Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

February 22, 2017

Lessons from TANF: Block-Granting a Safety-Net Program Has Significantly Reduced Its Effectiveness

By Liz Schott

Republican policymakers and some conservative commentators often tout the Temporary Assistance for Needy Families (TANF) block grant to support proposals to convert other key programs for low-income Americans into block grants — including two programs, Medicaid and SNAP (formerly food stamps), that provide critical assistance to low-income families and individuals and that expand automatically when need increases. But the experience of TANF, which replaced the Aid to Families with Dependent Children (AFDC) entitlement program, indicates that block grants would significantly reduce these programs' effectiveness.

With AFDC converted to the TANF block grant — with sweeping flexibility for states and fixed funding levels that have eroded heavily due to the failure to adjust for inflation or other factors — states reach far fewer poor families with children through their TANF programs than AFDC reached, and states have diverted substantial amounts of TANF funds to other areas of their budgets. The same thing would likely occur if policymakers converted Medicaid and SNAP to block grants (or created a similar funding arrangement such as a per capita cap for Medicaid), undercutting these programs and leaving many low-income individuals without the resources to meet their health care needs or put adequate food on the table.

When President Clinton and Congress created TANF 20 years ago to replace AFDC, they ended the federal entitlement to cash assistance for poor families with children and changed the federal-state funding relationship. Under AFDC's entitlement structure, the federal government matched half or more of each dollar of benefits that state agencies provided to families. When states served more families, such as during recessions, they received additional federal funds to contribute to the costs. When need receded and states served fewer families, they received fewer federal funds. Nearly all federal and state AFDC funds went directly for cash assistance, with a small amount directed to child care and work activities.

In contrast, the TANF block grant gave states a fixed amount of federal dollars each year, based on historic levels of state AFDC spending as of the mid 1990s, and it required states to maintain a state contribution based on a percentage of their historic AFDC state contribution level (the "maintenance-of-effort" requirement). Subject to some federal mandates such as time limits and work requirements, the 1996 welfare law that created TANF also gave states sweeping flexibility to set eligibility for cash assistance, design work programs, and decide how to spend federal and state TANF dollars.

Due largely to this block grant approach, states now use only about *one-quarter* of their TANF funds for cash assistance. In 2015, for every 100 poor families with children, just 23 families received TANF cash assistance. That's down from the 68 families with children that received cash assistance for every 100 in poverty in 1996, the last year of AFDC. This sharp erosion in TANF cash aid, in turn, has contributed to a rise in deep poverty among families with children.[1]

TANF is the only example of a key safety-net entitlement program that policymakers have converted to a block grant, and its lessons provide important guidance. They provide a cautionary tale about the dangers of block-granting programs that help families and individuals meet basic needs.

- As with most other block grants, TANF funding has lost much of its value over time, with its funding falling by more than a third since it was created, after adjusting for inflation.
- Many states have used their flexibility over TANF funds to ease state budget shortfalls and fund other priorities of state politicians, shifting funds away from helping poor families meet basic needs or prepare for work. Only half of TANF funding now goes for TANF's basic purposes of cash assistance for poor families, work or employment preparation programs, or child care assistance so parents can work.
- State TANF programs failed badly in responding to increased need during the Great Recession, reflecting the lack of quick and automatic response that occurs automatically through entitlement programs.
- TANF has no federal eligibility floor or core benefits that a state must provide, leading over time to a race to the bottom among states.

1. Like other block grants, TANF has lost much of its value over time.

Each state's federal TANF funding has remained frozen since 1996 and has lost more than one-third of its value due to inflation. It is typical for block grants to lose value over time. History shows that when social programs are merged into (or created as) broad block grants, federal funding typically contracts — often sharply — in subsequent years and decades, with the reductions growing over time.[2]

State spending, as well, has fallen significantly under TANF. A state must only spend 80 percent of its historic annual spending level under AFDC to meet TANF's maintenance-of-effort (MOE) requirement. Thus, from the outset of TANF, states could spend 20 percent less than they had

[1] Arloc Sherman and Danilo Trisi, "Safety Net for Poorest Weakened After Welfare Law But Regained Strength in Great Recession, at Least Temporarily," Center on Budget and Policy Priorities, May 11, 2015, http://www.cbpp.org/research/poverty-and-inequality/safety-net-for-poorest-weakened-after-welfare-law-but-regained.

