in all, stem from existing state or community initiatives and are organized into three categories: work supports for low-income working families, more intensive services for parents with barriers to

employment, and services that address the needs of specific populations.<sup>3</sup>

### **Provide Work Supports for Low-Income Working Families**

#### **Job retention and advancement services**

— Despite a growing economy, the number of low-skilled jobs that pay enough to support a family has been declining. Although many former welfare recipients are working, they are typically in short-lived, low-wage jobs that lack health or other benefits and have little room for advancement or wage growth. Many of these families remain poor despite working substantial hours.

States can help current or former welfare recipients maintain steady employment and move into better jobs by focusing on both the quality of initial jobs and ongoing retention and advancement services. Helping recipients find

*In Portland, Oregon, caseworkers work with parents to map out career plans by helping them find initial jobs that offer high wages, benefits, and opportunities for advancement; encouraging those with low skill levels to participate in training or basic education; and referring families to social services for additional support to address barriers.*

initial jobs with higher pay and benefits increases the likelihood of steady employment and wage growth over time. States can also provide intensive case management services for employed families to address personal and work-related barriers, career development, and ensure that families retain access to important work supports such as food stamps, Medicaid, and child care.

**State EITCs** — States can enact an earned income tax credit to build on the strengths of the *federal* EITC, a credit that provides tax relief and income supplements to low- and moderate-income working families, primarily those with children. Studies show that the federal EITC encourages work. It also reduces poverty among working families more effectively than any other program.

*State* EITCs augment the federal credit by lifting additional working families with children out of poverty and by offsetting the substantial state and local tax burden on low-income families, particularly regressive sales and excise taxes. Eleven states have some form of EITC based entirely or largely on the federal credit.

To be most effective in boosting incomes and reducing poverty, state EITCs should be *refundable* — meaning that families receive a refund when the credit amount exceeds their tax bill — just as the federal EITC is. Eight of the 11 existing state EITCs are refundable.

*State EITCs can help lift working families out of poverty. Eleven states now have state EITCs.*

**Transportation assistance** — Many low-income families do not live near the areas of greatest job growth. Too often, public transportation is not available or is not structured to accommodate reverse commutes, non-standard hours, or the multiple stops (such as child care centers) facing many low-income families. Car ownership, which in many cases is the best solution, often is too expensive for many low-income families.

States can provide transportation help to low-income families and need not limit such aid to families receiving welfare. For example, states can use TANF funds to provide income-based transportation allowances to a broad group of low-income families or to families that have recently left welfare. They also can provide funds to help low-income families purchase cars, or support car donation programs that assist these families to become car owners. Finally, states and localities can improve access to work by better coordinating paratransit systems that provide door-to-door service on an individualized basis.

*A number of states provide funds to help welfare recipients purchase cars, including Kansas (up to \$5,000), Nebraska (up to \$2,000), and Michigan (up to \$1,200).*

**Accessible and affordable child care** — Access to child care is essential for parents to be able to seek and maintain employment. Although many states provide child care assistance to certain parents, research finds that only 15 percent of all families eligible for child care under the Child Care and Development Fund, the major source of federal child care assistance, actually receive such subsidies due to a range of issues, including lack of information about their eligibility, high co-payments, and unavailability of care during “off-hour” shifts.

States can use various state and federal funding sources to create a seamless system of care for all low-income families — including current or former welfare recipients and those with no connection to the welfare system. Effective state programs should ensure that co-payments are affordable, increasing gradually as income rises; maintain income eligibility limits

*Illinois recently lowered co-payments for working families by instituting a 10 percent earned income disregard and also improved reimbursement rates for centers providing care during non-standard hours.*

that are high enough to reach a wide range of low-income families; avoid long waiting lists; and provide access to child care during all hours that parents work, including non-standard hours.

**Worker stipends** — In most states, parents lose eligibility for cash aid before their earnings are sufficient to meet their families’ basic needs. Numerous studies show that families leaving welfare for work typically have below-poverty earnings.

States can help working poor families by expanding eligibility for welfare cash assistance, but an alternate strategy may be to provide modest stipends to families outside the welfare system (which still could be paid for with TANF or state maintenance of effort funds). Stipends that support parents working in low-wage jobs may enhance a sense of progress by enabling families to leave cash assistance. In addition, worker stipends could be linked with training and other services as part of a job retention and advancement strategy. Moreover, new federal regulations indicate that stipends designed to offset work-related expenses would not trigger time limit or other restrictions.

