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Changes in TANF Work Requirements Could Make Them More Effective in Promoting Employment

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The complexity and rigidity of the work requirements in the Temporary Assistance for Needy Families (TANF) program can force states to design their TANF programs in ways that compromise, rather than promote, the goal of connecting parents to work. State TANF programs are built around an expectation of work, and many states have argued that they could operate more effective work programs if they had more flexibility. Congress has several options it could take to provide states with more flexibility while strengthening the work provisions and making them more effective.

The U.S. Department of Health and Human Services' (HHS) announcement last summer that it would consider state requests for waivers to test alternative ways "to improve employment outcomes for needy families" arose from widespread state dissatisfaction with the work performance measure that states must meet, known as the work participation rate (WPR). HHS had received requests from several governors of both parties for greater flexibility than the work rate afforded them in designing work programs. Waivers offer one strategy for encouraging states to operate more effective work programs and to add to our knowledge about the most effective strategies, but other approaches could be considered. For example, states could be given greater flexibility through carefully designed changes in the law when TANF is extended or reauthorized. The Child Welfare Demonstration projects created as a part of the Child and Family Services Improvement and Innovation Act (P.L. 112-34) could serve as a model. Another strategy could give states the option to be held accountable for *outcomes* — whether TANF recipients find and keep jobs — rather than for *process* (whether recipients participate in certain work activities). Finally, explicit changes could be made to the work requirements to allow states to place recipients in the activities that have the greatest chance of helping them to become self-sufficient.

The Government Accountability Office (GAO) has described the current work participation rate as providing only a partial picture of state TANF programs' effort and success in engaging recipients in work activities.¹ In fact, one of the biggest limitations of the work rate is that states don't need to move TANF recipients into actual paid employment to meet the rate. TANF is likely the only employment program in which getting participants into paid employment is *not* a key measure of success.

¹ U.S. Government Accountability Office, Temporary Assistance for Needy Families: Implications of Legislative and Economic Changes for State Programs and Work Participation Rates, May 2010.

Moreover, monitoring TANF recipients' work participation is burdensome and costly for states. States are required to track and document *every hour* of every recipient's participation. This means that states devote significant staff time to tracking hours rather than providing direct service to individuals that could improve their prospects for securing employment or make them more job-ready.

Also, since the work participation rate is a primary measure by which states' TANF programs are judged, states have designed their programs to maximize their success in meeting the work rate, often at the expense of actually helping individuals with significant employment barriers overcome those barriers and find jobs. Yet these are individuals who have the most to gain from more extensive employment assistance.

As described below, policymakers can improve the work requirements by such steps as:

- giving states the option to be held accountable for employment *outcomes* instead of the work participation rate;
- simplifying the work requirements and reducing paperwork burdens and administrative costs;
- focusing states' incentives on improving actual employment placements;
- redefining work requirements to better support engagement of recipients in activities that will prepare them for work; and
- requiring greater financial investments in work activities.

Background on the TANF Work Participation Rate

The 1996 welfare law established the TANF block grant and requirements that states must meet, including rules related to work requirements, time limits, child support, and immigrants' eligibility. Under the work provisions of the law, states must require recipients to engage in work, impose sanctions (by reducing or terminating benefits) if an individual refuses to participate in required work activities, and achieve a work participation rate measured in accordance with detailed provisions of the law.

States are required to meet a specified work rate each year for families receiving assistance funded with either federal TANF funds or state "maintenance-of-effort" (MOE) funds. Generally, to count toward the work rate, a "work-eligible individual" in a family receiving benefits must participate in one or more of a set of federally listed activities for at least a specified number of hours every week. There are two work rates: one for all recipient families with a work-eligible individual and one for two-parent families. A state that fails to meet one or both rates can be subject to a fiscal penalty.

The state must achieve work rates of 50 percent for all families and 90 percent for two-parent families. These targets can be adjusted downward if the state receives a "caseload reduction credit," which is based on the extent to which the state's caseload has fallen since 2005 for reasons other than changes in eligibility rules.

Who Is Considered When Calculating the Work Rate?

TANF rules define a work-eligible individual as an adult (or minor head-of-household) receiving assistance or a parent living with a child receiving assistance even if the parent is not. The rules exclude some parents who are not receiving TANF assistance from this definition: disabled recipients receiving cash payments from Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI), ineligible immigrant parents, and a parent providing care for a disabled family member that requires the parent to remain in the home.

In addition, states have the option to exclude the following families from the work rate calculation:

- parents in single-parent families that contain a child under age 1 (a parent can be disregarded in the work-rate calculation for only 12 months over her lifetime, regardless of whether she has additional children);
- families receiving assistance under a tribal family assistance plan or work program; and
- families under sanction for failure to meet work requirements (states can disregard these families for no more than three months in a 12-month period).

