
CHAPTER III: Income Supplements for Working Families

Introduction

Over the past two decades, there has been growing recognition among researchers and policymakers that more needs 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 only very modest help to low-income working families.

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

- **Research has shown that income supplements are an effective work incentive 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, MDRC president Gordon Berlin concluded that “earnings supplement policies increase the range of options that policymakers have to encourage work and combat poverty.

Indeed, they are the only policies to consistently have had positive effects on both work and income.”¹³¹

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- Gordon Berlin,
President, MDRC

- **Increasing assistance to working families can help a state meet the DRA’s tougher work participation rates.** This is because working families that receive TANF- or MOE-funded assistance count toward the work participation 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 benefits that are not "assistance" to TANF applicants.** These could include one-time lump sum payments provided instead of ongoing cash assistance; these payments are generally equal to three or four months of cash assistance and are provided to families in which the parent has recently lost her job but is likely to become employed again quickly. Up-front programs also can provide an initial period of "non-assistance" support to a broader group of families applying for TANF to allow time for assessment, work preparation activities and employment planning before the family is approved for ongoing TANF or MOE assistance receipt. (Up-front programs are also discussed in Chapter II, see page 32.)
- **Providing bonuses to parents who leave welfare for work and remain employed.** Some states now provide bonuses to families that are working to provide an incentive for them to remain employed.
- **Providing TANF- or MOE-funded refundable EITCs to low-income working families.** State EITCs can provide important income supplements to a broad range of low-income working families, including those transitioning from welfare to work and those that have not recently received TANF.
- **Directing child support to TANF recipients rather than reimbursing the state and federal governments for the cost of these families’ assistance.** 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. Such options also can help states meet their work participation targets and other welfare reform goals.

¹³¹ 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>.

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 federal 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.

Ongoing Monthly Income Supplements for Low-Income Working Families

A 2005 evaluation by MDRC of four income supplement programs in the United States and Canada found that all four 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 with neither recent work experience nor a high school diploma.¹³²

States can provide monthly income supplements through their regular TANF cash assistance program (by improving the earned income and child support disregards)¹³³ or in a separate program designed solely for working families.

Providing Assistance Through Stand-Alone “Worker Supplement” Programs

States may want to provide income supplements to working families in a program that is separate from the state’s basic TANF cash assistance program. (Such a stand-alone program will be referred to below as a “worker supplement” program.) For example, Arkansas’ Work Pays program provides income assistance to families that leave TANF and are working at least 24 hours each week. Work Pays has simpler benefit rules than TANF — all families receive a flat \$204 monthly grant — and serves only working families.

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. If a state adopts a more generous earned income disregard, benefits are reduced more slowly as a family’s earnings rise.

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

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

If the family has no other income and the maximum benefit for a family of this size is \$500, it would be eligible for TANF benefits equal to \$300, the difference between the maximum grant and the family’s countable earnings.

¹³² Ibid.

¹³³ Some states use a budgeting methodology rather than an earnings disregard policy to allow TANF recipients to keep more of their income. 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.

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. Regardless of which of these funding sources is used, recipients would count toward the state's work rates. There are significant advantages in using MOE funds for such a program, however: recipients would not accrue months toward their federal time limit on welfare receipt, and the state would not send a share of the child support collected on behalf of recipients to the federal government.

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 work rates and creates inequities between working families with identical incomes on the basis of their prior TANF receipt.
- **What level of assistance will be provided?** Larger benefits cost more but give families more help and provide a stronger work incentive.
- **Will the supplement be a flat amount or vary according to family characteristics?** 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 to families that have lower incomes and thus greater need; benefits could phase down slowly as incomes rise (rather than ending abruptly as they would if the benefit were a flat amount). 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 families in the program for six months at a time.¹³⁴ This six-month period would coincide with the period over which states can project, for work rate purposes, the number of hours the recipient will work per week based on current employment information.

