

**Looking Ahead to Reauthorization of TANF: Some
Preliminary Thoughts**

**Presentation to Bi-Partisan Welfare Reform Seminar
for Senior Congressional and Administration Staff**

by: Mark Greenberg

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Center for Law and Social Policy
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1. Disclaimer: In ten minutes, not possible or useful to reference every issue likely to come up in reauthorization. So, the fact that I don't mention something doesn't mean that I don't think it's important or don't think it will be an issue.
2. Two broad underlying themes in my comments.
 - a. The dramatic changes over the last three years are transforming the issues facing states and they've also transforming the nature of TANF. TANF has always had a hybrid quality, because it is often thought of as the cash assistance program, but it is also a block grant. As the cash assistance caseload continues to fall, it becomes increasingly important to think about the provisions of TANF both as cash assistance and as a block grant.
 - b. Signaling is very important. I think the 1996 law has been tremendously successful in conveying to states the Congressional goals of reducing caseloads and of requiring and promoting work. The challenge for Congress in 2002 is to articulate what you want states to do after that. In particular, if you want states to devote block grant resources to improving the economic well-being of low wage working families, you need to more clearly communicate that; and if you want states to actively work with those families with the most serious barriers to employment, you need to more clearly communicate that.
3. To begin, I'll briefly highlight what has most changed. Most of this is very familiar to most people here, and I'm just presenting it in very summary form.
 - a. First, the **caseload is down** 43% since the law was enacted, 50% since its peak in 1994. Child poverty has also fallen, but the caseload has fallen much more rapidly than has child poverty. And as a result, most poor children are no longer receiving TANF assistance. In 1994, the number of children receiving AFDC represented 64% of poor children; by 1998, the number of children receiving TANF represented 47% of poor children.
 - b. Second, there's been an **increase in employment**. About 23% of parents receiving TANF assistance are employed, and probably about 60% of the families that have left TANF are working, with a higher share that have worked at some point since leaving TANF.
 - c. Third, the employment is typically at **wages above minimum wage but below the poverty line**. There is some growth in earnings over time but a year after leaving, annualized earnings are still below poverty. At the same time, according to Urban Institute research, the wages of mothers leaving TANF are actually higher than the wages of

mothers in other low-income families.

- d. Fourth, there are **drops in Food Stamp and Medicaid utilization after families leave TANF, and most of the working leavers aren't receiving child care subsidies**. And while these levels may seem low, they are higher than the levels for working families that haven't recently left TANF.
 - e. Fifth, **the families still receiving TANF generally face more severe barriers to employment than the families that have left**. They have less education and less work history. And, there seems to be broad consensus among states that the families that are still in the system are more likely to face issues such as extreme literacy deficits, health and mental problems, substance abuse, domestic violence, no parent in the home.
 - f. Sixth, **some families have left welfare without entering employment**. Roughly about 40% of leavers aren't working. This is almost surely a story about subgroups, and there's reason to be concerned about some but not all of the subgroups. Some but probably not most are living with spouses or partners. Leavers are more likely to report illness or disability, and more likely to have weaker educations and work histories. Some have left due to sanctions or noncompliance, and sanctioned families tend to have less education and work histories and less good labor market outcomes.
 - g. Seventh, **there is evidence that poverty has deepened for the lowest quintile of female headed families**. CBPP research indicates that for bottom 20% of female-headed families, from 1993-95, earnings and income were both up; from 1995-98, earnings continued to grow but disposable income dropped, largely because of declines in receipt of means-tested benefits. This is in part a reflection of the group of families leaving welfare without work, but may also be reflecting families losing means-tested benefits after entering employment.
4. What does this mean for thinking about reauthorization?
 - a. One set of issues for 2002 involves thinking about better addressing the needs of the working poor, for help in retaining employment and making progress in the labor market, and for income support and linkages to public benefits. The working poor issues include families receiving TANF assistance, TANF leavers, and families that have never been or not recently received TANF.
 - b. One set of issues involves how to address the circumstances of families still receiving TANF assistance, many of whom face more severe barriers to employment, and about the choices and requirements states should have in addressing them.
 - c. One set of issues involves thinking about how to address the situations in which families with severe problems leave TANF without being in work – if this a concern, what are the policy options for addressing it?
 5. The other part of background involves recognizing how the caseload decline is transforming TANF in a fiscal sense. Under the TANF structure, federal funding and state maintenance of effort obligations stay essentially constant through 2002, but the choices for states change as their caseloads fall.

