unsubsidized IDAs will also be permitted for qualified individuals not involved in a demonstration. Current recipients (and applicants with established IDAs) for both the AFDC and Food Stamp programs can establish IDAs and have their savings and interest excluded. States, at their option, could pursue this approach to promoting self-sufficiency.

Specifications

1. National Unsubsidized IDA Program

(a) At State option, allow IDAs to be established by Federally insured financial institutions to be used exclusively to pay for post-secondary education or training expenses, first-home purchases, or business capitalization where there is a qualified plan. Effective October 1, 1996.

(b) Recipients of Food Stamps and AFDC are eligible for participation in the IDA program. Individuals otherwise eligible for the Earned Income Tax Credit shall be permitted to establish IDAs, but some restrictions apply (*specifically see provision (iv) below*).

(i) Annual contributions shall not exceed the lesser of $1,000 or 100% of all income, excluding public assistance, with a total account limit of $10,000 per family.

(ii) The total amount in an IDA shall not exceed $10,000.

(iii) If the accounts are established while a family is on AFDC or Food Stamps, the IDA account balance will not count against a family's resource limits, Families who leave the rolls after opening an account can continue the account. If the family re-applies for AFDC or Food Stamps at a later date, their IDA savings and interest, up to $10,000, are excluded.

(iv) If an IDA-eligible individual establishes an IDA while not receiving AFDC or Food Stamps (for example, upon receiving an EITC payment under the subsidized IDA demonstration) and subsequently applies for assistance to either program, the amount in the IDA shall be applied against the resource limits for purposes of determining eligibility.

(c) Funds in an IDA account are tax deferred until withdrawn.

(d) The penalty for a withdrawal from an unsubsidized IDA for purposes other than those specified will be 10 percent of the amount withdrawn that is includable in income.

2. Subsidized Individual Development Account (IDA) Demonstration

(a) Amend the tax laws to allow States, localities, and community development financial institutions to apply to receive grants to operate 6-year IDA demonstration projects. Project grants will be awarded by the Community Development Bank and Financial Institutions Fund on a competitive basis and must be renewed annually. Authorized levels are $10 million in fiscal year 1997 and 2002 and $20 million for fiscal years 1998 - 2001. Effective October 1, 1996.

(i) $500 in initial financial assistance will be placed into accounts established for project participants who establish IDAs so banks are willing to set up the accounts. In addition, participant contributions may be subsidized in amounts ranging from $.50 to $4 for each $1 deposited, not to exceed $2,500. Total individual IDA amounts may not exceed $10,000.

(ii) Eligible participants are households with: at least one member eligible for EITC, an adjusted gross income not in excess of $18,000, and a net worth not in excess of $20,000.

(iii) Grantees will maintain a reserve fund to be spent on assisting participants in achieving self-sufficiency, administering the project, and to collect evaluation information.

(iv) Grantees must submit annual reports on the progress of their project.

(v) The Fund will contract for an independent evaluation of individual demonstration projects describing project features, assessing levels of self-sufficiency and benefit reduction achieved, levels of assets accumulated, and their effects.

(vi) The penalty for a non-designated withdrawal from a subsidized IDA will be the total amount of the subsidy and 10 percent of the individual's contribution of the amount withdrawn.

3. Self-Employment/Microenterprise Demonstration

(a) Through a memorandum of understanding, HHS and SBA will jointly develop and administer a minimum 5-year, self-employment/microenterprise demonstration program. Consultation with Agriculture, HUD and Labor is also required. Participants must be persons with incomes below 130 percent of poverty or persons participating in JOBS, WORK or AFDC-only, with the percentage of welfare recipients to be established by the agencies. Local intermediaries (organizations or consortium of organizations) will apply to enter into agreements to demonstrate the program. Authorized amounts shall be $4 million for fiscal years 97 and 02 and $8 million for fiscal years 1998 - 2001. Effective October 1, 1996.

(i) HHS and SBA, in consultation with public and private organizations, will identify promising program models currently used to provide self-employment and related services to low-income individuals and design a demonstration to evaluate, using a randomized experimental design, at least two types of models with contrasting levels of technical assistance. The agencies may fund up to five other projects with designs that do not lend themselves to a randomized experiment.

(ii) HHS and SBA may provide technical assistance, grants, loan guarantees and loans to intermediaries.

(iii) In selecting intermediaries, SBA and HHS will take into consideration the applicant's record of success, program design, capacity and other criteria.

(iv) Intermediaries must have contracts with the local JOBS agency such that JOBS and WORK program funds will be used to provide supportive services including training and technical assistance for participants who are welfare recipients.

(v) Preliminary and final effectiveness evaluation reports together with recommendations must be submitted to the President and Congress. A report on barriers is also required. The evaluation study shall take into consideration increase in self-sufficiency, reduced costs of public support, number of businesses and jobs created, cost-effectiveness, and program effectiveness. Early and regular feedback to the participating intermediaries is also specified.

4. Other Legislative Changes

(a) The Social Security Act and the Food Stamp Act will be amended, as appropriate, to comport with the changes in the tax laws. In addition, amendments will be drafted to include the following provisions:

(i) Lump sum income: Non-recurring lump sum income will not be counted for resource purposes in the month of receipt or the following month if put in an IDA.

(ii) The total exclusion for an AFDC assistance unit or Food Stamp household is $10,000.

Rationale

IDAs and other set-asides provide welfare recipients the opportunity to be entrepreneurs in the private sector and accumulate savings for specific purposes. This approach promotes self-sufficiency by empowering them to start their own businesses and encouraging them to save money they earn to build for their future. Additionally, the money saved in IDAs might be used by participants for educational and training purposes, thus saving local program resources.

(C) Microenterprise (Self-Employment)

Current Law

Resource Exclusions

Under Federal AFDC policy, except for real property, States may disregard for AFDC purposes income-producing property (as defined by the State) of self-employed individuals. States may also disregard income-producing property owned by a recipient who is not currently employed, but who the State reasonably expects to return to work. Federal regulations at 45 CFR 233.30(a)(3)(xxi) require that States disregard, for AFDC purposes, bona fide loans from any source for any purpose that meet the criteria set out in the State Plan.

Section 5(g)(2) of the Food Stamp Act and implementing regulations at 7 CFR 273.8(e)(4), (5), (6), (9), (15) and (16) exclude "property which annually produces income consistent with its fair market value; property which is essential to the self-employment of a household member; installment contracts for the sale of lands and buildings, if the contract ... is producing income consistent with fait market value; resources.. of.. self-employed persons, which has been prorated as income;" non-liquid assets with liens resulting from business loans; and real or personal property that is needed for maintenance of certain vehicles.

Specifications

(a) Amend the Social Security and Food Stamp Acts to give the respective Secretaries the authority to specify in regulations exclusions necessary for self-employment. Require that these regulations be prepared jointly and demonstrate consistency between the two programs.

(b) Amend the Food Stamp Act to exclude business loans from resources.

Rationale

Current AFDC policy does not permit funds necessary for the operation of a microenterprise to be excluded separately from the general $1,000 resource limit. This restriction discourages recipients from establishing small businesses. By expanding the microenterprise resource exclusions, microenterprise owners will be able to set aside sufficient liquid resources to operate the business.

2. INCOME ISSUES

Vision

Federal laws or rules frequently disregard a part or the total income of applicants and recipients in determining eligibility and benefits for assistance programs. Often, the same income is treated differently in the AFDC and Food Stamp programs. Such differences are incomprehensible to recipients and difficult to administer.

Our goal is to adopt uniform equitable income disregard policies for the AFDC and Food Stamp programs which are easy to understand, simple to administer and promote work and education.

1. Treatment of Lump Sum Income

Current Law

Under Section 402(a)(17) of the Social Security Act, non-recurring lump sum income is considered to be available to meet an AFDC family's current and future needs. If the assistance unit's countable income, because of receipt of lump sum income, exceeds the applicable State need standard, the unit is ineligible for a period determined by dividing the total countable income (including the lump sum) by the need standard.

The Food Stamp Act, at 5(d)(8), excludes from income non-recurring lump sum payments. Such amounts, if not spent in the month received, are treated as resources.

Specifications

For applicants and recipients:

(a) Amend section 402(a)(17) of the Social Security Act (SSA) to exclude non-recurring lump sum payments from income.

(b) Amend both the SSA and FSA to disregard as resources, for one year from the date of receipt, non-recurring lump sum payments that are reimbursements or advanced payments.

(c) Amend both the SSA and the Food Stamp Act (FSA) to disregard the amount of any Federal or State EITC lump sum payments as resources for one year from receipt.

Rationale

Lump sum payments are treated completely differently in the two programs. Considerable simplification for both the clients and workers can be achieved if the policies are consistent. Also, current AFDC policy can result in hardship for families since they are supposed to conserve the payments to meet future living expenses rather than to cover debts and other costs.

2. Treatment of Educational Assistance

Current Law

Several laws address the treatment of educational assistance for AFDC. Any educational assistance provided under programs in title IV of the Higher Education Act or the Bureau of Indian Affairs must be disregarded (P.L. 102-325, sec. 479B). A State must disregard payments made for attendance costs under the Carl D. Perkins Vocational and Applied Technology Education Act (P.L. 101-392, sec. 507(a). Under AFDC rules, the State must disregard educational loans and grants that are obtained and used for direct educational expenses, such as tuition and books (233.20(a)(3)(iv)(B). (Any of the educational assistance covering items in the State's need standard is counted as income.) Also, States may disregard all educational assistance as complementary assistance that is for a different purpose than AFDC (233.20(a)(3)(vii)(a)).

Portions of income received under the Job Training Partnership Act and the Higher Education Act are disregarded in the Food Stamp program. By regulation, such educational assistance provided on behalf of the household for living expenses, food, or clothing to the extent that the funds exceed the costs of tuition and mandatory fees are counted as income. (7 CFR 273.9(c)(1)(v); 273(c)(3); 273(c)(4); 273.9(c)(5)(i)(D); and 373.9((c)(10)(xi).

Specifications

(a) Amend the Social Security Act and Food Stamp Act to totally disregard all educational assistance received by applicants and recipients.

3. Earnings of Students

Current Law

For a dependent child receiving AFDC, the earned income of a full-time or part-time student (not employed full-time) attending a school, college, or university, or a course of vocational or technical training designed to fit him for gainful employment is disregarded (402(a)(8)(A) of the Social Security Act). At State option, the earned income of a dependent child applying for AFDC may also generally be disregarded. The earnings of minor parents attending school are not excluded.

Effective September, 1994, the Food Stamp program will exclude the earnings of elementary or high school students age 21 and under (FSA 5(d)(5); 7 CFR 273.9(c)(7).

Specifications

(a) Amend the Social Security and Food Stamp Acts to conform Food Stamps to AFDC policy and limit the disregards to elementary and secondary students up to age 19.

4. Irregular Income

Current Law

No statutory provisions address irregular income for AFDC. Rules permit States to disregard small, nonrecurring gifts not to exceed $30 per individual per quarter (233.20(a)(3)(iv)(F).

The Food Stamp Act (Sec. 5(d)(2)) requires the exclusion of income of $30 or less in a quarter per household received too infrequently or irregularly to be anticipated. The exclusion does not apply under retrospective budgeting.

Specifications

(a) Amend the Food Stamp Act to conform to AFDC rules to exclude inconsequential income not in excess $30 per individual per quarter.

5. Treatment of JTPA Income

Current Law

For AFDC, the income of a dependent child which is derived from participation in a JTPA program may be disregarded. Earned income may be disregard for a period up to six months per calendar year. Unearned income may be disregarded indefinitely (section 402(a)(8)(A)(v) of the SSA).

Under Food Stamps, training allowances from vocational and rehabilitation programs and JTPA earnings are excluded, except income from on-the-job training programs under section 204(5) of title II. All OJT income of individuals under age 19 and under parental control is excluded. (7 CFR 273.9(b)((1)(iii) and (v); 273.9(c)(10(v)

Specifications

(a) Amend the Social Security and the Food Stamp Acts to disregard as income all training stipends and allowances received by a child or adult from any program, including JTPA.

(b) Eliminate targeted earned income disregards so that the earned income from any on-the-job training programs or from a job will be counted after the general earned income disregards are deducted.

6. Supplemental Payments

Current Law

Section 402(a)(28) of the Social Security Act requires those States that deduct income from the need rather than the payment standard (fill-the-gap) now and in July of 1975 to provide a supplemental payment to families who have less disposable income because child support is paid to the child support agency instead of directly to the family.

Food Stamps - No such provision exists in the Food Stamp program.

Specifications

(a) Amend the Social Security Act to remove this provision.

7. Treatment of In-kind Income

Current Law

AFDC rules require earned in-kind income to be counted. As a matter of policy, States may disregard any unearned in-kind income. If the State elects to count unearned in-kind income, the amount counted is limited to the value of the item in the State's need standard.

Under Food Stamps, in-kind benefits such as food, clothing, housing, produce are excluded. (FSA 5(d)(1); 7 CFR 273.9(c)(1))

Specifications

(a) Amend the Social Security Act to require States to disregard both earned and unearned in-kind income.

8. Treatment of National and Community Service Act Benefits

Current Law

No statutory provision excludes, for purposes of the AFDC program, allowances, stipends and educational awards received by participants in a National Service program established under the

National and Community Service Act of 1990, as amended by the National and Community Service Trust Act of 1993.

The Food Stamp program will exclude from income National Service program benefits. The National and Community Service Act, as amended, specifies that the exclusion in section 142(b) of the Job Training Partnership Act (JTPA) applies to National Service program benefits. Section 142(b) of the JTPA provides that payments will not be considered as income for purposes of income transfer and in-kind aid furnished under any Federal or federally assisted program based on need, other than Social Security Act programs.

Specifications

(a) Amend section 402(a)(8)(A) of the Social Security Act to disregard from the income of a family allowances, stipends and educational awards received by volunteers participating in a National Service Program under the National and Community Service Act of 1990, as amended by the National and Community Service Trust Act of 1993.

3. FILING UNIT

Under current law, the AFDC filing unit must consist of a needy deprived child, its natural or adoptive parent(s), and all natural and adoptive brothers and sisters (including half brothers and sisters) who are living together. The unit's income and resources are used to determine eligibility and the amount of payment. A stepparent is treated the same as a natural or adoptive parent for filing unit purposes in seven States (Nebraska, New Hampshire, Oregon, South Dakota, Utah, Vermont, and Washington). These States have laws of general applicability which hold the stepparent responsible for the children to the same extent as a natural or adoptive parent. In all other States, the stepparent's needs are not included in the unit and his/her income, after certain disregards, are considered available to the unit members.