- **In what form will the assistance be provided?** The assistance could take the form of cash or non-cash benefits designed to meet basic needs. Cash is the most versatile form of aid, but some states are considering providing assistance in the form of state nutrition assistance, using the Food Stamp Program's electronic benefit transfer system. Under federal food stamp rules, state-funded nutrition assistance provided in a form that can be used only to purchase food does not count as income when determining eligibility for federal food stamp benefits and thus

¹³⁴ Under the Food Stamp Program's simplified reporting option, families do not have to report changes in their income except at set six-month intervals, unless their income goes above the program's limit (130 percent of the poverty line).

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. 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.

Virginia has recently implemented a transitional cash benefit to employed families leaving TANF who are working 30 hours a week. A number of other states are also considering providing assistance to working families through a separate program.

does not reduce a family's food stamp benefit. Moreover, since working families generally receive far less in food stamp benefits than they spend on food, they can put the additional state-funded nutrition assistance to good use.

- **Will the program be funded with federal TANF funds, state MOE funds, or both?** If a state wants participants to count toward the federal work rates but does not want federal time limit and child support requirements to apply to them, 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, federal law does not require that families assign their child support rights to the state and the state does not remit a portion of child support collected to the federal government.
- **How can families be shifted seamlessly into the new program?** One challenge of a stand-alone worker supplement program is ensuring that eligible families that want to participate are actually enrolled. New Jersey's worker supplement program, which has provided \$100 per month to TANF recipients for a number of years,¹³⁵ has suffered from low participation,

¹³⁵ New Jersey structured its supplement as "non-assistance" (by defining the \$100 benefit as an offset to work expenses) so that TANF time limits and child support requirements would not apply. Under the DRA's new work 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 rate.

apparently due in part to the absence of a simple and seamless enrollment system.¹³⁶ 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 can choose between the TANF program and the worker supplement program and there are disadvantages (such as lower benefits) for participants in the worker supplement program.

- **How will child support collections be treated?** Under federal law, child support payments collected on behalf of families that are not receiving assistance in a TANF-funded program must be distributed to the family; the state may not retain these payments and does not owe the federal government a share of them. (States do owe the federal government a share of the child support collected on behalf of families receiving assistance in a TANF-funded program.) States are free to count all, some, or none of the child support a family receives as income when determining eligibility and benefits for a worker supplement program. A state can make more families eligible for the program — and add more working families to the state’s work rate — by disregarding most or all of this child support. Such a policy also would provide an incentive to non-custodial parents to work and pay child support, because that support would benefit their children.¹³⁷

Providing Assistance Within TANF Through Expanded Earned Income Disregards

Nearly all states have increased their TANF 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 when their earnings are still well below the poverty line.¹³⁸ (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 families that get jobs to remain eligible for supplemental TANF assistance (and thus “countable” in the state’s work rate) for a longer period of time.

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 rates. (For a more detailed discussion of child support options, see page 84.)

¹³⁶ Another likely reason for the low take-up rate is that families receiving the worker allowance are ineligible for certain housing assistance benefits that are provided to TANF participants. Some families that would receive a higher cash grant through the worker allowance program choose to remain in TANF in order to secure needed housing aid.

¹³⁷ There has been considerable confusion about the child support distribution requirements applicable to families participating in state-funded programs. The plain language of the federal child support statute is clear that child support collected on behalf of families that are not receiving assistance in a TANF-funded program must be distributed to the family. HHS held initial discussions with state administrators about whether states could withhold child support collected from families receiving state-funded benefits, but HHS has not issued any formal guidance to that effect, and most analysts believe that doing so would be a clear violation of federal law.

¹³⁸ 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 2005.

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.¹³⁹ 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 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 rates. 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 participation rates.

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.¹⁴⁰ Some states have already made changes to their disregard policies since the DRA's enactment; for example, Alabama now disregards 100 percent of earned income for six months, instead of three.

- **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 smaller (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 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 TANF applicants and recipients. Extending a more generous disregard to applicants than they currently receive would enable more working families to receive assistance and thus count toward the state's work rates.

¹³⁹ Michalopoulos.

¹⁴⁰ Walters, Falk, and Burke.

