CLASP
policy solutions that work for low-income people

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# Hearing on Welfare Reform:

# A New Conversation on Women and Poverty

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Mr. Chairman, Members of the Committee, thank you for the opportunity to share CLASP's views regarding changes that should be made to improve the TANF program. CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low income people. In particular, we focus on policies that strengthen families and create pathways to education and work. I will discuss how TANF has performed during the current economic downturn, and the lessons that we can draw from the TANF Emergency Fund

Temporary assistance is a critical safety net, but also a net that has been stretched too thin. Vulnerable children and families are falling through the holes. Poverty reinforces itself when parents lose their jobs because they can't afford to fix a broken car, or a child falls behind in school because her apartment is too cold for her to do her homework. TANF reauthorization presents an opportunity to patch holes in the safety net and give families the opportunity to succeed.

It has now been 14 years since TANF replaced AFDC. Lawmakers created TANF at a time when the economy was booming, and they based its policies on the assumption that jobs would be plentiful. These policies have not fared well in the recent deep recession and slow recovery. The economic environment over the next five years will continue to be very difficult and different than that of the late 1990s or the 2000s. TANF reauthorization must both accommodate the economic realities of today and build the groundwork for the recovery for tomorrow. Policies should encourage states to provide adequate and accessible income supports to needy families and to prepare recipients for jobs of the future with opportunities for subsidized employment and education and training.

Let me begin by providing a very brief history of what has happened to poor families since 1996. As you know, a set of other federal and state policy initiatives designed to make work pay accompanied welfare reform. These initiatives included a large expansion of the earned income tax credit, a tripling of childcare funding, broadened health care coverage for low-income families, and increasing minimum wage. Combined with a near full-employment economy, the results were dramatic: employment among single mothers overall grew from 55 percent in 1993 to 73 percent in 2000.[1] Child poverty fell from 20.5 percent in 1995, to 16.2 percent in 2000.[2]

However, even before the current economic crisis, we had begun to lose ground. Child poverty rates had gradually risen to 18 percent by 2007. Rather than progressing into stable jobs where they could experience increases in wages and earnings, too many single mothers remained stuck at the fringes of the labor market, moving from one unstable, low-paying job to another. Meanwhile, policies that states had adopted to promote work also closed the door on those most in need. In 2007, one-third of poor single mothers were neither working nor receiving cash benefits, compared to 16 percent in 1995.[3]

When the current recession hit, it exposed TANF's weakness as a safety net program. In 2009, child poverty reached its highest level since 1995, 20.7 percent. For children under age 5, the poverty rate was 24.5 percent. That means that nearly one in four of our youngest children lived in families with incomes under the official poverty level ($22,050 for a family of four in 2009.)[4]

Welfare reform was built on the premise that low-income parents, including single parents, can reasonably be expected to support themselves and their families by working. However, in the current recession, single mothers have been particularly hard hit. Unemployment rates for women maintaining households have been consistently about a third higher than for all adult women, and have hit a new high of 13.4 percent in recent months.[5] For hundreds of thousands of single mothers, as for millions of other workers, jobs simply are not there. Moreover, the Congressional Budget Office projects that unemployment will only decline modestly during 2011 and will remain elevated for years to come.[6]

In February 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA), Congress created a new TANF Emergency Fund, funded at $5 billion.[7] In addition, the ARRA provided a "hold-harmless" clause for states that experienced caseload increases, stating that they could still receive the same caseload reduction credit toward the work participation rate requirement that they had received in 2007 or 2008. These provisions were designed to remove the disincentives, under current law, for states to allow additional needy families to receive cash assistance.

The TANF Emergency Fund provided states 80 percent of the funding for spending increases in three categories of TANF-related expenditures in FYs 2009 or 2010 over FYs 2007 or 2008. The three categories of expenditures that could be claimed were basic assistance, non-recurrent short-term benefits, and subsidized employment. Each state could receive no more than 50 percent of its annual block grant over the two-year period from the combination of the new Emergency Fund and the regular Contingency Fund. With this program having just come to an end, and with states having drawn down the full $5 billion allotted, it is an appropriate time to make an initial assessment of the lessons learned over the past two years.

