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## EXECUTIVE SUMMARY

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In the coming months, states will face key choices as they decide the next direction for their Temporary Assistance for Needy Families (TANF) programs. After a lengthy and contentious reauthorization process, Congress enacted changes to TANF in the Deficit Reduction Act of 2005 (DRA) that substantially increase the proportion of assistance recipients who must participate in work activities for a specified number of hours each week. In June 2006, the Department of Health and Human Services (HHS) issued new regulations that implement these changes and significantly limit states' flexibility in assigning recipients to work activities. The new requirements will be challenging for most states to meet and likely will require increased investments in welfare-to-work programs and work supports.

Under the DRA, 50 percent of all adults in a state that are receiving TANF assistance — and 90 percent of two-parent households receiving assistance — must participate in a set of work activities defined in the law. These percentages are lower for states that reduce their TANF caseloads below 2005 levels, but since caseloads are already at historic lows, few states are likely to reach this target quickly unless they choose to restrict poor families' access to assistance. TANF already assists fewer than half of the families with children who qualify, in part because of policies in many states that made it difficult for some very poor families to get both income assistance and the help finding a job that should go with it.

Thus, the DRA, coupled with the new regulations, gives states a stark choice: focus solely on meeting the work rates, even if that means making their programs less accessible or less effective at helping needy families and helping families move to work, or increase work participation rates in ways that improve families' employment outcomes, even if that path is the more expensive one to take. States choosing the latter option will need to explore strategies that improve the quality of their welfare-to-work programs, increase engagement in those programs, and extend supports to low-income working families. States also should consider whether some families would be better served in solely state-funded programs outside the TANF structure — that is, in programs that receive neither federal TANF nor state maintenance-of-effort (MOE) funds.

Research and states' experience over the last decade have exposed the strengths and weaknesses of current TANF programs and the changes needed to improve families' outcomes. Specifically:

- **Over the past decade, many TANF recipients found employment and left the program.** Indeed, employment rates of single mothers increased significantly during the mid- and late 1990s. However, employment rates for this group fell during the recession of the early 2000s and the prolonged period of labor market weakness that followed.
- **Most parents who left TANF for work had low earnings and were unable to increase their wages or earnings significantly over time.** This fact points to the need for new ways to help parents find better jobs and advancement opportunities, as well as the need for new strategies to provide supports to low-income working families.
- **Many families that have been unable to secure stable employment face serious barriers.** These range from mental and physical health problems and low cognitive functioning to domestic violence, substance abuse, and unstable housing. If these families are to engage consistently in welfare-to-work activities and ultimately move toward employment, more creative and intensive approaches tailored to meet their challenges will be needed.

This guidebook, intended for state policymakers, human service agency staff, policy analysts, and others, discusses strategies that can help states as they consider their policy options for this next phase of welfare reform. The best policy choices in any particular state will depend on a number of factors, including the state's goals, the labor market, the characteristics of poor families in the state, the state's fiscal situation (both generally and within the state's TANF-related programs), and the capacity of service providers in the state. Thus, the guidebook includes a broad range of strategies to consider.

Its five chapters are summarized briefly below:

## **CHAPTER I: Changes to TANF Requirements under the Deficit Reduction Act and Interim Final Regulations**

This chapter details the new work requirements under the DRA, including how the work participation rates are calculated and what activities count toward them, the hourly participation requirements, how the revised caseload reduction credit is calculated, the penalties states face if they fail to meet the work rates, and HHS's new regulations concerning the work requirements. The chapter also reviews the rules that determine when time limit, child support, and immigrant-eligibility requirements apply to assistance and other benefits provided in TANF programs and programs supported with MOE funds.

## CHAPTER II: Improving Welfare-to-Work Programs and Increasing Engagement

This chapter reviews the research on welfare-to-work activities and engagement strategies and discusses program design options in light of the DRA and the new TANF regulations.

To increase work participation rates significantly (without restricting access to assistance), states will have to engage more recipients in welfare-to-work activities. For this increased engagement to lead to improved employment outcomes, however, the activities must be tailored to meet individual recipients' interests, skills, and barriers and respond to the needs of employers. Thus, states must consider how to improve their welfare-to-work activities *and* individuals' participation in those activities.

- **Research has shown that the most successful welfare-to-work programs adopt a “mixed strategy” rather than a narrow “work-first” approach.** A mixed strategy focuses on work but also offers opportunities for skill-building, recognizing that some recipients need to address barriers to employment before they can succeed in the labor market. Under the DRA and regulations, many skill-building activities are countable toward federal work rates, though important restrictions apply and states' ability to count barrier removal activities toward the work rates is severely limited.

As states consider how to expand their welfare-to-work programs, it makes sense to make wider use of components that have been shown to help families secure jobs that are better than the low-paying, unstable jobs many recipients could obtain (but not retain) on their own. This, in turn, can improve families' well-being and reduce their reliance on public benefits, including the likelihood that they will return to welfare. Thus, states should consider improvements to their job search and job readiness programs to make them better able to connect recipients to jobs that match their skills, provide adequate wages and benefits, and offer opportunities for advancement. Also proven effective at helping recipients find better jobs are transitional jobs programs and targeted education and training programs that help recipients attain needed skills and credentials for jobs available in the local labor market.

