CLASP
CENTER FOR LAW AND SOCIAL POLICY

Testimony Submitted to:

Human Resources Subcommittee

House Committee on Ways and Means

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to submit written testimony. The Center for Law and Social Policy (CLASP) is a nonprofit organization engaged in research, analysis, technical assistance, and advocacy on a range of issues affecting low-income families. Since 1996, we have closely followed implementation of the Personal Responsibility and Work Opportunity Reconciliation Act. This submission will discuss work-related provisions in Temporary Assistance for Needy Families (TANF) reauthorization, with particular attention to H.R. 240, the Personal Responsibility, Work and Family Promotion Act of 2005.

The Context for Reauthorization

H.R. 240 is very similar to bills previously approved by the House in 2002 and 2003. However, in the three years since the Subcommittee first acted in 2002, there have been significant developments affecting the context for reauthorization.

Starting in the mid-1990s, there was a historically unprecedented increase in employment among single parents. The growth began before enactment of the 1996 welfare law, but continued after that time. The employment rate for single mothers grew from 57.3 percent in 1993 to 63.5 percent in 1996, and then rose to 73 percent by 2001.[1] Many factors likely contributed to this employment growth, including the strong economy, state and federal welfare reforms, the large expansion of the Earned Income Tax Credit in 1993, increased child care spending, increases in the minimum wage in 1996 and 1997, broadening of access to health care outside of welfare, and a stronger child support enforcement system.

During this period, both the TANF assistance caseload and the nation's child poverty rate fell. Welfare caseloads fell from 5 million in 1994 to 4.4 million by the time the 1996 law was enacted, and then to 2 million by 2001. Child poverty fell from 22.7 percent in 1993 to 16.2 percent in 2000. Welfare participation fell much more than did child poverty, with the share of poor children receiving assistance falling from 62 percent in 1994 to 35 percent in 2001.[2]

Numerous studies found that most families leaving welfare (in the range of 50 to 60 percent) were working, but typically in low-wage jobs without access to benefits, such as employer-sponsored health insurance and paid vacation/sick leave.[3] The families still receiving assistance were a heterogeneous group, but generally had more serious barriers to employment (e.g., health and mental health issues, domestic violence, substance abuse, limited English proficiency, severe basic skills deficits) than those who had left assistance. And, some of the families that left welfare without finding employment were among those with the most severe barriers to employment, with weaker work histories, less education, and higher rates of disabilities.

During this early period, declining welfare caseloads freed up resources for states. States were able to use TANF funds to broaden services for working families outside the traditional welfare system. In the first years after enactment of the law, the single biggest redirection of TANF funds was to increase child care for working families. In 2000, states committed $4 billion of TANF funds to child care.[4]

Thus, there was much that was positive in the early TANF experience, but there were also areas of clear concern. There had been a dramatic growth in employment and decline in child poverty, but many of the families who had left welfare for work were still poor, and many of the families with the most significant barriers had left welfare without finding work.

During the last three years, several key indicators have become less positive. The economy entered into a recession, after which initial job growth was slow. States entered into a period of large budget deficits, placing strains on TANF funds and other state resources, and forcing cutbacks in child care and other services. The pressures resulting from the economy and state budget crises are apparent in indicators of employment, child poverty, and welfare caseloads.

Since 2001, employment has declined among both single and married mothers. Employment among single mothers fell from 73 percent in 2001 to 69.7 percent in 2004. Employment among married mothers showed a similar decline (from 68 percent to 65.3 percent) during the same period. Single mothers are still more likely to be employed than married mothers and much more likely to be employed than before the 1996 law.[5] Since the recession, the industries most likely to employ welfare recipients and large proportions of single mothers have either lost jobs or are experiencing slower job growth.[6] Thus, there is little reason to attribute the downturn-related decline in employment to state TANF performance. The decline in employment during this period has meant that a smaller share of families leaving welfare is employed: The Urban Institute has reported that employment among welfare leavers fell from 50 percent in 1999 to 42 percent in 2002.[7] Similarly, the share of families engaged in employment for enough hours to meet the work rates dropped from 22.3 percent in 2001 to 18.0 percent in 2003 (while the share of families participating in other activities remained relatively unchanged).