*A pilot program in Texas is providing intensive case management services and stipends of at least \$1,200 a year to former welfare recipients in an effort to promote job stability and advancement.*

**Short-term aid** — Many low-income families experience temporary crises, such as a car breakdown or the illness of a child, that can jeopardize family stability or a parent’s employment. In response, 31 states operate “emergency assistance” programs that typically

*Indiana’s planned Short-Term Empowerment Program (STEP) will offer a broad range of one-time assistance to support employment among families with incomes up to 250 percent of poverty.*

serve to prevent eviction or utility cut-offs. Also, 23 states have “cash diversion” programs that provide one-time payments, usually in lieu of welfare benefits, to families needing temporary help to avoid a crisis and remain employed.

New federal regulations for TANF give states great flexibility either to provide new forms of aid to families facing temporary crises or to enhance existing emergency assistance or diversion programs. While most diversion programs now are limited to families that are eligible for welfare cash assistance, they would be more effective in reducing the need for ongoing welfare benefits if other low- and moderate-income families also were eligible. In addition, programs can be designed to provide short-term aid without attaching restrictions on access to ongoing cash assistance in future months or to other types of assistance.

### **Easing food stamp vehicle resource limits**

— No matter how poor a family may be, it ordinarily cannot receive food stamps if it has a car whose value exceeds the program’s resource limits. The vehicle limit, first set in 1977 at \$4,500, was intended to affect only households with expensive cars. Today, the limit is \$4,650. Because the limit is essentially unchanged in 23 years, it has failed to keep pace with inflation and has become far more restrictive over time. For the vehicle limit today to have the same real value that the \$4,500 limit had in 1977 it would have to be set at more than \$12,800. Recipients of AFDC and now TANF-funded cash assistance have long been exempted from the vehicle resource limits because of a statutory provision making these families “categorically eligible” for food stamps. The problem arises when a family leaves TANF cash assistance for work or has a low income but is not receiving TANF cash assistance — in these circumstances, the value of the car counts and renders many needy families ineligible for food stamps. A family receiving TANF whose car makes it possible to secure a job may find that same car makes it harder to work and feed the family — and stay off of welfare — once they leave TANF, because they lose their food stamps.

Under recent USDA guidance, families that receive any services or benefits funded by TANF or state maintenance of effort dollars can be “categorically eligible” for food stamps and thus not subject to the food stamp resource limits. The families do not need to receive cash TANF assistance and the cash TANF resource policies need not apply to the services. The services that trigger this exemption can be as simple as an offer of access to a case manager or other employment services, or also could be services such as child care that are at least partially funded with TANF or state maintenance of effort funds. These services can be provided either to families leaving cash assistance programs or more generally to low-income families with children regardless of their connection to cash assistance.

*Michigan has expanded categorical eligibility for food stamps to include families receiving subsidized child care.*

**Expanded health care coverage for low-income working parents** —

While states now provide health insurance coverage to many of the *children* in low-income working families, the *parents* in these same families frequently must go without health insurance. They often do not have access to affordable, employer-sponsored coverage and, in many states, they currently cannot get Medicaid unless they are poor enough to qualify for cash welfare. Parents in families that recently have left welfare appear to be at particularly high risk of being uninsured. Studies conducted by the states consistently show that more than a third, and often more than half, of parents in families that recently left welfare do not have health coverage, either through the workplace or through public programs.

As a result of the 1996 federal welfare law, states now can expand coverage for low-income working parents to whatever income level they determine is appropriate, with the help of federal Medicaid funds. They also can eliminate or ease the asset test imposed on low-income parents seeking Medicaid. This opportunity comes from

the flexibility that states have under the 1996 federal welfare law to disregard (i.e., not count) some of a family’s income and resources when evaluating Medicaid eligibility. Some states have adopted income disregards that allow them to provide health care coverage to working families with income up, for example, to 185 percent of the poverty level. Other states have adopted time-limited disregards that provide coverage to families during a transitional period as they leave welfare for work. By allowing working parents to obtain health coverage, Medicaid expansions for parents can advance the goals of welfare reform by promoting job retention and the well-being of families.

*A number of states have expanded family-based Medicaid coverage to all families below the poverty line, and some states have expanded coverage to families with incomes up to twice the poverty line; these include Wisconsin, Connecticut, Rhode Island, New York, California, Missouri and the District of Columbia.*

**Increase incentives to pay child support** —

Recent federal and state child support enforcement measures have boosted the overall level of child support collections, but significant amounts still go uncollected. For example, only 18 percent of never-married mothers received any child support in 1997.