[2] David Reich, *et al.,* "Block-Granting Low-Income Programs Leads to Large Funding Declines Over Time, History Shows," Center on Budget and Policy Priorities, February 22, 2017, http://www.cbpp.org/research/federal-budget/block-granting-low-income-programs-leads-to-large-funding-declines-over-time.

spent on AFDC and related programs. And, because the MOE requirement also has no inflation adjustment, this reduced amount has declined further in value over the past two decades, also contracting by more than one-third. When these two declines are combined, the current state contribution requirement represents just *half* of the value of what states spent before TANF.

Moreover, as explained below, states have also diverted half of these already reduced federal and state TANF dollars to many other areas, leaving even less support for core welfare-reform purposes of basic assistance, work-related activities and supports, and child care for low-income families.

2. TANF's formula allocating block grant amounts to states was inequitable from the start and has become even more so over time.

TANF's allocation of federal funds, based on state spending levels under the old AFDC program, has provided an inequitable distribution of federal dollars per poor child from the outset, and the inequity has grown larger over time. Overall, states received an average of $1,099 in federal TANF block grant funds per poor child in their state for 2015. But this amount varies widely by state. States at the bottom end of the spectrum receive about $300 per poor child, while states at the top end get more than $2,500 per poor child. For example, Nevada received $310 in federal TANF funds per poor child for 2015 while New York received $2,651.

Nationally, since TANF's inception, the amount of federal TANF funding per poor child has declined by 36 percent after adjusting for inflation. But this funding drop, too, varies significantly across states as they experienced demographic shifts and population changes that led to varying increases or decreases in their number of poor children. While the number of poor children in the United States rose 6.3 percent between 1997 and 2015, individual states saw bigger swings. For example, the number of poor children in Nevada nearly doubled during this time, while the number of poor children in North Dakota dropped 26 percent.

As TANF's block grant allocations to states have remained fixed, states whose number of poor children has risen are receiving even less in federal block grant funds on a per-poor-child basis than they did at TANF's start. For example, from 1997 to 2015, the per-poor-child value of Nevada's TANF block grant amount has dropped by 65 percent after adjusting for inflation. In contrast, the per-poor-child value of North Dakota's TANF block grant dropped 9 percent.

Given the fixed total block grant amount, any adjustments to make the state allocations more equitable — either at the outset or in response to changes over time — would have resulted in rearranging the winners and losers from prior federal funding amounts. Unsurprisingly, there has not been political will to make these adjustments.

3. States used their spending flexibility under TANF to ease budget shortfalls and fund other state priorities, shifting funds away from helping poor families meet basic needs or prepare for work.

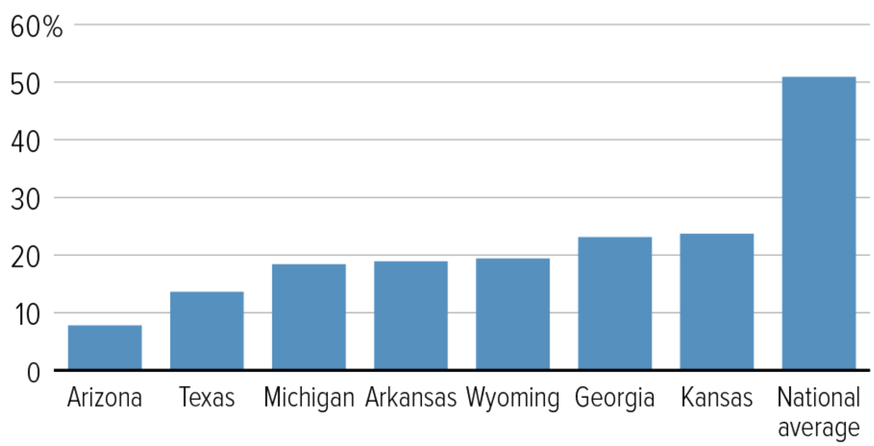
A key argument for TANF's block grant design was that states needed much greater flexibility over the use of funds than AFDC's funding structure provided. Under a block grant, proponents argued, states could shift the funds freed up when families left welfare for work to child care or other work supports. States also could invest more in work programs to reflect the increased emphasis on welfare being temporary and work-focused. But experience has not borne out those expectations.

