June 22, 1993

ISSUE GROUP STATUS REPORT

1. Make Work Pay

Group leader: Isaac Shapiro (619-8271) and Tom Corbett (690-6805)
Working Group Liaison: David Ellwood

The group has been working on:

(1) Publishable background paper summarizing the work vs. welfare issues covered in the first Working Group presentation

(2) Options for simplifying distribution of the EITC

(3) Options paper on strategies for enhancing income

The group is now also responsible for the development of a detailed write-up of the Work Support Agency and how such an agency would fit into the overall delivery of services and financial support to the current AFDC population. David Ellwood will prepare a 3-4 page outline to guide the group's efforts. The "Other Support Services" group had begun some preliminary work on the Work Support Agency, and their work will now be folded into this issue group's.

Status:

A first draft of the publishable paper has been prepared and discussed with the Working Group liaison; revisions are underway.

2. Child Care

Group Leader: Mark Ragan (401-9200)
Working Group Liaison: Mary Jo Bane

This group is responsible for assessing the additional child care needs created by the changes in the transitional support system. In particular, it will examine capacity issues, cost implications, and the effect of the Head Start expansion. Two priorities are to examine options for dealing with infant care and to explore possible ways in which child care provision can be used as a community service assignment to fulfill mandatory work requirements.

Status:

Work Products and Next Steps (as of June 18, 1993)

Due Date	**Product**
complete	**Outline of a revised background paper week.**
complete	**Preliminary model for estimating the child care cost implications of various approaches to welfare reform as options are refined.**
July 9, 1993	**Draft of in-depth background paper on child care issues and revised cost estimates.**

3. Child Support Enforcement and Insurance

Group Leader: Paul Legler (690-6172)
Working Group Liaison: Wendell Primus

This group is responsible for fleshing out the details of proposals in the areas of paternity establishment, creation and enforcement of support orders, and a possible system of child support assurance/insurance. The work of this group will include an examination of the costs and benefits of a children's tax credit as opposed to a system of child support insurance.

Status:

Work Products and Next Steps (as of June 10, 1993)

Due Date	Product
June 11, 1993	One page report due from each team on what they see as the major issues.
June 14 - 18	Meeting with teams to discuss work status, gaps and additional work needed, and completion of papers.
	Special meeting for restructuring team and attorneys on legal issues involving restructuring.
	Develop memo on a proposal for evaluation of automated systems capability under proposed reform.
July 1	Complete final drafts of papers to be compiled in a binder to serve as background material for Working Group, Issue Group and others developing the child support enforcement and insurance proposal.

July 1 - 30	Draft issue paper.
July 15	Draft tentative internal proposal for paternity establishment piece of child support enforcement.
July 15	Funding and incentives report due
July 30	Draft tentative internal proposal for remainder of child support enforcement.
August 1 - 31	Revise or refine proposal.
August 15	Reporting and auditing report due.

4. Noncustodial Parents

Group Leader: Ron Mincy (690-5880)
Working Group Liaison: Wendell Primus

This group will continue to examine the needs of the absent parent and will propose ways in which services, programs, and/or additional requirements can or should be targeted to this group in addition to the custodial parent.

The group will also be collecting data on the ability of fathers to pay support.

Status:

Work Products and Next Steps (as of June 11, 1993)

Due Date	Product
	Paper on current financial incentives for payment of child support under current systems and proposed changes (e.g., employment and training proposals resembling those in Downey-Hyde, EITC for noncustodial parents, child support treated like alimony, increased maintenance allowances for second families). This paper will include estimates of the cost of proposed changes (30 pages)
July 15, 1993	First draft
August 1	Final draft
	Paper on services issues for non-custodial fathers including the merits and availability of (teenage pregnancy prevention, parental responsibility, and parenting services targeting current and prospective non-custodial fathers as a vehicle for prevention and paternity establishment. The paper will

also discuss mediation/conflict resolution services to increase cooperative parenting among married and unmarried couples and to increase child support payments by divorced and never-married non-custodial parents.

July 15	First draft
August 1	Final draft

Executive summary type paper entitled Values and Practices for a Noncustodial Parents Policy. This paper will articulate what values, in our view, should guide a reform of policies affecting the incentives (carrots and sticks) and services for non-custodial parents, how these values are or are not manifested in current policies, systems, and what policy changes might occur to create a better match between policies, systems, and values.

July 15	First draft (5 pages)
July 30	Second draft (15 pages)
August 30	Final Draft

Not assigned — Paper on the characteristics of non-custodial parents who pay and do not pay child support primarily by reason for non-payment (e.g., inadequate income, employment; non-cash and in-kind payments, other) and the ability of noncustodial parents to pay child support under alternative schemes for a minimum assured benefit (20 pages). If time permits this will be expanded into a more rigorous analysis of the determinants of non-payment and the effects of payment on the status of non-custodial parents and their current households.

5. Post Transitional Work

<u>Group Leaders</u>: Canta Pian (690-7148) and Ray Uhalde (219-8660)
<u>Working Group Liaison</u>: Wendell Primus

The immediate focus of this group is on the issues and costs of implementing a large-scale CWEP-like program. Issues to be examined include:

- o lessons from past public employment programs
- o whether and how the public and non-profit sectors can generate a large number of flexible community service positions
- o the administrative structure and cost of running such a program
- o options for compensation

- sanctions for non-participation
- the role of and interaction with food stamps and housing benefits
- unit cost estimates
- how many CWEP jobs can be created, what are their characteristics, and what education and training is required to do the work.

Status:

Work Products and Next Steps (as of June 11, 1993)

Due Date	Product
June 21, 1993	Description of two CWEP options, and a CWEP/community services option
June 21	Background paper on public service employment
July 15-31	Report on CWEP and other work experience programs: costs, implementation, impacts (MDRC with Rockefeller funding)
Summer	Background papers on job subsidy programs for welfare recipients and other populations (Urban Institute with foundation funding). These papers will be done in conjunction with the group developing private sector employment strategies.
	Background paper on how welfare reform efforts relate to the current DOL agenda

6. Transitional Support

Group Leaders: Ann Burek (401-4528) and Mary Ann Higgins (401-9294)
Working Group Liaison: Mary Jo Bane

This group is now responsible for designing a system of support including financial and education and training programs that incorporates the following elements:

- a short period of emergency assistance without requirements
- an intermediate period of transitional support during which all recipients are required to do something
- a mandatory end to AFDC benefits after the intermediate period for all who can work. Issues related to compensation and sanctions for non-participants will be dealt with by the Post Transitional Work group. Exemptions from the work requirement will be dealt with by this group.

The issues being dealt with by the Disabilities group will also be handled by this group. Steve Bartolomei-Hill (690-7148) will continue to be responsible for focusing on issues of particular concern to the disabled and will consult with the group of people initially pulled together for this purpose.

Status:

Work Products and Next Steps (as of June 18, 1993)

Due Date	**Product**
July 2, 1993	**Outline of models for how a system requiring client participation during the first two years could work.**
July 9	**Draft decision memos on various questions related to the rules that would govern a time limit and a short term period of assistance during which there would be no mandatory participation.**
Early July	**Draft background papers on education and training programs and issues around the time limit.**

7. Private Sector Job Development

<u>Group Leaders</u>: Paul Dimond (456-2800)
<u>Working Group Liaison</u>: Bruce Reed

This group will be examining how efforts to move significant numbers of low wage earners in the work force will match with projected macroeconomic trends. It will also be responsible for developing strategies for employing people coming off AFDC in the private sector.

Status:

8. Program Simplification

<u>Group Leader/Working Group Liaison</u>: Kathi Way

This group is responsible for examining the interactions of the food stamps, AFDC, and housing subsidy programs and finding ways of improving their interaction and simplifying their operation.

Status:

Work Products and Next Steps (as of June 21, 1993)

Due Date	**Product**
Complete	**Preliminary meeting with HHS representative to discuss interactions and simplification.**
Week of June 21	**Preliminary meetings schedules with Ellen Haas (Agriculture) and Michael Stegman (HUD) to discuss interactions and simplification and plan for more detailed discussions involving staff.**

9. Prevention/Intact Families

Group Leader: Richard Bavier (395-2844) and Rebecca Maynard (690-??)
Working Group Liaison: Kathi Way

This group will examine the issues related to teen pregnancy, single parent families and intergenerational welfare dependency.

Status:

10. Modeling

Group Leaders: Don Oellerich (690-5880)
Working Group Liaison: David Ellwood

Status:

MEMORANDUM FOR MEMBERS OF THE WORKING GROUP ON WELFARE REFORM, FAMILY SUPPORT AND INDEPENDENCE

FROM: BRUCE REED
DAVID ELLWOOD
MARY JO BANE
WORKING GROUP CO-CHAIRS

SUBJECT: Seminar with Carter Administration Welfare Reform Experts

As we work to fulfill President Clinton's pledge to "end welfare as we know it," we thought it would be helpful to meet with people who were involved with the Carter Administration's welfare reform activities. We have scheduled a seminar with key participants in the Carter welfare reform effort and invite you, as members of this Administration's Working Group on welfare reform, to participate in an informal, off-the-record discussion. A list of the Carter Administration experts who have been invited to share their insights and experiences is attached for your information.