The decline in employment has not resulted in increased welfare caseloads. Instead, the nation's welfare caseload has declined, while child poverty has risen. Between 2001 and the 2003, the number of families receiving assistance (including those in separate state programs) rose in 31 states, but the national caseload fell by 0.5 percent.[8] This caseload decline occurred despite the fact that child poverty increased from 16.2 percent in 2000 to 17.6 percent in 2003.[9] The fact that employment has fallen and child poverty has increased while TANF caseloads have remained flat or declining raises significant concerns that the program has not been sufficiently responsive to increased needs. The share of poor children receiving TANF assistance has continued to fall, dropping to 33 percent in 2002.[10]

The share of families without welfare or work has grown. Research from the Urban Institute indicates that the share of all families that have left welfare, but are not employed, do not have an employed partner, and are not receiving income from Supplemental Security Income (SSI), rose between 1999 and 2002, from 10 percent to 14 percent.[11]

For the last three years, state spending levels have exceeded annual block grants, and state reserves have fallen sharply. As long as welfare caseloads were falling rapidly, TANF was, in effect, a source for "new" funds each year. Once caseload decline slowed or stopped, states have increasingly faced the pressures resulting from a block grant set at mid-1990s funding levels and not adjusted for inflation. In each of the last three years, states' use of TANF funds has exceeded their basic block grants, and states have increasingly resorted to drawing down carryover (reserve) funds to pay for current services. In fiscal year 2003, states used $1.8 billion more than they received. Between the end of 2002 and the end of 2003, the amount of carryover TANF funds dropped by one-third, to $3.9 billion. This represented the lowest level for carryover funds since 1997, the first year of TANF implementation.[12] Some states now have no carryover funds, and for most states, the amount of carryover funds represents less than one-quarter of the state's annual block grant funding level.

The number of families receiving child care assistance has fallen. The Administration estimates that the number of children receiving subsidy assistance was 2.4 million in 2003, and will fall to 2.2 million 2005. Federal child care funding has been flat since 2002, and the use of TANF for child care peaked in 2000, and has now stayed at or near $3.5 billion for the last three years.[13] Child care curtailments have particularly hurt working families not receiving welfare: In April 2003, the GAO reported that, since January 2001, nearly half the states (23) had made policy changes that reduce the availability of child care subsidies for low-income working families, and 11 states were proposing policy changes to decrease child care funding.[14]

Implications for Reauthorization

As the above discussion outlines, there has been dramatic growth in single-parent employment since 1996, but much of the employment has been in low-wage jobs without employer-provided benefits. Many families still receiving assistance have serious employment barriers, and a group of families with serious barriers is now not in work and not receiving welfare. A well-functioning TANF program would assist needy families while connecting those who are able to work with sustainable employment; however, there are clear indications that the current program makes it difficult for needy families to receive assistance and serves a steadily declining share of poor children. The expansion of supports for working families outside welfare has been a critical contributor to the employment growth, but those supports are increasingly at risk because TANF and child care funding have remained flat. The sharp decline in reserve funds underscores that at current funding levels, states will find it difficult or impossible to sustain current service levels over the coming years.

In this context, CLASP has urged that the work-related provisions of reauthorization focus on efforts to improve job quality, encourage a stronger focus on employment retention and advancement, expand child care and other supports for working families outside welfare, and ensure that states have incentives to work with, rather than terminate assistance to, families with the most serious employment barriers.

Much of the reauthorization debate has centered around the mechanics of the participation rate calculation for families receiving TANF assistance. Based on the experience since 1996, there is little reason to believe that this should have been the central issue in reauthorization: a large share of TANF resources is now used for families outside the traditional welfare system, and participation rates measure engagement in activities among families receiving assistance, not the effectiveness of programs in promoting employment.

In the following paragraphs, we address key work-related provisions of H.R. 240, and recommend modifications. We share the belief that promoting and supporting work should be central to state welfare reform efforts, but believe that several provisions of H.R. 240 will make it harder for states to run effective programs to connect families with jobs, and will encourage states to terminate assistance to families rather than working with them to help them find sustainable employment.

On a number of key provisions, the approach taken by the Senate Finance Committee in 2003, and the child care amendment adopted on the Senate floor in 2004, represent more reasonable, balanced approaches. While we continue to urge improvements in the Senate bill, we think the Senate provisions reflect efforts to be responsive to the principal goals of the Administration's proposal, while still allowing states significant flexibility in designing effective work programs.

We also urge the Subcommittee to give serious consideration to the provisions of H.R. 751, the Work, Family and Opportunity Act, introduced by Rep. McDermott.

Reauthorization should encourage states to focus on employment and job quality and should not reward caseload reduction in itself. H.R. 240's caseload reduction credit creates incentives to terminate assistance rather than help families find jobs. We recommend replacing it with an employment-based credit.