The bulk of the funds that states have withdrawn from the cash assistance safety net has *not* gone to programs that connect families to work or to support low-income working families. States spent *only 10 percent* of their combined federal and state TANF funds on work-related activities or supports in 2015, and only another 17 percent on child care. Only about half the overall funds spent in 2015 went to the core welfare reform areas of basic assistance, child care, and work-related programs or supports combined. Seven states spent one-quarter or less of their funds on these core areas combined.[3] (See Figure 1.)

FIGURE 1

Seven States Spent Less Than One-Quarter of TANF Funds in Core Welfare Reform Areas

Share of total TANF spending in 2015 for selected states



TANF = Temporary Assistance for Needy Families; Core welfare reform activities = Spending on basic assistance, work-related activities, supportive services, and child care

Source: Department of Health and Human Services TANF financial data 2015

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

States used the diverted funds to fill budget holes, fund services for families above the poverty level (sometimes far above), bolster child welfare systems, and support early education and higher education, among other things. In some cases, they used the funds to expand programs; in others, they substituted federal TANF funds for *existing* state funds, which enabled them to shift the freed-up state funds to other uses, such as tax cuts and filling state budget gaps. In some states, politicians essentially viewed TANF as a slush fund for pet projects.

As states shifted substantial amounts intended to help poor families to other uses, they left many of the most disadvantaged families without much of a safety net — *and* without the employment

[3] Liz Schott and Ife Floyd, "How States Use Funds Under the TANF Block Grant," Center on Budget and Policy Priorities, January 5, 2017, http://www.cbpp.org/research/family-income-support/how-states-use-funds-under-the-tanf-block-grant.

resources that might help them gain a foothold in the labor market. In addition, when the tough economy of the Great Recession left more families in need of help, states generally did not bring back the funds that had been diverted elsewhere to help families meet basic needs or obtain work.

4. State TANF programs failed to respond to increased need during the Great Recession.

The need for government assistance rises and falls with the economy. By their design, entitlement programs for low-income households respond to this need, with federal funding automatically expanding during economic downturns and contracting as the economy improves. But under a block grant with fixed funding that doesn't rise and fall with need, states bear the financial burden of responding when the economy slows, at the same time that their budgets are hit hard by the weakened economy. Many states did not shoulder that burden for their TANF programs during the Great Recession. Instead, they restricted eligibility policies to reduce the number of people eligible for assistance even as need was increasing, often denying assistance to some of the families with the greatest needs.

While the number of unemployed doubled in the Great Recession, net TANF caseloads rose only modestly (by 16 percent nationally) and, in some states, actually fell as the state made policy changes reducing access to assistance. Moreover, the only reason that overall TANF caseloads increased even modestly was that the 2009 Recovery Act included additional one-time TANF funding to help reimburse states whose caseloads rose. Otherwise, TANF's block grant design would have forced states to absorb all of the costs from any caseload increases. (The Recovery Act provisions were needed because the TANF Contingency Fund, created as part of the original TANF law, proved ineffective in responding to increased need; it is both inadequately funded and poorly targeted.)

The small rise in the TANF caseload during the Great Recession fell far short of the change in need. In contrast, SNAP provided the automatic counter-cyclical response that a safety-net program should, and the number of SNAP recipients grew commensurate with need during the recession.

The Recovery Act's one-time TANF funding supplement ended in October 2010. Facing ongoing fiscal pressures, many states then imposed TANF cuts such as reducing benefits and tightening time limits even as unemployment, poverty, and need remained elevated.[4]

5. TANF has no federal eligibility floor or core benefits that a state must provide.

Under AFDC, federal law and rules set basic eligibility requirements for cash aid and gave states an array of choices, most notably in setting benefit levels. But TANF has no federal eligibility policies whatsoever. While the TANF block grant includes some conditions and prohibitions for states, there is no federal floor and no requirement that states provide any sort of cash safety net for needy families with children.

---

[4] Liz Schott and LaDonna Pavetti, "Many States Cutting TANF Benefits Harshly Despite High Unemployment and Unprecedented Need," Center on Budget and Policy Priorities, updated October 3, 2011, http://www.cbpp.org/research/many-states-cutting-tanf-benefits-harshly-despite-high-unemployment-and-unprecedented-need?fa=view&id=3498.