- a. There has been a **sharp reduction in spending on TANF cash assistance**. In 1994, the nation spent almost \$23 billion on AFDC cash assistance. In 1998, the comparable TANF figure was about \$14 billion.
 - b. **As caseload has declined, states have been able to redirect dollars outside cash assistance**, e.g., for expenditures for needy families who are not receiving or have never received TANF assistance; for expenditures to reduce out of wedlock births and to promote family formation; and in some instances, to refinance state programs. If current trends continue, it seems clear that by the time of reauthorization, most TANF and MOE spending will be for purposes and activities other than cash assistance.
 - c. **The extent of TANF flexibility did not become clear until final rules were issued in April 1999**. Until that time, there was much confusion and uncertainty regarding when it was possible to spend TANF and MOE funds outside the cash assistance program and what the consequences of such spending would be.
 - d. **The single biggest shift in expenditures has been to redirect funds to child care**. In FY 98, states spent or transferred \$2 billion for child care. In the first half of FY 99, states spent or transferred \$1.5 billion.
 - e. **It is difficult to get a clear picture of state spending from current federal reporting**. Still much we don't know about how the funds freed up from caseload decline have been spent, how much has gone into new initiatives, how much has gone to refinancing other state programs.
 - f. **Some states have been hesitant to take on major new initiatives** because they are uncertain about the fiscal impact during an economic downturn and because they are uncertain about the long-term stability of TANF as a funding stream.
6. With this as background, I'll move to talking specifically about reauthorization issues. I'm assuming the most likely scenario will involve continuing the block grant structure, but with active debates about many aspects of it. I'll briefly highlight six issues – three about TANF as block grant, three concerning TANF as the cash assistance program.
 7. When we think of TANF as a block grant, there are three overarching issues: what should the funding structure be; what should states be able to spend the money on; and how should state performance be measured.
 8. As to the **funding level and structure**, the sub-issues include:
 - i. What should the overall level of block grant authorizations be?
 - ii. Should maintenance of effort be modified?
 - iii. Should distribution formula between states be revised?
 - iv. Should contingency fund be modified?
 - b. Observations:
 - i. Setting the block grant levels depends, in part, on what Congress wants states to do with the money. If the purpose is just or principally to run a cash assistance system, then it is relevant that caseloads are half of what they used to be. However, if the vision

includes a/n expectation that states should use this money to provide basic support to needy families, to engage low income parents in the workforce, and to provide support and advancement assistance for the working poor, then it shouldn't seem excessive to continue providing states with at least the same level of federal funding that they were receiving in 1994.

- ii. If states want to receive the same level of federal funding, it is reasonable to expect them to maintain their same fiscal commitment.
- iii. There are severe inequities in the allocations between states, and it is not very rational to allocate funds in 2002 based on federal spending patterns in 1994, but unless funding levels are increased, the only way to reduce inequities would be to cut some states' grants to increase the grants of others.
- iv. A key question in 1996 concerned how the block grant structure would perform in an economic downturn. We still don't know, and may not know by 2002. That should matter in thinking about funding levels and in rethinking the rules for the contingency fund. Under current rules, the contingency fund requires 100% MOE within TANF, and provides funding on not very favorable match terms. It is doubtful that many states would ever use it unless it is significantly revamped.

9. Along with deciding the funding level, Congress also has to consider **what states should be able to use their block grants for, and what should count toward MOE**. Key sub-issues here include:

- i. The principal part of the law affecting allowable spending is the purpose language. Should it be revised?
 - ii. Some TANF spending is limited to "needy families" but there is no federal definition of needy families. Should there be one?
 - iii. Some TANF spending (to reduce out of wedlock birth and to promote formation and maintenance of two parent families) is not limited to needy families. Should it be?
 - iv. Some states benefit from a grandfather clause allowing them to continue spending that was permitted under the old Emergency Assistance Program (i.e., for foster care and juvenile justice.) Should that continue?
 - v. Should transfer provisions be modified to allow more transfers of TANF funds?
 - vi. Should there be a prohibition against using TANF to supplant state spending?
- b. **Observations:**
- i. Relatively little attention was paid in 1996 to the precise wording of the statutory purposes, but they have enormous impacts on determining when spending is allowable, and become steadily more important as the share of spending committed to cash assistance declines.

- ii. Purposes also play an important signaling role in conveying what Congress cares about, i.e., is it important for states to provide supports for working families; to address employment retention and wage advancement; to seek to improve the economic well-being of low-income children; to promote the engagement of fathers in the lives of their children?
- iii. If Congress does not want TANF funds used as a means to refinance existing state services, the law needs to be revised to say so.
- iv. Whatever are allowable uses of TANF and MOE funds, it is important to ensure that state reporting gives a clear picture of how funds are being used.