If there is no parent in the home, then another non-legally responsible relative with whom the child is living may, at his/her option, join the unit and be assisted. Additionally, States may exercise the option of including other individual(s) living in the home as an essential person(s). The essential person's income and resources are used to determine eligibility and amount of payment.

Certain parents and siblings are excluded from the unit: illegal and sponsored aliens, recipients of SSI, foster children, and individuals ineligible due to lump sum income.

1. UP Provisions

Current Law

The Social Security Act at section 407(a) and 407(b) limits AFDC eligibility for two-parent families to those where the principal wage earner is unemployed, and has worked six of the last 13 quarters. "Unemployed" is defined in regulations as working less than 100 hours in a month.

Specifications

(a) Allow States, at their option, to modify, reduce, or eliminate any of the special eligibility requirements for two-parent families (e.g., the 100-hour rule, 30 day unemployment requirement, the work history test, etc) for both applicants and/or recipients. For States that elect to maintain a 100 hour rule (or a modified hour rule), WORK program participation would not count towards this rule.

(b) Remove the sunset provision that allows for the termination of AFDC-UP in 1998 and make it a permanent program.

(c) The effective date for the above provisions shall be October 1, 1996.

Rationale

Some of the arguments for removing the additional eligibility requirements are that eliminating them would:

- *remove the AFDC marriage penalty in which single-parent families have easier access to benefits than married couples;*
- *improve horizontal equity by treating disadvantaged children the same irrespective of whether they live with one or two parents;*
- *encourage work, as the current rule limiting labor market attachment would be incongruous in a new transitional welfare program that emphasizes work; and,*
- *also enhance the simplicity of the system.*
- *Finally, a number of States have sought waivers in this area.*

2. Essential Person Provision

Current Law

The Social Security Act at section 402(a)(7) and the implementing regulation at 45 CFR 233.20(a)(2)(vi) permit States, at their option, to include in the AFDC grant benefits for essential persons. Such individuals are not eligible for AFDC in their own right, but their needs are taken into account in determining the benefits payable to the AFDC family because they are considered essential to the well-being of an AFDC recipient in the family. Twenty-two States currently include the option as part of their respective State plans.

Specifications

(a) Limit the kinds of individuals that a State may identify as essential to individuals providing at least one of the following benefits or services to the AFDC family:
   (1) child care which enables a caretaker relative to work full or part-time outside the home;
   (2) care for an incapacitated AFDC family member in the home;

(3) child care that enables a caretaker relative to attend high school or GED classes on a full or part-time basis;
(4) child care that enables a caretaker relative to participate in JOBS; and
(5) child care that enables a caretaker relative to receive training on a full or part-time basis.

Rationale

The Social Security Amendments of 1967 provided a specific statutory base for an essential person policy. This policy has two aspects. First, States are permitted to specify those individuals who can be considered essential; second, States must permit the AFDC family to have the final decision as to whether such individuals are in fact essential. Under this policy, States are not required to identify the benefits or services that these essential persons must provide.

In 1989, this policy became contentious. Based in part on an OIG review of certain State practices the Family Support Administration, published final regulations which limited State authority to determine categories of individuals who could be considered as essential to the family. These regulations precluded States from covering individuals who did not provide an essential benefit or service to the family. (The permissible categories are the five shown in option 2 above.) However, in 1990 the district court for the Eastern District of Pennsylvania in Vance v. Sullivan and the district court for the District of Maine in McKenney v. Sullivan held that these regulatory limitations conflict with section 402(a)(7)(A) of the Social Security Act. The courts interpreted this section as providing States with the authority to identify in their State plans the categories of individuals who may be recognized as essential persons. These judicial decisions were not appealed. Consequently, the Department revoked the 1989 regulations and reinstated the prior policy. In order to rationalize the use of the essential person policy, a statutory amendment to section 402(a)(7)(A) is necessary.

3. Stepparent Deeming

Current Law

Section 402(a)(31) of the Social Security Act requires that the income of an AFDC dependent child's stepparent who lives in the same home as the child is counted in the monthly determination of eligibility and the amount of assistance. The statute also requires that the following disregards will be applied in determining the amount of the stepparent's countable income:

- *The first $90 of the stepparent's gross earned income;*
- *An additional amount for the support of the stepparent and other individuals who live in the home, who are not in the assistance unit, and who the stepparent claims as dependents for Federal income tax purposes. This disregard must equal the State's need standard amount for a family group of the same composition as the stepparent and the other individuals not in the assistance unit;*
- *Alimony and child support payments to individuals not living in the household; and*

- *Amounts actually paid by the stepparent to individuals not living in the home but who he or she claims as dependents for Federal income tax purposes.*

Specification

(a) Amend the Social Security Act to give States the flexibility to increase the amount of the stepparent disregards. This provision shall be effective October 1, 1995.

Rationale

Allowing the disregards to be increased provides incentives for AFDC recipients to marry to improve the stability of the family, and provides an incentive for stepparents to increase their earnings.

4. OPTIONAL RETROSPECTIVE BUDGETING

Current Law

For the AFDC program, the Social Security Act permits States to use retrospective budgeting only for the categories of families required to monthly report. The Food Stamp Act permits States to retrospectively budget cases that are not required to monthly report.

Specifications

(a) Amend the Social Security Act at section 402(a)(13) to delete the clause "but only with respect to any one or more categories of families required to report monthly to the State agency pursuant to paragraph (14),". This technical amendment will make retrospective budgeting optional for States without regard to whether families are required to monthly report.

Rationale

Allowing States to use retrospective budgeting without requiring cases to monthly report will foster consistency between the AFDC and Food Stamp programs, and will give States greater flexibility to administer their programs.

5. MISCELLANEOUS ADMINISTRATIVE PROVISIONS

1. Underpayments

Current Law and Policy

Section 402(a)(22) of the Social Security Act requires State agencies to promptly take all necessary steps to correct any underpayment. Regulations at 45 CFR 233.20(a)(13) limit the issuance of underpayments (both agency and client caused) to current recipients and former recipients who would be currently eligible if the error causing the underpayment had not occurred. As a result of litigation, *program policy also permits States to issue underpayments to former recipients who would no longer be currently eligible. The amount of the underpayment is not limited by the number of eligible months covered.*

Section 11(e)(11) of the Food Stamp Act provides that benefits are to be restored to a household requesting them if the benefits have been "wrongfully denied or terminated." The period for which benefits are restored is limited to one year prior to the date the State agency either receives a request for restoration from the household or otherwise learns that a loss to the household occurred. The Food Stamp rule (7 CFR 273.17) also prohibits the State agency from restoring benefits for a period longer than 12 months. The rule requires that benefits be restored even if the household is currently ineligible.

Vision

To provide clients with a rational and consistent policy in the processing of underpayments.

Specifications

(a) Amend section 402(a)(22) of the Social Security Act to conform to Food Stamp law by requiring the issuance of agency caused underpayments to current and former recipients for a period not in excess of 12 months from the date that the agency learns about the underpayment.

Rationale

Since clients are responsible for reporting changes in circumstances that affect eligibility and benefits, a 12-month limit on restoring lost benefits due to agency error reinforces positive behavior. The change also achieves consistency between the AFDC and Food Stamp underpayment policies.

2. Recovery of Overpayments Through Federal Tax Intercept

Current Law

Section 402(a)(22) of the Social Security Act requires, as a condition for aid and services to needy families with children, a State plan which must provide that a State agency will promptly take all necessary steps to correct any overpayment to any individual who is no longer receiving aid under the plan. Recovery shall be made by appropriate action under State law against the income or resources of the individual or the family.

Vision

To allow State agencies to recover AFDC program overpayments through the use of a tax intercept program in coordination with the IRS. A 50% match rate to cover administrative costs will be provided.

Specifications

(a) Amend section 402(a)(22)(b) of the Social Security Act to permit State agencies to coordinate with the IRS to intercept Federal Income Tax Returns for the collection of outstanding AFDC overpayments, provided they pursue other means of collection under State law prior to using the Federal tax intercept program. The tax intercept recovery method would only be used to recover overpayments made to individuals who are no longer receiving aid under the plan.

(b) The administrative costs would have a 50% Federal match rate for State expenses.

Rationale

Currently States have the authority to intercept State tax refunds but are unable to do so if the overpaid individual moves to another State. A Federal system would allow States to collect from individuals, regardless of their State of residence. FNS has been running an IRS tax intercept program as a demonstration project since 1992. The program has proved to be very effective in collecting outstanding overpayments, so much so that FNS has expanded the demonstration every year to include more States. A 50% match for administrative costs supports the Administration's philosophy that the administration of the AFDC program should be an equal Federal/State partnership.

3. Administrative Cost Structuring for Certain Social Services

Current Law

Section 402(a)(15) of the Social Security Act provides for certain services to be offered and provided promptly (directly or under arrangements with others) to all individuals voluntarily requesting such services. Services will be voluntary and shall not prerequisite to eligibility. This is to be provided to each appropriate relative and dependent child receiving aid and for each appropriate individual (living in the same home as a relative and child receiving aid) whose needs are taken into account in making the eligibility determination.

Vision

Section 403(a)(3) indicates that administrative costs of such services are not matched at 50 percent if the State includes family planning services under their Title XX Social Services Block Grant Program. This policy would be amended to allow for administrative matching.

Specifications

(a) Change Section 403(a)(3), to allow a 50 percent match for such services if they are provided under Title XX.

4. Declaration of Citizenship and Alienage

Current Law

Section 1137(d) of the Act requires, as a condition of eligibility for assistance, a declaration in writing by the individual (or, in the case of an individual who is a child, by another on his/her behalf) *under penalty of perjury, stating whether or not the individual is a citizen or national of the United States, and, if such individual is not a citizen or national of the United States, whether he/she is in a satisfactory immigration status.*

Vision

To bring the AFDC program into alignment with Food Stamps by allowing one adult member of an applicant assistance unit to sign the declaration of citizenship or alien status for all members of the unit.

Specifications

(a) Amend the Social Security Act by revising section 1137(d)(1)(A) as follows:

(1)(A) The State shall require, as a condition of an individual's eligibility for benefits under any program listed in subsection (b), a declaration in writing by the individual (or, in the case of an individual who is a child or a second parent in a two-parent unit, by another on the individual's behalf), under penalty of perjury, stating whether or not the individual is a citizen or national of the United States, and, if that individual is not a citizen or national of the United States, that the individual is in satisfactory immigration status.

Rationale

The current requirement is administratively burdensome as it requires each adult in the AFDC unit to sign a separate declaration. This proposal will allow the adult payee or principal earner in an assistance unit to declare on behalf of his/her second parent and children, thereby simplifying the application and redetermination process. This proposal would also provide consistency with Food Stamps.

6. TERRITORIES

Current Law

Section 1108 of the Social Security Act permits the territories (i.e., Guam, Puerto Rico, and the Virgin Islands) to operate the AABD and AFDC programs; American Samoa is only authorized to operate an AFDC program. Funding for Child Care and Transitional Child Care is provided for under the JOBS limit of entitlement. If the territory elects to operate these programs, it must also have a title IV-E or Foster Care program. The territory must adhere to the same eligibility and payment requirements as the States. The Federal government matches 75 percent of costs; however, funding for the territories is capped. The caps are $82 million for Puerto Rico, $3.8 million for Guam, and $2.8 million for the Virgin Islands. Between 1979 and the present, the caps were increased once, by roughly 13 percent.

Vision

To create realistic funding levels for the territories that are reflective of the current economy and caseload. A mechanism that will provide occasional adjustments in funding levels will be developed to replace the current burdensome method of petitioning Congress for adjustments. Additionally, Territories will have the option to operate a time-limited system and a WORK program (see specifications under JOBS, TIME LIMITS, AND WORK SECTION) but will not be required to do so.

Specifications

(a) Continue to require the territories to operate the AABD, AFDC (including JOBS supportive services) and Foster Care programs. Amend section 1108 of the Social Security Act to increase the caps by an additional 25 percent and create a mechanism for indexing. The effective date shall be October 1, 1996.

(b) At-Risk child care will not be applied against the cap.

(c) The territories would not be required to operate AFDC-UP programs (effective upon enactment of this act).

(d) The cap shall be adjusted regulalry, according to changes in the CPI.

Rationale

The number of public assistance programs funded under the current caps, coupled with only one adjustment to these caps in 15 years, has seriously limited the territories' abilities to provide, let alone increase benefits. Benefit payments above the cap are financed 100 percent by the territories, resulting in situations such as Guam's where the Federal share is roughly 40 percent. Puerto Rico reports that, since 1987, AFDC caseloads have nearly doubled from 98,000 units to 183,000 units. Further, beginning October, 1994, Puerto Rico will be required to extend eligibility to two-parent families. Puerto Rico estimates that an additional 40,000 families will be eligible for AFDC due to this provision. If match rates were determined by formula, as they are in the States, the territories would be eligible for higher match rates. Increasing the caps and providing a mechanism for efficient adjustments to those caps will not only continue to give territories the authority to operate public assistance programs but adequate means to do so as well.

B. REGULATORY REVISIONS

1. Automobile Resource Limit

Current Requirements

The Social Security Act provides for the exclusion of so much of a family member's ownership interest in one automobile as prescribed by the Secretary. That exclusion is set by regulation at $1500 equity value (or a lower limit set by the State) in one vehicle with any excess equity value counted toward the $1,000 AFDC resource limit.

The Food Stamp Act provides for the total exclusion of vehicles that are used over 50 percent of the time for income-producing purposes; annually producing income consistent with their FMV; necessary for long distance travel for work (other than daily commute); used as the household's home; or needed to transport a physically disabled household member. For the following vehicles, the amount of the FMV over $4,500 is counted as a resource: one per household (regardless of use); and vehicles used for work, training or education to prepare for work in accordance with food stamp employment and training requirements. For all other vehicles, the FMV over $4,500 or the equity value, whichever is more, is counted as a resource.

Vision

Reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program. Because a dependable vehicle is important to individuals in finding and keeping a job, particularly for those in areas without adequate public transportation, both the AFDC and the Food Stamp programs need a conforming automobile resource policy that supports acquiring reliable vehicles. This proposal would simplify the automobile resource policy by conforming the program rules and reducing the unnecessary complexity and confusion for program administrators in both programs.