A state may apply additional exemptions from state work requirements, but anyone exempted under such state policies is *included* in the federal work-rate calculation for the state.

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

Generally, an individual must participate in a federally listed work activity for an average of at least 30 hours a week to count as meeting the work rate (20 hours for a single-parent family with a child under age 6). Higher hours are required for two-parent families: 35 hours a week for families not receiving federally funded child care and 55 hours a week for families receiving federally funded child care. (The hours for two-parent families are for the family as a whole and can be divided between the two parents.)

If an individual's average weekly hours of participation in a given month do not reach the minimum requirements, the state gets no partial credit.

What Activities Count as Participation?

The 1996 law sets forth 12 categories of work activities that can count toward the work rates; federal rules issued in 2008 provide additional detail about what can count in each category. Nine of these 12 categories are "core," meaning that they can count toward any hours of work participation for an individual. Participation in the three "non-core" categories generally counts only after the individual has completed 20 hours per week of core activities (more for two-parent families). Additional limits apply to certain activities; see Table 1.

A state may allow a family to participate in activities that do not count toward the work rates and may spend state or federal TANF funds to support activities that do not count toward the rates.

Table 1

Activities That Count Toward the TANF Work Participation Rate Calculation

Activity	Core*	Limitations or special rules
Unsubsidized employment	Y	
Subsidized private sector employment	Y	
Subsidized public sector employment	Y	
Work experience	Y	
On-the-job training	Y	
Job search and job readiness assistance	Y	Limited to 4 consecutive weeks and 6 weeks total in a year (increased to 12 weeks when a state meets the definition of “needy state”.)**
Community service programs	Y	
Vocational educational training	Y	Can only count for up to 12 months. Participants count toward the 30 percent cap on education activities.
Providing child care services to an individual who is participating in a community service program	Y	
Job skills training directly related to employment	N	
Education directly related to employment	N, except for teen parents	This activity can count as a core activity only for any recipient under age 20 participating at least 20 hours per week, subject to the 30 percent cap on education activities.
Satisfactory attendance at secondary school or in a course of study leading to a GED	N, except for teen parents	This activity counts as a core activity for any recipient under age 20, subject to the 30 percent cap on education activities.

*Non-core activities only count after the first 20 hours per week of participation in core activities is met (for single-parent families). For two-parent families, non-core hours only count after the first 30 hours per week of participation in core hours is met, and this threshold increases to 50 hours per week if the two-parent family receives federally-funded child care.

** A state is considered a “needy state” if it has high SNAP caseloads compared to a historical standard or an unemployment rate that is high and has recently increased.

However, a state's decisions about when and whether to do so are likely to be affected by the state's need to meet the work rates. Thus, as a practical matter, restrictions on what can *count* very often turn into restrictions on what states allow a recipient to *do*.

For example, many states limit an individual's participation in vocational education as a stand-alone activity to 12 months — even though many certificate vocational programs for jobs may require 18 or 24 months — because of a federal rule barring vocational education from counting toward the work participation rate for more than 12 months. Moreover, participation in basic education cannot count as a stand-alone activity except for teen parents. The work rate requirements thus can heavily constrain a state's ability to use training and education, even where the evidence shows stronger employment outcomes for those who complete such programs.

Limitations on participation in job search/job readiness also can interfere with a state's development of the most effective plan to address barriers to employment that some families face. Many of the activities that some recipients need in order to become “work ready” — such as mental health counseling or participation in substance abuse treatment — count only under the category of job search/job readiness, and participation in that category can count for only four consecutive weeks and for only six (or 12) weeks out of a year.² Thus, a state that assigned an individual to complete a four-month, full-time substance abuse program would get credit for only a portion of the participation. In addition, since that individual would use up all of her countable weeks of job search/job readiness in that program, the state would not be able to count any of her job search efforts once she successfully completed the program.

States are required to document and verify every hour of participation they count toward the work participation rate. They also must separately track each category of activities even if the participant is engaged in an integrated program of activities, such as work plus school plus job readiness.

In addition, states must establish a “work verification plan” setting forth the procedures they will use to verify hours of participation; states face a fiscal penalty for not having or following verification procedures. States must include documentation of participation — generally signed, written documentation of hours of work or attendance — in an individual's case file. Hours of paid employment can be based on a pay stub and projected for six months, but states must document all other activities in writing every month.

What Is the Caseload Reduction Credit?