- **Should a larger disregard (or bonus) be provided to families in which a parent works the federally required number of hours?** Such a policy 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. This approach, though, would mean that families that cannot secure enough hours of employment would receive lower benefits than if benefits were not based in part on the number of hours worked.

Moreover, states should be careful 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 — to line up with the period over which the state can project a recipient's weekly number of hours of work for work participation rate purposes — without creating a complicated and burdensome process.¹⁴¹

- **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, just as it can undermine the goals of a worker supplement program. 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 federal time limit, it should finance these benefits with MOE funds instead of TANF funds.¹⁴² 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.¹⁴³

Comparing the Worker Supplement and Earned Income Disregard 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

¹⁴¹ Under the interim final regulations, states can project the number of hours an employed recipient is working for up to six months based on current information about hours worked. For more details, see pages 15-16.

¹⁴² For a discussion of when time limit and child support rules apply to TANF- and MOE-funded assistance, see pages 21-23.

¹⁴³ 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.

re-programming and staff training. On the other hand, it 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 may require more extensive computer programming and staff training. Moreover, care will have to be taken to ensure that families can 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 (a fact that may be important to some policymakers), states may have less trouble adopting simple rules for working families in a worker supplement program than in their basic TANF program, and — if the worker supplement program is funded with MOE and not TANF funds — the state will not have to send a portion of collected child support to the federal government. The combination of earnings, child support income, and the worker supplement benefit will enable many working families to sustain employment.

Under either the worker supplement program or earnings disregard approach, states should consider funding the benefits with MOE funds so that time limit rules do not apply.

Note that under either approach, the number of families receiving TANF- and MOE- funded assistance will increase. This may make these strategies less attractive to states that are expecting to achieve significant caseload reduction credits. However, federal TANF regulations allow states to offset the effect of policy changes that increase the TANF caseload with policy changes that *decrease* the caseload when calculating the caseload reduction credit.¹⁴⁴ If HHS decides to consider the creation of a solely state-funded program a “policy change” that reduces the caseload, a state can use this program to offset the caseload increases that result from expanding assistance to working families. Thus, a state that is eager to secure a caseload reduction credit but wants to expand assistance to working families may want to consider creating a separate, solely state-funded program for families that could be served more appropriately outside the federal TANF rules.

Suppose, for example, that a state has a TANF caseload of 18,000 families, its caseload is 2,000 families smaller than its 2005 caseload, and the state is considering establishing a worker support program that would help 2,000 families per month. If the state makes no other policy changes, its “caseload” for caseload reduction purposes will equal 20,000 (the 18,000 families in the basic TANF caseload plus the 2,000 families in the new worker support program) and the state will not get any caseload reduction credit, despite reducing the number of families in its basic TANF program by 2,000 families. If, however, the state also creates a solely state-funded program that assists 1,500 families formerly assisted through TANF, the 1,500-family drop in the TANF caseload will offset most of the 2,000 families assisted through the worker support program. The resulting caseload used in the caseload reduction credit calculation will be 18,500, and the state will receive a caseload reduction credit.

¹⁴⁴ 45 C.F.R. §261.41.

Front-End Programs Can Help Families Find Employment and Get Linked to Work Supports

As discussed in Chapter 2 (see page 32) some states are considering “front-end” programs that provide non-assistance benefits — including lump sum cash benefits¹⁴⁵ — to applicant families for a short period of time *before* they become ongoing TANF recipients. Families with recent work experience may benefit more from a one-time, sizable lump sum payment than from smaller, ongoing benefit payments. 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, in some cases, obviate the need for the family to become TANF recipients at all. For families without recent work experience, the front-end program gives both the family and the state time to conduct screenings and assessments, secure child care arrangements, and develop an employment plan without the pressure of immediately meeting the federally mandated work requirements.

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 rate calculation — will increase the state’s work rates.

Some states have made limited use of lump sum benefit options over the last 10 years. These programs — sometimes known as lump sum diversion programs¹⁴⁶ — typically provided one-time lump sum cash payments in lieu of ongoing TANF cash assistance to families with job-ready adults who were likely to find jobs quickly. The payment was typically equivalent to several months of TANF benefits, though some states tied the size of the payment to particular short-term bills faced by the family, such as car repairs. Families that received this payment typically were ineligible for ongoing TANF assistance for a period of time. (In some cases, families that became eligible for ongoing TANF assistance during the period of ineligibility are permitted to receive assistance if they repaid the lump-sum benefit.)