Most states retain child support payments made to TANF parents as reimbursement for federal and state shares of the cost of cash assistance. To provide noncustodial parents with incentives to pay child support, states can “pass through” part or all of these payments to custodial parents receiving TANF and disregard all or a portion of the passed-through child support when calculating TANF benefits. A growing number of

*Connecticut passes through all child support to the family and disregards up to \$100 per*

states now exercise this option. States that wanted to provide similar incentives for families who do not receive cash assistance could match or supplement child support payments made by low-income parents who often have a limited ability to pay child support.

A common argument against higher benefits raised in the past — that they could encourage welfare dependency — has diminished because most parents now face time limits on receipt of TANF assistance. In this context, providing more adequate benefits can help stabilize families and

### **Ensuring that Families Not Receiving Welfare Receive Food Stamps and Medicaid Benefits**

State welfare reform efforts have led to unintended declines in receipt of food stamps and Medicaid by eligible families. According to a recent Urban Institute study, fewer than one-third of families that left welfare subsequently received food stamps even though most families had incomes low enough to qualify. Similarly, the study found that parents received Medicaid in only one-third of the families and children received Medicaid in fewer than half the families after leaving welfare. Some or all family members should qualify for Medicaid in nearly all these families. Lack of health coverage and nutritional assistance for families making the transition from welfare to work has negative consequences for the families and threatens the success of state welfare reform efforts.

States can take steps to ensure that food stamp and Medicaid programs reach eligible families, such as:

- implementing procedures that are friendly to working families;
- ensuring that procedures for continuing food stamps and Medicaid when TANF benefits stop are effective;
- engaging in outreach or community education campaigns; and
- taking corrective actions when warranted, including reinstating benefits for families that improperly lost them.

### **Address Barriers to Employment that Some Parents Face**

**Increase cash assistance benefits** — Welfare benefits do not provide sufficient income for a family to meet its basic needs. Currently, the maximum monthly welfare benefit for a family of three in the median state is just one-third of the federal poverty threshold; the purchasing power of the maximum welfare benefit in the typical state fell by half between 1970 and 1997. As a result, many welfare families run out of food at some point during the year and are vulnerable to utility shut-offs, evictions, and homelessness.

*Eleven states have raised welfare benefits in the last two years.*

allow parents to engage more productively in work-related activities. Increasing benefits also can provide key support to families that are not expected to work, such as grandparents caring for grandchildren or families exempted from time limits due to the parent's inability to work.

**Increase work participation among families that have not complied with work requirements** — Most states impose severe sanctions on families receiving welfare when parents fail to comply with TANF work requirements; more than two-thirds of the states

stop aid to the children as well as parents in these families. When full sanctions are applied, however, a state generally loses its link to these vulnerable families. Families that leave welfare due to a sanction — many of whom face substantial barriers to employment — are significantly less likely to be employed than other families that leave the welfare rolls.

States can structure their sanction policies in a manner that promotes participation in work activities rather than simply imposing penalties on vulnerable families. Options include a review process to ensure that parents facing a possible sanction understand their participation requirements, a prompt end to sanctions once parents have come into compliance, and a “fresh start” for families who demonstrate compliance over a substantial period of time.

*Tennessee’s “Customer Service Review” system reviews cases that are slated for closure, including those based on noncompliance, to ensure that termination is appropriate. The process also provides the family another opportunity to come into compliance. This process has enabled the state to secure compliance and avoid sanctions in nearly one-third of all cases reviewed.*

### **Increase access to education and training**

— Most welfare recipients have education and skill levels below those required by most employers, and this “skills gap” is likely to widen as skill demands in many sectors of the economy increase. Unless they acquire new skills through vocational and post-secondary education and

*Illinois allows parents to meet the state’s work requirements by attending post-secondary education and training programs for up to thirty-six months. The state also stops the time limit “clock” for these students during that time.*

training, many welfare recipients are unlikely to obtain or advance into jobs that can pay enough to

support a family well. Various studies have found earnings increases to be associated with each year of post secondary education.

States can allow welfare recipients to count education and training activities toward their work requirement for some or all of the state’s required work hours. Federal law allows up to 12 months of post-secondary education to be counted toward the TANF participation rates (for 30 percent of the caseload), but a state can extend this time for any recipient if the state is meeting its TANF participation rates. States can also continue to require parents enrolled in school to engage in additional work activities, but for a reduced number of hours that is more feasible for parents who are students. Some states also allow study hours and work study to be counted toward the work requirement.