As noted, a state can reduce its target work participation rates (50 percent for all families and 90 percent for two-parent families) with a “caseload reduction credit” based on the number of percentage points by which the size of the state's caseload has fallen since 2005 for reasons other than changes in eligibility rules. (For example, a state cannot get credit for a caseload decline that results from eligibility policy changes that result in case closures.) Thus, a state can help achieve its work rate by shrinking its caseload, as well as — or instead of — engaging more families in work activities.

² The annual limit is 12 weeks rather than six if a state is considered a “needy state” (as measured by high SNAP caseloads or an unemployment rate that is high and has recently increased).

HHS calculates a state's caseload reduction credit for each year by comparing the average monthly number of families receiving assistance funded by federal TANF or state MOE funds of the prior fiscal year with the state's average monthly caseload for 2005. For example, if a state's 2011 average monthly caseload is 10 percent less than its 2005 average monthly caseload, the state would receive 10 percentage points of caseload reduction credit toward its work participation rate for 2012, lowering the rate it must meet for all families from 50 percent to 40 percent. As part of this process, states must make adjustments to the prior year's caseload to account for changes in the caseload that are due to eligibility changes instituted since 2005.³

What Happens if a State Does Not Meet the Work Rate?

A state that does not meet the work participation rate for a year faces a penalty of up to 5 percent of the state's TANF block grant. The penalty amount grows by two percentage points each year for subsequent failures, up to a maximum of 21 percent of a state's block grant funding. States that are penalized must spend additional state funds to make up the amount of the federal penalty; any state that fails to do so is subject to an *additional* fiscal penalty and loses even more of its TANF block grant funds.

A state's penalty can be reduced in some circumstances to reflect the extent to which it fell short in meeting the work participation rate — for example, if a state fails only the two-parent work rate, the penalty amount is prorated to reflect the share of the state's caseload that consists of two-parent families. Federal law also provides relief from penalties based on reasonable cause or extraordinary circumstances, which are narrowly defined in federal rules. Finally, HHS does not impose a penalty against a state if the state corrects the violation — that is, if it meets the work participation rate (WPR) within the period covered by an HHS-approved corrective action plan.

Limitations of the Work Rate

State officials and analysts broadly concur that the rigid, highly prescriptive TANF work requirements often force states to design their TANF work programs and activities in ways that compromise, rather than promote, the goal of connecting parents to work.

- **The work rules fail to take into account the diverse and complex needs of the TANF caseload.** The TANF caseload and the labor market are both substantially different than when TANF was created in 1996; they also vary significantly from state to state. Many TANF recipients lack the skills needed to compete in today's labor market and some face significant mental and physical health issues that further limit their employment prospects. The narrowly defined TANF work requirements are poorly suited to address these challenges. States get credit only for placing recipients in a limited set of activities for a prescribed number of hours each week, and limits apply to the amount of time that states can count toward certain activities and to the share of recipients that can count as participating in certain activities.

³ TANF federal rules also allow states to identify a portion of the assistance caseload that is attributable to a state exceeding its required maintenance-of-effort spending requirement, referred to as "excess MOE." Under the rules, a state can count the number of families served with "excess MOE" as caseload reduction, as part of the caseload reduction credit adjustment process.

- **The work rules do not recognize much of the work-related activity that occurs in TANF.** States get credit toward their work rates for only about *half* of the TANF recipients who are actually engaged in work activities, according to a recent HHS report to Congress.⁴ In other words, as many individuals are engaged in work related activities that do not count toward meeting a state’s work rate as are counted. There are various reasons why; for example, an individual may have exceeded the time limit for an activity or may be participating full-time in a non-core activity such as a GED program.
- **States don’t need to get TANF recipients into paid employment to meet their work participation rate requirement, and it may not help them to do so.** The work rates apply only to *recipients* of assistance provided with state or federal TANF funds, so a state cannot count as participating individuals who have successfully left TANF for employment. Similarly, a state that places recipients into subsidized jobs that eliminate their need for a TANF grant can’t count them toward its work rates, even if the wages are paid for with TANF funds. While the state can get caseload reduction credit for families that are no longer receiving assistance due to exits for work, they can get just as much caseload reduction credit for families that have been excluded or cut-off without having any work. Because states are not required to show that the caseload reduction is a result of recipients leaving for employment, there is no direct link between the credit and a state’s success in getting recipients employed. *TANF is likely the only employment program in which getting participants into paid employment is not a key measure of success.*
- **Monitoring work participation is burdensome and costly for states.** States are required to track and document *every hour* of participation. This means that states devote significant staff time to tracking hours rather than providing direct service in helping individuals secure employment or become more job-ready.
- **The structure of the work rate discourages states from serving the people who most need help to secure and retain jobs.** Since the TANF work rate is the primary measure by which states’ TANF programs are judged, states have designed their programs to maximize their success in meeting the work rate, often at the expense of actually helping the most vulnerable families find employment.