Prior to the DRA’s enactment, more than half of the states included some type of lump sum aid program as part of their TANF initiatives. An HHS-funded study of lump sum programs created after 1996 noted that “[w]elfare agencies that 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

¹⁴⁵ Because short-term (less than four months) benefits are not considered “assistance” under federal TANF regulations, TANF time limit and child support requirements do not apply to lump-sum payments, and recipients of these payments are not counted toward the state’s work rates.

¹⁴⁶ 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. Some states 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 before the state will approve the family’s application. Other states push caseworkers to discourage applicants from pursuing TANF and to instead pursue other benefits, such as food stamps. These forms of diversion can restrict TANF access for families that have serious barriers to employment or are in a short-term crisis.

sizeable benefit through reduced caseloads.”¹⁴⁷ However, relatively few TANF applicants received these payments in lieu of ongoing TANF assistance. One study notes that in some states with lump sum policies (Maryland, Wisconsin, and Virginia), the number of families receiving a lump sum benefit was less than 5 percent of the size of the state’s TANF caseload.¹⁴⁸

These prior programs differed in key respects from the front-end programs many states are now considering. The prior programs were limited to families that were very likely to find employment quickly; moreover, families that accepted lump sum benefits were ineligible for ongoing TANF benefits for a specified period of time. By contrast, some states are now considering programs that would include a far broader group of families.

If designed well, a front end program can provide an opportunity for thoughtful employment planning and identification of barriers to employment. But if designed poorly, such a program can create obstructions 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?** A state might place all TANF applicants in the 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 through 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?** 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 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 from the state’s work rate calculation can either finance the front-end 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.

Front-End Programs Can Serve as a Bridge to Programs That Assist Working Families

An important design consideration for front-end programs is what happens at the end of the program. As noted, under the old lump sum diversion programs, families were typically ineligible for TANF assistance for specified periods. But under the newer version of front-end programs, families still in need at the end of the front-end period would generally shift to ongoing TANF cash assistance or to a stand-alone worker supplement program, if applicable.

States should consider combining a front-end program 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

¹⁴⁷ 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>.

¹⁴⁸ Ibid.

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 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 would help states meet the work requirement in two ways: by reducing the number of non-working families that count toward the work participation rates while increasing the number of working families that count toward the work participation rates.

It is important that the transition from a front-end program to TANF or a worker supplement program should be seamless so the front-end program does not become a barrier to accessing needed assistance.¹⁴⁹ States also should ensure that families that find a job during the front-end 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.)¹⁵⁰

Bonus or Incentive Payments to Encourage Families to Remain Employed

Some states provide lump-sum or periodic incentive/bonus payments to help families that have left TANF for work to remain employed. (States also can provide bonuses to employed TANF recipients for the same purpose.) This approach is similar in some ways to the lump-sum programs discussed above.

Under this “back-end” bonus approach, when a family finds a job and leaves TANF,¹⁵¹ 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 rate. For states that *want* to include these families in their work rate calculation, the payments can be designed as “assistance” by combining them with ongoing income supplements. For example, instead of simply providing job retention bonuses after

¹⁴⁹ Up-front lump-sum payments will not ordinarily affect applicants' eligibility for food stamps. Food stamp regulations exclude from income calculations any funds received in the form of non-recurring lump-sum payments. (7 C.F.R. §273.9(c)(8)) Non-recurring lump-sum payments can count as *resources*, but 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, since all states have options to disregard this benefit as income and a resource. 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>.

¹⁵⁰ For further discussion of considerations in designing up-front programs, see Liz Schott “Up-Front Programs for TANF Applicants,” Center on Budget and Policy Priorities, January 16, 2007, <http://www.cbpp.org/1-16-07tanf.pdf>.