- **States need to improve their screening and assessment procedures to better identify families with barriers to employment.** Serious barriers to employment often go undetected by TANF and welfare-to-work caseworkers. Families facing these problems often fail to participate consistently in program activities or fail to make progress toward employment; many ultimately face program sanctions. States need to do more to uncover these problems and help families address them. For example, states can conduct up-front screenings, use poor program participation as a clue that further assessments may be warranted, draw on the expertise of agencies with experience in assessing disabilities, provide intensive case management to recipients who are struggling, and encourage caseworkers to devise flexible employment plans tailored to families' unique circumstances.

## CHAPTER III: Income Supplements for Working Families

Since the early 1990s, many states 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 so that families' TANF benefits are reduced more slowly as their earnings rise. Despite these changes, families still typically must have earnings well below the poverty line to qualify for assistance through TANF- and MOE-funded programs.

Research has shown that providing income supplements to low-income working families increases employment rates and earnings, and that the combination of increased earnings and assistance reduces poverty. Expanding income supplements for working families also can help states meet the higher work participation rates under the DRA, since low-income working families that receive TANF- or MOE-funded assistance count toward a state's work rates. That makes expanding income supplements a "win-win" for families and states.

States can provide income supplements in a number of ways:

- **Expanding assistance within the state's basic TANF program for families that are working.** States can change the benefit rules in their basic TANF program so that working recipients remain eligible for assistance until their earnings reach higher levels.
- **Assisting low-income working families in a stand-alone program using TANF or MOE funds.** Such a program, separate from the state's basic TANF cash assistance program, can be tailored to the needs of working families. It could feature simpler rules and fewer paperwork requirements than are typical in basic TANF assistance programs so that it is more accessible to families juggling work and family responsibilities.
- **Providing short-term, up-front "non-assistance" benefits to families in which a parent is likely to find employment quickly.** Such policies can help families who would have been eligible for TANF to weather a temporary period of joblessness and enable some families to avoid ongoing aid entirely. When well-designed, these policies can also serve as a bridge to programs designed to help low-income working families.
- **Providing bonuses to parents who leave TANF for work and remain employed, or supporting working families with a state earned income tax credit.**

To complement these strategies, states can take advantage of new child support distribution options to direct more child support collections to families.

This chapter discusses these policy options and related program design issues.

## CHAPTER IV: Making TANF Work for Individuals with Disabilities

This chapter discusses the laws related to the treatment of individuals with disabilities within TANF-related programs. It then outlines ways to improve the effectiveness of employment-related services for families that include individuals with disabilities.

Research consistently shows that a significant share of TANF recipients has disabilities. If states are to reach their welfare-to-work goals, they will need to do a better job of serving these individuals.

Under the Americans with Disabilities Act and Section 504 of the Rehabilitation Act of 1973, state TANF programs must be appropriate for individuals with disabilities and must give them the same level of help that other individuals receive. States can provide more effective services for individuals with disabilities while increasing their work participation rates by, among other things:

- **Improving screening and assessments of persons with disabilities.**
- **Developing work activities tailored to the needs of individuals with certain types of disabilities.** For some individuals, such as those with chronic health problems, untreated (or unsuccessfully treated) mental health problems, learning disabilities, or substance abuse problems, activities that help recipients address these issues may be necessary before they can participate in standard work activities. Vocational rehabilitation training and supportive work placements may be needed for some recipients, such as those with developmental disabilities.
- **Partnering with state and county agencies that specialize in helping individuals with disabilities.** While developing effective employment programs for individuals with disabilities has not been a primary focus of many state TANF programs, other government agencies and non-profits have been working on this issue for many years. These organizations can provide employment services for TANF recipients with disabilities or advise TANF agencies about how best to do so.
- **Serving some individuals with disabilities *outside* TANF if the services they need do not count toward the federal work rates.** The new federal regulations adopted narrow definitions of the activities that can count toward the work rates. In general, activities such as mental health treatment and substance abuse treatment can count only under the category of “job search and job readiness” activities, which have severe durational limitations. Thus, to serve some recipients with disabilities and other barriers to employment appropriately, states may need to assist them through a non-MOE state funded program (sometimes referred to as a “solely state-funded” program).

States also should consider similar specialized programs and activities for individuals with other severe barriers to employment that do not meet the definition of a disability, such as problems related to domestic violence or unstable housing.

## **CHAPTER V: Examining TANF Spending Priorities**

This chapter provides an overview of how TANF and MOE funds are used nationally and discusses issues states need to consider as they consider the DRA’s fiscal implications.

Strengthening welfare-to-work programs and extending supports to low-income working families will require additional resources. Since most states no longer have significant unspent TANF funds from prior years, they will need to reexamine both their level of TANF and MOE spending and their current spending priorities. More precisely, they will need to:

- Look for state funds that can be used to assist some families outside the TANF structure.
- Look for ways to provide the increased child care funding that will be needed to meet the work requirements *without* reducing child care funding for low-income working families (which would contradict states' welfare reform goals).
- Consider how they will meet the higher level of state spending that is required if they fail to meet the work participation rates, and how penalties for failing to meet the work rates may affect their TANF budget.
- Examine the potential impact on their TANF program of the DRA's cuts in funding for child support enforcement.