Regulatory Specifications

(a) Exercise Secretarial authority and amend the regulations to increase the AFDC automobile limit to $3,500 equity value, and subsequently index for inflation.

Rationale

This proposal is a first step towards bringing a level of conformity between the two programs that would eliminate some of the administrative complexity involved with valuing vehicles under varying criteria and would result in greater effectiveness and efficiency in the administration of both programs.

2. Verification

Current Requirements

Food Stamp law and regulations include specific requirements for verification and documentation of information needed for eligibility and benefit determinations. Food Stamp regulations mandate verification of utility and medical expenses (when actual is claimed), identity, residency (address), disability and household composition. In the AFDC program, the Act and regulations do not address how verification is to occur but State procedures have generally conformed to the verification policy outlined in the Federal quality control manual.

Under the Food Stamp Act (FSA) (sections 11(e)(3),(9)) and Social Security Act (Act) (sections 402(a)(25) and 1137), income must be verified through the Income and Eligibility Verification System (IEVS). The State must request wage and benefit information for from the State Wage Information Collection Agency, the Social Security Administration, and the agency administering Unemployment Insurance Benefits. Unearned income information must be requested from the Internal Revenue

Service. Both programs are also required by law to verify alien status through the Immigration and Naturalization Service's Systemic Alien Verification for Entitlement system.

Both programs review the accuracy of eligibility decisions and benefit amounts through quality control systems, with the intended result that much information is verified at application and at recertification to avoid errors. States may, in both programs, adopt other verification requirements.

Vision

Federal computer matching and verification requirements are often burdensome for both clients and eligibility staff. Even where States have flexibility, the emphasis on payment accuracy and the potential for fiscal quality control penalties have often resulted in unnecessary documentation, delays in benefits and improper denials and terminations. Yet, to assure the public that their taxes are being spent to serve only those in need, verification will continue to be a critical component of the new system for delivering assistance to families. States must be afforded the flexibility to simplify matching procedures, while assuring program integrity through minimum standards.

Regulatory Specifications

(a) Exercise current Secretarial waiver authority for IEVS and SAVE to give States greater flexibility relative to the selection of alternate sources for matching activities, the elimination of certain matches, the targeting of client groups for matching and follow-up verification, and the modification of time frames for follow-up action on match "hits." Amend the Federal regulations on IEVS and change the ACF review perspective on SAVE (given the absence of regulations in this area) to provide greater latitude on what can be waived and the applicable State justification.

(b) Verification systems and time-frames for action will be included in the State Plan.

Rationale

States will welcome the increased flexibility provided by this proposal and be able to streamline their verification activities, saving time and paperwork. At the same time, the State plan approval process will ensure adequate protection of client rights and program integrity without restricting State flexibility.

NON-CITIZENS PROVISIONS

A. ELIGIBILITY FOR NON-CITIZENS

1. Apply a Uniform Standard for Determining Alien Eligibility for Non-Citizens Under AFDC, Supplemental Security Income, and Medicaid

Current Law:

Assuming they meet all other eligibility requirements, foreign nationals residing in the United States must be lawfully admitted for permanent residence or "permanently residing in the United States under color of law" (PRUCOL) to qualify for benefits of the AFDC, Supplemental Security Income (SSI), or Medicaid programs.

The term PRUCOL applies to certain individuals who are neither U.S. citizens nor aliens lawfully admitted for permanent residence. Aliens who are PRUCOL entered the United States either lawfully in a status other than lawful permanent residence or unlawfully. PRUCOL status is not a specific immigration status but rather includes many other immigration statuses. Under the SSI statute, PRUCOL aliens include those who hold parole status. The AFDC statute defines aliens who have been granted parole, refugee, or asylum status as PRUCOL, as well as aliens who had conditional entry status prior to April 1, 1980. The Medicaid statute uses the term PRUCOL but provides no guidance as to the meaning of the term.

In addition to the revisions in the regulations reflecting the interpretation of section 1614(a)(1)(B) of the Social Security Act resulting from the court in the Berger and Sudomir decisions discussed below, PRUCOL status also is defined in AFDC, SSI and Medicaid regulations as including aliens:

- *who have been placed under an order of supervision or granted asylum status;*
- *who entered before January 1, 1972, and continuously resided in the United States since then;*
- *who have been granted "voluntary departure" or "indefinite voluntary departure" status; and*
- *who have been granted indefinite stays of deportation.*

In the case of Berger v. Secretary, HHS, the U.S. Court of Appeals for the 2d Circuit in interpreted PRUCOL for the SSI program to include 15 specific categories of aliens and also those aliens whom the Immigration and Naturalization Service (INS) knows are in the country and "does not contemplate enforcing" their departure. SSA follows the Berger court's interpretation of the phrase "does not contemplate enforcing" to include aliens for whom the policy or practice of the INS is not to enforce their departure as well as aliens whom it appears the INS is otherwise permitting to reside in the United States indefinitely. The Medicaid regulations include the same Prucol categories as the SSI regulations.

The Sudomir v. Secretary, HHS decision, which focused on AFDC eligibility for asylum applicants, was less expansive. The U.S. Court of Appeals for the 9th Circuit determined that AFDC eligibility would extend only to those aliens allowed to remain in the United States with a "sense of *permanence." Applicants for asylum are thus specifically excluded from receiving AFDC benefits by this decision even though they would not necessarily be disqualified for SSI due to the* Berger *decision.*

Specifications

(a) Eliminate any reference to PRUCOL as an eligibility category in titles IV, XVI, and XIX of the Social Security Act (the Act). Standardize the treatment of aliens under these titles by identifying in the statute the specific immigration statuses in which non-citizens must be classified by INS in order to qualify to be considered for AFDC, SSI, or Medicaid eligibility. Specifically, provide that only aliens in the following immigration statuses could qualify--

- lawfully admitted for permanent residence within the meaning of section 101(a)(20) of the Immigration and Nationality Act (INA);
- residing in the United States with lawful temporary status under sections 245A and 210 of the INA (relating to certain undocumented aliens legalized under the Immigration Reform and Control Act of 1986);
- residing in the United States as the spouse or unmarried child under 21 years of age of a citizen of the United States, or the parent of such citizen if the citizen is over 21 years of age, and with respect to whom an application for adjustment to lawful permanent resident is pending; or
- residing in the United States as a result of the application of the provisions listed below:
  - sections 207 of the INA (relating to refugees) or 203(a)(7) of the INA (relating to conditional entry status as in effect prior to April 1, 1980);
  - section 208 of the INA (relating to asylum);
  - section 243(h) of the INA (relating to a decision of the Attorney General to withhold deportation);
  - section 244 of the INA (relating to a decision of the Attorney General to suspend deportation); and
  - any other provision of the INA, provided that: (i) the Attorney General determines that the continued presence of an alien within a class of aliens serves a humanitarian or other compelling public interest, and (ii) the Secretary of HHS determines that such interest would be further served by permitting such alien of such class to be potentially eligible for benefits under titles IV, XVI, and IX (e.g., certain aliens granted parole status).

(b) The proposal would continue the eligibility of those aliens eligible for AFDC, SSI, or Medicaid on the effective date of the amendment who began their periods of eligibility before enactment for as long as they remain continuously eligible.

(c) The proposal would also allow state and local programs of assistance to utilize the same criteria for eligibility.

Rationale

Some aliens currently considered PRUCOL did not enter the United States as immigrants under prescribed immigration procedures and quotas, but entered illegally. Others entered legally under temporary visas but did not depart. The courts have determined some of these aliens to be eligible for benefits under the definition of PRUCOL, even though such individuals have not received from INS a deliberate immigration decision and status for permanent presence in the United States. In essence, many of these aliens are similar to illegal aliens except that they have been caught, which under current law can ironically improve an alien's situation in terms of benefit eligibility. That is, if they are caught, INS will likely grant them one of the "PRUCOL statuses"--such as voluntary departure or deferred action--which currently allows them to be eligible for SSI, AFDC, and/or Medicaid. If they are not caught, they are simply undocumented and are not eligible for any benefits other than emergency medical services. Therefore, it is reasonable to restrict AFDC, SSI, and Medicaid eligibility to specific categories of aliens who have entered the United States lawfully or who are permitted to remain in the U.S. indefinitely and are eligible to obtain permanent resident status.

Determining which aliens must be considered for eligibility for Social Security Act programs has become excessively confusing due to judicial actions, and it is subject to ongoing challenge in the courts. This confusion--characterized by the different treatment by different programs of similar individuals--would be remedied by establishing in statute a uniform definition of alien eligibility. The proposal would provide such a uniform definition by listing the immigrant statuses and specifically citing the provisions of the INA under which they are granted, thereby eliminating the ongoing uncertainty about the precise scope of the eligibility conditions and potential inconsistencies regarding alien eligibility in the three programs. Due to the complexities of immigration statuses there are some groups of aliens which can not be defined unequivocally in statute. For example, some aliens are paroled into the U.S. for humanitarian purposes and are effectively permitted to remain indefinitely. Others are paroled into the U.S. for a very limited period of time--typically a matter of weeks--for specific purposes (e.g., to testify at a trial). The proposal would permit the Attorney General to identify those classes of aliens within certain immigration categories that are allowed to remain in the U.S. due to humanitarian or other compelling public interest reasons. In turn, the Secretary of HHS would be granted authority to determine whether those classes of aliens identified by the Attorney General would be potentially eligible for benefits.

The Food Stamp program has avoided similar problems because the categories of aliens eligible for assistance under the program have been specifically listed in law. This proposal seeks to do the same for AFDC, SSI, and Medicaid. The proposal would save administrative resources and costs. The case development required to determine if an alien is considered PRUCOL generally is time-consuming because SSA and state AFDC and Medicaid agencies must verify the alien's status with INS. In many cases, an alien's status as PRUCOL must be re-verified annually.

B. SPONSOR-TO-ALIEN DEEMING

Current Law: *Under immigration law and policies, most aliens lawfully admitted for permanent residence and certain aliens paroled into the United States are required to have sponsors.*

As a condition of entry as a lawful permanent resident, almost all immigrants must satisfy the admitting officer that they are not likely to become a public charge in the United States. For many immigrants, this requirement is met by having a relative who is a U.S. citizen or legal permanent resident agree to "sponsor" the immigrant. Sponsors sign affidavits of support or similar agreements provided by the Department of State or the Immigration and Naturalization Service affirming that they will be responsible for supporting the immigrants and ensuring that the immigrants will not become public charges. However, these pledges are not enforceable and, by themselves, have no effect on whether the immigrants can qualify for public assistance. Therefore, the Supplemental Security Income (SSI), Aid to Families with Dependent Children (AFDC), and the Food Stamp program apply rules that limit sponsors' shifting their responsibilities to the programs by deeming a portion of a sponsor's income and resources as being available to the immigrant for a particular period of time. The affidavit of support informs the sponsor and the immigrant of the deeming rules that will be applied to the immigrant by the SSI, AFDC, and Food Stamp programs.

Specifically, sections 1614(f)(3), 1621(a), and 415 of the Social Security Act provide that in determining SSI and AFDC eligibility and benefit amount for an alien, his sponsor's (and sponsor's spouse's) income and resources are deemed to the alien for 3 years after the alien's entry into the United States. Public Law 103-152 extends the period of sponsor-to-alien deeming in the SSI program from 3 to 5 years for those applying for benefits beginning January 1, 1994 and ending October 1, 1996. For the SSI program, these deeming provisions do not apply to an alien who becomes blind or disabled after entry into the U.S. The Food Stamp program currently provides for a three-year sponsor-to-alien deeming period. Refugees are exempt from the deeming rules under all three programs. Immigration law provides generally that an alien who has resided continuously in the United States for at least 5 years after being lawfully admitted for permanent residence may file an application for U.S. citizenship.

Specifications

(a) Make permanent the five year sponsor-to-alien deeming under the SSI program. Extend from three to five years sponsor-to-alien deeming under the AFDC and Food Stamp programs.

(b) For the period beginning with six years after being lawfully admitted for permanent residence in the U.S. and until a sponsored immigrant attains citizenship status, no sponsored immigrant shall be eligible for benefits under the AFDC, SSI, and Food Stamp programs, unless the annual income of the immigrant's sponsor is below the most recent measure of U.S. median family income.

- "Annual income" of the sponsor shall include the most recent measure of annual adjusted gross income (AGI) of the immigrant's sponsor, and the AGI of the sponsor's spouse and dependent children, if any.

- "Median family income" shall be based on the most recent Bureau of the Census measure for U.S. median family income for all families, updated by the most recent measure of change in the Consumer Price Index (CPI-U).

(c) Each year the Secretary of HHS shall publish in the Federal Register the median family income amount that will be used to determine the eligibility of sponsored immigrants for the AFDC, SSI, and Food Stamp programs. This measure will be based on the most recent income data from the Current Population Survey (CPS), published by the Bureau of the Census.

(d) Allow state and local programs of assistance to disqualify from participation in general assistance any alien who is disqualified from participation in the SSI, AFDC, and Food Stamp programs due to sponsor-to-alien deeming.

(e) Effective with respect to applications filed and reinstatements of eligibility following a month or months of ineligibility on or after October 1st 1994.

(f) Exempt from sponsor-to-alien deeming under the Food Stamp program any sponsored alien who becomes blind or disabled after entry into the U.S. and becomes eligible for SSI.

(g) Raise the Food Stamp resource limit under sponsor-to-alien deeming to conform with the general resource limit under Food Stamps.

(h) Exempt from sponsor-to-alien deeming under SSI, AFDC, and Food Stamps any sponsored immigrant whose sponsor is receiving AFDC or SSI benefits.

(i) Allow the Secretaries--after consultation and coordination with each other--to alter or suspend the sponsor-to-alien deeming provisions on an individual case basis where it is determined that application of the standard sponsor-to-alien deeming provisions would be inequitable under the circumstances.