For example, some states have imposed stringent upfront work requirements that screen out recipients with significant employment barriers — the very individuals who have the most to gain from employment assistance. (The people screened out then receive neither employment assistance nor cash assistance.) Most states also quickly sanction and remove from TANF those families whose participation falls short of the expectations set forth in their work plan, even though research shows that many of these families are more likely to experience mental health issues and other conditions that require alternative employment approaches. Finally, the caseload reduction credit encourages states to keep their caseloads below the 2005 level, when

⁴ The Claims Resolution Act of 2010 (Public Law 111-291) that extended the Temporary Assistance for Needy Families (TANF) block grant through the end of fiscal year (FY) 2011 included two new reporting requirements for states: (1) work participation for families that were not meeting the TANF program’s requirements to count toward State work participation rates; and (2) TANF spending in two broad categories known as “other non-assistance” and “authorized solely under prior law.” The Act required the Secretary to submit a Report to Congress on the information submitted by States. The report on State reports for April-June 2011 can be found at http://www.acf.hhs.gov/programs/ofa/data-reports/cra/2011/june2011/cra-june2011.html#_Toc298161521.

caseloads had already had declined substantially and the labor market was much stronger — and poverty lower — than it is today.

Ways to Strengthen the TANF Work Provisions

There are a range of options from which policymakers can choose to bring TANF's focus to *work*, not just work *rates* (or as one state has put it, to move “from participation that counts to engagement that matters”). These include:

- **Give states the option to be held accountable for employment *outcomes* instead of the work rate.** Some states have explicitly asked to be held accountable for employment outcomes, (i.e., jobs) rather than simply for participation in work activities. Policymakers could accomplish this in several different ways. They could empower HHS to give a limited number of states the option to propose their own outcome measure and, if HHS approves it, to be held accountable for meeting the benchmarks negotiated with HHS. Alternatively, they could empower HHS to give states the option of being held accountable to an employment outcome measure that is defined in law or by HHS. The measure could build on what we have learned about performance measures in the Workforce Investment Act or could mirror the employment measures used in highly regarded employment program evaluations that analysts across the political spectrum rely upon.
- **Simplify the work requirements and reduce paperwork burdens.** Part of the tremendous amount of staff time that states spend tracking what activities can count toward the work rate and how many weeks or months of participation individuals have already used — as well as verifying every hour of participation in each activity — could better be spent focused on improving actual employment outcomes. Simplification efforts could include: (1) streamlining countable activities by easing complex limits on when certain activities can count, including limits on job search/job readiness and the distinction between core and non-core activities; and (2) allowing participation in more education activities to count based on documentation of enrollment and satisfactory progress.
- **Focus states' incentives on improving actual employment placements.** Under the current work rate and caseload reduction credit, a state gets no more recognition for preparing and placing a recipient in employment than it does for simply excluding a family from its caseload and giving it no employment help at all. States should receive credit for successful employment outcomes, not for failing to serve needy families and children. Possible steps include: (1) eliminating the caseload reduction credit or limiting how many percentage points of credit a state can use to reduce its work rate; (2) providing an employment credit in lieu of the caseload reduction credit; or (3) allowing a state to count persons who have left TANF for employment toward the work rate for a period of time.
- **Redesign the work measures to support engagement of all recipients in activities that will prepare them for work.** A work measure that recognizes state efforts to address the full range of work-preparation needs of the TANF caseload would give states credit for a broader array of activities and for various levels of engagement. Within the context of the current work requirements, changes that would further this goal include: (1) allowing a wider range of

activities, including those addressing serious barriers to employment, to count (separate from the job search/job readiness category, which has severe restrictions); (2) lifting certain limits on when particular activities, like vocational education or job search, can count; and (3) allowing partial credit for recipients who are engaged in activities for less than the required 20 or 30 hours per week.

- **Require greater investments in work activities.** The surest way to strengthen TANF as a work program is to require states to spend a specified share of their TANF resources on activities designed to prepare recipients for work. In addition, states that do not meet applicable performance measures should be required to invest additional funds in work-related activities. The current penalty structure *withdraws* federal funds from state TANF programs, further shrinking state resources to meet families' employment needs. Rather than pay a fiscal penalty, a state that fails to meet performance measures should be required to increase the share of its state and federal TANF spending that goes to work-related activities for families receiving assistance.