**States need a permanent counter-cyclical funding mechanism so that they can serve more needy families during periods of high unemployment.**

The current structure of TANF – the fixed block grant combined with an intense focus on meeting work participation requirements and reducing caseloads – makes it difficult for states to use the program to operate as a counter-cyclical support for families during economic hard times. Given the long-term erosion of the buying power of the TANF block grant , the dependence of state revenues on the economic cycle, and the requirement that states achieve balanced budgets on an annual basis, it is simply not reasonable to expect states to assume the full costs of rising caseloads when the economy weakens.

The availability of the Emergency Fund after the past two years has clearly averted cuts to benefits and services that would have otherwise occurred, given the drastic decline in state revenues. Some states already have identified cuts in areas ranging from cash assistance to child care, to services for homeless families that will take effect now that the Emergency Fund has expired.[8] Other steep cuts are likely to be proposed when state legislatures return in the spring. TANF funds supporting programs other than cash assistance are not providing "extras;" they have become a core element for funding social services in the states, and cannot be easily removed without causing real hardship.

When TANF is reauthorized, it is critical that some form of countercyclical additional funding for TANF be provided on a permanent basis. States are deeply reluctant to make permanent changes to their programs based on temporary funding and policy changes. States were afraid that if they increased benefits or expanded eligibility in response to the Emergency Fund, they would be stuck bearing the full costs of the increases after it expired, even if economic conditions remained difficult.

This funding should not be available to all states at all times, but should include “triggers” so that it automatically kicks in when warranted by economic conditions, without the need for Congressional action. With this exception, CLASP believes that the Emergency Fund is a better model than the original Contingency Fund created by the 1996 legislation. The Contingency Fund was never accessed during the 2001 recession, and in practice has rewarded states that are more aggressive about claiming existing spending as Maintenance of Effort, rather than encouraging increased spending on core income supports. New TANF funding should be targeted to activities that strengthen TANF’s dual roles as a safety net and a pathway to economic success.

## Many states’ assistance programs are minimally responsive to need

Even with the increased federal funding available under the Emergency Fund, cash assistance caseloads rose by a limited degree during this recession. Nationally, there was about a 10 percent increase in the number of families receiving cash assistance from the start of the recession in December 2007 to March 2010, the most recent month for which data are available. By contrast, SNAP (food stamp) caseloads rose by 50 percent over the same time period.[9]

This overall figure masks a great deal of variation from state to state. This variation is illustrated by the five states with the highest unemployment rates in August 2010. Nevada, with the highest unemployment rate (14.4 percent), has had TANF caseloads rise by nearly 40 percent. Michigan, with the next highest unemployment rate in the country (13.1 percent), has had only a 2 percent increase in its TANF caseloads. California’s (12.4 percent unemployment) caseload rose by 20 percent. Rhode Island’s (unemployment rate of 11.8 percent) caseloads *fell* by 10 percent as it began cutting children as well as adults from assistance when families reach benefit time limits.[10] Even the states with the largest increases are serving far fewer families than they were prior to welfare reform.

If caseloads were low because families had no need for help, we would be right to celebrate. But this is not the case. In too many states, TANF is simply failing in its mission of protecting children from hardships caused by deep poverty. Far too many are hungry, cold, left without adult supervision, or failing in school because they don’t know where they are going to sleep that night. Poverty has adverse consequences for families and for the nation as a whole. Persistent, deep, and early poverty are particularly threatening to child well-being. Poor children face worse education, health, life and economic outcomes than children who don’t grow up poor.

States should be held accountable for their performance in preventing severe hardship among children, as measured by indicators such as poverty, deep poverty (income below 50 percent of the poverty line), homelessness, hunger, lack of adult supervision, and multiple housing, school, or child care moves in a year. As reliable state-level data is not currently available for all of these measures, Congress should require HHS to collect and report data needed to monitor indicators of child well-being and hardship at the state level. Reauthorization should include a clear expectation that states will be held accountable based on these measures, but should also provide a reasonable period to collect and report data before imposing consequences such as loss of funding flexibility.