Rationale

The number of immigrants entering the U.S. has been increasing recently and there has been a rapid rise in the number of immigrants receiving benefits--particularly SSI benefits. For example, the number of immigrants who received SSI benefits in December 1992 was more than double the number who received benefits in December 1987. Over a third of all aged legal permanent residents on the SSI rolls in December 1993 came onto the rolls within 12 months after their 3-year sponsor-to-alien deeming period ended, indicating that the deeming provision is instrumental in delaying alien eligibility for SSI. Maintaining (under SSI) and extending (under AFDC and Food Stamps) the deeming period to five years for lawfully admitted permanent residents for whom an affidavit of support has been signed serves to enforce the pledge made by a sponsor that the immigrant will not become a public charge and avoids increases in benefit program costs which would otherwise occur as a result of increasing immigrant use of welfare benefits. Requiring a sponsor that is in the top half of the income distribution in the U.S. to continue to be financially responsible for a sponsored immigrant beyond the five year deeming period maintains the integrity of these welfare programs which are intended to help the poorest of the poor.

For example, under the SSI program, many elderly immigrants are sponsored by their children who have signed affidavits of support. It seems equitable to require the children to continue to support their relatives for the five year deeming period, rather than allow the parents to obtain welfare *entitlement benefits solely on the basis of age, particularly if the sponsors are financially able to continue supporting the immigrants they have sponsored. Sponsors generally have sufficient income and resources to support their alien relatives. Once the five year period has ended, it is equitable to continue requiring the sponsor in the top half of the income distribution to be financially responsible for the well-being of the sponsored immigrant. Nothing in this proposal would prohibit a sponsored immigrant from becoming eligible for benefits if the sponsor's income and resources were depleted sufficiently to meet eligibility criteria, as is the case with current law. Also, refugees would continue to be exempt from sponsor-to-alien deeming, and sponsored immigrants who become blind or disabled after entry into the U.S. would continue to be eligible for benefits. This proposal merely requires sponsors to continue for a longer period of time to accept financial responsibility for those immigrants they choose to sponsor. Once sponosored immigrants become citizens, it is appropriate to discontinue these eligibility rules.*

FINANCING PROVISIONS

Vision

The financing for welfare reform comes from three areas: (1) reductions in entitlement programs; (2) extensions of various savings provisions set to expire in the future; and (3) better EITC targeting and compliance measures. Estimated Federal savings for all proposals are roughly $9.3 billion over five years.

A. ENTITLEMENT REFORMS

1. Cap the Emergency Assistance Program

Vision

The AFDC-Emergency Assistance (EA) Program is an uncapped entitlement program. In fiscal year 1990, expenditures totalled $189 million; by fiscal year 1999 they are projected to reach almost $1 billion. While the intent of the EA program is to meet short-term emergency needs and help keep people off welfare, States currently have wide latitude to determine the scope of their EA programs. Recently, States have realized that the definition of the program is so broad that it can fund almost any critical services to low-income persons. Some States have begun shifting costs from programs which the States fund primarily on their own such as foster care, family preservation, and homeless services into the matched EA program. States appear to be funding services that address long-term problems as well as true emergency issues.

Specifications

(a) Modify the current Emergency Assistance program by establishing a Federal cap for each State's EA expenditures. The cap will be set in fiscal year 1995 and increased by the Consumer Price Index in each subsequent year.

(b) The basic allocation formula is a combination of two components:

   (i) Allocation among States proportional to their requested expenditures in 1994; and

   (ii) Allocation among States proportional to their total AFDC spending in the previous year.

(c) There will be a ten-year transition period, and the weighting of the components will shift over time, with increasingly more weight being given to the second component. Beginning in 1995, the weighting will be 90 percent by component 1 and 10 percent by component 2. The weighting will be altered by 10 percentage points each year such that by 2004, the weighting will be 100 percent by component 2.

Rationale

The proposal ensures that all States will receive continued funding equal to their actual 1991 levels. The Federal match will continue at 50 percent up to the cap. This proposal raises about $1.60 billion over five years. The basic allocation formula balances the need to protect States that have been spending heavily on EA in and before 1994 with the potential claims of new States which have not previously had claims for services under EA.

2. Tighten Sponsorship and Eligibility Rules for Non-Citizens

Vision

In recent years, the number of non-citizens lawfully residing in the U.S. who collect SSI has risen dramatically. Immigrants rose from 5 percent of the SSI aged caseload in 1982 to over 25 percent of the caseload in 1992. Since 1982, applications for SSI from immigrants have tripled, while immigration rose by only about 50 percent over the period.

Most of the legal permanent resident applicants enter the country sponsored by their relatives, who agree as a condition of sponsorship that their relatives will not become public charges. To enforce this commitment, until this year, current law required that for 3 years, a portion of the sponsor's income in excess of 110 percent of poverty be "deemed" as available to help support the legal permanent resident (LPR) immigrant should they need public assistance. Currently, about one-third of the LPR immigrants on SSI subject to the deeming rules apply in their 4th year of residency. Last fall, to pay for extended unemployment benefits, Congress extended the time of deeming under SSI from three years to five years until 1996 when it reverts to three years again.

The Administration proposal related to non-citizens contains two parts--extending the deeming period for sponsor income and coordinating eligibility criteria under four Federal assistance programs.

Specifications

(a) Deeming Make the current five-year period of sponsor responsibility permanent law under the SSI program and extends from three years to five years sponsor responsibility under the AFDC and Food Stamp programs. The sponsor's income would be deemed as available to support the immigrant should they apply for public assistance. For the period beginning with six years after being lawfully admitted for permanent residence in the U.S. and until a sponsored immigrant attains citizenship status, if the sponsor has income above the U.S. median family income ($39,500), the sponsor will continue to be responsible for ensuring the support of the immigrant.

Rationale

This will have the effect of denying benefits to immigrants with sponsors with income above the median. Once immigrants attain citizenship, they will be eligible to apply for benefits on their own. Any immigrant whose sponsor is receiving SSI or AFDC benefits would be exempt from sponsor-to-alien deeming under SSI, AFDC and food stamps. The proposal affects applications after the date of enactment (i.e., it would grandfather current recipients as long as they remained continuously eligible for benefits). These changes in deeming rules would not apply to, and would have no effect on, *Medicaid eligibility for immigrants. This part of the proposal saves about $2.8 billion over five years.*

(b) Set consistent deeming rules for sponsored immigrants across three Federal programs (SSI, AFDC, and Food Stamps). Sponsor responsibility is based on longstanding immigration policy that immigrants should not become public charges.

Rationale

Sponsored immigrants most often apply for SSI benefits on the basis of being aged, and are different from most citizens in that the latter typically spent their life working and paying taxes in the U.S. At the same time, this proposal ensures that truly needy sponsored immigrants will not be denied welfare benefits if they can establish that their sponsors are no longer able to support them, if their sponsors die, or if the immigrant becomes blind or disabled after entry into the U.S. The policy would not affect refugees or asylees.

Vision

Currently, due to different eligibility criteria in statute, and litigation over how to interpret statutory language, the four Federal programs (SSI, AFDC, Medicaid, and Food Stamps) do not cover the same categories of non-LPR immigrants. For example, aliens whose departure the INS does not contemplate enforcing are eligible for SSI, but not for Food Stamps. The Food Stamp program has the most restrictive definition of which categories of non-LPR immigrants are eligible for benefits (i.e., the eligibility criteria encompass a fewer number of INS statuses). SSI and Medicaid have the most expansive definition of which categories of non-LPR immigrants are eligible for benefits, and the AFDC program falls between these extremes. This element establishes in statute a consistent definition of which non-LPR immigrants are eligible for welfare benefits.

(c) Eligibility criteria Establish similar eligibility criteria under four Federal programs (SSI, AFDC, Medicaid, and Food Stamps) for all categories of immigrants who are not legal permanent residents.

Rationale

This proposal makes eligibility criteria in the SSI, Medicaid, and AFDC programs similar to the criteria that currently exist in the Food Stamp program. The new list of INS statuses required for potential eligibility to the SSI, Medicaid, and AFDC programs is also virtually identical to those listed in the Health Security Act providing eligibility for the Health Security Card. Like the extended deeming provisions, this part of the proposal affects applications after date of enactment (i.e., it would grandfather current recipients as long as they remained continuously eligible for benefits). This part of the proposal saves about $900 million over five years.

3. New Rules Regarding SSI Benefits for Drug and Alcohol Addicted Recipients

Current Law

Current law requires that all SSI disability recipients for whom substance abuse is material to the finding of disability must be in available treatment and must have their payments made through a representative payee (a third party who receives and manages the funds). Payments to these SSI drug addict and alcoholic (DA&A) beneficiaries are suspended if the individual fails to participate in appropriate alcohol or drug treatment, if such treatment is available. No similar requirements are made of Social Security (Title II) disability beneficiaries who receive benefits on the basis of addictions. The representative payee and treatment requirements have been part of the SSI program since its inception over 20 years ago. However, the provisions have not been implemented effectively.

Specification

(a) Strengthen sanctions and apply new time limits to benefits paid to individuals receiving Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) benefits who have substance abuse problems that are material to their disability finding.

Rationale

The Congress is reaching decisions on these proposals currently in conference on H.R. 4277, a bill which the Administration supports. We anticipate savings of $800 million over five years. Should the final bill yield savings of less than $800 million, we are committed to working with Congress to fully finance the package.

4. Income Test Meal Reimbursements to Family Day Care Homes

Current Law

The Child Care Food Program provides food subsidies for children in two types of settings: child care centers and family day care homes. They are administered quite differently. The subsidies in centers are well targeted because they are means-tested; USDA believes that over 90 percent of Federal dollars support meals served to low-income (below 185 percent of poverty) children. The family day care part of the program is not well targeted because it has no means test (due to the burden it would place on the providers). A USDA-commissioned study estimates that 71 percent of Federal food program dollars to family day care homes support meals for children above 185 percent of the poverty line. While the child care center funding levels have been growing at a modest rate, the family day care funding levels are growing rapidly--16.5 percent between 1991 and 1992.

Specifications

(a) Family day care homes located in low-income areas (e.g., census tracts where half of the children are below 185 percent of the poverty line) would receive $.89 and $1.62 in breakfast and lunch reimbursements, respectively, during school year 1997. This is roughly equivalent to the "free meal" rate paid on behalf of low-income children in day care centers, whose families have incomes under 130 percent of poverty. In addition, low-income providers (with annual income below 185% of poverty) would be eligible for the higher reimbursement rate for all meals.

(b) All other homes would have a choice. They could elect not to use a means-test; if they elect this option, they would receive reimbursements at the reduced levels of $.57 and $1.35, respectively. Alternatively, a family day care home could administer a simplified, two-part means-test. Meals served to children below 185 percent of the poverty line would be reimbursed at the "free meal" rate. Meals served to children above 185 percent of the poverty line would be reimbursed at the reduced-price rate.

(c) Intermediaries that serve family day care homes in low-income areas would be reimbursed an extra $10 per month for ongoing administrative costs, and a $5 million set-aside would help such day care homes to become licensed (or registered).

Rationale

This approach better targets the family day care food program funding to low-income children and creates minimal administrative requirements for providers. This provision yields savings of about $500 million over five years.

5. Limit Deficiency Payments to Those Making $100,000+ from Off-Farm Income Per Year

Vision

USDA farm programs are criticized for unfairly supporting large farms and wealthy producers rather than smaller farms and lower-income farmers. The Congressional Office of Technology Assessment concluded that most big farms "do not need direct government payments and/or subsidies to compete and survive."

Specification

(a) Make producers receiving $100,000 or more in off-farm adjusted gross income ineligible for Commodity Credit Corporation (CCC) crop subsidies (price support loans and income support payments).

Rationale

The proposed targeting of subsidies would direct farm payments to smaller, family farms, which deserve Federal financial help more than large agricultural enterprises and individuals with sufficient off-farm income. It would cause an estimated 1-2 percent of program participants to drop out of USDA farm programs. Most of these wealthiest participants include corporations and individuals for whom farming is not a primary occupation or source of income. This proposal would save about $500 million over five years.

B. EXTEND EXPIRING PROVISIONS

1. Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Retain

Vision and Rationale

States are permitted to keep some portion of the 100-percent Federal Food Stamp recoveries as an incentive payment for pursuing program violations. This proposal raises about $100 million over five years.

Specification

(a) Extend the 1990 Farm Bill provision which reduced the percentage of recovered Food Stamp overissuances retainable by State agencies for fiscal years 1991-95. Under this provision, which would be extended to fiscal years 1996-2004, States could retain 25 percent of recoveries from intentional program violations (previously 50 percent) and 10 percent of other recoveries (previously 25 percent).

2. Extend Fees for Passenger Processing and Other Custom Services

Vision and Rationale

A flat-rate merchandise processing fee (MPF) is charged by U.S. customs for processing of commercial and non-commercial merchandise that enters or leaves U.S. warehouses. The fee, adopted by OBRA 1986, generally is set at 0.19 percent of the value of the good. Other variable customs fees are charged for: passenger processing; commercial truck arrivals; railroad car arrivals; private vessel or private aircraft entries; dutiable mail; broker permits; and barge/bulk carriers. NAFTA extended the MPF and other fees through September, 2003. This proposal would save about $1 billion in that year.

Specification

(a) Extend the fees through September, 2004.

3. Extend Railroad Safety User Fees

Vision and Rationale

Railroad safety inspection fees were enacted in the Omnibus Budget Reconciliation Act of 1990 to pay for the costs of the Federal rail safety inspection program. The railroads are assessed fees according to a formula based on three criteria: road miles, as a measure of system size; train miles as a measure of volume; and employee hours as a measure of employee activity. The formula is applied across the board to all railroads to cover the full costs of the Federal railroad safety inspection program. The fees are set to expire in 1996. The 1995 President's Budget proposed to extend the fees through 1999 and expand them, effective in 1995, to cover other railroad safety costs. The proposal raises about $200 million over five years.

Specification

(a) Extend the Railroad safety inspection fees permanently.

4. Extend Expiring Corporate Environmental Income (CEI) Tax Used to Finance Superfund

Vision and Rationale

A broad-based environmental tax, based on corporate alternative minimum taxable income (0.12 percent) in excess of $2 million, was first enacted in 1986 and is set to expire at the end of 1995.

Superfund reauthorization legislation would provide a further CEI tax extension through the year 2000, which would provide sufficient additional credit needed for budget scoring of the Superfund legislation's "orphan share" proposal. All revenue from the CEI tax extension, whether enacted in welfare reform or Superfund legislation, will continue to be dedicated to the Hazardous Substance Superfund to be used only for Superfund cleanups.

Specification

(a) Extend the CEI tax into 1998.