### **Transitional jobs for people with little or no prior work experience**

— With unemployment rates quite low throughout much of the country, many states continue to rely heavily upon private-sector job placement to reduce their welfare caseloads. Over time, however, every state will be forced to address three labor market realities in order to sustain such caseload declines: some welfare recipients need a chance to develop work habits and skills before moving into unsubsidized jobs; some communities still have high rates of joblessness; and the possibility of future economic downturns at the state, regional, or national levels exists.

The creation of publicly-funded, transitional jobs in private non-profit and public agencies can enable welfare recipients and noncustodial parents to earn wages and gain valuable work experience while also alleviating job shortages in distressed communities. A basic approach to such a program uses funds now provided as cash assistance to pay wages to participants; in states with higher benefit levels, the cash grant amount is sufficient to pay wages for half-time work at the minimum wage. In these programs, participants will experience some increase in their income because they qualify for the EITC. More ambitious program designs use available TANF or federal Welfare-to-Work funds to pay wage rates that exceed the

minimum wage, give participants the opportunity to work more than 20 hours per week, integrate formal education and training, mentoring and other support services, and disregard a portion of earnings when calculating welfare benefits so that participants receive ongoing cash assistance to supplement their earnings. A number of states and local communities have initiatives underway.

*Washington State and Vermont operate statewide programs that provide transitional jobs. Detroit, Baltimore, Philadelphia, and San Francisco are operating city-based transitional jobs programs.*

**Housing assistance** — Finding affordable housing is a serious challenge for welfare recipients and low-income working families alike. Three-fourths of all poor families on welfare nationally receive no housing assistance, and a recent HUD study found that 1.1 million low-income working families with children faced severe housing cost burdens and/or lived in severely substandard housing. The lack of decent affordable housing creates family instability, as families are forced to move frequently, and prevents families from moving closer to areas of high job growth.

A housing program providing vouchers that can be used to pay for private rental housing can be an effective component of welfare reform. Such a program can be targeted on families who remain on welfare because their housing problems pose barriers to work, or broadened to include working families who may find it difficult to remain employed as a result of housing problems.

*Eight states and localities are providing TANF- or MOE-funded housing aid to current or former TANF recipients to facilitate the transition to work.*

**Child care for children with serious health conditions or disabilities** — The severity of children’s disabilities or health conditions often prevents low-income parents from finding or

*Many states exempt parents from work requirements if they are caring for a child who is disabled. Some states, like Georgia and Illinois, may treat caregiving as a work activity where a child with a disability is involved.*

retaining employment by drastically limiting their child care options. Child care for children with disabilities often is difficult to find, and parents often are called away from work to address a child’s health crisis or needs.

Federal law requires states to ensure that children with disabilities and their families are not subject to discrimination in the provision of services and benefits. To help meet this obligation in TANF and child care, states can tap a variety of funding sources to expand the supply of child care that is appropriate and inclusive, serving all children including those with special needs. They also can provide higher reimbursement rates for child care providers that accept children with disabilities, and expand current child care providers’ access to training and counseling on meeting the needs of children with health problems. States also can exempt parents from TANF work requirements when appropriate child care is not available, while providing them with supports so that they will be able to work when the child’s health or the availability of appropriate child care allow.

## **Address the Needs of Specific Populations**

**Services for parents with disabilities** — Emerging evidence from states suggests that some parents with disabilities are leaving TANF without employment. Many parents that remain on welfare face multiple barriers to employment and eventual economic independence. Those who are employed may need extra support in order to remain employed.

To meet the diverse needs of very low-income parents with disabilities, states can work within the framework of existing TANF case management and welfare-to-work activities or other public and private programs serving people with disabilities. A comprehensive effort to serve these parents includes a careful assessment of each parent's strengths and barriers to work, intensive case management to link parents to needed employment and support services, exemption policies that allow parents to attempt to work while providing a "safety net" in the event of setbacks, and broader Medicaid eligibility

*In California, months in which parents are exempt from work activities due to disability (or because they are caring for a family member who is incapacitated) do not count toward the state's 60-month time limit.*

requirements that allow parents who enter low-wage employment to keep their Medicaid coverage. Creation of publicly-funded, transitional jobs also may help parents with multiple barriers develop marketable skills and employment references.

**Food and cash assistance for legal immigrants** — The 1996 welfare law made low-income legal immigrants ineligible for many forms of federal assistance. Despite subsequent benefits restorations, food stamp benefits and TANF-funded assistance still are denied to large numbers of immigrants. Like citizens, legal immigrants sometimes experience job losses or other temporary hardships; food and cash aid during such crises can help parents return to work quickly while promoting the healthy development of their children.