## Subsidized jobs should play a larger role in TANF program going forward

Subsidized public and private sector employment are both countable work activities under TANF without restriction. But until the creation of the Emergency Fund, there was very little use of such programs. From 2006 to 2008, states reported only $50 million to $200 million per year in combined TANF and MOE spending on "wage subsidies." In 2008, states reported approximately 7,000 individuals receiving assistance as participating in subsidized employment, with most of these in California, Washington, or New York.[11]

Subsidized jobs got off to a slow start under the TANF Emergency Fund. Most states did not have recent experience operating subsidized jobs programs, and it took a while to develop the agreements between TANF agencies, workforce boards, nonprofit intermediaries, and employers that were needed for successful programs. Moreover, until HHS clarified that employer costs of supervising and training participants could count as a third-party in-kind contribution, many states simply did not believe that they could afford to operate large scale programs. As a result, by February 18, 2010, a year after the ARRA had been enacted, 21 states (plus the District of Columbia) had been approved for just $124 million based on increased spending on subsidized employment.[12]

But once a few states received attention for their subsidized jobs programs, the model spread rapidly. The appeal of the model is obvious – participants gained labor force experience and real skills while earning money to support their families; employers were able to expand at a time when credit markets were tight and the economic outlook was too uncertain for them to commit to regular employers. Governors and mayors of both political parties supported the programs. By September 30, when the TANF Emergency Fund ended, 39 states, plus Washington D.C., had received $1.3 billion based on increased spending on subsidized employment programs.

Given the persistence of high unemployment, especially for less-educated workers, CLASP is deeply disappointed that Congress did not extend the TANF Emergency Fund. We urge this Committee to find a vehicle to restore the Emergency Fund when Congress returns to session after the upcoming elections.

While today's economic conditions are thankfully unusual, even after the economy improves, subsidized jobs may still have a role to play in the TANF program. Even in a good economy, there are areas that experience persistently high unemployment. Transitional jobs are appropriate for individuals who have little labor market attachment and need the opportunity to prove themselves as reliable workers. Permanent subsidized jobs may be needed for people with mental or physical disabilities that are not significant enough to qualify for SSI, but will always have trouble qualifying for competitive jobs. Moreover, by continuing smaller scale targeted programs, states will preserve the relationships and procedures needed to develop more rapidly a counter-cyclical employment program when needed.

## Cash assistance is only one part of the TANF program

Of the $5 billion awarded under the Emergency Fund, states qualified for only $1.6 billion, just under one-third, based on increases in cash assistance spending. This is slightly higher than the overall share of combined TANF/MOE funds that are spent on cash assistance, which was 28 percent in FY 2009, the last year for which data are available. Child care, which was not one of the designated spending categories, under the Emergency Fund, accounts for another 17 percent of combined TANF/MOE spending.[13] The remaining more than 50 percent of TANF and MOE funds are reported under a variety of spending categories, including administration and systems, transfers to SSBG, refundable tax credits, such as state Earned Income Tax Credits, pregnancy prevention, two-parent family formation, transportation and supportive services, Individual Development Accounts, and two catch-all categories of "other non-assistance" and "authorized under prior law."

However, almost all of the data reporting under the TANF block grant only applies to families receiving assistance – ongoing monthly benefits. We simply don't know enough about how these funds are used, who is served with programs that do not count as "assistance," and whether these programs are meeting their desired goals.

The limited nature of reporting on "non-assistance" programs, is highlighted by how little we know about families who received "short-term non-recurrent benefits" under the Emergency Fund, or who were employed in subsidized jobs. We only know that the subsidized jobs programs served approximately 235,000 individuals because CLASP and our colleagues at the Center on Budget and Policy Priorities surveyed states. We will probably never know what share of the individuals served were TANF assistance recipients before or while participating in these jobs, or other characteristics.

Statutory language limits HHS' ability to collect any information about state activities under the TANF block grant that is not specified by law or needed to enforce penalties. Congress should grant HHS the authority to revisit the categories of spending which states must report on, and to collect additional information on the number and circumstances of families who benefit from "non-assistance" programs.

## The "maintenance of effort" (MOE) requirement is losing effectiveness.

AFDC, the predecessor to TANF, was a matching program. When the TANF block grant was created, Congress established a MOE requirement under which states were required to continue to spend at least 75 percent of what they had spent under AFDC (80 percent if they failed to meet the work participation rate requirements). Both spending under TANF and increases in spending on other programs serving needy families can be counted as TANF. This was designed to ensure that states would continue to invest their own funds in programs serving low-income families.