The seminar will take place on Thursday, July 22, from 6:30 to 9:30 p.m. at the Urban Institute, 2100 M Street, N.W. in the fifth floor conference room. Please contact Demetra Nightingale of the Urban Institute at 857-8570 or Ann McCormick at 690-5880 to confirm your participation.

We hope you can attend this event.

Attachments

Schedule yes/no?

July 16, 1993

TO: MEMBERS OF THE WORKING GROUP ON WELFARE REFORM, FAMILY SUPPORT, AND INDEPENDENCE

SUBJECT: July 22 Seminar with Carter Welfare Experts

FROM: BRUCE REED
DAVID ELLWOOD
MARY JO BANE
WORKING GROUP CO-CHAIRS

ADDRESSEES:

Ken Apfel
Eleanor Acheson
Walter Broadnax
Robert Carver
Ray Cortines
Joycelyn Elders, M.D.
Maurice Foley
Thomas Glynn
Ellen Haas
Elaine Kamarck
Madeleine Kunin
Alicia Munnell
Wendell Primus
Doug Ross
Julie Samuels
Isabel Sawhill
Eli Segal
Eugene Sperling
Michael Stegman
Joseph Stiglitz
Fernando Torres-Gil
Jeff Watson
Kathi Way

DRAFT7

call Wanda ~~USS~~ 401-6958 RE: Nat'l People's Action committee

Welfare Reform Working Group Hearing Agenda
(Kennedy-King Community College)
Chicago, Illinois
Wednesday, August 11, 1993

SESSION I
MODERATOR: David Ellwood, t.b.d.

ISSUE: "Supporting Work: Providing a Hand Up, Not a Hand Out"

9:30 am Welcome

9:40 am Testimonials from current AFDC recipients and people who have recently left Public Assistance discussing the obstacles they have faced moving from welfare to work
(4 individuals @ 5 minutes each)

10:00 am Presentations: Toby Herr, Project Match

Donald Sykes, New Hope Project

[Presentations by directors of two model transitional programs discussing various aspects of successful transitional services]
(2 @ 5 minutes each)

10:10 am Discussion/Q&A

10:40 am Testimonials (see above)

11:00 am Presentations: Denise Simon, Teen Parent Demo

Jody Raphael, Chicago Commons ETC

NOTE: Chicago Commons serves an older African-American and Hispanic population with larger families (avg. 27 years old with 3 children) with a 20 hour per week, comprehensive program. The program stresses one-stop service and provides on-site health care, child care, literacy and GED services, customized job training with local manufacturers, internships with businesses, counseling and placement programs.

11:10 am Discussion/Q&A

11:40 am LUNCH

SESSION II
MODERATOR: Bruce Reed, t.b.d.

12:30 pm Welcoming remarks, moderator

[Welcoming remarks for 1-2 minutes from up to 4 local elected officials. Depending on their availability, the following might give welcoming remarks:

Mayor Richard Daley, Jr.
Gov. Jim Edgar (if present; designee will testify otherwise)
Con. Dan Rostenkowski
Con. t.b.d. by location (Mel Reynolds, **Bobby Rush**, Cardiss Collins(f), Luis Gutierrez)
Sen. Carol Moseley-Braun
Moderator]

12:45 pm Public testimony (3 min. time limit)

[The public testimony period will provide an opportunity for a prearranged list of Chicago elected officials, interest groups and others to provide prepared remarks to the Working Group.]

3:45 pm Audience Q&A

[A carefully monitored period of questions and answers, perhaps submitted in writing, will provide an opportunity for the general public to have some input before the session ends.]

4:15 pm Closing remarks, Working Group chairs

4:30 pm End of session

4:45 pm Debrief

[The debriefing session will provide Working Group members an opportunity to provide feedback to staff on the entire two day visit that will be helpful in planning the remaining visits.]

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

DEPARTMENT OF HEALTH & HUMAN SERVICES • USA •

PHONE: (202)690-7858 **FAX:** (202)690-7383

Date: 7/16/93

To: Kathi Way

From: David Ellwood

Division:

City & State:

Office Number:

Fax Number:

Division:

City & State:

Office Number:

Fax Number:

Number of Pages + cover 3

REMARKS:

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

JUL 15 1993

To: Paul Offner

From: David Ellwood

Re: Counting working UP parents as fulfilling the UP work requirement

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We need to give some guidance to the state JOBS coordinators next week on how we will interpret the UP work requirement for purposes of assessing state compliance.

The law says:

> ... in the case of any family eligible for aid to families with dependent children by reason of the unemployment of the parent who is the principal earner, the State agency shall require that at least one parent in any such family particpate, for a total of at least 16 hours a week during any period in which either parent is required to participate in the program, in a work supplementation program, a community work experience or other work experience program, on-the-job training, or a State designed work program approved by the Secretary...
>
> The requirement ... shall not be considered to have been met by any State if the requirement is not met with respect to the following percentages of all families in the State eligible for (AFDC-UP):
>
> > (i) 40 percent, in the case of the average of each month in 1994.

The question is how to deal with unsubsidized employment. As you know, families can be eligible for AFDC-UP if the parent works up to 100 hours per month even in the states which have not received waivers of the requirement. It would seem consistent with the spirit of the law to assume that someone who is working 16 hours a week should not have to do anything more; it would certainly be a waste of resources to put money into community service slots for them, or to encourage them to move from unsubsidized to subsidized employment. It would also seem unfair to penalize states for having case heads in unsubsidized rather than subsidized employment. My presumption is that the intent was to include work as fulfilling the requirements.

The question is how to avoid these problems given the current language of the statute. My preference is to allow states to define unsubsidized employment as a "state designed work program" or perhaps as "other work experience," thus including employed parents in both the numerator and the denominator for purposes of calculating participation. Another alternative would be to allow states to subtract employed parents from the denominator, assuming that the Congress didn't really mean "all families in the state eligible ..." but meant to exclude those who would not be required to participate in a work activity because they are already working. That appears to directly contradict the statute, however.

I don't know the legislative history here. It seems hard to believe, though, that the intent of Congress was to require states to include working parents in the denominator but not the numerator.

You probably want to know how big a deal this is. A quick scan of the Green Book doesn't give the answer. I did find a table, though, showing the employment status of adult male recipients, most of whom, I assume, must be in UP cases. Nationwide, 9.4 percent are employed full or part time, and 16.9 percent are in school or training.

I would appreciate your suggestions or reactions. My phone number is 690-7858.

Thank you.

Welfare Reform Option: The Hill
One Page Summary Description

We can provide an increasing incentive to move from welfare to work by slowly reducing the benefit levels over time after the first two years. In lieu of the cash benefit, eligible recipients will be entitled to an equivalent level of investment in their human capital. States could organize various investment options (as they do now) such as job search, work experience or on the job training. Over time, recipients would be forced to invest more in themselves if they have not been able to get off welfare. Those who are employable will have a greater incentive to take advantage of the "Make work pay" policies such as the EITC.

Example: Benefits could be cut by 10% after years 2, 4, and 6. For those on welfare more than six years, the benefit level would be only 70% of that for first time recipients. The attached cost estimates suggest:

$12 to $15 billion dollars over four years could be invested in the most disadvantaged welfare mothers without increasing the deficit.

<u>Additional features could include:</u>

- **Participant choice.** In the first two years, participants could choose to receive 1) cash only, 2) a mix of cash and services, 3) services only in a residential setting. Those that opt to give up cash and invest in themselves should get extra matching federal dollars to enrich their opportunity. In later years participants could still choose to invest more than the mandated level and receive additional federal matching funds.

- **Mandatory Work.** Work could be required at any or every stage for those who are able.

- **Bounties/subsidies.** Creative uses could be designed for the investment entitlement to serve as a temporary wage subsidy, an employment bonus or a job placement service fee.

- **Services to fathers, children.** The entitlement for investments could be transferrable to fathers, husbands, or children.

- **Savings.** The money could be saved in an Individual Development Account.

- **Unused funds.** States should be required to spend the entire pool of money created with benefit reductions. Since the take up rate for investment entitlements is unlikely to be 100%, this money could be used for other forms of assistance. For example: target intensive assistance to potential long term recipients earlier, offer child care and transport to those exercising their investment entitlement, or enrich the quality of the entitlement based services.

- **Encouraging work.** In addition to the investment services and the make work pay strategies, recipients could be encouraged to work through disregards. Recipients could make up their benefit reduction with a special disregard of 50–100% of income up to the benefit level for new applicants. Such a work experience could be coordinated with other training or assistance to offer a supported work opportunity.