C. EITC TARGETING AND COMPLIANCE MEASURES

1. Deny EITC to Non-Resident Aliens

Vision and Rationale

Under current law, non-resident aliens may receive the Earned Income Tax Credit (EITC). Because non-resident taxpayers are not required to report their worldwide income, it is currently impossible for the IRS to determine whether ineligible individuals (such as high-income nonresident aliens) are claiming the EITC. We estimate that about 50,000 taxpayers will be affected by our proposal, mainly visiting foreign students and professors. The proposal raises about $100 million over five years.

Specification

(a) Deny the EITC to non-resident aliens completely.

2. Require Income Reporting for EITC Purposes for Department of Defense (DoD) Personnel

Vision and Rationale

Under current law, families living overseas are ineligible for the EITC. The first part of this proposal would extend the EITC to active military families living overseas. To pay for this proposal, and to raise net revenues, the DoD would be required to report the nontaxable earned income paid to military personnel (both overseas and States-side) on Form W-2. Such nontaxable earned income includes basic allowances for subsistence and quarters. Because current law provides that in determining earned income for EITC purposes such nontaxable earned income must be taken into account, the additional information reporting would enhance compliance with the EITC rules. The combination of these two proposals raises about $200 million over five years.

Specifications

(a) Extend the EITC to active military families living overseas.

(b) Require DoD to report the nontaxable earned income paid to military personnel (both overseas and States-side) on Form W-2.

A table which summarizes the financing provisions is attached.

SUMMARY OF FINANCING PROVISIONS

Proposal	Five-Year Federal (in billions)
Entitlement Reforms	
Limit Emergency Assistance	1.6
Tighten Sponsorship and Eligibility Rules for Non-Citizens	
Five-Year Deeming and Eligibility Only for Aliens with Sponsors below Median Income	2.8
Establish Similar Alien Eligibility Criteria for Four Federal Programs	0.9
New Rules Regarding Benefits for Drug Addicts and Alcoholics (H.R. 4277)	0.8[1]
Income Test Meal Reimbursements to Family Day Care Homes	0.5
Limit Deficiency Payments to Those Making $100,000 or More from Off-Farm Income	0.5
Extend Expiring Provisions	
Hold Constant a Portion of Food Stamp Overpayment Recoveries for States	0.1
Extend Fees for Passenger Processing and Other Customs Services	0.0
Extend Railroad Safety User Fees	0.2
Extend Expiring Corporate Environmental Income Tax Used to Finance Superfund	1.6
Tax Compliance Measures	
Deny EITC to Non-Resident Aliens	0.1
Require Income Reporting for Department of Defense Personnel	0.2
TOTAL	9.3[1]

1. Because we are uncertain of the final outcome of H.R. 4277, the total financing number is preliminary. Should the final bill yield savings of less than $0.8 billion, we are committed to working with Congress to fully finance the package.

THE PRESIDENT'S WELFARE REFORM PLAN

THE VALUES OF REFORM: WORK AND RESPONSIBILITY

[The following (pp. 1-7) is Bruce's rewrite of the introduction (with minor revisions). Melissa will be editing it from a Public Affairs' perspective, but other edits are welcome.]

The current welfare system is at odds with the core values Americans share: work, family, opportunity, responsibility. Instead of rewarding and encouraging work, it does little to help people find work, and punishes those who go to work. Instead of strengthening families and instilling personal responsibility, the system penalizes two-parent families, and lets too many absent parents who owe child support off the hook. Instead of promoting self-sufficiency, the culture of welfare offices seems to create an expectation of dependence rather than independence. And the ones who hate the welfare system most are the people who are trapped by it.

It is time to end welfare as we know it, and replace it with a system that is based on work and responsibility. We need to move beyond the old debates over "something for nothing" on the one hand and "every one for him/herself" on the other, and offer a new social contract **[do we want to use word 'contract' repeatedly?]** that gives people more opportunity in return for more responsibility. Work is the best social program this country has ever devised; it gives hope and structure and meaning to our daily lives. Responsibility is the value that will enable individuals and parents to do what programs cannot--because governments don't raise children, people do.

The President's welfare reform plan is designed to reinforce these fundamental values. It rewards work over welfare. It signals that people should not have children until they are ready to support them, and that parents--both parents--who bring children into the world must take responsibility for raising them. It gives people access to the skills they need, but expects work in return. Most important, it will give people back the dignity that comes from work and independence.

WORK

We don't need a welfare system based on writing welfare checks. We need a work program built around helping people earn paychecks. The President's plan will transform the culture of the welfare bureaucracy to get out of the business of writing people checks for life and into the business of helping people find jobs and keep them. We want people not to need us anymore.

Two-Year Time Limit. The President's reform plan will end welfare as a way of life. Everyone who can work will be expected to go to work within two years. To the poor and those outside the economic mainstream, the Administration's plan will say two things: No one who works full-time with a child at home should be poor, and no one who can work should stay on welfare forever.

- A new social contract: Everyone will be required to sign a Personal Responsibility Agreement that spells out what they can expect and what is expected of them in return.

- No more something for nothing: Under the current system, only a small portion of welfare recipients are required to do anything in return for assistance. Our plan will significantly reduce the number of exemptions, and ensure that from day one, those who are able to work will be required to meet certain expectations.

- Job search first: Job search will be required immediately of anyone who can work. Anyone offered a private sector job will be required to take it or be removed from the welfare rolls.

- A clear focus on work: We need to change the culture of the welfare office to focus on moving people toward work and independence. Most people will be expected to enter employment well before the two years are up. States can also design shorter time limits for people who are job-ready, and require them to work sooner.

- A second chance, not a way of life: People should have an incentive to leave welfare quickly and not use up their months of welfare eligibility. The time limit is a lifetime limit: people who have been off welfare for long periods of time will be able to get a few months of assistance to tide them before moving into the work program, but they will not be able to start over with a new two-year clock. This will make welfare what it was meant to be--a second chance, not a way of life.

Requiring and Providing Work. Anyone who can work will have to go to work within two years, in the private sector if possible, in community service if necessary.

- Work for wages: People will work for a paycheck--not a welfare check. If people don't show up for work, they won't get paid. There will also be strong, escalating sanctions for people who quit or get fired.

- Flexible, community-based jobs: States will be able to use the money they would otherwise spend on welfare to create subsidized, non-displacing jobs in the private sector, with community organizations, or in public service positions. The plan is designed to promote strong ties to the private sector, without red tape, and to create real, meaningful jobs in fields ranging from home health care to child care to public safety.

- No one who can work should stay on welfare forever: This is a transitional program, designed to constantly push people toward unsubsidized work in the private sector. People will be required to go through intensive job search before entering the work program, and after each work assignment. No work assignment will last more than 12 months. No one will receive the EITC unless they leave the program and take an unsubsidized job. Anyone who turns down a private-sector job will be removed from the welfare rolls, as will people who refuse to make a good-faith effort to find a job when jobs appropriate to their skill level are available.

- A dramatic increase in work: Today, fewer than 15,000 welfare recipients are required to work. Under our plan, approximately 400,000 people will have hit the time limit and be working in the WORK program by the year 2000.

- Ending welfare as a way of life: The combined impact of welfare reform, health reform, and the expansion of the Earned Income Tax Credit will be dramatic. Reform means that by the year 2001, three quarters of the projected welfare caseload under the age of 30 will either be off welfare, working, or in a program leading to work. Without reform, only a small fraction would be working, and 20 percent would be in education or training.

Other Provisions to Reward Work. To further reinforce work and responsibility, our proposal will:

- Let States reward work and saving: Currently, welfare recipients who work lose a dollar in benefits for every dollar in wages, and are penalized for saving money. Our proposal lets States reinforce work by setting higher earned-income disregards. We will also allow families to set up Individual Development Accounts to save money for specific purposes, such as starting a business, owning a first home, or promoting a child's education. To move people from welfare to work, we will change outdated asset rules so that they can own a reliable car that can get them to work.

- Expand child care for the working poor: To further encourage young mothers to work, our plan will guarantee child care during the JOBS and WORK programs and for one year after participants leave welfare for work. The plan will also double funding for other Federal child care programs that help working families stay off welfare in the first place.

RESPONSIBILITY

We could have all the programs in the world, and they won't do any good if people behave irresponsibly and take advantage of government largess. The President's welfare reform plan includes measures to inspire personal and parental responsibility and prevent people from coming onto welfare in the first place. These include the broadest and most serious work requirements imposed on welfare recipients after a time period of becoming job ready; a nationwide crackdown on child support enforcement, which will give States an arsenal of ways to keep absent parents from getting off the hook; extensive efforts to detect and prevent welfare fraud, and strong sanctions to prevent gaming of the welfare system; a national campaign against teen pregnancy, targeted to the most troubled schools; and a broad array of incentives that States can use to encourage responsible behavior, from limiting additional benefits for additional children to rewarding teenagers for staying in school. In the long run, the only way to end welfare is to reduce the number of people who need to come onto it.

Accountability for Taxpayers. The Administration's reform plan includes several measures to reduce welfare fraud, crack down on child support collection, and improve efficiency:

- State tracking systems: States will verify the income, identity, alien status and Social Security numbers of welfare applicants. The plan will make it easier for States to coordinate programs, automate files, and monitor recipients. We will encourage States to run demonstrations that offer job placement bonuses as an incentive to caseworkers and welfare offices for helping recipients get and keep jobs.

- A national public assistance clearinghouse: The clearinghouse will keep track of people whenever and wherever they use welfare, and monitor compliance with time limits and work. A national "new hire" database will monitor earnings to check AFDC and EITC eligibility, and identify noncustodial parents who switch jobs or cross State lines to avoid paying child support.

- Electronic Benefits Transfer (EBT): Under a plan developed by Vice President Gore, States will be encouraged to move away from welfare checks and food stamp coupons toward electronic benefits transfer, which provides benefits through a tamper-proof ATM card. EBT systems will reduce welfare and food stamp fraud, and lead to substantial savings in administrative costs.

- Rewarding performance, not process: This plan will change the culture of the welfare office by providing clear incentives to States and caseworkers to move people from welfare to work, improve child support collection, and provide effective services. The plan includes dozens of measures to simplify, coordinate, and conform the rules and regulations of the AFDC and Food Stamp programs to reduce paperwork and focus on results.

The Toughest Child Support Enforcement Ever Proposed. Both parents must support their children. In 1990, absent parents paid only $14 billion in child support. But if child support orders reflecting current ability to pay were established and enforced, single mothers and their children would have received $48 billion. Closing this $34-billion child support gap will help move thousands of families off welfare and keep them off. It's time to say to those parents: If you're not paying your child support, we'll garnish your wages, suspend your license, track you across State lines, and even make you work off what you owe. If this country did a better job of enforcing child support, the need for a welfare system would diminish significantly. The Administration's proposal includes important measures to strengthen the child support enforcement system:

- Establishing paternity for all out-of-wedlock births: Hospitals will be required to establish paternity at birth--when the father is most likely to be present, and mothers who apply for welfare will be required to name and help find the child's father before receiving benefits.

- Tracking down those who don't pay: Three registries -- containing child support awards, new hires, and locating information -- will catch parents who try to evade their responsibilities by fleeing across State lines. Central State registries will monitor and enforce support payments automatically.

- New penalties for those who refuse to pay: States will be able to use wage-withholding, credit reporting, and suspension of professional, occupational, and drivers' licenses to make delinquents pay.

- State initiatives and demonstration programs: States will be able to make parents who fail to meet their obligations work off the child support they owe. States will also run demonstration programs to help noncustodial parents with no skills get training, access and parenting programs to help absent parents get involved in their children's lives, and child support assurance demonstrations to give families a measure of economic security even if child support is not collected immediately.

Ending Welfare for the Next Generation. The current welfare system sends young people exactly the wrong message. Today, minor parents get a check for leaving home, and are free to drop out of high school even though the long-term consequences for themselves and their children will be devastating: Unwed teen mothers who drop out of school are 10 times more likely to raise a child in poverty than young people who finish school, get married, and wait until their twenties to have children. Our plan changes the incentives of welfare to show teenagers that having children is an immense responsibility rather than an easy route to independence. At the same time, we offer ways to help teen parents take charge of their lives, finish school, find jobs, and become self-sufficient:

- New requirements for teen parents: Teen parents will be required to finish school and enter the JOBS program. Unwed minor mothers will be required to identify their father's child and live at home or with a responsible adult--not set up an independent household to receive their own check.

- A national campaign against teen pregnancy: We will bring the media, the private sector, churches, schools, and other groups together in a broad-based campaign to send a strong message that it is wrong to have children outside marriage, and that no one should have a child until they are able to provide for and nurture that child. We will launch school-based prevention programs in 1,000 schools with the worst teen pregnancy problems, set up a national clearinghouse on teen pregnancy to identify successful programs and help replicate them elsewhere, and target a handful of at-risk neighborhoods for intensive prevention efforts.

- A phase-in focusing on young recipients first: The welfare reform plan initially targets recipients under 25--those with the most to gain and the most at risk. Under our plan, anyone born after 1971 will know that the world has changed, and that welfare can no longer be a way of life.

Other Provisions to Promote Responsibility and Innovation. Overcoming generations of dependency will not be easy, and one thing we've learned in the last 30 years is that Washington doesn't have all the answers. This plan gives States unprecedented flexibility to innovate and learn from new approaches. Much of what once required waivers will become available to States as State options.

- A plan that works for States: To give States a chance to do this right, our plan is phased in beginning with those born after 1971--anyone age 25 and under by late 1996, when States begin to implement the program. That represents a third of the adult caseload initially, and will grow steadily to include nearly two-thirds by 2004. States can phase in faster if they want.

- Extending assistance to two-parent families: Current welfare rules discriminate against two-parent families, instead of encouraging them to stay together. States will be able to waive rules that penalize two-parent families for working.

- Rewards and sanctions to keep teen parents in school: States will be able to design their own monetary-incentive programs like the Learning, Earning and Parenting (LEAP) program in Ohio.

- No additional benefits for additional children conceived on welfare: Welfare recipients don't have more children on average than other women, but those who do make it harder for themselves and their families to escape poverty. States will have the option to limit benefit increases for additional children conceived by parents on welfare.

- Advance payment of the EITC: States will be able to work with the Treasury Department to develop plans to get the EITC out on a periodic basis, instead of as a lump sum at the end of the year.

- Continued waiver authority: We will help States with existing waivers to adapt them once the new law passes. The broad waiver authority in current law will continue.