The result has been something of a race to the bottom, with harsh policies in many states that cut families off or keep them from getting aid in the first place, while doing little to connect them to work. For example, while the federal TANF law sets a five-year time limit on federal TANF assistance, Arizona recently adopted a *12-month lifetime* limit, and many other states impose a lifetime limit of 24 months. Various states have also adopted punitive sanctions for people who do not comply with required work activities, often even in cases where maternal depression or other such problems affect a mother's ability to comply. Such sanctions can eliminate benefits for the entire family and impose mandatory lock-out periods, so that participating in work activities and coming back into compliance can become nearly impossible for families. Some states even apply permanent, lifetime disqualifications to the entire family, including children. Many states also have imposed application barriers that limit families' ability to start receiving benefits even when a family may be in crisis.

While these policies are often cloaked in rhetoric of supporting work, they do nothing to help a family prepare for or connect to work, and the number of families with neither cash welfare assistance nor work has increased dramatically under TANF. With virtually unfettered ability to restrict eligibility, no federally protected minimum standards, and flexibility to use TANF funding elsewhere in their budgets, states have strong incentives not to serve families, either with cash aid or with assistance to help them find and hold jobs.

6. TANF highlights how giving states too much flexibility through block grants can undercut accountability.

A block grant with sweeping flexibility and broad purposes has substantially less accountability for the use of its federal funds than do other federal-state funding arrangements. TANF is no exception.

States are not held accountable for helping recipients to find jobs even though connecting parents to employment was a key goal and the paramount rationale for creating the block grant. The federal government doesn't even track this information: states are not required to report the employment, earnings, and other outcomes of families that have left cash aid. Instead, TANF's Work Participation Rate — the limited work-related accountability metric that does exist in TANF — measures only the percentage of families receiving TANF cash assistance benefits that participate in certain work-related activities. As noted, however, only one-quarter of TANF funds nationally (and less in many states), are spent on TANF cash assistance, and families that receive such aid make up only a fraction of poor families with children.

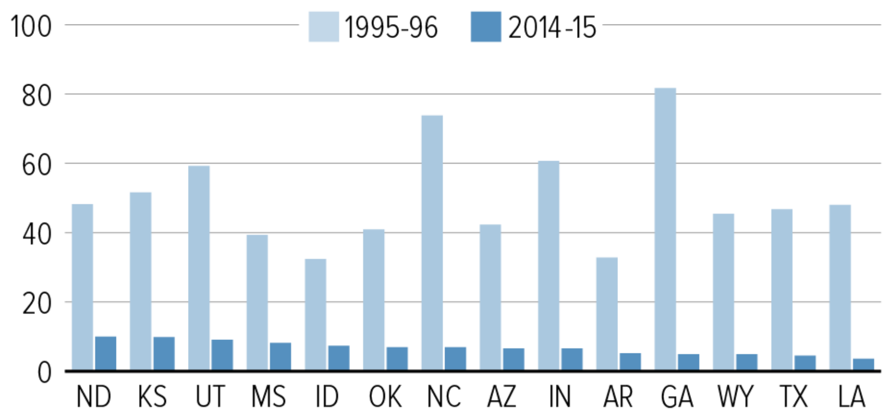
This is an extremely limited (and poorly designed) accountability measure. States are not held accountable for ensuring that families in need have access to some type of assistance to meet basic needs, which could include providing a job or work placement.

This lack of accountability, combined with TANF's block grant structure, actually gives states incentives to serve as *few* poor families as possible. (The fewer families that receive cash assistance, the easier it is for a state to meet the Work Participation Rate requirement.) In a growing number of states, the poorest families have little or no access to a cash safety net. In 2015, in 14 states, *ten* or fewer of every 100 poor families with children received any cash assistance. (See Figure 2.)

FIGURE 2

TANF Serves Hardly Any Poor Families in Some States

In 14 states in 2014-15, TANF provided cash assistance to ten or fewer of every 100 poor families with children



TANF = Temporary Assistance for Needy Families

Note: Poor families with children received benefits under Aid to Families with Dependent Children (AFDC) in 1995-96, before TANF replaced AFDC under the 1996 welfare law.

Source: CBPP analysis of poverty data from the Current Population Survey and TANF caseload data from Department of Health and Human Services and (since September 2006) caseload data collected by CBPP from state agencies.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

The TANF experience highlights the difficulty of holding states accountable for accomplishing goals under a block grant, when the very flexibility that the block grant seeks to provide is in conflict with tracking and measuring whether the congressional goals are being accomplished.