Budget Impact (Above Reconciliation Level)

	FY93	FY94	FY95	FY96	FY97	FY98	94-98
The CLIFF							
EITC	0	0	0	0	0	0	0.000
Expanded JOBS	0	0.600	1.500	2.600	3.800	4.000	12.500
AFDC	0	0	-0.400	-0.800	-2.000	-2.200	-5.400
Total	**0**	**0.600**	**1.100**	**1.800**	**1.800**	**1.800**	**7.100**

This is a modification of the estimate in the transition document on welfare reform.

Note: Scoring of this alternative would depend on the extent
that caseload reduction assumptions are accepted.
Without credit for caseload reductions, the total would be $12.5 billion

The HILL							
EITC	0	0	0	0	0	0	0.000
Expanded JOBS	0	1.272	2.172	2.838	2.838	2.838	11.958
AFDC	0	-1.272	-2.172	-2.838	-2.838	-2.838	-11.958
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**

In this alternative, the "hill" is phased in over three years.

Benefits are reduced by 10% after 2,4 and 6 years.

For those on AFDC for more than 6 years, benefits would be 70% of the initial level.

Note: Caseload reductions are not counted, but would reduce the deficit.
Caseload reductions would reduce both AFDC expenditures
by more than indicated and reduce JOBS expenditures.

The HILL-- A Steeper version

EITC	0	0	0	0	0	0	0.000
Expanded JOBS	0	1.272	2.344	3.244	4.020	4.020	14.900
AFDC	0	-1.272	-2.344	-3.244	-4.020	-4.020	-14.900
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Note: In this version, 10% cuts are taken each year for four years after the two year limit. In the sixth year of welfare reciept and beyond, only 60% of the benefit level would be paid in cash.

"The Hill": Supporting Analysis

The following observations provide the basis for the welfare option summarized above. Each of these observations is detailed at greater length below.

- **Two years of training opportunities will not end dependency.** Although small gains can be made with relatively small sums of money, there is no evidence that we know how to design programs at any price which will offer a permanent transition to self-sufficiency for everyone on welfare. Training, education and other investments in people make a positive contribution...but training is not a quick fix.

- **Although the returns to training are not large, we can still maximize them.** Redirecting funds from consumption into self-investment as time passes is compatible with what we know about the returns to training investments.

- **Subsidized work is important, but not a magic bullet.** Providing work for those who are not capable or cannot find jobs will be more expensive than continuing to pay AFDC. Whether we provide high quality job experiences or just workfare, organizing, supervising and monitoring will add cost. Will we allow public jobs to become a way of life?

- **A strongly enforced work requirement may be either too cruel to those who need the most help or unconvincing to the general public.** What do you do with a woman when she gets pregnant while working in a public job after two years of welfare? What do you do with someone who gets off drugs within the first two years, but still cannot keep a steady job? Although exemptions can balance the humane and punitive aspects of the system, exemptions may also create a feeling inside and out that welfare is still a way of life for certain people. Leaving a safety net for such contingencies in which people get less cash and more help should resonate with the public sentiment without excessive cruelty to children.

- **Most poor, single mothers with little education cannot support a family.** A self-sufficiency policy should invest in the work potential of fathers or husbands who ultimately will support many current recipients.

- New taxes to pay for services to welfare mothers are unlikely to pass on the heels of health care reform taxes: **a balanced budget option is needed.** Shifting the burden of investment from society to the individual over time is budget neutral and couples opportunity with responsibility.

I. *Training or education during a two year period will not be sufficient to free all mothers of welfare dependency.*

The evaluations of welfare and training programs show that we do not yet know how to design a program that will create a large exodus from the welfare rolls. In the twenty plus programs evaluated by MDRC,[1] low cost interventions ranged from $118 per person in Arkansas to $953 in Baltimore. Low cost services generally include job search and/or short term work experience. High cost services, such as on the job training or supported work, ranged from about $2,000 to $17,000 (See Table A.1 attached). Returns on the investment (to taxpayers and recipients) tend to be roughly proportional to what is invested, although more expensive services are typically targeted on a select or voluntary segment of the caseload (See Graphs: "High-Cost Services versus Low-Cost Services).[2]

The result of these investments is typically a modest rise in the propensity to work. The participant sees a modest rise in income and the government gets a small savings in welfare grants. Very few recipients, however, actually leave welfare after the service intervention. Table 4.2 summarizes a range of results from various programs. Only San Diego and Arkansas managed to raise exit rates more than a percentage point or two. Even a seven or eight percent increase in exit rates will not be sufficient to help all mothers permanently leave welfare in two years.

Traditional classroom education assistance for basic skills and GED completion has not been thoroughly tested. Despite the lack of evidence, the Family Support Act mandates that education rather than training should be the mandatory activity for those with no diploma or low literacy levels. Practitioners, on the other hand, stress that many high school dropouts do not want to return to schooling activities and often fare better when encouraged to work first. The two year limit will make education oriented programs even less practical. It is difficult to imagine that we could bring someone from illiteracy to a high school diploma in two years even if there were no health or childcare crises intervening. Although education may be a reasonable choice, we have no evidence that mandating educational activities for adults will substantially improve their short term prospects of self-sufficiency.

In sum, we have no evidence that we can design a training program that could prepare a cross section of welfare recipients for self sufficiency within two years. Flexibility to try work, training or education in any order and rebound from failures seems to be a better model than a strict linear progression from formal education or training to work. Spending significant new money on a national scale training program for welfare mothers cannot be a recommended course of action.

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[1] Gueron and Pauly, From Welfare to Work.

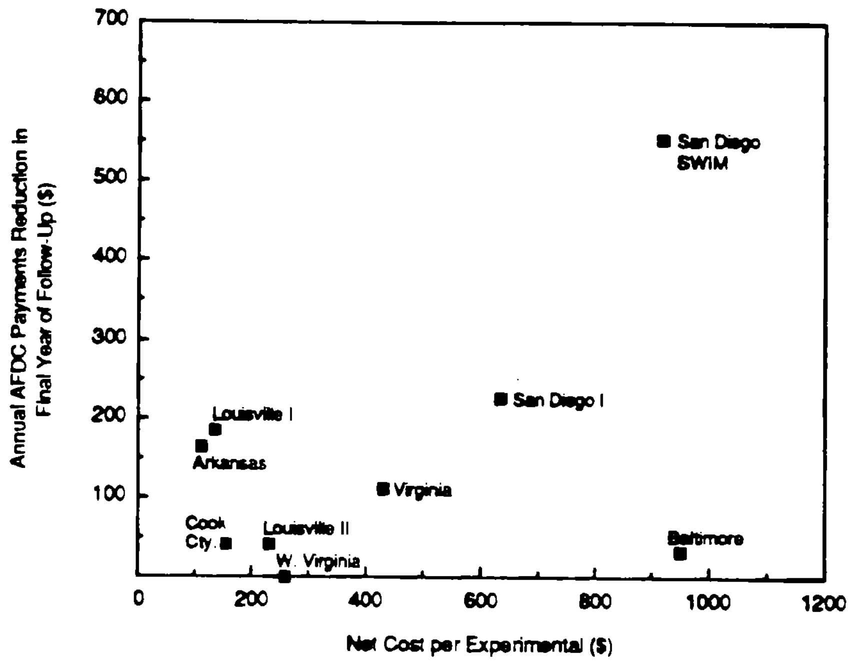
[2] Friedlander and Gueron, "Are High-Cost Services More Effective Than Low-Cost Services?" in Manski and Garfinkel, *Evaluating Welfare and Training Programs*.

TABLE A.1 ESTIMATED COSTS PER EXPERIMENTAL OF SELECTED WELFARE-TO-WORK PROGRAMS

Program	Direct Costs		Direct and Indirect Costs		Data Sources
	Gross	Net	Gross	Net	
Broad-Coverage: AFDC					
Arkansas	$122	**$118**	$162	$158	A,J
Baltimore	1,050	**953**	N/A	N/A	A
Cook County: Job search only[a]	107	102	391	**127**	A,J,C
Cook County: Job search/ work experience	154	149	421	**157**	A,J,C
Louisville Group Job Search	552	**230**	N/A	N/A	A
Louisville Individual Job Search	171	**136**	N/A	N/A	A
San Diego I: Job search only[a]	673	**562**	835	510	A,S,O
San Diego I: Job search/ work experience	761	**636**	875	577	A,S,O
San Diego SWIM	842	643	1,545	**919**	A,J,C,E
Virginia	451	412	611	**430**	A,J,C,E
West Virginia	459	**260**	N/A	N/A	A
Broad-Coverage: AFDC-UP					
Baltimore[b]	643	**552**	N/A	N/A	A
San Diego I: Job search only[a]	699	**586**	809	543	A,S,O
San Diego I: Job search/ work experience	850	**727**	836	672	A,S,O
San Diego SWIM	801	604	1,292	**817**	A,J,C,E
West Virginia[b]	537	**136**	N/A	N/A	A
Selective-Voluntary: AFDC					
AFDC Homemaker-Home Health Aide	9,505	**9,505**	N/A	N/A	A
Maine	2,679	**2,019**	2,813	2,286	A,J
New Jersey	1,197	**787**	1,642	860	A,J
Supported Work	17,981	**17,981**	N/A	17,528	A,S

SOURCES: Direct costs were estimated using program accounting and tracking data (A). Indirect costs were estimated using sources indicated in the last column of the table: program accounting and tracking data (A); surveys of the research sample (S); JTPA data (J), which covers only selected training programs for Arkansas; community college data (C); adult education data (E); and other records (O). N/A indicates that indirect cost estimates are not available. Estimates are calculated from data in Friedlander et al., 1985b (Arkansas); Friedlander et al., 1985a (Baltimore); Friedlander et al., 1987 (Cook County); Goldman, 1981 (Louisville); Goldman, Friedlander, and Long, 1986 (San Diego I); Hamilton and Friedlander, 1989 (San Diego SWIM); Riccio et al., 1986 (Virginia); Friedlander at al., 1986 (West Virginia); Orr, 1987 (Homemaker-Home Health Aide); Auspos, Cave, and Long, 1988 (Maine); Freedman, Bryant, and Cave, 1988 (New Jersey); Kemper, Long, and Thornton, 1981 (Supported Work); unpublished MDRC data for Arkansas, San Diego I, Virginia, and West Virginia.