THE ADMINISTRATION'S RECORD ON WELFARE REFORM

Tax Credits for Working Families. Last year's economic package went a long way toward ending welfare by giving 15 million working families a tax cut through a $21 billion expansion of the Earned Income Tax Credit (EITC). The EITC turns a minimum wage, $4.25-an-hour job into a $6-an-hour job, and makes good on the President's campaign promise that no one who works full-time with a family at home will be poor. With the expanded EITC and health reform, every job can be a good job.

Health Reform. Health reform will move an estimated one million women and children off welfare. A recent survey of welfare recipients in Charleston and Nashville found that 83 percent would take a minimum wage job if it offered health coverage for them and their families. Another study found that only 8 percent of people who leave welfare for work get jobs that provide health insurance. **[do we have cites for these two facts?]**

Waivers. Since January 1993, the Administration has granted waivers to 14 States to experiment with time limits, extending assistance to two-parent families, limiting additional benefits for additional children, and other new initiatives.

Other Empowerment Initiatives. In addition to welfare and health reform and the EITC, the Administration has sought to reward work and empower people through a number of initiatives, including National Service, Empowerment Zones, community development banks, enforcement of the Community Reinvestment Act, community policing and public safety.

PAYING FOR REFORM

The following two tables illustrate the cost and financing of the Work and Responsibility Act of 1994. These tables clearly demonstrate that:

- The proposal is fully financed. About two-thirds of the financing provisions are further reforms to means-tested programs which would remove from the welfare rolls immigrants with well-off sponsors and drug addicts and alcoholics who are not complying with treatment requirements. In addition, savings will accrue by collecting child support from parents who have failed to accept financial responsibility for their children.

- Approximately ___ percent of the entire cost of the plan is additional funding for child care to enable individuals to work or to obtain the training or other services they need to enter the labor force.

- The plan will not impose new costs upon states. As can be seen in Table 1, only ___ million more dollars will come from States. This amount will primarily result from State decisions to expand eligibility for two-parent families, offer higher earnings disregards or cover a higher proportion of their caseload.

  While the limit on Emergency Assistance will reduce State reimbursement, some $1.3 billion of savings will accrue to the States in lower SSI spending for State supplements. On balance, States will be asked to finance very little of this plan. There are no unfunded mandates.

Table 1 provides a detailed summary of the major cost elements within the proposal. A detailed cost table is found at the end of the document. Table 2 provides a summary of the financing used to pay for reform. A longer description of the financing provisions and a detailed table are provided at the end of the document.

TABLE 1

SUMMARY OF COST ESTIMATES			
Proposal	**Five-year Federal**	**Five-year State**	**Five-year Total**
Parental Responsibility			
Teenage Pregnancy Prevention Grants			
Comprehensive Demonstration Grants			
Child Support Enforcement			
Noncustodial Parent Provisions			
Child Support Assurance Demonstrations			
State Option to Limit Additional Benefits to Additional Children			
Other			
Subtotal, Parental Responsibility			
Making Work Pay			
At-Risk Child Care Expenditures			
State Flexibility on Earned Income and Child Support Disregards			
Subtotal, Making Work Pay			
Transitional Assistance Followed by Work			
Additional JOBS Spending			
WORK Spending			
Additional Child Care Spending			
Computer Costs			
Other			
Subtotal, Transitional Assistance			
Improving Government Assistance (IGA)			
Remove Two-Parent (UP) Restrictions			
IDA/Microenterprise Demonstrations			
Conform Resource Limit and Exclusion Rules			
Other			
Subtotal, IGA			
TOTAL			

TABLE 2

SUMMARY OF FINANCING PROVISIONS

Proposal	Five-Year Total (in billions)
Entitlement Reforms	
Limit Emergency Assistance	1.60
Tighten Sponsorship and Eligibility Rules for Non-Citizens	
Five-Year Deeming and Limit Eligibility to Sponsors below Median Income	3.06
Establish Similar Eligibility Criteria for Four Federal Programs	0.89
Time Limit Benefits for Drug Addicts and Alcoholics (H.R. 4277)	0.60
Income Test Meal Reimbursements to Family Day Care Homes	0.52
Extend Expiring Provisions	
Hold Constant a Portion of Food Stamp Overpayment Recoveries for States	0.05
Extend Fees for Passenger Processing and Other Customs Services	0.00
Extend Railroad Safety User Fees	0.16
Extend Corporate Environmental Income (Superfund) Tax	1.60
Tax Compliance Measures	
Deny EITC to Non-Resident Aliens	0.13
Require Income Reporting for Department of Defense Personnel	0.16
Other (Not yet described)	0.53
TOTAL	**9.30**

THE IMPACT OF REFORMS

Making all these changes overnight would severely strain the ability of Federal and State governments to implement the new system. To avoid this problem the plan is phased in by starting with young people, to send a clear message that we are ending welfare for the next generation. The attached tables are based on starting with the youngest third of the projected caseload--persons born after 1971, who will be age 24 and under in fiscal year 1996 when the new system is implemented.

Anyone born after 1971 who is on welfare today, and anyone born after 1971 who enters it subsequently, will face new opportunities and responsibilities. By the year 2004, this group will represent about two-thirds of the projected caseload, as older cohorts leave and new persons born after 1971 enter. States wanting to move faster would have the option of doing so.

Table 3 indicates the number of persons in various parts of the program by year, assuming this phase-in and the implementation of health reform after fiscal year 1999. Note that because the States will need up to two years to pass legislation and implement their systems, the program would not be fully implemented until late 1996. Thus, fiscal year 1997 is the first full year of implementation. The initial JOBS program starts up rapidly and grows somewhat over time as more and more people are phased in. The WORK program grows over time starting with roughly 250,000 jobs in the first year when people in all States begin to hit the limit (fiscal year 1999), rising to roughly 570,000 by fiscal year 2004.

TABLE 3

PROJECTED CASELOADS UNDER THE ADMINISTRATION'S WELFARE AND HEALTH REFORM PROPOSAL ASSUMING IMPLEMENTATION FOR PERSONS BORN AFTER 1971						
	FY 1996	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2004**
Projected Adult Cases With Parent Born After 1971 Without Reform	**1.03 million**	**1.63 million**	**1.87 million**	**2.12 million**	**2.37 million**	**3.43 million**
Off welfare with Reform (Health reform after 1999, EITC, Child Care, JOBS, WORK, etc.)	.00 million	.03 million	.09 million	.12 million	.33 million	.85 million
Program Participants	**1.03 million**	**1.60 million**	**1.78 million**	**2.00 million**	**2.04 million**	**2.58 million**
Working While on Welfare	.10 million	.17 million	.20 million	.21 million	.22 million	.27 million
JOBS Participants	.58 million	.90 million	1.00 million	.99 million	.87 million	.97 million
WORK Participants	.00 million	.00 million	.07 million	.26 million	.39 million	.57 million
Pre-JOBS--disability/age limits work	.11 million	.18 million	.23 million	.24 million	.26 million	.44 million
Pre-JOBS--severely disabled child	.02 million	.03 million	.03 million	.03 million	.04 million	.07 million
Pre-JOBS--caring for child under one	.22 million	.32 million	.25 million	.27 million	.26 million	.26 million

Notes on Table 3:

Numbers assume modest behavioral effects that increase over time. These behavioral effects include employment and training impacts similar to San Diego's SWIM program, a modest increase in the percentage of recipients who combine welfare and work and a modest increase in the percentage of recipients who leave welfare when they hit the time limit. Estimates also assume behavioral effects from the implementation of health reform after fiscal year 1999. Figures for fiscal year 2004 are subject to considerable error since it is difficult to make caseload projections or to determine the impact of WORK requirements on behavior this far into the future.

These estimates assume the policy will be implemented in all States by Federal law by October 1996. In addition, the estimates assume that for 75 percent of the caseload, States will implement the policy by October 1995.

Table 4 shows the impact of these changes for the phased-in caseload, compared with what we project would be the caseload without welfare and health reform.

Under the plan, we will go from a situation where almost three-quarters of the persons are collecting welfare and doing nothing in return--neither working nor in training--to a situation where three-quarters are either off welfare, working with a subsidy, or in time-limited training. Only those unable to work are outside the time limits, and even these persons will have greater expectations and opportunities under the proposed system. In addition, we expect the reform proposal to significantly increase paternity establishment rates, to increase child support payments and to lower child poverty.

TABLE 4

Projected Welfare, Work and Training Status of Phased-in Group With and Without Reforms in Fiscal Year 2000

	Without Reforms	With Reforms
Working and/or Off of Welfare		
Off of welfare	0%	14%
Combining work and welfare	5%	9%
In WORK program	0%	17%
Total	5%	40%
In Time-limited, Mandatory Training, Education and Placement Program with High Participation Standards	0%	37%
Required to Participate in Training, Education, and Placement Program but No Time Limits and Low Participation Standards	22%	0%
Not Required to Participate in Training, Education and Placement Programs Due to Illness, Caring for Disabled Child, Young Child, or other Exemptions	73%	23%
TOTAL	100%	100%

Transforming the social welfare system to one focussed on work and responsibility will not be an easy task. A welfare system that has evolved over fifty years will not be redesigned overnight. The social and economic forces that have contributed to our current situation go well beyond the welfare system and impact the poor and non-poor alike. While the obstacles are formidable, undertaking reform of the current welfare system is essential in order to engender work and responsibility and to improve the well-being of our children now and into the future.

A description of the major elements of the plan follows.

PREVENTING TEEN PREGNANCY AND PROMOTING PARENTAL RESPONSIBILITY

Poverty, especially long-term poverty, and welfare dependency are often associated with growing up in a one-parent family. Although most single parents do a heroic job of raising their children, the fact remains that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready to assume the responsibility of raising children.

Teenage pregnancy is a particularly troubling aspect of this problem. The number of births to teen unwed mothers (under age 20) has quadrupled in the last 30 years, from 92,000 in 1960 to 368,000 in 1991. Teenage birth rates have been rising since 1986 because the trend toward earlier sexual activity has resulted in more pregnancies. According to the Annie E. Casey Foundation, almost 80 percent of the children born to unmarried teenage high school dropouts live in poverty. In contrast, the poverty rate is only 8 percent for children of young people who deferred childbearing until they graduated from high school, were twenty years old, and married. Teenage childbearing often leads to school drop-out, which results in the failure to acquire the education and skills that are needed for success in the labor market. The majority of these teenagers end up on welfare, and according to Advocates for Youth (formerly the Center for Population Options) the annual cost to taxpayers is about $34 billion to assist such families begun by a teenager.

Both parents bear responsibility for providing emotional and moral guidance, as well as economic support to their children. Teenagers who bring children into the world are not yet equipped to discharge this fundamental obligation. If we wish to reform welfare and put children first, we must find effective ways of discouraging pregnancy by young people who cannot provide this essential support. We must send a clear and unambiguous signal--you should not have a child until you are able to provide for and nurture that child.

For those who do become parents, we must send an equally clear message that they will have to take responsibility, even if they do not live with the child. In spite of the concerted efforts of Federal, State and local governments to establish and enforce child support orders, the current system fails to ensure that children receive adequate support from both parents. Recent analysis by the Urban Institute suggest that the potential for child support collections exceeds $48 billion per year. Yet only $20 billion in awards are currently in place, and only $14 billion is actually paid. Thus, we have a potential collection gap of over $34 billion.

The current system sends the wrong signals: all too often noncustodial parents are not held responsible for the children they bring into the world. Less than half of all custodial parents receive any child support, and only about one third of single mothers (both never-married and formerly-married) receive any child support. The average amount paid is just over $2,000 for those due support. Among never-married mothers, only 15 percent receive any support. Further, paternity is currently being established in only one-third of cases where a child is born out of wedlock.

The child support problem has three main elements. First, for many children born out of wedlock, a child support order is never established. Roughly 57 percent of the potential collection gap of $34 billion can be traced to cases where no award is in place. This is largely due to the failure to establish paternity for children born out of wedlock. Second, when awards are established, they are often too low, are not adjusted for inflation, and are not sufficiently related to the earnings of the noncustodial parent. Fully 22 percent of the potential gap can be traced to awards that were either set very low initially or never adjusted as incomes changed. Third, of awards that are established, the full amount of child support is not paid in half the cases. Thus the remaining 21 percent of the potential collection gap is due to failure to collect full awards in place.

For children to achieve real economic security and to avoid the need for welfare, they ultimately need support from both parents. When parents fail to provide support, the children pay--and so do we. Still, under the present system, the needs, concerns and responsibilities of noncustodial parents are often ignored. The system needs to focus more attention on this population and send the message that fathers matter. We ought to encourage noncustodial parents to remain involved in their children's lives--not drive them further away. Parents who pay child support restore a connection that both they and their children need.

SUMMARY OF PROPOSAL

The ethic of parental responsibility is fundamental. No one should bring a child into the world until he or she is prepared to support and nurture that child. We need to implement approaches that both require parental responsibility and help individuals to exercise it. First, we propose a national effort to prevent teen pregnancy. Second, we need special efforts to encourage responsible parenting among those on assistance, especially very young mothers. Third, we must collect more child support on behalf of all children living in single-parent families.

Reducing Teen Pregnancy and Out-of-Wedlock Births

- Lead a national campaign against teen pregnancy
- Establish a national clearinghouse on teen pregnancy prevention
- Provide teen pregnancy prevention grants
- Conduct comprehensive service demonstrations of various prevention approaches

Incentives for Responsible Behavior

- Require minor mothers to live at home
- Require school-age parents to stay in school
- Allow States to limit additional benefits for additional children conceived while on AFDC
- Allow States to provide a variety of incentives to reward responsible behavior

Child Support Enforcement

- Establish awards in every case
- Ensure fair award levels
- Collect awards that are owed
- Child support enforcement and assurance demonstrations
- Enhance responsibility and opportunity for noncustodial parents

REDUCING TEEN PREGNANCY AND OUT-OF-WEDLOCK BIRTHS

We need to send a strong signal that it is essential for young people to delay sexual activity, as well as childbirth, until they are ready to accept the responsibilities and consequences. It is critical that we help all youth understand the rewards of staying in school, playing by the rules, and deferring childbearing until they are married, able to support themselves and nurture their offspring. We have four proposals in this area:

National Campaign Against Teen Pregnancy. The President will lead a national campaign against teen pregnancy that challenges all aspects of society--business, national and community voluntary organizations, religious institutions and schools--to join in the effort to reduce teen pregnancy. The campaign will emphasize the broader themes of economic opportunity, along with the personal responsibility of every family in every community. Government has a role to play in preventing teen pregnancy, but the massive changes in attitudes and behavior that have occurred in recent decades cannot be dealt with by Government alone.