¹⁵¹ A state also could provide back-end bonus payments to families that receive up-front lump-sum benefits and subsequently find employment.

a family's third and sixth months of employment, the state could provide more modest assistance to the family on a monthly basis and then provide larger payments in the third and sixth months as a bonus for retaining employment.

Several states have adopted bonus payment programs. For example:

- Ohio's Employment Retention Incentive (ERI) program provides 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, have left TANF (even if their TANF case was closed for a reason unrelated to their earnings), and 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. While the program is very recent (it began in July 2006), there is some concern that its take-up rates may be low, in part because families must apply for the bonus payments after leaving TANF.
- 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 greater benefits later in the year in order to encourage the family to remain employed.

State EITCs Can Supplement the Income of Working Families

Over the past decade, a number of states have adopted state EITCs.¹⁵² Currently, 16 states (including the District of Columbia) have a refundable state EITC; an additional four states have non-refundable credits. These credits are typically based on the federal EITC and provide families that are eligible for the federal EITC with a state credit equal to some percentage of their federal credit.

A state EITC can provide an important income supplement and work incentive both for low-income working families and for TANF recipients moving from welfare to work. There is strong evidence that the federal EITC has played a major role in increasing employment rates among low-skilled workers — particularly single mothers and individuals receiving cash assistance.¹⁵³ One

¹⁵² Ifie Okwuje and Nicholas Johnson, "A Rising Number of State Earned Income Tax Credits are Helping Working Families Escape Poverty," Center on Budget and Policy Priorities, October 2006, <http://www.cbpp.org/10-12-06sfp.htm>.

¹⁵³ R. Blank, D. Card, and P. Robins, "Financial Incentives for Increasing Work and Income Among Low-Income Families," NBER Working Paper #6998, National Bureau of Economic Research, 1999; and N. Eissa and J. Liebman, "Labor Supply Response to the Earned Income Tax Credit," NBER Working Paper #5158, National Bureau of Economic Research, 1995.

analysis found that the federal EITC accounted for 63 percent of the annual increase in the employment rate among single mothers from 1984 to 1996, and 34 percent of the increase from 1992 to 1996.¹⁵⁴ Other research found that the EITC accounted for about 13 percent of the rise in employment among single-mother welfare leavers in California between 1987 and 2000.¹⁵⁵ (Because state EITCs are smaller than the federal EITC, presumably they would have a correspondingly smaller impact.)

Moreover, since EITCs are administered through the tax system, recipients do not have to go to a human services office to apply. While there remain families that are eligible for the federal EITC who do not claim it, the participation rate in the federal EITC is higher than low-income working families' participation rates in many other means-tested programs.

At the same time, it is important to note that most families receive both federal and state EITC benefits once a year when they file their tax returns. (There is an advance payment option, but very few workers use it.) Thus, the credit does not provide an immediate wage subsidy to families transitioning from welfare to work.

Some states, including New York,¹⁵⁶ have used TANF or MOE funds to finance a portion of their EITC.¹⁵⁷ Most states have not, however; state EITCs tend to be expensive relative to a state's TANF block grant because they serve a broad group of families. A state EITC is not considered "assistance" under the TANF rules, so families that receive a TANF- or MOE-funded state EITC are not considered assistance recipients and are not considered in the state's work rate.

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

Background

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 low-income families do not receive the child support that is collected on their behalf.

¹⁵⁴ B. Meyer and D. Rosenbaum, "Welfare, the Earned Income Tax Credit and the Labor Supply of Single Mothers," NBER Working Paper #7363. National Bureau of Economic Research, 2001. For the impact of EITC expansions on employment, see J. Grogger, "The Effects of Time Limits and Other Policy Changes on Welfare Use, Work and Income Among Female-Headed Families," *The Review of Economics and Statistics*, Volume 85, No. 2: 394-408 (2003).

¹⁵⁵ J. Hotz, C. Mullin, and J. Scholz, "The Earned Income Tax Credit and Labor Market Participation of Families on Welfare," JCPR Working Paper #214, Joint Center for Poverty Research, Northwestern University/University of Chicago, 2005.