However, over time this requirement has become increasingly ineffective, as states have realized that spending on a large number of existing programs – including the portion of non-means-tested programs that benefits low-income families– can be claimed as maintenance of effort. The requirement that, outside of TANF, only increases in spending can be counted has become less meaningful as the base has not been adjusted for inflation. In fact, while the amount of spending reported as MOE has climbed in recent years, researchers at the Rockefeller Institute have found that since 2001, states have actually reduced total spending on non-medical social services.[14]

To access the Emergency Fund, nearly all states have claimed spending by non-governmental third parties toward the MOE requirement. This was an effective way to leverage private spending and draw down badly needed funding for programs for low-income populations at a time when state budgets were under unprecedented strain. However, it is likely that many states will attempt to continue these claims. This has the potential to drastically undermine the MOE requirement, undercutting its intent that states continue to invest their own funds in programs serving low-income families. To restore the effectiveness of the MOE requirement, we believe that when TANF is reauthorized only spending by governmental entities (including counties and other sub-state entities) should be countable. A reasonable limit should also be set on the definition of "needy families" so that states may not claim expenditures on families earning well above the median income.

## Conclusion

We hope that Congress will draw from these lessons from the Contingency Fund as it prepares to reauthorize TANF next year. While the TANF block grant is not large enough to solve all the problems posed by child poverty, it has the potential to play a unique role as a flexible funding stream that allows states to determine what families truly need to succeed, and to provide as much or as little as needed. However, this potential is all too often unfulfilled.

TANF was scheduled to be reauthorized in 2010, but Congress did not even consider bills to do so. TANF is currently operating under a short-term extension as part of the continuing resolution, which expires on December 3. Such short-term extensions create uncertainty and make it difficult for states to plan. Congress should pass a full-year extension of TANF as soon as it returns.

For a fuller discussion of CLASP's priorities for TANF reauthorization, see:
Elizabeth Lower-Basch, *Goals for TANF Reauthorization*, CLASP, January 6, 2010.
http://www.clasp.org/admin/site/publications/files/TANF-Reauthorization-Goals.pdf

1 Elizabeth Lower-Basch and Mark Greenberg, "Single Mothers in the Era of Welfare Reform," in The Gloves-off Economy: Workplace Standards at the Bottom of America's Labor Market, A. Bernhardt, H. Boushey, L. Dresser, and C. Tilly, eds., Champaign IL: Labor and Employment Relations Association, 2008, pp. 163–190. Available at: http://www.clasp.org/admin/site/publications/files/0490.pdf

[2] U.S. Census, Historical Poverty Table 3. Poverty Status, by Age, Race and Hispanic Origin http://www.census.gov/hhes/www/poverty/data/historical/hstpov3.xls

[3] Congressional Research Service, Trends in Welfare, Work, and the Economic Well-Being of Female-Headed Families with Children: 1987-2007 (April 21, 2009).

[4] U.S Census, Income, Poverty and Health Insurance Coverage in the United States: 2009 (P60-238).

5 Data series LNU04000313, downloaded from the Bureau of Labor Statistics, http://www.bls.gov/webapps/legacy/cpsatab10.htm

[6] CBO projects an average unemployment rate of 9.0%for 2011 and 6.7% for 2012-2014. Congressional Budget Office, The Budget and Economic Outlook: An Update, August 2010. http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf

[7] The TANF Emergency Fund, sometimes known as the Emergency Contingency Fund was created by Section 2101 of ARRA.

[8] Donna Pavetti, What Lies Ahead after Jobs Fund's Expiration?, CBPP, 2010. http://www.offthechartsblog.org/what-lies-ahead-after-jobs-fund%E2%80%99s-expiration/

[9] TANF data available at: http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/caseload_current.htm SNAP data available at: http://www.fns.usda.gov/pd/34SNAPmonthly.htm

[10] Unemployment rates as of August 2010, from BLS Regional and State Employment and Unemployment Summary, http://www.bls.gov/news.release/laus.nr0.htm TANF caseload changes are CLASP analysis of ACF data available at: http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/caseload_current.htm

[11] ACF, Work Participation Rates 2008, available at: http://www.acf.hhs.gov/programs/ofa/particip/2008/index2008.htm

[12] Elizabeth Lower-Basch and Josh Bone, "TANF Emergency Fund: State Applications Approved as of February 18." CLASP, February 2010.

[13] Center for Law and Social Policy, "UNITED STATES: Use of TANF and Maintenance of Effort (MOE) Funds in Fiscal Year 2009, September 2010. http://www.clasp.org/admin/site/publications/files/TANF2009-US.pdf

[14] Tom Gais and Lucy Dadayan, *The New Retrenchment: Social Welfare Spending, 1977-2006* (Rockefeller Institute, 2008), http://www.rockinst.org/pdf/workforce_welfare_and_social_services/2008-09-15-the_new_retrenchment_social_welfare_spending_1977-2006.pdf.