National and individual goals will be established to define the mission and to guide the work of the national campaign. The goals will focus on measurable aspects of the broader opportunity and responsibility message for teen pregnancy prevention, such as graduating from high school; deferring childbearing until one is married or working; and accepting responsibility for the support of one's children.

A non-profit, non-partisan entity committed to these goals will be established to pull together national, State, and local efforts through the media, schools, churches, communities and individuals. Its membership will be broad-based, including youth, elected officials at all levels of government, and members of religious, sports and entertainment communities. In addition, a Federal interagency group will provide information and coordinate the range of Federal programs in this area across program and department lines.

<u>A National Clearinghouse on Teen Pregnancy Prevention</u>. A National Clearinghouse on Teen Pregnancy Prevention will be established to serve as a national center for the collection and dissemination of information related to teen pregnancy prevention programs. Such information will include curricula, models, materials, training and technical assistance. The Clearinghouse could also develop and sponsor training institutes for teen pregnancy prevention program staff and could conduct evaluations of prevention programs.

<u>Teen Pregnancy Prevention Grants</u>. To be most effective, a prevention strategy must begin with pre-teens, focus initially on the young people who are most at-risk, and emphasize school-based, school-linked activities and complementary community action.

Under the Teen Pregnancy Prevention Grant Program, about 1,000 schools and community-based programs will be provided flexible grants, ranging between $50,000 and $400,000 each. Communities will be expected to use these funds to leverage other resources to implement teen pregnancy prevention programs that have both local community support and rewards. Funding will be targeted to schools with the highest concentration of youth at-risk and will be available to serve both middle- and high-school-age youth. The goal will be to work with youth as early as age 10 and to establish continuous contact and involvement through graduation from high school. To ensure quality and establish a visible and effective presence, these programs will be supervised by professional staff and, where feasible, be supported by a team of national service participants provided by the Corporation for National and Community Service. These grants will be coordinated with other Administration activities and will include an evaluation component.

<u>Comprehensive Services Demonstration Grants to Prevent Teen Pregnancy in High Risk Communities</u>. An effective approach to reducing teen pregnancy must jointly emphasize increased personal responsibility and enhanced opportunity. Particular emphasis must be paid to the prevention of adolescent pregnancy before marriage, including sex education, abstinence education, life skills education and contraceptive services. Programs that combine these elements have shown the most promise, especially for adolescents who are motivated to avoid pregnancy until they are married. However, for those populations where adolescent pregnancy is a symptom of deeper problems, a wider spectrum of services and more intensive efforts may be necessary.

For this reason, we propose comprehensive demonstration grants for youth in high-risk communities of sufficient size or "critical mass" to significantly improve the day-to-day experiences, decisions and behaviors of youth. Local governments and local public and private non-profit organizations in high-poverty areas will be eligible to apply. Sites will be asked to cover four broad areas, with significant flexibility: health services, educational and employability development services, social support services and community activities. The grants will follow a "youth development" model and will address a wide spectrum of areas associated with youth living in a healthy community: economic opportunity, safety, health and education. These demonstrations will include a strong evaluation component and will be coordinated with other Administration activities.

INCENTIVES FOR RESPONSIBLE BEHAVIOR

Personal responsibility belongs at the heart of every government program. We believe that very clear and consistent messages about parenthood, and the ensuing responsibilities, hold the best chance of encouraging young people to defer parenthood. A boy who sees his brother required to pay 17 percent of his income in child support for 18 years may think twice about becoming a father. A girl who knows that young motherhood will not relieve her of obligations to live at home and go to school may prefer other choices. We hope and expect that a reformed system that strongly reinforces the responsibilities of both parents will help prevent too-early parenthood and assist parents with becoming self-sufficient.

Along with responsibility, though, we must support opportunity. Telling young people to be responsible will not be effective unless we also provide them the means to exercise responsibility and the hope that playing by the rules will lead to a better life. We want to give States a broad range of incentives and requirements to reward responsible behavior:

- <u>Minor mothers live at home</u>. Teenagers who have children are still children themselves and need adult supervision and guidance. The welfare system shouldn't encourage young people who have babies to leave home and receive a separate check. Minor parents will be required to live in their parents' household, except when the minor parent is married or there is a danger of abuse to the minor parent. In the latter case, States will be encouraged to find a responsible adult with whom the minor mother can live. Current AFDC rules permit minor mothers to be "adult caretakers" of their own children. This proposal will require minor mothers to live in an environment where they can receive the support and guidance they need. At the same time, the circumstances of each individual minor will be taken into account.

<u>Requiring school-age parents to stay in school</u>. States will be required to provide case management services to all custodial parents receiving AFDC who are under age 20. We will ensure that every school-age parent or pregnant teenager who is on, or applies for, welfare enrolls in the JOBS program, continues their education, and is put on a track to self-sufficiency. Every school-age parent (male or female, case head or not) will be required to participate in JOBS from the moment the pregnancy or paternity is established. All JOBS rules pertaining to personal responsibility contracts, employability plans, and participation will apply to teen parents.

State option to limit additional benefits for additional children conceived on AFDC. Currently, welfare benefits automatically increase with the birth of an additional child. Under the proposal, States will have the option to limit benefit increases when additional children are conceived by parents already on AFDC. States will be required to allow families to "earn back" the lost benefit amount through disregarded income from earnings or child support, and to ensure that parents have access to family planning services.

State options for incentives to reward responsible behavior. States will be given the option to use monetary incentives combined with sanctions as inducements to encourage young parents to remain in school or GED class. They may also use incentives and sanctions to encourage participation in appropriate parenting activities.

CHILD SUPPORT ENFORCEMENT

A typical child born in the United States today will spend some time in a single-parent home. The evidence is clear that children benefit from the financial support and interaction of both parents -- single parents cannot be expected to do the entire job of two parents. In spite of the concerted efforts of Federal, State, and local governments to establish and enforce child support orders, the current system fails to ensure that children receive adequate support from both parents. Recent analyses by The Urban Institute suggest that the potential for child support collections exceeds $47 billion per year. Yet only $20 billion in awards are currently in place, and only $13 billion is actually paid.

The problem is essentially threefold. First, for many children born out-of-wedlock, a child support order is never established. Second, when awards are established, they are often too low, are not adjusted for inflation, and are not sufficiently correlated to the earnings of the noncustodial parent. And third, of awards that are established, the full amount of child support is collected in only about half the cases. Our proposal addresses each of these shortcomings.

Establish Awards in Every Case

The first step in ensuring that a child receives financial support from the noncustodial parent is the establishment of a child support award. Roughly 57 percent of the potential collection gap of $34 billion can be traced to cases where no award is in place. Paternity, a prerequisite to establishing a support award, has not been established in about half of these cases. States currently establish paternity for only about one-third of the out-of-wedlock births every year and typically try to establish paternity only after women apply for welfare.

Paternity establishment is the first crucial step toward securing an emotional and financial connection between the father and the child. Recognizing the critical importance of establishing paternity for every child, the Administration has already launched a major initiative in this direction by the creation of in-hospital paternity establishment programs passed as part of the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993). Research suggests that the number of paternities established can be increased dramatically if the process begins at birth or shortly thereafter, when the father is most likely to be present.

Parenting a child must be seen as an important responsibility that has consequences. For young fathers, this means that parenting a child will have real financial consequences for the support of that child. The responsibility for paternity establishment should be made clearer for both the parents and the agencies. If the mother provides verifiable information about the father, State agencies must establish paternity within strict timelines.

This proposal expands the scope and improves the effectiveness of current State paternity establishment procedures.

Streamlining the Paternity Establishment Process. The legal process for establishing paternity will be streamlined so that States can establish paternity quickly and efficiently. Early voluntary acknowledgement of paternity will be encouraged by building on the present in-hospital paternity establishment programs. For those cases that remain, States will be given the tools they need to process routine cases without having to resort to the courts at each step.

Cooperation from Mothers as a Condition of AFDC Benefits. The responsibility for paternity establishment will be made clear both to parents and the agencies. Mothers who apply for AFDC must cooperate fully with paternity establishment procedures prior to receiving benefits, under a new, stricter definition of cooperation which requires that the mother provide the name and other verifiable information that can be used to locate the father. The process for determining cooperation will also be changed -- "cooperation" will be determined by the child support worker, rather than the welfare caseworker, through an expedited process that makes a determination of cooperation before an applicant is allowed to receive welfare benefits. Those who refuse to cooperate will be denied AFDC benefits. Good cause exceptions will continue to be provided in appropriate circumstances. In turn, once an AFDC mother has cooperated in providing information, States will have one year to establish paternity or risk losing a portion of their Federal match for benefits.

Paternity Outreach. Outreach and public education programs aimed at voluntary paternity establishment will be greatly expanded in order to begin changing the attitudes of young fathers and mothers. Outreach efforts at the State and Federal levels will promote the importance of paternity establishment, both as a parental responsibility and as a right of the child to know both parents.

Paternity Performance and Measurement Standards. States will be encouraged to improve their paternity establishment rates for all out-of-wedlock births, regardless of welfare status, through performance-based incentives. A new paternity measure will be implemented that is based on the number of paternities established for all cases where children are born to an unmarried mother.

Administrative Authority to Establish Orders Based on Guidelines. Establishing support awards is critical to ensuring that children receive the support they deserve. Child Support (IV-D) agencies will be given the administrative authority to establish the child support award in appropriate cases, based on State guidelines.

Ensure Fair Award Levels

Fully 22 percent of the potential child support collection gap can be traced to awards that are either set very low initially or are not adjusted as incomes change. All States are currently required to use presumptive guidelines for setting and modifying all support awards but they have wide discretion in their development and the resulting award levels vary considerably across States. For example, the minimum amount of support due from noncustodial parents required to pay support for one child is $259 per month in Alabama, $241 in California, $50 in Massachusetts, and $25 in New York. While the use of State-based guidelines has led to more uniform treatment of similarly-situated parties within a State, there is still much debate concerning the adequacy of support awards resulting from guidelines.

Another concern is the failure to update awards as the circumstances of the parties change. Although the circumstances of both parents (including their income) and the child typically change over time, awards often remain at their original level. Updating typically increases awards over time because the noncustodial parent's income typically increases after the award is set, while inflation reduces the value of awards. However, the noncustodial parent who loses his job or experiences a legitimate drop in earnings would also benefit from updating because adjusting their awards will reduce the accumulation of arrearages.

This proposal seeks to reduce the impact of inadequate child support awards and to provide distribution policies that enable families to more easily move from welfare to work.

Modifications of Child Support Orders. Universal, periodic, administrative updating of awards will be required for both AFDC and non-AFDC cases in order to ensure that awards accurately reflect the current ability of the noncustodial parent to pay support. The burden for asking for an increase, if it is warranted, will be lifted from the mother and it will be done automatically, unless both parents decline a modification.

Distribution of Child Support Payments. Child support distribution policies will be made more responsive to the needs of families by re-ordering child support distribution priorities. For families who leave welfare for work, child support arrearages will be paid to the family first. Arrearages owed to the State will be forgiven if the family unites or reunites in marriage. States will also have the option to pay current child support directly to families who are recipients. Families often remain economically vulnerable for a substantial period of time after leaving AFDC -- about 40 percent of those who leave welfare return within one year, and another 60 percent return within two years. Ensuring that all support due to the family during this critical transition period is paid to the family can mean the difference between self-sufficiency or a return to welfare.

National Commission on Child Support Guidelines. Under the proposal, a National Guidelines Commission will be established to study the issue of child support guidelines and make recommendations to the Administration and Congress on the desirability of uniform national guidelines or national parameters for setting State guidelines.

Changing the present distribution rules will assist people in making a successful transition from welfare to work by making pre- and post-AFDC arrears available to the family first if the family has left AFDC. Family unification will be encouraged by allowing families who unite or reunite in marriage to have any child support arrearages owed to the State forgiven under certain circumstances.

Collect Awards That Are Owed

The full amount of child support is collected in only about half the cases. Currently, enforcement of support cases is too often handled on a complaint-driven basis, with the IV-D agency taking enforcement action only when the custodial parent pressures the agency to do so. Many enforcement steps require court intervention, even when the case is a routine one. And even routine enforcement measures often require individual case processing, as opposed to being able to rely on automation and mass case processing.

This proposal includes provisions for central registries and other tools to improve both intra- and interstate enforcement.

State Role. A State-based system will continue, but with bold changes which move the system toward a more uniform, centralized and service-oriented program. All States will maintain a central registry and centralized collection and disbursement capability. The registry will maintain current records of all support orders and work in conjunction with a centralized payment center for the collection and distribution of child support payments. This will be designed to vastly simplify withholding for employers, as well as ensure accurate accounting and monitoring of payments.

The State staff will monitor support payments to ensure that the support is being paid, and they will be able to impose certain enforcement remedies at the State level administratively. Thus, routine enforcement actions that can be handled on a mass or group basis will be imposed through the central State offices using computers and automation. For States that opt to use local offices, this will supplement, but not replace, local enforcement actions.

All cases included in the central registry will receive child support enforcement services automatically, without the need for an application. Certain parents, provided that they meet specified conditions, can choose to be excluded from payment through the registry.

States must move toward a child support system for the 21st century. With 15 million cases and a growing caseload, this will not occur by simply adding more caseworkers. Routine cases have to be handled in volume. The central registry, centralized collection and disbursement system, increased administrative remedies, and overall increase in automation and mass case processing are all necessary for the operation of a high performing and effective child support enforcement system.

The need has grown for one central State location to collect and distribute payments in a timely manner. The ability to maintain accurate records that can be centrally accessed is critical. The State-based central registry of support orders and centralized collection and disbursement will enable States to make use of economies of scale and use modern technology, such as that used by business -- high speed check processing equipment, automated mail and postal procedures and automated billing and statement processing. Centralized collection will vastly simplify withholding for employers since they will only have to send payments to one source. Giving State agencies the ability to take enforcement action immediately and automatically removes the burden of enforcing the obligation from the custodial parent, usually the mother.