¹⁵⁶ New York State FY 2005 TANF/MOE Report, <http://www.acf.hhs.gov/programs/ofa/MOE-05/newyork.htm>.

¹⁵⁷ HHS has stated in a TANF Program Instruction (TANF-ACF-PI-01-01, January 17, 2001) that TANF and MOE funds can be used for the refundable portion of a state EITC. See <http://www.acf.hhs.gov/programs/ofa/taxcrdt.htm>. See also 45 CFR 260.30 and 260.33.

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.¹⁵⁸

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 that 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.

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.

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 in the DRA of new state options and incentives to direct more child support to current and former TANF recipients.¹⁵⁹ 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;
- 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;¹⁶⁰ and

¹⁵⁸ In 2005, the federal government's share of the retained collections was \$1.13 billion, while the states' share was \$911 million, before the deduction of amounts passed through to TANF families. (Support passed through to families is paid from the state share and is not included in the data reported to HHS.) HHS Office of Child Support Enforcement, Preliminary Report FY 2005, Table 1, http://www.acf.hhs.gov/programs/cse/pubs/2006/reports/preliminary_report/.

¹⁵⁹ For more details on the changes made by the DRA to the child support rules at 42 USC 657, see Paul Legler and Vicki Turetsky, "More Child Support Dollars to Kids: Using New State Flexibility in Child Support Pass-Through and Distribution Rules to Benefit Government and Families," Policy Studies, Inc. and Center for Law and Social Policy, July 2006, http://www.clasp.org/publications/more_cs_dollars_policy_brief_v10.pdf; and Vicki Turetsky, "Child Support Assignment and Distribution Provisions in the Deficit Reduction Act," CLASP, August 2006, <http://www.clasp.org/publications/dradistributionslides080206.pdf>.

¹⁶⁰ The DRA does not change the child support options available to states with respect to families receiving assistance in an MOE-funded or solely state-funded program. States are required to pay collected support to families participating in a state-funded program but may adopt any disregard rule they wish with respect to the child support income those families receive. However, as discussed in the text, states currently must withhold some of the past-due child support for those families that previously received TANF assistance, but the DRA gives states the option of directing this portion of past-due support to the families.

- direct child support collected on behalf of former TANF recipients through the federal 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 family 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 and programs.

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 the families with incomes below the poverty line receive child support; for those poor families that receive it, child support represents a third of the family’s income. Also, half of the families with incomes between 100 percent and 200 percent of the federal poverty line receive child support.¹⁶¹

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.¹⁶² Also, a number of studies have demonstrated the benefits of dependable child support payments, even if those payments are modest. 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.¹⁶³

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. A Wisconsin program that passed through all child support to TANF families and fully disregarded that child support when determining families’ TANF benefit amounts achieved impressive results: not only did the fathers establish paternity faster, pay more child support, and work less in the underground economy, but TANF receipt declined among the custodial parents and their children. Moreover, the program 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.¹⁶⁴

¹⁶¹ Elaine Sorensen, “Child Support Gains Some Ground,” Urban Institute, 2003.

¹⁶² 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>.

¹⁶³ Carl Formoso, “Beneficial Impacts of Child Support Services on Custodial Family Self-Sufficiency,” Washington Department of Social and Health Services, 2004.

¹⁶⁴ 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.

When Can States Retain Child Support Payments?

The federal child support distribution statute limits 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 state-funded programs, whether those programs receive MOE funds or not.
- 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.^a

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

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.¹⁶⁵ In fact, researchers failed to find similar positive effects for a Minnesota policy that passed through child support but did *not* disregard it when determining TANF benefits.¹⁶⁶

The DRA's Child Support Provisions

Under the pre-DRA law, which will be in effect until FY 2009, families that apply for assistance in a TANF-funded program are required to sign over to the state their rights to child support that becomes due during the assistance period, as well as their rights to any past-due child support owed to them at the time they apply for TANF assistance. The state retains the support it collects as reimbursement for the cost of providing cash assistance to families in a TANF-funded program, sharing the proceeds with the federal government.