The ultimate goal of the work provisions of any TANF bill should be to improve employment outcomes. While participation rates measure the share of families involved in activities while receiving assistance, they do not capture the outcome of greatest concern: the number of families getting jobs and earning enough that they no longer need assistance.

CLASP has urged that states be given the option to be held accountable for employment outcomes in lieu of participation rates, so that they can be measured based on outcomes, not process. Last year, a bipartisan group of Senators (Alexander, Voinovich, Carper, and Nelson [of Nebraska]) proposed an amendment to allow up to ten states to be accountable for outcomes relating to employment; success in activities designed to improve employment and related outcomes; job retention; entry earnings and earnings gains; and child well-being. H.R. 751 would allow states to be accountable for improvements in job entries and jobs with higher earnings. We recommend that the Subcommittee consider approaches such as these.

In the participation rate structure, it is important that a state not be disadvantaged when a family gets a job and leaves welfare. This can happen under current rules, because as long as the parent is receiving assistance and participating in an activity, the family counts toward the rates, but if the parent gets a job and leaves assistance, the family stops counting.

Under current law, rates are adjusted downward by a caseload reduction credit, in which the state's required rate is reduced by the number of percentage points reflecting the percentage decline in the state's caseload since 1995 for reasons other than changes in eligibility rules. The current structure has been criticized for lowering effective participation rates to zero for many states. The other problem, however, is that it rewards a states if its caseload falls, whether or not families are working, and even if the decline occurred simply because the state has made it harder to receive assistance.

H.R. 240 would not address this underlying problem, but would provide for continuing modification of the "base year" for the caseload reduction credit, so that states only get "credit" for recent caseload declines. Thus, there would be a strong incentive to cut caseloads, whether or not families entered or sustained employment. Moreover, under the Subcommittee's "superachiever" credit, a group of states are arbitrarily rewarded for having had large caseload declines between 1995 and 2001, without regard to employment or other outcomes.

In 2002, the Administration recommended eliminating the caseload reduction credit, and providing instead that families leaving assistance due to employment could count as participants for 90 days. The 2003 Senate Finance bill used an "employment credit" instead of a caseload reduction credit, providing adjustments based on the numbers of families leaving assistance due to employment, the number leaving with higher earnings, the number of families working after receiving diversion assistance, and the number of families receiving TANF-funded child care and transportation benefits. H.R. 751 also provides for an employment credit.

A credit or adjustor for employment would communicate the importance of focusing on whether families leaving assistance are working, and communicate to states that the goal is the promotion of employment, not simply cutting caseloads.

Raising the number of hours needed to count as a participant to 40 will make it harder for states to run effective programs to connect families with employment. It would be better to maintain current law hourly requirements.

Under current law, single parents with children under age 6 can count toward TANF participation rates through 20 hours a week of countable activities; all other families must meet a 30-hour requirement. H.R. 240 would raise the requirement to 40 hours for all families. The 2003 Senate Finance bill would raise the requirements to 24 hours for single parents with children under six, 34 for other single-parent families, and 39 hours for two-parent families. H.R. 751 would maintain the hourly requirements of current law.

In our view, it is unfortunate that much time over the last three years has been devoted to arguments about the "right" number of hours to require for participation, because there is no evidence that increasing hours of participation beyond current law requirements would lead to more effective programs. The welfare-to-work research consistently finds that the most effective programs provide a mixed menu of activities, combining job search, training, and other work-related activities, but these programs do not typically combine multiple activities for the same individual at the same time.[15] None of the highest-impact programs routinely imposed 40-hour requirements. Nothing in the research suggests that restructuring programs to make them require 40 hours instead of 30 hours would make them more effective.

Moreover, raising the hourly requirement to 40 runs the risk of resulting in *less* effective programs, for three reasons. First, it creates the danger that program administrators will need to shift their focus from efforts to promote employment to efforts to "manage" 40 hours of participation. Second, the need to generate activities, even low-cost ones, and pay attendant child care costs, will force a misallocation of scarce resources at a time when states are struggling to sustain current services. Third, many observers have recognized the need to do more to engage families with the most serious employment barriers. These families are likely to have the greatest difficulties in meeting 40-hour requirements. If any individual who has difficulty consistently participating at a 40-hour level will become a "drag" on the state's ability to meet participation rates, there will be an increased risk that such families are sanctioned and terminated from assistance rather than provided needed assistance to move toward employment.