NOTES: "Direct costs" are those incurred by the operating agency, while "indirect costs" were incurred by other agencies; "gross costs" are the full costs per experimental, while "net costs" subtract from gross costs the costs of serving controls. Cost estimates shown in boldface type best reflect the net cost of services in the intended service sequence; these are the costs cited in this volume (see Appendix A text for details).


Annual AFDC Payments Reduction in Final Year of Follow-Up ($)
700
600
500
400
300
200
100
San Diego SWIM
San Diego I
Louisville I
Arkansas
Virginia
Cook Cty.
Louisville II
W. Virginia
Baltimore
0
200
400
600
800
1000
1200
Net Cost per Experimental ($)

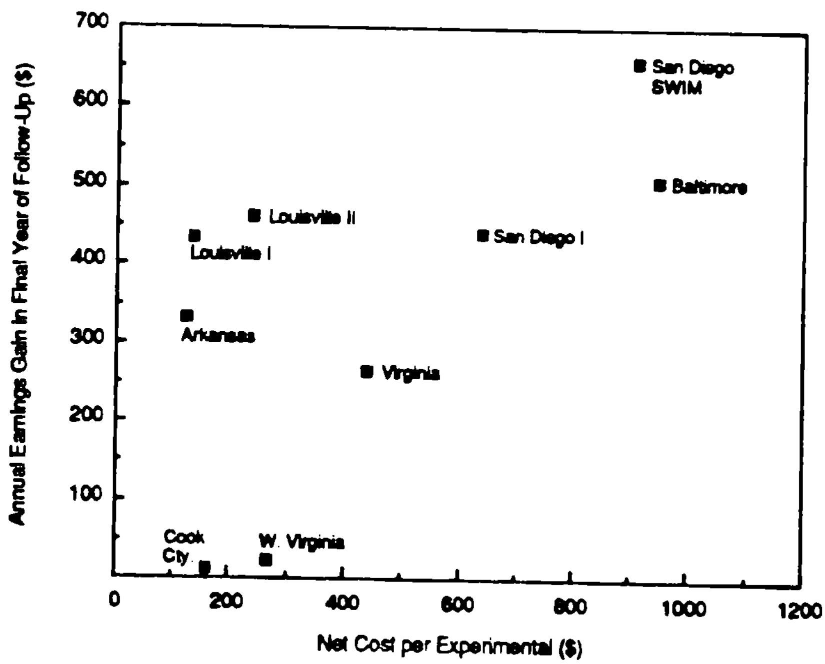

Annual Earnings Gain in Final Year of Follow-Up ($)
700
600
500
400
300
200
100
San Diego SWIM
Baltimore
Louisville II
Louisville I
San Diego I
Arkansas
Virginia
Cook Cty.
W. Virginia
0
200
400
600
800
1000
1200
Net Cost per Experimental ($)

TABLE 4.2 IMPACTS OF SEVEN WELFARE-TO-WORK PROGRAMS ON AFDC ELIGIBLES

Location, Outcome, and Follow-Up Period		Experimental Group Mean	Control Group Mean	Difference	Percentage Change
Arkansas					
Average Earnings	Year 1	$ 674	$ 507	$167**	33%
	Year 2	1,180	957	223	23
	Year 3	1,422	1,085	337**	31
Employed at End of	Year 1	20.4%	16.7%	3.7*	22%
	Year 2	23.9	20.3	3.6	18
	Year 3	24.5	18.3	6.2***	34
Average AFDC Payments	Year 1	$998	$1,143	-$145***	-13%
	Year 2	793	982	- 190***	-19
	Year 3	742	910	- 168***	-18
On Welfare at End of	Year 1	51.0%	59.1%	-8.1***	-14%
	Year 2	38.1	46.0	-7.9***	-17
	Year 3	32.8	40.1	-7.3***	-18
Baltimore					
Average Earnings	Year 1	$1,612	$1,472	$140	10%
	Year 2	2,787	2,386	401***	17
	Year 3	3,499	2,989	511***	17
Employed at End of	Year 1	34.7%	31.2%	3.5**	11%
	Year 2	39.5	37.1	2.4	6
	Year 3	40.7	40.3	0.4	1
Average AFDC Payments	Year 1	$2,520	$2,517	$ 2	0%
	Year 2	2,058	2,092	- 34	-2
	Year 3	1,783	1,815	- 31	-2
On Welfare at End of	Year 1	72.0%	73.3%	-1.4	-2%
	Year 2	58.7	59.0	-0.3	-1
	Year 3	48.2	48.4	-0.2	0
Cook County					
Average Earnings	Year 1	$1,227	$1,217	$10	1%
Employed at End of	Year 1	22.6%	21.4%	1.3	6%
Average AFDC Payments	Year 1	$3,105	$3,146	-$40	-1%
On Welfare at End of	Year 1	78.9%	80.8%	-1.9**	-2%
San Diego I (Applicants Only)					
Average Earnings	Year 1	$2,379	$1,937	$443***	23%
Employed at End of	Year 1	42.4%	36.9%	5.5***	15%
Average AFDC Payments	Year 1	$2,524	$2,750	-$226***	-8%
On Welfare at End of	Year 1	45.8%	47.9%	-2.0	-4%

(continued)

TABLE 4.2 *(continued)*

Location, Outcome, and Follow-Up Period		Experimental Group Mean	Control Group Mean	Difference	Percentage Change
San Diego SWIM					
Average Earnings	Year 1	$2,029	$1,677	$352***	21%
	Year 2	2,903	2,246	658***	29
Employed at End of	Year 1	34.7%	26.9%	7.7***	29%
	Year 2	34.7	29.3	5.4***	18
Average AFDC Payments	Year 1	$4,424	$4,830	-$407***	-8%
	Year 2	3,408	3,961	- 553***	-14
On Welfare at End of	Year 1	66.0%	72.4%	-6.4***	-9%
	Year 2	51.3	58.7	-7.4***	-13
Virginia					
Average Earnings	Year 1	$1,352	$1,282	$ 69	5%
	Year 2	2,268	1,988	280**	14
	Year 3[a]	2,624	2,356	268*	11
Employed at End of	Year 1	34.7%	31.0%	3.8**	12%
	Year 2	39.3	33.3	6.0***	18
	Year 3[b]	38.7	34.1	4.6***	13
Average AFDC Payments	Year 1	$1,961	$2,029	-$ 69	-3%
	Year 2	1,480	1,516	- 36	-2
	Year 3[a]	1,184	1,295	- 111**	-9
On Welfare at End of	Year 1	59.8%	59.4%	0.4	1%
	Year 2	44.0	44.9	-0.9	-2
	Year 3[b]	36.6	39.3	-2.6	-7
West Virginia					
Average Earnings	Year 1	$451	$435	$16	4%
Employed at End of	Year 1	12.0%	13.1%	-1.0	-8%
Average AFDC Payments	Year 1	$1,692	$1,692	$0	0%
On Welfare at End of	Year 1	70.9%	72.5%	-1.5	-2%

SOURCES: Data from Friedlander and Goldman, 1988; Friedlander, 1987; Friedlander et al., 1987; Goldman, Friedlander, and Long, 1986; Hamilton and Friedlander, 1989; Friedlander, 1988a; Friedlander et al., 1986; and additional MDRC estimates of annual values.

NOTES: The earnings and AFDC payments data include zero values for sample members not employed and for sample members not receiving welfare. Estimates are regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members. There may be some discrepancies in experimental-control differences because of rounding.

In all programs except the San Diego SWIM program, year 1 begins with the quarter of random assignment. For employment and earnings, the quarter of random assignment refers to the calendar quarter in which random assignment occurred. As a result, "average earnings" in year 1 may include up to two months of earnings prior to random assignment. For AFDC payments, the quarter of random assignment refers to the three months beginning with the month in which an individual was randomly assigned. In the San Diego SWIM program, where all outcomes were calculated for calendar quarters, year 1 begins with the quarter following the quarter of random assignment.