States can meet these needs by establishing a state-funded food stamp program that provides assistance to all legal immigrants who are no longer eligible for federal food stamps, and by using state funds to provide cash assistance to those ineligible for federal TANF assistance. Federal TANF or state MOE funds can be used to provide food assistance to all legal immigrants no

*Sixteen states have food assistance programs for legal immigrants who are not eligible for federal food stamps. Nineteen states provide TANF look-alike assistance to some categories of legal immigrants who are not eligible for TANF.*

longer eligible for federal food stamps. Federal law allows states to "purchase" food stamps from USDA or use USDA-funded electronic benefit transfer (EBT) systems to assist legal immigrants no longer eligible for federal food stamps. States may use state MOE funds to provide cash assistance to some legal immigrant families while using other state funds to cover those for whom MOE funds can not be used.

### **Services for victims of domestic violence**

— Recent research suggests that 20 to 30 percent of all welfare recipients are *current* victims of domestic violence. This threat to their safety and well-being can prevent many parents from entering the labor force, retaining jobs, and supporting their families. While many states have policies that exempt domestic violence victims from work requirements when necessary, states vary widely in their ability to identify victims of domestic violence and ensure that they receive high-quality services.

It is important that staff working with families experiencing domestic violence be well trained in domestic violence issues to facilitate disclosure of violence and to ensure that victims have access to specialized crisis and safety planning services. Although many states offer limited basic training to some or all TANF caseworkers, states can go beyond this by providing caseworkers with ongoing training, or by providing specialized staff with more intensive training in case management for domestic violence victims. States can also contract with outside domestic violence agencies either to co-locate outside counselors at the TANF agency, or to refer families to those agencies for services.



*Rhode Island provides ongoing domestic violence awareness training to TANF caseworkers and contracts with outside domestic violence providers to offer intensive services to families.*

**Services for low-income noncustodial parents** — Noncustodial parents of poor children are often poor themselves and have

*To date, about \$370 million of Welfare-to-Work program funds have been targeted toward servicing noncustodial parents.*

limited ability to pay significant amounts of child support. The most disadvantaged low-income noncustodial parents are young, lack high school diplomas, and have poor academic skills and limited work experience. There have been few large-scale efforts to help low-income noncustodial parents overcome employment barriers and become more involved in the lives of their children.

Recent changes in federal TANF rules and in eligibility criteria for federal Welfare-to-Work grants give states more options to finance services aimed at increasing earnings and child support payments among low-income noncustodial parents. Such services include employment aids (such as job training and education, publicly-funded transitional jobs, and transportation assistance) and social services designed to improve parenting skills and support regular visitation.

## Conclusion

The challenge for the next phase of welfare reform is to develop effective, broad-based strategies for assisting parents with barriers to work; increase the sustainability of work through key supports; help parents secure the education, training or work experience they need to secure better paying jobs; and reduce poverty among families and children.

Windows of opportunity have emerged that markedly enhance prospects for states' success in this endeavor, as states currently possess both the resources and the flexibility to undertake initiatives to meet the needs of low-income families. The proposals outlined here can enable states to take advantage of these opportunities.

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## Endnotes

1. This publication is based on a larger report, *Windows of Opportunity: Strategies to Support Families Receiving Welfare and Other Low-Income Families in the Next Stage of Welfare Reform*, by Eileen Sweeney, Liz Schott, Ed Lazere, Shawn Fremstad, Heidi Goldberg, and Jocelyn Guyer, Center on Budget and Policy Priorities. The authors thank John Springer for his editorial assistance in preparing this version. It is available at <http://www.cbpp.org/1-12-00wel.pdf> or can be obtained from the Center by calling 202-408-1080.

2. For information about each state's unspent TANF funds, see Ed Lazere, *Welfare Balances After Three Years of TANF Block Grants: Unspent TANF Funds at the End of Federal Fiscal Year 1999*, Center on Budget and Policy Priorities, January 2000, <http://www.cbpp.org/1-11-00wel.pdf>

3. For more detailed descriptions of design options, funding issues for each proposal, and additional state examples, see the Center's full report, cited in footnote 1. Appendices to that report explain how the definition of "assistance" in the final TANF rules enables states to provide a broad range of benefits and services without triggering welfare restrictions, describe states' enhanced flexibility under the new TANF rules regarding permissible uses of state maintenance of effort funds, and explain how some changes in program benefits can affect low-income families' eligibility for food stamps.