While the Senate's approach to hours is more moderate, the best resolution here would be to maintain current law. Every state would be free to increase hourly requirements if it wished to do so. But, there is no reason to compel all states to adopt an approach that has no basis in research, and that is contrary to the best judgment of many program administrators.

The list of countable activities should give states flexibility to make their own judgments about effective ways to promote employment. States should be free to use education and training and barrier removal activities, and not be compelled to use unpaid work experience.

H.R. 240 sharply limits the activities that can count toward the first 24 hours of participation each week. After a three- to four-month period, the only activities that could count for adults would be unsubsidized or subsidized work, or unpaid work experience or community service. Thus, the bill would make it impossible to count being in full-time education or training for more than four months, and would impose similar restrictions on participation in barrier removal and rehabilitative services. Given the costs of subsidized employment, the bill would, in effect, create strong pressure on states to use unpaid work experience or community service for those individuals unable to get unsubsidized jobs within four months.

The H.R. 240 approach is not consistent with relevant research findings. There is encouraging non-experimental evidence from transitional jobs programs that provide highly structured, paid subsidized employment experiences for individuals with multiple employment barriers,[16] and other research suggests favorable impacts for on-the-job training programs.[17] However, the available research has not suggested strong effects on employment and earnings for unpaid work experience programs. There is only limited recent research on the employment impacts of unpaid work experience; however, in a review of research conducted in the 1980s, the Manpower Demonstration Research Corporation (MDRC) concluded, "there is little evidence that unpaid work experience leads to consistent employment or earnings effects."[18]

From the welfare-to-work research, the clearest guidance is that states should avoid the extremes of focusing exclusively on job search or on adult basic education unconnected to employment. Instead, the most effective welfare-to-work programs use a "mixed strategy"—focusing on employment; including job search, education, job skills training among program activities; and structuring activities on an individualized basis.[19] There is clear evidence that a strong skills training component can lead to improved employment outcomes, and that postsecondary education is increasingly crucial in efforts to improve earnings.[20]

The approach taken in the 2003 Senate Finance bill was more balanced than that in H.R. 240, though still restrictive in certain ways. The 2003 Finance bill maintained the current law 12-month restriction on counting vocational educational training toward core participation hours, while creating a new option for states to count participants in postsecondary education under certain circumstances. The Finance bill also allowed participation in certain rehabilitative services to count for up to six months, which while less restrictive than H.R. 240, still prevents individualized determinations of when additional time is needed.

H.R. 751 would also broaden the countability of a set of activities, allowing for increased participation in education and training, and counting up to 18 months in rehabilitative services, if the last 12 months are combined with work.

Our principal recommendation here is that federal law should not seek to narrowly restrict which activities can and cannot count toward participation rates. In the TANF fiscal structure, a state has no incentive to place individuals in activities unless the state believes the activities are likely to be effective, and state perspectives on effective activities will continue to evolve over time based on research and experience. Thus, we hope that the final bill does not compel states to use unpaid work experience, does not restrict the ability of states to use education and training, and allows for individualized determinations about participation in rehabilitative and barrier removal activities.

Reauthorization should provide states with enough child care funding to sustain current service levels, meet new work requirements, and make progress in addressing access and quality in the next five years. The current House bill would accomplish none of these goals. We recommend increasing child care funding.

In the initial years after enactment of the 1996 welfare law, states made dramatic progress in expanding child care assistance for low-income families, for two principal reasons. First, the 1996 law provided for steadily increasing amounts of dedicated child care funding through 2002. Second, when TANF caseloads declined, states were able to redirect TANF funding to child care. In 2000, states redirected $4 billion in TANF funds to child care, an amount larger than the entire child care block grant. However, child care funding through TANF has fallen to about $3.5 billion in each of the last three years, and it is doubtful that states will be able to sustain this funding level, in light of the fact that states are currently spending TANF funds at a level above their block grants and drawing down reserve funds to pay for current service levels.

It has been suggested that reauthorization could "unlock" as much as $2 billion in unobligated prior-year TANF funds, which can currently only be used for "assistance," but which could be used for any allowable TANF purpose under the pending bill. We support the proposal to broaden allowable uses of reserve funds, but enacting this proposal will not free up significant new resources for child care, for two reasons:

First, the vast majority of states can *already* effectively use their unobligated funds for child care by rearranging how current and carryover funds are spent (i.e., spend prior year funds for assistance to free up current year funds to spend for child care). Based on 2003 spending data, forty-seven states could already, in effect, spend every penny of their unobligated funds on child care this year, but if they did so, they would have no reserve funds for the future. The remaining four states could, in effect, spend all of their carryover funds for child care within two or three years, if they wished to exhaust their reserve funds.