II. *Redirecting funds from consumption into self-investment as time passes is compatible with what we know about the returns to training investments.* Although the returns to training are not large, we can still maximize them.

Surprisingly, our interventions with long term recipients are most successful. There is a significantly better return on investment to training interventions for applicants with a prior history of welfare receipt and recipients on a spell for longer than two years.[3] Note that new AFDC applicants returning to welfare were helped by services far more than those applicants arriving for the first time. Among current recipients, those on AFDC for more than two years and with no work history benefited from extra help more than the average recipient. What Table 4.3 does not show are the percentage changes in earnings or welfare receipt which would show that the intervention was even more successful among lower tiers in the system who tend to earn less on average.

It is not surprising that the returns to interventions for all first time applicants are relatively low. We know that within two years half will get off by themselves anyway and a third of all newcomers will get off never to return.[4] What the data in Table 4.3 do not show, however, are returns to investing in target groups of potential long term recipients at the time of their first application. Even without experimental data to prove it, it seems that investing early in the most at-risk new entrants would pay off. The net present value of benefits we can expect to pay to a never married mother is about **$38,000 for AFDC payments alone.** When average levels of food stamps, housing and medicaid are included, the present value of benefits for the average never married mother is almost **$97,000.**[5]

In the "Hill" option, we can take advantage of what we know about returns to investments in welfare recipients. We can target the more expensive training interventions on those who probably have the biggest skills or emotional problems: those who stay despite significant decreases in the benefit level. We can use modest interventions to help those who have stayed longer than two years and may simply need an extra nudge. Surplus funding from unused investment entitlements could be directed toward early intervention for these at-risk groups. For the majority of first time applicants, however, the best service is probably providing the maximum level of cash assistance, some help to get on their feet if they want it, and a guarantee that their current cash income is not a way of life. Mandatory activities such as work or education should be required at every stage for whom it is appropriate.

Using the "Hill" option we can start making sensible investments that work without increasing the deficit. Instead of just cutting people off or letting them stay, we can shift slowly and sensibly from billions of consumption dollars to billions of investment dollars.

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[3] Table 4.3, From Welfare to Work.

[4] See Ellwood 1986, "Targeting the Would Be Long Term Welfare Recipients" or Ellwood and Bane 1983. More recently updates on tenure data have been presented to the Working Group on Welfare reform.

[5] Calculations based on the Ways and Means Green Book and the Working Group's tenure data.

TABLE 4.3 PROGRAM IMPACTS ON QUARTERLY EARNINGS AND AFDC PAYMENTS FOR MAJOR SUBGROUPS OF AFDC APPLICANTS AND RECIPIENTS

Subgroup and Outcome	San Diego I	Baltimore	Virginia	Arkansas	Cook County[a]
First Tier					
Applicants with No Prior AFDC:					
Earnings	$37	$121	-$13	$26	$ —
AFDC Payments	-5	-9	-28	-31	—
Second Tier					
Applicant Returnees:					
Earnings	$158**	$188***	$114*	$211***	$ —
AFDC Payments	-47	-15	-16	-19	—
Applicant Returnees with Less than $3,000 Prior Earnings:					
Earnings	151**	253***	20	202**	—
AFDC Payments	-63*	-19	-29	-22	—
Third Tier					
All Recipients:					
Earnings	$ —	$37	$69*	$19	$46**
AFDC Payments	—	5	-24	-60***	-13
Recipients with More than 2 Years on AFDC:					
Earnings	—	0	110**	14	—
AFDC Payments	—	19	-48**	-44*	—
Recipients with No Prior Earnings:					
Earnings	—	104**	70	29	12
AFDC Payments	—	1	-26	-63***	-6
Recipients with No Prior Earnings and More than 2 Years on AFDC:					
Earnings	—	88	94*	28	—
AFDC Payments	—	-1	-48**	-48*	—
Full Sample					
Quarterly Impact:					
Earnings	$118**	$96***	$72**	$70**	$19
AFDC Payments	-33	-5	-23*	-40***	-13
Average for Control Group:					
Earnings	773	634	541	257	451
AFDC Payments	469	501	345	232	646

SOURCE: Data from Friedlander, 1988b.

NOTES: Tiers are mutually exclusive; subgroups within tiers overlap. All values are quarterly averages for the fourth through the last quarter of follow-up. Estimates include zero values for sample members not employed and for sample members not receiving welfare.

A two-tailed t-test was applied to differences between experimental and control groups. Statistical significance levels are indicated as: * = 10 percent; ** = 5 percent; and *** = 1 percent.

[a]The definitions of "applicant" and "recipient" for Cook County are not strictly comparable to those of the other programs. See the text of Friedlander, 1988b, for discussion.

III. *Providing jobs for those who cannot find them will be more expensive than continuing to pay AFDC. Whether we provide high quality job experiences or just workfare, organizing, supervising and monitoring will add cost.*

The cost of a job equivalent to those offered under CETA would be $17,000 today. At minimum wage it would still cost $9,000 to $10,000. If this sort of job were offered to all welfare recipients who were on welfare for more than two years, we would need over 2 million jobs at a cost of about $10 billion more than what we currently pay for welfare. In addition, we would need to pay for day care, transportation and the alleviation of other obstacles to work if we expect mothers with young children to work or starve. Why would anyone leave this system when they can receive almost $8,000 per year in a completely secure job with no obstacles to work? Subsidized work is not necessarily the end of welfare.

The attraction of CWEP (Community Work Experience Program), a synonym for workfare, is that the recipient receives no more and no less than their welfare entitlement. Overheads may be very low because the welfare agency can simply require recipients to show up and work at the parks and recreation service or a non-profit organization. Workfare providers, recipients and their sympathizers tend to be very critical of workfare because it does not allow people to earn a pay check for an honest hour's work. Nor does workfare provide anything to put on a resume in order to gain future employment. Proponents of workfare tend to see it more as a deterrent to staying on welfare than a curative for the negative aspects of welfare.

A middle ground in this debate is a 20 hour per week job at minimum wage for all AFDC recipients who reach the end of the two years and cannot find a job. The benefit level would then be over $320 per month (80 hours per month at $4) for everyone in every state. Since this is a lower level than the current average benefit level, the Federal government ought to be near indifferent to this proposal especially if it reduces the caseload. States however, may not want to lower or raise their benefit level so dramatically. Perhaps states could be allowed to offer 10, 20 or 30 hours of work. This low cost option would not be incompatible with the "Hill."

Work requirements in any form leave a number of open questions. Would recipients find this secure job more attractive than private sector work? After the two year mark, what would happen to those who have problems such as children under 1, illness, or emotional problems? Are we willing to let those people and their children slip off the edge if they cannot manage to work regularly? This leads to the fourth observation which is on work requirements.

IV. *A work requirement will be difficult to enforce in a way that would be meaningful to the public without severe hardship on many poor children.*

"..no program can achieve a participation rate even close to 100%" [6] The San Diego Saturation Work Incentive Model (SWIM) had one of the strongest enforcement systems of all the full participation, mandatory programs that were monitored by the MDRC. However, 38% to 62% still became ineligible due to illness, pregnancy, or other circumstances

[6] Gueron and Pauly, *From Welfare to Work.*

recognized by the program. Among the eligible population a great deal of staff effort was required to obtain participation rates varying between 35% and 60%. "About half of about half" is equal to about 25% of the caseload. Would the average voter believe that a universal work requirement only affected 25% at any given time? Would AFDC recipients believe it?

Even without taking into account disabilities, the normal emotional and personal crises will make work requirements difficult to enforce in a way that is comprehensive enough to convince the average voter and yet responsive to the real problems of people with no alternatives or resources. How do you treat a woman who becomes pregnant while working in a public job after two years of welfare? When she can't work, does she get nothing? If you exempt her for a year, aren't you dramatically increasing the incentive to continuously bear children?

The "Hill" option will encourage those who can to leave. Those who stay will need--and get--more help. After the two years, those who have emotional problems, substance abuse problems, an additional child or other crises that prevent work should be allowed to have a safety net...**but not at the same rate as first time recipients.**

Work requirements are compatible with the notion that benefits should fall over time. If a cost effective, humane work program can be designed, why not start on day one for those who can work but cannot find a job? As the individual stays in the system longer, work exemptions will get harder to come by and the number of hours offered will be fewer. In a high benefit state, the minimum wage job could start at 40 hours then fall to 30 or 20. In the end, a subsidized job is just another form of welfare. Neither cash payments nor subsidized work should become a permanent way of life.

Is it fair to "sanction" people over time just because they cannot find a job in a weak economy? If a poor mother cannot find a job for two years, it is probably her location (or skill level) rather than the economy. She should be expected to move (or train) just as other working parents are expected to move in order to find work. The Bureau of Labor Statistics projects than over 24 million net new jobs will be created in the U.S. by 2005. Over 10 million people find work in a given year that did not work the year before.[7] The economy is not so bad that a person can stay on welfare for six years and claim there are no jobs.