10. **How should state performance be measured?** Under the 1996 law, states face a number of potential penalties and states are eligible for bonuses for reducing out of wedlock birthrates (while reducing the number of induced pregnancy terminations) and for “high performance.” A central question here is how to measure state performance in use of a block grant and in making decisions about commitment of state MOE funds. If only a limited share of the funds are going to cash assistance, it doesn’t make sense to have all the measures of performance focus on the families in the cash assistance system. There is already a measure of declines in out of wedlock births that is not limited to the cash assistance population. There is a need to develop performance measures that ask whether states are effectively committing their block grant and MOE resources to promote workforce participation by low income parents and to enhance the economic well-being of low income families.
11. For the cash assistance component of TANF, three central questions are likely to be what to do about time limits, what to do about participation rates, and what to do about sanction and denial/termination policies.
12. **Should federal time limit rules be modified?** The 1996 law generally imposes a 60-month limit on use of federal TANF funds for assistance to families, allowing states to make exceptions for up to 20% of their TANF cases, and providing that federal time limits do not apply to state-funded assistance. Key questions here include:
- i. Should the 20% cap be revisited in light of the large caseload declines since 1996?
 - ii. Should the federal law expressly exempt or allow states an option to exempt working families from the time limit?
 - iii. Should the federal law expressly exempt or allow states an option to exempt other groups, e.g., non-parent caretakers, caretakers of disabled children?
- b. Observation: States already have substantial flexibility in time limit

design because federal time limits do not apply to state-funded assistance. But the flexibility is not well-understood, and is sometimes seen as a gimmick or loophole. If Congress wants to signal that states have this flexibility, the signal needs to be more explicit. And, even if there is broad flexibility with state funds, MOE funds represent a much smaller share of TANF-related spending in those states that had had the most favorable federal matching rates.

13. **Should participation rate rules be modified?** Different issues arise for two-parent rate and overall participation rates.
 - i. For two parent rates, many states are finding attainment of a 90% rate, even when adjusted for caseload decline, difficult or impossible to reach. States express that such a rate creates a disincentive against assisting two-parent families in the TANF program. Is there still a need for a separately-calculated two-parent rate, and if so, how should it be calculated?
 - ii. The overall rate involves a limited list of countable activities, with a listed participation rate of 50%, adjusted downward for caseload decline. Many administrators have been frustrated by the limited list of countable activities; at the same time, caseload reductions will mean that by 2002, many states will have effective rates at or near 0%, and the rates can often readily be met just by counting individuals in unsubsidized employment. Questions here include:
 1. Is there a better way to focus on desired outcomes than a participation rate?
 2. If there is still going to be a rate, where should it be set and what should be countable?
 3. Should there still be a caseload reduction credit, and if so, what base year should be used?

14. **Should there be any constraints on state authority to deny or terminate assistance?** Under current law, a state may deny assistance for any reason, subject only to the Constitution and other federal laws, e.g., civil rights, ADA. States may terminate assistance for any reason except inability to meet work requirements due to lack of needed child care. Most states make use of “full family sanctions” at some point in the penalty process, but there are no federal requirements for any safeguards before a full family sanction is imposed. One consequence of more stringent requirements and full-family sanctions is that some of those families with the most severe barriers to employment fall out of the public system altogether. Questions here include:
 - iii. Should the law establish a state obligation to accept applications for assistance and to specify reasons for denials?
 - iv. Should states be required to make efforts to determine if noncompliance is

due to literacy barriers, health or disability-related reasons before exercising full-family sanctions? Should states be expected to describe how they will make reasonable efforts to identify and address barriers to participation before terminating assistance?

b. Observation: In the current structure, when a family is failing to engage in required activities, there is no clear signal that Congress wants states to work with the family and try to engage the parent. Terminating assistance is an equally permissible result, and there is an implicit fiscal incentive to do so. If Congress wants to ensure that states actively work with those families with the greatest barriers to employment, there needs to be a clear legislative signal.

15. **Conclusion** – Important to resolve resources states should have, how they should be able to use them, how accountability is measured. Next stage of welfare reform needs to include a focus on supports for working families, efforts to engage the families with most severe barriers, efforts to build on employment successes and enhance economic well-being of families. Opportunities to revise TANF to make it better able to accomplish those goals.

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