Even after families stop receiving assistance, states keep the child support that is collected through the federal income tax intercept mechanism to repay the costs of past assistance provided in a TANF-funded program. (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.)

¹⁶⁵ 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>.

¹⁶⁶ 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.

More than half (56 percent) of the child support retained by states is collected on behalf of families who no longer receive TANF assistance, and nearly all of this is collected through the federal tax intercept mechanism.¹⁶⁷

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

- **Limiting child support 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.
- **Waiving the federal share of child support collected on behalf of TANF recipients.** While under the pre-DRA rules, states could pass through the child support they collected to families receiving assistance in a TANF-funded program and disregard that assistance when determining a family's TANF benefits, states that did so were still required to send the federal government its share of the collections.¹⁶⁸ Under the DRA, in contrast, the federal government will waive its share of the collections if a state passes through and disregards some or all child support payments, up to \$100 per month passed through for one child and \$200 per month for two or more children. This provision is effective October 1, 2008.
- **A new option to distribute more child support to former TANF families.** Under the pre-DRA rules, states were required to retain child support collected on behalf of former TANF recipients through the federal tax intercept mechanism. Under the DRA, states are permitted to direct all child support collected through this mechanism to those families; if a state elects this option, the federal government will waive its share of those collections, with no limits. This option could significantly increase the amount of child support provided to former TANF recipients, since about one-quarter of all arrears collected on behalf of former TANF recipients are retained because of the federal tax intercept requirement. The option is effective October 1, 2008.

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 enable more families to combine work, child support, and assistance receipt — and help the state meet its federal work rates at the same time. Disregarding child support enables a family that also receives child support to increase its earnings without becoming ineligible for assistance. Thus, an expanded child support disregard functions in much the same way as an earnings disregard.

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

¹⁶⁷ HHS Office of Child Support Enforcement, Preliminary Report FY 2005, Table 1, http://www.acf.hhs.gov/programs/cse/pubs/2006/reports/preliminary_report/.

¹⁶⁸ 42 U.S.C. 657(a)(1)(A).

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 on behalf of TANF recipients and disregards up to \$100 per child when determining the recipients' TANF benefit level. 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, and the state TANF agency will reduce her TANF benefits by \$50 (her \$250 in child support minus \$100 for each of her children).

Under federal law, child support that is *not* passed through and disregarded must be split between the federal and state governments according to the state's FMAP rate.¹⁶⁹ 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. The cost of passing through and disregarding child support is lowest for states with high FAMP rates.

Example

Suppose Ms. Smith lives in a state with a 65-percent FMAP rate. If the state does not pass through and disregard her \$250 in child support, it must send \$162.50 (65 percent of \$250) to the federal government; the state keeps the remaining \$87.50. If the state passes through and disregards \$200 of the collected support, however, it sends only \$32.50 (65 percent of \$50) to the federal government.¹⁷⁰

Finally, states can claim MOE credit for their share of the child support they pass through and disregard to recipients in TANF-funded programs. There is no dollar limit on the amount of child support for which a state can claim MOE credit..

Example

If the state in the example above passes through and disregards \$200 in child support collections for Ms. Smith, it can claim \$70 (35 percent of \$200) toward its MOE requirement.¹⁷¹

¹⁶⁹ In addition, the state must pay the federal government its share of any support passed through to families that exceeds the \$100 and \$200 limits on the amount of support qualifying for a waiver of the federal share.

¹⁷⁰ Even if the state passed through and disregarded all child support — rather than capping the amount at \$100 per child — it would still have to send the federal government its share of the amount over \$200 (\$32.50).

¹⁷¹ If the state passed through and disregard *all* child support collections, it could claim \$120 toward its MOE requirement — \$70 (the state share of the first \$200) plus the full \$50 in support in excess of the \$200 federal limitation.

Policy Design Issues

States considering expanding the 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 give non-custodial parents a greater incentive to establish paternity and pay child support. They also enable more working families to remain eligible for assistance, which in turn helps 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 (\$25) and will count toward the state's work rate. If the state passes through \$200 in child support but disregards only \$100 of it, the family will be ineligible for TANF assistance and will not count toward the state's work rate.