V. *It is very difficult for a poor, single mother with little education to support a family. A self sufficiency policy should invest in fathers or husbands as well as mothers.*

Ellwood and Bane have presented to the working group supporting data on this subject which I will not reproduce here. To summarize, low earnings for women and the need to cover child care, housework and paid work make two parent families a much more economically viable solution. Marriage or child support is a more likely route to self sufficiency for many welfare mothers. For these reasons, an entitlement for investment services should be transferrable to husbands, fathers or children. We could encourage family formation. Women with very young children or other work obstacles could still take advantage of opportunity enhancing services.

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[7] For more detail on the aggregate economic situation for those leaving welfare there is a CEA/NEC background paper. It includes more information about service sector jobs, turnover, unemployment and labor force participation rates.

VI. *New taxes to support more services to welfare mothers are unlikely to pass on the heels of health care reform taxes: a balanced budget option is needed. Lowering cash and forcing self investment resonates with the social compact of opportunity and responsibility.*

In addition to being budget neutral, the program is compatible with our mainstream social values. If welfare is a hand up rather than a hand out, it is not unreasonable to expect the assistance to be more generous to a first time applicant than a ten-year, backslider. The "Hill" sends a very concrete, predictable message to those inside and outside the system: long term welfare stays are not a sign of success. The system no longer becomes a cops and robbers game of trying to enforce work on the one hand and obtain trumped up exemptions on the other. As a person relies on welfare longer, one receives less cash and more help. This is a tough love approach.

With such a system in place, the public may become more interested in providing assistance to disadvantaged families. States might be more likely to raise the initial benefit level knowing that long term recipients will not receive the maximum cash grant. As people leave welfare because work becomes marginally more attractive, the ensuing budget reductions may also stimulate greater generosity for the basic grant level. The public will feel more comfortable with a system that does not pay out over $12 billion in cash annually to people who have been on welfare in excess of 4 years. Those who play by the rules and use welfare as a temporary measure would be treated unambiguously better.

A dramatic, immediate change in the social contract would take place in states that opt for the "hill." In the first year of operation, a ten percent reduction in benefits could be implemented for all those who have been on welfare for more than two years. This entire pool of funding would be immediately available to fund job related programs for those on reduced benefit. Additional increments to the investment entitlement could be added in later years (See cost estimates for the hill). The speed of implementation would not be limited by the budget, as other front end loaded programs would be (See cost estimate for the cliff). There would be no reason to insist on a grandfather clause if the minimum level of the safety net is phased in over 3 to 4 years and is not draconian. Overnight, welfare as an accepted, permanent way of life for 5 million families would be over.

MEMORANDUM FOR MEMBERS OF THE WORKING GROUP ON WELFARE REFORM, FAMILY SUPPORT AND INDEPENDENCE

FROM: BRUCE REED
DAVID T. ELLWOOD
MARY JO BANE
WORKING GROUP CO-CHAIRS

SUBJECT: June, 1993 Meetings of the Working Group

The Working Group on Welfare Reform, Family Support and Independence will meet on Wednesday, June 2 1993, at 4:00 p.m. in Room 324 of the Old Executive Office Building. The Working Group is also scheduled to meet on June 9, June 16, June 23, and June 30, again at 4:00 in Room 324. Background briefings on the basic elements of the welfare reform agenda will be the primary topics of discussion. A tentative schedule of the briefing topics is attached.

Please contact Cathy Mays at 456-6515 by 12:00 on the day of each meeting and advise her who will be attending from your organization.

We look forward to your continuing interest and participation as we carry out the President's welfare reform agenda.

Attachment

Working Group on Welfare Reform, Family Support and Independence

June 1993

June 2	Discussion of Principles Child Support Issues
June 9	Child Support Issues (conclusion), including Child Support Insurance/Assurance Absent Parents
June 16	Discussion of the "Time Limit" Transitional Assistance Post-Transitional Work
June 23	Education, Training and Other Services
June 30	Interagency Services: HUD presentation on housing benefits USDA presentation on food stamps DOL presentation on training and work support programs

Kathi

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

PHONE: (202)690-8794 FAX: (202)690-6518

Date: 5/5

From: David / Wendell

To: Bruce Reed

Division:

Division:

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City & State:

Office Number:

Office Number:

Fax Number:

Fax Number: 456-7739

Number of Pages + cover ~~4~~ 3

REMARKS:

MEMORANDUM

From: David T. Ellwood

Re: Delay of the UP Participation Requirements

Date: May 5, 1992

Enclosed are a set of talking points regarding the proposed rule change in the Family Support Act. If you have questions feel free to call me (690-6443) or Wendell (690-7409).

Talking Points Regarding Two Year Delay in Implementation of Unemployed Parent Participation Rates

The Family Support Act of 1988 requires states to serve specified percentages of the AFDC caseload under the JOBS program. (Each month states must serve at least 11% of the non-exempted caseload in 1993, 15% in 1994, and 20% in 1995). In addition to this overall participation requirement, starting in 1994 there is an additional requirement that a small class of cases--parents in two parent families with an unemployed worker (AFDC-UP)--be served in even higher percentages. In effect this creates sub-targets within the larger targets. As part of meeting their overall participation targets of 15% in 1994, states are also expected to serve 40% of the AFDC-UP caseload each month.

- **The delay in the UP participation requirements in no way reduces the expectations of states, it only gives them more flexibility in who they serve. States strongly indicated that meeting the sub-targets for the AFDC-UP program would force them to provide less service to the long-term recipients who cost the system more and who need more service.** Currently states direct the bulk of their JOBS resources to the federally mandated groups which the law currently requires to be served. These include families who have been receiving AFDC for at least 3 years and parents under age 24 who have not completed high school or limited work experience. This focus is supported by research findings showing that these welfare recipients are at greatest risk for long stays on welfare. Because of the imposition of rules to serve AFDC-UP participants in such large numbers, states would be required to divert resources away from long term recipients to UP cases, who do not have such long stays on welfare. Moreover, the orientation of many state programs would have to be changed causing major programmatic changes even as welfare reform is being developed.

- **States are already having a difficult time serving the longer-term single parent cases, and states are in the best position to decide which clients are better served.** The rise in caseloads brought on by the recession and the requirements that state match Federal dollars have put severe burdens on state JOBS programs. As a result, many states have been having a hard time effectively serving the more disadvantaged single parent cases. The most recent figures show states have been able to draw down only 60% of their JOBS funds. This rule change gives states somewhat more flexibility to decide who to serve, but does not reduce the numbers who must be served.

o **The UP program is only a small part of the AFDC cases nationwide (7%).** Still, in some states with larger UP programs, the high participation requirements would require a major shift in focus and further strain state capacities.

o **The Administration is deeply committed to the Family Support Act and to its focus on high participation on the part of states and welfare recipients.** Then Governor Clinton worked closely with Senator Moynihan on the design and development of the Family Support Act. The President regards it as a major advance in welfare policy. The administration remains strongly committed to expecting participation on the part of recipients. The goal is to make the Act work better in light of the experiences of the States with the program to date.

The headline in the New York Times (Delay Saught in Law Meant to Trim Welfare) was extremely misleading. The administration did not seek a delay in the Family Support Act at all. Nor did the administration seek to reduce overall participation requirements on states and recipients. The only change is increased flexibility in who gets served, so states can serve longer term clients first if they feel that is more appropriate.

Working Group on Welfare Reform, Family Support and Independence

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	Assistant Secretary for the Administration for Children and Families, Department of Health and Human Services

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6/14/93

Working Paper Series

The purpose of the working paper series is to disseminate information about the current welfare system and to outline key issues that will arise as the welfare reform initiative develops. The goal is to be proactive and to provide educational material to the public and to communicate that we have thoughtfully considered a wide range of issues. The primary audience should be the press, Members of Congress, and the advocacy groups. The individual papers will be written for a knowledgeable audience. They will then be condensed and produced as a much shorter layperson-type report. There may be additional products as well, such as simplified executive summaries of papers, a monograph, an integrated overview piece, and so forth.

The papers will be assigned to individuals within the various issue groups. Wendell Primus, Tom Corbett, Rebecca Maynard and ACF individuals will be responsible for overseeing, editing and coordinating the work. Upon completion of an initial draft, papers will be circulated to the Steering Committee for comments. The papers should be written to stand alone, but they may be combined at the end for distribution as a complete document.

The list of paper topics includes the following:

1. Themes, values and principles which welfare reform should embrace. (5 pages) This will be the 'rhetoric' piece which makes a compelling argument for values such as:
    - Work
    - Family
    - Parental responsibility
    - Appropriate role of government
    - Gender equality (same expectations/opportunities for mother and father)

2. Why should welfare be reformed or replaced? This paper is a condensation of the arguments made in the papers under #3.

3. Description of current welfare system, its clientele and impact. Each of the letters listed below will be a separate paper.

a) Characteristics and background information on existing programs. Like the material in the *Green Book*, this piece should present a brief history and factual overview of each of the programs.

