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## CHAPTER III: Income Supplements for Working Families

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### Introduction

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

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

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

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

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- Gordon Berlin,  
President, MDRC

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

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

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

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

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

## Ongoing Monthly Income Supplements for Low-Income Working Families

An August 2005 report by MDRC evaluating four income supplement programs in the United States and Canada found that all four programs increased employment rates and earnings and reduced the extent and depth of poverty. Earnings supplements were particularly effective at improving employment outcomes for the most disadvantaged participants: longer-term welfare recipients without recent work experience or a high school diploma.<sup>100</sup>

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

### Providing Assistance Within TANF Through Expanded Earned Income Disregards

Nearly all states have increased their earnings disregards from the very limited disregards that were in place in the former AFDC program. Nevertheless, families in many states become ineligible for TANF income assistance at earnings levels that are well below the poverty line.<sup>102</sup> (TANF earnings disregards and benefit levels vary widely from state to state, as does the level of earnings at which individuals become ineligible for TANF-related assistance.)

By increasing their earned income disregards, states can provide low-income working families with greater assistance — and a more powerful work incentive. A higher disregard also will enable

### How Does an Earned Income Disregard Work?

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

#### Example

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

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

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

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

<sup>100</sup> Ibid.

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

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

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

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

### *Design Issues*

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

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

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

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

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

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

<sup>104</sup> Charles Michalopoulos.

<sup>105</sup> Meredith Walters, Gene Falk, and Vee Burke.

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

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

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

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

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

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

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

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

## Providing Assistance Through Stand-Alone “Worker Supplement” Programs

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

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

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

### *Design Issues*

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

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

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

### Arkansas' "Work Pays" Program

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

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

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

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

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

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

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

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

### **Comparing the Earned Income Disregard and Worker Supplement Approaches**

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

<sup>112</sup> Ibid.

## Child Care: An Important Work Support

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

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

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

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<sup>a</sup> Richard Wertheimer, "Poor Families in 2001: Parents Working Less and Children Continue to Lag Behind," *Child Trends*, 2003.

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

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

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

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

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

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

### *Policy Design Issues*

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

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

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

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

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

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

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

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

#### *Who Should Be Eligible?*

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

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

#### *What Size Should a Lump-Sum Payment Be?*

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

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

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

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

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

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

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

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

### Additional “Front-End” Options for States

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

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

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

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

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

## Using Bonus or Incentive Payments to Encourage Employment Retention

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

Under this “back-end” bonus approach, when a family finds a job and leaves TANF,<sup>118</sup> it receives a bonus that helps the family make ends meet and provides an incentive for the family to continue working. Since parents are most likely to lose their jobs in the first few months after leaving TANF, providing incentives to encourage recent TANF leavers to remain employed is important.

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

Several states have adopted bonus payment programs:

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

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

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

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

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

### Background

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

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

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

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

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

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

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

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



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

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

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

### **Child Support Is an Important Work Support and Source of Income**

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

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

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

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

<sup>122</sup> Elaine Sorensen, "Child Support Gains Some Ground," Urban Institute, 2003.

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

## When Can States Retain Child Support Payments?

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

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

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

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

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

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

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

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

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

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

## DRA Child Support Provisions

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

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

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

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

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<sup>128</sup> Office of Child Support Enforcement, U.S. Department of Health and Human Services, Preliminary Report FY 2004, table 1, [http://www.acf.hhs.gov/programs/cse/pubs/2005/reports/preliminary\\_report/](http://www.acf.hhs.gov/programs/cse/pubs/2005/reports/preliminary_report/).

<sup>129</sup> 42 U.S.C. 657(a)(1)(A).

## Pass-Through and Disregard Policies in TANF-Funded Programs

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

### *The Mechanics of Pass-Through and Disregard Policies*

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

#### Example

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

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

#### Example

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

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

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

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

#### Example

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

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

#### *Policy Design Issues*

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

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

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

#### Example

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

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

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

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

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

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

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

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

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

<sup>134</sup> Estimate reported in testimony of Vicki Turetsky before Senate Finance Committee on May 16, 2002. [http://www.clasp.org/publications/Turetsky\\_5-16-02\\_testimony.pdf](http://www.clasp.org/publications/Turetsky_5-16-02_testimony.pdf).

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

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

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

### **Disregarding Child Support for Families Receiving State-Funded Assistance**

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

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

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

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<sup>135</sup> Jane Venohr, David Price, Laurie Davis Van Wert, and Christa Anders.

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

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

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

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

### **Considerations for Determining How to Assist Low-Income Working Families**

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

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

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