Second, as noted above, for the last three years, states have spent more for TANF-funded benefits and services than they have received in their annual block grants, and have drawn down prior year funds to help pay for current service levels. This strategy cannot be sustained indefinitely; reserves for most states are likely to be depleted within a few years unless states make significant cuts in *current levels of services*. Thus, most states cannot simply use reserve funds to expand child care services without creating deeper deficits for future years.

When child care funding was expanding, it resulted in dramatic improvements in the availability of child care assistance for low-income families. The number of children receiving child care assistance grew from about 1 million in 1996 to an estimated 2.4 million in 2003. For many states, a key part of the strategy to promote work and reduce the numbers of families receiving TANF assistance was expansion of child care outside welfare. In recent years, as child care funding has been flat or declining, it has become increasingly difficult or impossible to provide continued access for working families that are not receiving or leaving TANF assistance. The Administration now estimates that the number of children receiving child care will be 2.3 million in 2004, fall to 2.2 million in 2005, and further fall to 2 million by 2009.

The Administration has proposed no increase in mandatory child care funding for the next five years; H.R. 240 provides for $1 billion; last year, the Senate voted, 78-20, to provide for $7 billion in child care funding over five years. H.R. 751 would increase mandatory funding by $11 billion over five years. How do these amounts compare to need?

Congressional Budget Office (CBO) staff has preliminarily estimated that $4.8 billion in total funding (federal and state) would be needed to sustain 2005 service levels over the next five years. CBO has also estimated that the combined work and child care costs of meeting the House work requirements through increased participation would be $8.3 billion. After allowing for overlap, the resulting preliminary estimate is that the additional cost of sustaining current service levels and paying for the work and child care costs would be $12.5 billion. Even this figure would not provide for access to child care for additional working families outside welfare or for expanding quality investments.

We understand the difficulties in urging additional child care funding at a time when there is a need to address the federal deficit. However, child care funding is an essential support for work and a crucial way of addressing the well-being and developmental needs of children in working families. Providing for increased funding will be crucial to sustain progress in the coming years.

Reauthorization should ensure that states have incentives to work with families with serious employment barriers, rather than incentives to cut off assistance to these families. Accordingly, the bill should build safeguards into the sanction process, and not mandate full-family sanctions.

Under federal law, states must reduce or terminate assistance when a family does not comply with program rules without good cause. There are essentially no safeguards in current federal law beyond a provision saying that states may not terminate assistance to a single parent of a child under six who fails to participate due to lack of needed child care. While sanctions have not been the principal reason for caseload decline, it is also clear that they are used very extensively in some states. Research confirms that families with the most barriers to employment and the most difficulty succeeding in the labor market are the most likely to be sanctioned. Moreover, families who leave the caseload due to sanctions are less likely to be employed and more likely to return to welfare than families who leave for other reasons.[21] Testimony submitted to this Committee by Dr. Deborah Frank of the C-SNAP project describes the harm that can occur to children in sanctioned families.[22]

H.R. 240 would require all states to use full-family sanctions (i.e., terminate all TANF assistance for failing to meet program requirements). We urge the Subcommittee to drop this provision. There is no research evidence that programs that cut off all assistance are more effective in moving families to employment or economic independence, and, as noted, there is clear evidence of potential harm. Moreover, in the context of high participation rates and scarce resources, there is considerable risk that when a parent with employment barriers is unable to meet program requirements, states will perceive a much stronger incentive to terminate assistance than to actively work with the family to resolve barriers to participation.

The 2003 Senate Finance bill did not mandate full-family sanctions. It contained a provision requiring that, prior to imposing sanctions, states should, to the extent determined appropriate, review the family's plan and make a good faith effort to consult with the family. A provision such as this, and additional safeguards, could help communicate that the goal of federal policy is to work with families to promote employment, not simply terminate assistance. H.R. 751 would not require full-family sanctions, and would provide for new safeguards in the sanction process.

Conclusion

While we urge a number of changes in the Subcommittee bill, we share the view that it is important for Congress to resolve outstanding issues and complete TANF reauthorization. During the last three years, there has been a significant cost to the uncertainty and instability resulting from lack of reauthorization and repeated short-term extensions. We urge the Subcommittee to work for enactment of a final bill that is responsive to the need for state flexibility and that addresses issues of better jobs, employment retention and advancement, helping families with the most serious barriers, and providing adequate resources to help working families both on and outside welfare.

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