- AFDC	- Housing
- JOBS	- EITC
- Food stamps	- Child care
- CSE	- Others
- Head Start	

b) Characteristics of recipients and the working poor.
- Who comprises this heterogenous group that we call welfare recipients?
- What are the common characteristics among diverse individuals and families?
- Do the working poor differ from the welfare poor? If so, how?

c) Impediments to leaving welfare.
- Disincentives to work
- Opportunity structure
- Lack of health care
- Lack of child care
- Marriage penalty
- Individual/personal characteristics

d) Dynamics of AFDC and other transfer programs.
- Why do people move on and off the rolls?
- How much movement is there?
- What is the average length of stay on benefits? How long is the initial spell and the total length of time?
- What causes long-term or inter-generational dependency?

e) Child support statistics and problems. This paper will be further explanation of the charts and Ellwood's testimony to the Subcommittee on Human Resources.
- Inadequate and inequitable awards
- Inability of current system to enforce
- Child support assurance. What are the implications of an assurance system?

f) What can fathers realistically pay?
- Impediments to paying
- Employment patterns
- Disputes

g) Complexity of programs and program delivery.
- Complex formulas for determining benefit eligibility and level

- Variation in rules among programs
- What is the interaction among programs? What proportion of recipients receive benefits from several programs?
- Application processes under various programs. What is expected of recipients, what documents are required, etc.

h) Education, training and other services.
- Fuller description of JOBS and how it is actually implemented in the different States
- What have we learned from the MDRC and Urban Institute evaluations of GAIN, ET, FIP?
- Teen parent demonstration and implications for welfare reform
- How do the needs for education and training assistance differ between custodial and non-custodial parents?

i) Impact of current welfare system (including child support) on:
- Poverty
- Family formation, teenage pregnancy and out-of-wedlock childbearing
- Child outcomes
- Welfare dependency
- Inter-generational welfare receipt
- Marriage penalties
- Noncustodial fathers

To some extent, this is our response to the Heritage Foundation article and the Atlantic Monthly piece.

4. Description of model programs that welfare reform might emulate. The examples listed below are not intended to be exhaustive or the only ones to be included:

a) Paternity establishment
- Washington
- Virginia
- Kent County, Michigan

b) Child support enforcement/assurance
- Wisconsin
- New York
- San Francisco (automation)

c) Making work pay
- New Hope

d) Education and training
   - E.T.
   - Project Match
   - GAIN LEAP
   - Riverside

e) Other
   - Massachusetts (Dept. of Revenue)
   - Allegheny (overall)

5. Issues in four major areas of welfare reform. These should be brief. They should raise and discuss the issues, but they must not characterize the difficulty implied by a given issue.

   a) Making work pay
   b) Child support enforcement and assurance
   c) Improved support services
   d) Implementation of the time limit

6. Description of past public service employment programs and their implications for welfare reform.
   - Brief description of WPA and lessons from it
   - Brief description of CETA and lessons from it
   - Supported work and its implications

MEMORANDUM FOR MEMBERS OF THE WORKING GROUP ON WELFARE REFORM, FAMILY SUPPORT AND INDEPENDENCE

FROM: BRUCE REED
DAVID ELLWOOD
MARY JO BANE
WORKING GROUP CO-CHAIRS

SUBJECT: Working Group Meetings

This will confirm that the Working Group on Welfare Reform, Family Support and Independence will **not** meet on Wednesday, June 16. We have scheduled future Working Group meetings in June as listed below. These meetings will start promptly at 4:00, and we appreciate your making every effort to attend for the full hour and a half scheduled.

June 23	Characteristics of Welfare Recipients - Dynamics and Anecdotes
June 30	Interagency Services: HUD presentation on housing benefits USDA presentation on food stamps DOL presentation on training and work support programs

If there are other topics related to welfare reform that you wish to discuss or be briefed on, please let us know.

Now that the Working Group has been officially established, we need to move forward to carry out our charge -- to develop a welfare reform plan to submit to the Domestic Policy Council. Because of its inter-departmental nature, the Working Group is a large group with members from across government. In order to make the best use of our time and to facilitate the process of developing a welfare reform plan, we ask your cooperation in several areas.

Your attendance and participation at the Working Group meetings is very important. We understand that you may occasionally have unavoidable scheduling conflicts. Since the process of gathering information and developing consensus is cumulative in nature, we ask that you designate a single person as your alternate to represent you when you are unable to attend. Please let ~~us~~ know whom you designate as your alternate.

Cookie
456-7777

Kathi

Welfare Reform Steering Committee

June 15, 1993 Agenda

Issue Group discussion

- updates/issues/concerns - group leaders
- questions for Modeling group
- reminder about sharing papers

Issue Group presentations to intergovernmental groups dates 21, 24

Working Paper series - Wendell

Working Group issues - TALK TO WENDELL RE: PAPERS backgrounders

DAVID ELLWOOD - June 23 briefing on characteristics/dynamics
- -- issues, who's responsible?
- -- schedule preparation meeting
- -- suggestion from Ag to include discussion on food stamp characteristics - MIKE FISHMAN

- June 30 presentations by USDA, HUD and Labor NEC - Move TO July 7

- Final agreement on hearing schedule

Future Steering Committee discussion of welfare reform lessons learned - with Carter staff - Wendell

think about — Presentation by MDRC, MPR, Urban, etc. on lessons learned from State welfare reform efforts - for issue group staff - Wendell

Site visit updates - Diann

Send interns and Paul

D.C. first
Southern Califo
N.J.
Chicago
Kent. Tennessee

July retreat

needs to include
(1) a description of their program
(2) what are their agendas for their programs
(3) how do they relate to welfare reform.

If you find that your schedule does not permit regular participation, we ask that you designate a replacement for the Working Group. While other staff may attend meetings, we expect that only you or your designated alternate should participate in the discussions.

We anticipate a busy summer and fall, and we look forward to your continuing interest and participation in developing a plan to carry out the President's welfare reform agenda.

Information and Analytical Needs of Noncustodial Parents Issue Group

I. Information needs on persons 16 - 64 who are and are not in family households
   A. fertility history,
   B. relationship to household head,
   C. marital history,
   D. marital history of current spouse/partner
   E. fertility history of current spouse/partner
   F. presence of own/other children,
   G. age of own/other children,
   H. household composition,
   I. living arrangments history (when became household head, lived with parents, other relatives, co-habitation)
   J. labor force status,
   K. years of school completed
   L. graduation from high school,college
   M. enrollment status,
   N. earnings,
   O. weeks worked,
   P. program participation (e.g., AFDC, SSI, food stamps),
   Q. participation in training programs
   R. enrollment status of children,
   S. existence of child support awards,
   T. amount of child support awards,
   U. payment/receipt of child support awards
   V. arrears status and history
   W. employment history (spells of unemployment, non-labor force participation, duration of spells)
   X. earnings history
   Y. criminal justice experience
   Z. military service experience
   AA. mobility history (e.g., residence in another state)
   AB. race and ethnicity.
   AC. conflicts involving visitation, access
   AD. payment of child support without award
   AE. non-cash and in-kind contributions of support (e.g., child care)
   AF. visition or non-custodial parent's involvement w/ children
   AG. multiple orders for same children in different states
   AH. custodial parent's knowledge of non-custodial parents identify and location;
   AI. Reasons why custodial parents do not know location of non-custodial parents (e.g., moved, elapsed time since birth, deliberatly lost contact because of conflict)

II. Analysis of financial incentive and cost issues:

A. How to increase child support payments:

1. Noncustodial parent's ability to pay child support and government cost of minimum assured benefit under alternative assumptions about:
    a. Amount of minimum assured benefit per child
    b. Existence of self support or (new) family maintenance limitation on non-custodial parent's child support contribution.

2. Affects on child support payments of employment instability, earnings, employment and training program participation, schooling, other dependents, incarceration, military experience, and mobility, non-cash or in-kind supports, multiple orders, and custodial parent's marital status, household composition/living arrangements.

B. Affects of payment of support and arrears:

1. On non-custodial parent's (and current household members') employment status, hours worked, poverty status, enrollment status, participation in means tested programs, participation in employment and training programs, mobility, marital status, household composition/or living arrangements, and fertility.

2. Cost of providing child support payment disregard to non-custodial parents participating in means tested programs AFDC, Food Stamps, Medicaid, SSI).

3. Analysis of tax issues:
    a. Cost of providing EITC or dependent credits to non-custodial parents who pay child support and predicted effects of such credits on the poverty status of non-custodial parent and current household.
    b. Cost of treating child support payments like alimony (always or depending on comparison of incomes in custodial and non-custodial parent's households).
    c. Effects of tax treatment of child support payments on poverty status of non-custodial parents and current households in the bottom tails of the income distribution.

III. Services Information

A. Availablity, content, and impact of male teenage pregnancy prevention, parental responsibility, and parenting services for unwed, expectant fathers, young men responsibilty.