States that elect to pass through and disregard some, but not all, child support collections must decide whether to set the disregard amount as a fixed dollar value (for example, \$100), as a percentage of the child support, or vary it based on the number of children covered by the support. States must also decide 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 family 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 HHS Office of the Inspector General 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).¹⁷² The

¹⁷² HHS Office of Inspector General, "Distributing Collected Child Support to Families Exiting TANF," OEI-05-01-00220, October 2001.

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 TANF assistance, even if the support is not fully disregarded.

A full family distribution policy also can greatly simplify the state's child support distribution rules. Under the existing system, state rules for the distribution of child support vary depending on whether the family receives TANF-funded or MOE-funded assistance and on whether the family had a previous connection to TANF. A full family distribution approach 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.¹⁷³

- **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. One approach would be retrospective budgeting, whereby a state bases the benefits it provides to the family on the child support collected in a recent prior month. (Ideally, the state would have electronic access to information on the child support collected in the prior month.¹⁷⁴)

States also could minimize frequent modifications of the grant amount through 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. Households are permitted, however, to report changes that would qualify them for larger 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 while also ensuring that families have access to increased aid if their income declines during the six-month period.

Whatever approach a state takes, the agency providing TANF (and other income assistance benefits) should be given electronic access to information about child support collections so that families are not required to make frequent reports on their child support amounts.

Disregarding Child Support for Families Receiving State-Funded Assistance

States that assist families in MOE-funded programs (such as worker supplement programs) or programs outside the TANF structure (such as solely state-funded programs) are required to distribute collected child support to the families.¹⁷⁵ States can, however, set their own child support *disregard* policies in these programs.

¹⁷³ Legler and Turetsky, 2006.

¹⁷⁴ Venohr *et al.*

¹⁷⁵ Families participating in separate state programs are considered “former” or “never” TANF families (depending on their history of TANF receipt) under the IV-D distribution statute (42 USC 657). If the family is a former TANF

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. 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 distribution policy (meaning that all collected support is paid to both current and former TANF recipients) 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.

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

Under the pre-DRA rules, states must retain all past-due child support collected on behalf of former TANF families through the federal tax intercept mechanism and send a share to the federal government. Under the DRA, states may elect to distribute past-due child support to families when it is collected through a federal tax intercept, in which case the state is not required to send the federal government its share of those collections. States can therefore treat tax intercept collections like all other collections for former TANF recipients, removing a complicated feature of the current rules.

This option allows states to increase the child support income of former TANF recipients, supplementing their income and helping them avoid further TANF receipt. It also allows states to reduce inequities between working families that have a history of TANF assistance and those that do not. (The latter group has always received all child support collected through the federal tax intercept mechanism.) Adopting the option builds on other TANF-related strategies that help families avoid the need to enter the TANF caseload.¹⁷⁶

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

recipient, under the pre-DRA law, 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.

¹⁷⁶ States may be able to claim the cost of adopting the child support tax intercept option toward the TANF MOE requirement. The DRA does not specifically authorize states to claim MOE credit for these costs. However, a DRA provision allows MOE funds to be used to meet the third and fourth purposes of the TANF statute — reducing out-of-wedlock births and encouraging the maintenance of two-parent families — and since research shows that child support enforcement efforts help accomplish both of these purposes, these funds may be countable toward the MOE requirement. In addition, states may want to consider tracking and claiming MOE credit for state spending on expanded distribution to families meeting the state’s definition of a “needy family” (for example, families eligible for child care or other need-based benefits).

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. Up-front programs could provide non-recurring lump sum benefits to families that are likely to find jobs quickly or could serve families in the initial months of aid as they prepare for participation in work activities before they are included in the TANF/MOE assistance caseload, and work participation rate calculation. Back-end bonuses can provide an incentive for parents to stay employed 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 applicants who cannot meet the hourly participation requirements for several months may want to explore an up-front program approach, while a state that wants to address low job retention rates may want to focus on back-end bonuses. States should keep these factors in mind when designing new policies.