Federal Role. The Federal role will be expanded to ensure efficient location and enforcement, particularly in interstate cases. In order to coordinate activity at the Federal level, a National Clearinghouse (NC) will be established, consisting of three components: an expanded Federal Parent Locator Service (FPLS), the National Child Support Registry, and the National Directory of New Hires.

Interstate Enforcement. New provisions will be enacted to improve State efforts to work interstate child support cases and to make interstate procedures more uniform throughout the country. The fragmented system of State support enforcement has caused tremendous problems in collecting support across State lines. Given the fact that 30 percent of the current caseload involves interstate cases, and the fact that we live in an increasingly mobile society, the need for a stronger Federal role in interstate location and enforcement has grown. Many of the recommendations of the U.S. Commission on Interstate Child Support will be included to improve the handling of interstate cases, such as the mandatory adoption of the Uniform Interstate Family Support Act (UIFSA) and other measures to make the handling of interstate cases more uniform.

License Suspension. States will be able to use the threat of revoking professional, occupational, and drivers' licenses to make delinquent parents pay child support. This threat has been extremely effective in Maine, California, and other States.

Other Tough Enforcement Measures. To insure that people do not escape their legal and moral obligation to support their children, States will be given the enforcement tools they need, especially to reach the self-employed and other individuals who have often been able to beat the system in the past. States will be enabled to take more efficient and effective action when child support is not paid, through the adoption of proven enforcement tools and streamlined enforcement procedures. Some of these tools include universal wage withholding; access to current income and asset information; easier reversal of fraudulent transfers of assets; interest and late penalties on arrearages; expanded use of credit reporting; easing bankruptcy-related obstacles; authority to use the same wage garnishment procedures for Federal and non-Federal employees, including military and veterans; and restrictions on passports and visas for egregious arrearages.

Training and Employment Programs for Noncustodial Parents. States will have the option of developing JOBS and/or work programs for the noncustodial parents of children who are receiving AFDC or have child support arrearages owed to the State from prior periods of AFDC receipt. A State could allocate a portion of its JOBS and WORK funding for training, work readiness and work opportunities for noncustodial parents. Requiring noncustodial parents to train or work off the child support they owe appears to increase collections dramatically -- most noncustodial parents pay their support rather than perform court-ordered community service.

Performance-Based System. The entire financing and incentive scheme will be reconstructed, offering States a higher Federal match and new performance-based incentive payments geared toward desired outcomes. Federal technical assistance will be expanded to prevent deficiencies before they occur. While penalties will still be available to ensure that States meet program requirements, the audit process will emphasize a performance-based, "State-friendly" approach. There is almost universal agreement that the current funding and incentive structure fails to achieve the right objectives. These enforcement tools can only be used effectively if States have the necessary funding and incentives to run good programs. The funding proposal will institute a new funding and incentive structure that uses performance-based incentives to reward States that run good programs.

Child Support Enforcement and Assurance (CSEA) Demonstrations

Children need and deserve support from both parents. Yet collections are often sporadic. Often no money is received for several months, followed sometimes with a large arrearage payment. In other cases, the father is unemployed and cannot pay that month. In still other cases, the State simply fails in its duties to collect money owed. The proposal calls for demonstrations of Child Support Enforcement and Assurance which will attempt to link expanded efforts at child support collections to some level of guarantee that a child will receive a child support payment on a consistent basis. Under this experiment, persons with an award in place would be guaranteed a minimum level of support -- for example, $2,000 annually for one child and $3,000 for two. This does not relieve the noncustodial parent of any obligations. It simply ensures that the child will get some money even if the State fails to collect it immediately.

Child support enforcement and assurance is meant to test ways to ease the difficult task of moving people from welfare to work. It is designed to allow single parents to count on some child support, usually from the noncustodial parent, but from the assured child support payment if the noncustodial parent becomes unemployed or cannot pay child support. The States that try this demonstration will have the option to link it with programs that require the noncustodial parent to work off the amount owed.

Since CSEA protection will be provided only to custodial parents who have a child support award in place, mothers should have more incentive to cooperate in the identification and location of the noncustodial father, since they will be able to count on receiving benefits. CSEA benefits will normally be subtracted dollar for dollar from welfare payments. In most States, a woman on welfare will be no better off with CSEA, but if she leaves welfare for work, she can still count on her child support payments. Thus, work should be much more feasible and attractive.

Enhance Responsibility and Opportunity for Noncustodial Parents

There is considerable overlap between issues concerning child support enforcement and issues concerning noncustodial parents. The well-being of children who live with only one parent will be enhanced if emotional and financial support is provided by both of their parents. Yet, the current child support enforcement system is ill-equipped to handle cases in which noncustodial parents cite unemployment as the reason for their failure to make court-ordered support payments, and pays scant attention to the needs and concerns of noncustodial parents -- instead of encouraging noncustodial parents to remain involved in their children's lives, the system often drives them away.

We need to make sure that all parents live up to their responsibilities. If we are going to expect more of mothers in welfare reform, we must not let fathers just walk away. A number of programs show considerable promise in helping noncustodial parents reconnect with their children and fulfill their financial responsibilities to support them. Some programs help parents do more by seeing that they get the skills they need to hold down a job and support their children. Other programs require noncustodial parents to work off the support they owe. It is also important to show parents who get involved in their children's lives again that when they pay child support, they restore a connection they and their children need.

This proposal will focus more attention on noncustodial parents and send a message that "fathers matter." The child support system, while getting tougher on those who can pay support but refuse to do so, will also be fair to those noncustodial parents who show responsibility toward their children.

Mandatory Training and Work for Noncustodial Parents. States will have the option to use a portion of JOBS and WORK program funding for training, work readiness, educational remediation and mandatory work programs for noncustodial parents of AFDC recipient children who cannot pay child support due to unemployment, underemployment or other employability problems. States will be able to choose to make participation by noncustodial parents mandatory or voluntary and will have considerable flexibility in designing their own programs.

Demonstration Grants for Paternity and Parenting Programs. Paternity and Parenting Demonstration grants will be made to States and/or community-based organizations to develop and implement noncustodial parent (fathers) components in conjunction with existing programs for high-risk families (e.g., Head Start, Healthy Start, family preservation, teen pregnancy and prevention). These grants will promote responsible parenting, including the importance of paternity establishment and economic security for children and the development of parenting skills.

Access and Visitation Grants to States. Paternity actions will stress the importance of getting fathers involved earlier in their children's lives. Grants will be made to States for programs which reinforce the desirability for children to have continued access to and visitation by both parents. These programs include mediation (both voluntary and mandatory), counseling, education, development of parenting plans, visitation enforcement including monitoring, supervision and neutral drop-off and pick-up, and development of guidelines for visitation and alternative custody arrangements.

MAKING WORK PAY/CHILD CARE

THE IMPORTANCE OF THE EITC, HEALTH CARE REFORM, AND CHILD CARE

A crucial component of welfare reform that promotes work and independence is making work pay. The Census Bureau reports that in 1992, 16 percent of all year-round, full-time workers had earnings too low to support a family of four out of poverty, up from 12 percent in 1974. The problem is especially great for women: 22 percent--more than one in five--of year-round, full-time female workers had low earnings.

Simultaneously, the welfare system sets up a devastating array of barriers for people who receive assistance but want to work. It penalizes those who work by taking away benefits dollar for dollar; it imposes arduous reporting requirements for those with earnings but still on welfare, and it prevents saving for the future with a meager limit on assets. Moreover, working-poor families often lack adequate medical protection and face sizeable child care costs. Too often, parents may choose welfare instead of work to ensure that their children have health insurance and receive child care. If our goals are to encourage work and independence, to help families who are playing by the rules, and to reduce both poverty and welfare use, then we must reward work rather than welfare.

Although they are not discussed in this paper, the Earned Income Tax Credit and health reform are clearly two of the three major components of making work pay. Last summer's $21-billion expansion of the Earned Income Tax Credit (EITC) was a major step toward making it possible for low-wage workers to support themselves and their families above poverty. When fully implemented, it will have the effect of making a $4.25 per hour job pay nearly $6.00 per hour for a parent with two or more children. Combined with food stamps, this tax credit helps ensure that people who work full-time with a family at home will no longer be poor.

The next critical step toward making work pay is ensuring that all Americans have health insurance coverage. Many recipients are trapped on welfare by their inability to find or keep jobs with health benefits that provide the security they need. And too often, poor, non-working families on welfare have better health coverage than poor, working families. The President's health care reform plan will provide universal access to health care, ensuring that no one will have to choose welfare instead of work to ensure that their children have health insurance. Both the EITC expansion and health care reform will help support workers as they leave welfare to maintain their independence and self-sufficiency. In one recent study, 83 percent of welfare recipients said they would leave welfare to take a minimum-wage job immediately if it provided health coverage for their families. Another study found that only 8 percent of people who leave welfare for work get jobs that provide health insurance.

The plan includes two additional provisions that will increase the return from work for low-income families. Under current law, all income received by an AFDC recipient or applicant must be counted against the AFDC grant, except certain specified work-related and other disregards. The proposal contains several provisions to make work a more attractive option for recipients combining work and welfare and to simplify the treatment of income for recipients and caseworkers alike. States will be required to disregard a minimum of $120 per month but will have flexibility to establish higher earnings disregard amounts to encourage work. In addition, States will have the option to increase the current $50 per month child support pass-through. All disregards and the child support pass-through will be indexed to inflation to ensure that recipients who work or receive child support will be treated consistently in the future.

At present, a small percentage of EITC claimants take advantage of the option to receive part of the EITC in advance payments throughout the year. While the reasons vary for the low utilization rate, it is partly due to a lack of information and because employers are responsible to determine eligibility and administer the payments. Public agencies that deal directly with welfare recipients are uniquely advantaged to ensure that the advance payment option is used frequently and appropriately. The proposal will allow States to conduct demonstration projects to make advance payments of the EITC available to eligible residents through a State agency. Many contend that welfare recipients could particularly benefit from receiving the EITC in advance payments throughout the year because they would experience the rewards from work on a more timely basis.

The final critical component for making work pay is affordable, accessible child care. In order for families, especially single-parent families, to be able to work or prepare themselves for work, they need dependable care for their children.

The Federal Government currently subsidizes child care for low-income families primarily through the open-ended entitlement programs (the Title IV-A JOBS Child Care and Transitional Child Care), a capped entitlement program (At-Risk Child Care), and a discretionary program (the Child Care and Development Block Grant). Working AFDC recipients are also eligible for the child care disregard, although in many places it is too low to cover the cost of care (a maximum of $200 a month for infants and $174 a month for all other children). The dependent care tax credit is seldom available for low-income families because it is not refundable.

The current child care programs do not provide sufficient support for working-poor families. The separate programs are also governed by inconsistent legislation and regulations, making it difficult for States and parents to create a coherent system of care. Finally, there are problems with quality and supply of care, especially for infants and toddlers.

SUMMARY OF PROPOSAL

Improve Child Care for Low-Income Families

- Maintain the existing child care guarantee
- Expand child care for low-income working families
- Maintain the Child Care and Development Block Grant
- Address quality and supply
- Coordinate rules across all child care programs
- Revise child care subsidy rates

Other Provisions to Make Work Pay

- Allow States to reward work and the payment of child support
- Permit agencies to provide advance payments of the EITC through State agencies

CHILD CARE

This welfare reform proposal will increase child care funding both for families on cash assistance and working families not eligible for cash assistance. In addition, the proposal focuses on creating a simplified child care system and on ensuring that children are cared for in safe and healthy environments. The proposal includes the following:

Maintain the Existing Child Care Guarantee

People on public assistance will continue to receive child care for taking part in work or training. Those who leave welfare will continue to receive a year of Transitional Child Care.

Expand Child Care for Low-Income Working Families

We also propose significant new funding for low-income, working families. The At-Risk Child Care Program, currently a capped entitlement available to serve the working poor, is capped at a very low level and States have difficulty using it because of the required State match. We propose to expand this program by $2.2 billion over five years and to make the match rate consistent with the new enhanced match rate in other Title IV-A programs. This will more than double the amount of child care available for the working poor.

It is hard to argue, however, that low-income working families who have never been, or are no longer, on welfare are less needing or deserving of child care subsidies than people who are on welfare. While this proposal does not provide a child care guarantee for working poor families, it does provide a significant increase in support for them as well as for those on or moving off welfare.

Maintain the Child Care and Development Block Grant

The Administration's fiscal year 1995 budget calls for a 22-percent increase in funding for the Block Grant. These funds support both services and quality improvements.

Address Quality and Supply

We will provide a set-aside in the At-Risk program to address quality improvements and supply issues. Quality improvements will include a range of activities such as resource and referral programs, grants or loans to assist in meeting State and local standards, and monitoring for compliance with licensing and regulatory requirements. Supply issues will include a special focus on the development and expansion of infant and toddler care in low-income communities. The goal of our child care proposal is to attain a careful balance between the need to provide child care support to as many low-income families as possible and the need to ensure the safety and healthy development of children. Paying higher rates to increase quality can limit the ability to increase the number of child care slots, but rates that are too low can also limit supply and parental choice, and endanger children. We are also concerned that there are specific child care supply problems in some geographic areas and for some children--especially infants and toddlers.

We propose a number of lower-cost strategies to address quality and supply. These include: improvements in the linkages between programs, including the various child care programs and Head Start; minimal but consistent health and safety standards; some direct funding toward the quality and supply improvements; and some action to maintain a reasonable floor of payment.

Coordinate Rules Across All Child Care Programs

We will assist States to use Federal programs to create seamless coverage for persons who leave welfare for work. Health and safety requirements will be made consistent across these programs and will conform to standards in the Block Grant program. States will be required to establish sliding fee scales and report consistently across programs. Efforts will be made to link Head Start and child care funding streams to enhance quality and comprehensive services.

Children should be cared for in healthy and safe environments. The CCDBG standards, together with two new standards on immunization and prohibiting access to toxic substances and weapons, are truly the minimal requirements that can provide such an assurance. More than half the States are already using the same standards for IV-A child care and CCDBG child care. Many more cite their State standards which will meet the CCDBG requirements. In all cases except immunization, States will continue to establish their own standards; as a result this change should not have a significant effect on many States. We do not believe the immunization standard should vary from State to State. Finally, we continue to support strongly parental choice and propose to add to IV-A the CCDBG requirements for: assuring parental choice of providers, providing to parents information on options for care and payment of child care, and establishing a system for parental complaints.