B. Availablity, content, and impact of conflict resolution services for non-custodial parents (divorced, separated and non-married).

IV. Analysis of service issues:

A. Review of parental responsibility programs/services and if possible affects on paternity establishment and payment of child support.

B. Affect on support payments of custody, visitation, and other sources of conflict and of conflict resolution/mediatiion services.

C. Reasons for underutilization of conflict resolution/mediation services.

DRAFT

Child Care

I. Characteristics

a. Number and age of children in child care
b. Number in types of child care (center-based, family-based, relatives)
c. Cost of child care
d. Quality of child care
e. Average weekly hours of child care by family type
f. Percentage of family income spent on child care
g. Primary child care arrangements used by the different family types
h. Average weekly hours of child care by type of family
i. Child care arrangements for grade-school children
j. Number of children in HeadStart
k. Supply of child care (by region and type of care)

II. Key Questions

The following are key questions on child care which need to be addressed.

What would we like to know about child care?

a. Will the provision of more adequate child care enable welfare-dependent mothers to find and maintain employment? If child care were less expensive, how many more mothers not now employed would enter the work force? Among those currently employed, would some increase their hours?

b. What are the child care needs of part-time, full-time and shift workers?

c. Relationship between employment and child care decisions (center-based, family-based, etc...) among family types (single-headed household, married, etc...)

d. Are parents able to obtain their choice of child care? What are the potential barriers preventing them to do so? How important is quality?

e. Is the supply of child care and early childhood education programs related to the stringency of state regulations?
Do more restrictive requirements discourage center care providers or family day care providers from entering the market?
Do they affect the cost of providing care and the fees that are charged? Do they affect the location of child care facilities?

f. What are the effects of alternative financing mechanisms on the supply and demand for child care? Do particular types of financing (eg., direct provider subsidies, tax benefits to consumers) foster the development of different types of programs? Do they cause parents to prefer or select one type of care or another?

g. What is the stability of child care arrangements? What are the exogenous (child care arrangement breaks down) causes versus the endogenous (changed parental preferences) causes? What are the consequences of unstable child care arrangements? to children? to parents and employment?

h. Has the growth of school-based programs diminished the demand for center-based or family day care? Has it affected the costs or quality of care?

i. What is the supply and demand for infant care?

j. What are the effects and effectiveness of policies to improve the qualifications and wages of child are workers? Do investments in education and training lead to increases in the supply and quality of child care workers? What effects do wage subsidies have on the quality of staff and retention rates?

k. There is little research on family day care. What are the specific features of family day care?

l. Relationship between percentage of income spent on child care and family type

CHILD SUPPORT QUESTION:

Paternity:

What are the program participation patterns of women with children born out-of-wedlock? Are there substantial numbers who could be reached prenatally to encourage paternity establishment?

What is the unduplicated participation in such programs as AFDC and Medicaid where participation in child support is mandatory and other government assistance programs such as food stamps, WIC, public housing, maternal and child health prenatal, etc.

What proportion of out-of-wedlock births have the fathers name on the birth certificate?

What proportion of fathers are living with their children born out-of-wedlock?

Enforcement:

What is the noncustodial parent's ability to pay -- income?

What is the potential gain (loss) from review and adjustment of child support awards?

How many noncustodial parents have earned income which could be subjected to wage withholding and how many do not?

How many noncustodial parents have assets which could be attached for enforcement purposes and identified through the 1099 process?

What is the percentage increase in payments we can expect from the various enforcement tools -- e.g. wage withholding, 1099 process, irs full collections?

Child Support Assurance:

What is the administrative cost of income/means testing the assured benefit?

Where does the assured benefit go -- distribution of benefits by income class and current marital status?

What is the expected response of custodial and noncustodial parents to an assured benefit regarding cooperation, compliance in securing paternity, awards, review and modification and payment?

BENEFIT, COST, AND DISTRIBUTIONAL QUESTIONS
Make Work Pay

We anticipate increasing the EITC and Minimum Wage, making EITC available more frequently to more people, ensuring child care for working families, and reducing welfare barriers to employment.

The modeling and data analysis needs are outlined below in terms of benefits, costs, distributional, and descriptive data. The data will be used for understanding the nature of the problem, policy analyses and policy advocacy.

Benefits

- Individuals

  How many more people will be newly employed, working more hours?

  How many families, children affected?

  What are the net increases in take home income?

  How many people, children, families brought above the poverty line?

  How much do various options reduce the poverty gap?

  How many (what percent) more eligible people use entitlement programs and tax provisions?

  What have we done to marginal tax rates? How many workers are better off due to lower rates? What about "mechanical" increased eligibility from lower marginal tax rates? How many families will have how much more additional income in either case?

- Government

  How much more, if any, new income and FICA tax funds will be generated?

  Have Make Work Pay options changed welfare entry/exit rates to reduce welfare participation? What are welfare savings?

  What are the net administrative savings from combining/cashing out benefits?

- Societal

  How much have we improved the target efficiency of government benefit programs and tax expenditures? How much new income will be going families below the poverty line?

  How much new employment, more work hours, and employment income generated? (Is the economy likely to generate that many new jobs?)

How many working families and children brought above the poverty line?

How many more eligible working families will take advantage of their program and tax benefits?

Have we reduced family splitting or increased family formation?

What notches/kinks and perverse income disincentives have we removed?

What are the benefits of a Work Support Administration?

Costs:

What are the costs to individuals, Federal and State governments, society, and employers of changes to:

o EITC

Net costs from
- -- changed rates?
- -- new workers?
- -- workers previously not reporting income to IRS?
- -- from over-claiming/tax fraud?

Are there any negative family formation/splitting effects from the size of the new EITC benefits?

What are the reduced labor hours and labor force participation effects from the increased marginal tax rates in some income ranges?

o Minimum wage increases

- -- How much will this cost employers? (Which kind of employers are most likely to be affected?)
- -- How many workers are expected to be laid off, if any? How many new jobs lost or not created (job growth slowed)?

o How much does the increase in TJTC (and other credits?) cost?

o Child care

How much will child care for new workers (increased work hours) cost?
- -- How are these costs split among private payments,

government subsidies, and tax expenditures from Child Care Tax Credit?

- Do we expect significant displacement of currently employed or unemployed individuals? (What are displacement effects?)

- What are the cumulative marginal tax rates for families earning more income? How many families are likely to encounter notches?

- Does cashing out the food stamps and making it and EITC available monthly increase utilization and associated costs?

Administrative Costs:

How much will it cost employers/government to make EITC available more frequently? Are there likely to be more compliance problems?

What are the net costs of combining Food Stamps and EITC benefits for working families? Is this likely to "cost" the Food Stamps program political support?

What are the costs of a Work Support Administration?

Distributional:

Winners

- How many and which kind of families have we raised above the poverty line?

- What proportion of new government transfers have gone to raise families above the poverty line?

- How much and what proportion of benefits have gone to non-poor families, e.g., above 1.5 * Poverty?

- Which States and regions have benefited the most?

- What about central city ghettos? Rural areas?

- How many workers have gone from part-time to full time work?

Losers

- How many and which types of working poor families are still left behind (below poverty)?

- Have we made any working families worse off? Dropped below poverty?

Descriptive

What does baseline look like, given Health Reform? What if we consider the EITC changes to be in baseline? How are macro-economic projections likely to affect our estimates of baseline and proposals?

What do the income dynamics look like for important hypothetical families? (Which hypotheticals are most important?)

What data analyses are we likely to be able to show at a state level?

Who are the working poor? How many and what kind of families/children live in working poor families? [E.g., age of head, age of youngest child, number of children, education level(s) of parent(s), disability status, level of work by one or more family members, location (state, urban/rural, ghetto), extent of poverty, marital status, etc.] Why are they poor? What are the important differences between two and one parent families?

What do we know, that is useful, about why people don't work? Race? Space? Skills mismatch? Culture? Others? (Is this useful for either policy analyses or policy advocacy?)

What are the trends of labor force participation for mothers? What seems to be socially acceptable? How are these trends likely to change? How are they related to age of youngest child?

Is there any evidence that young male unemployment is a significant factor in out-of-wedlock teen birth rate? Are our proposals likely to significantly affect teen pregnancy rates?

How many are eligible for or participate in (affected by) current minimum wage, EITC, Food Stamps, child care subsidies, child care tax credit?

How many families would use the EITC advanced payment provision, if it were better packaged and promoted?

What are the income dynamics of working poor families? For example, how many would be expected to stay employed and rise above the poverty line in one, two, or more years? How many are likely to leave employment voluntarily, forced? (Policy Question: How long to does one have to work before she/he shouldn't be poor?)

How many and what kind of people are working at or near current and proposed minimum wages?

What are the work barriers to people on welfare? How much mixing

of work and welfare is there? What are the patterns? Does having to have a work history to be eligible for AFDC-UP make sense? Is the 100 hours rule a problem for AFDC-UP families? How many families do these provisions affect?
Are there provisions of Food Stamps, Housing, other government programs which pose major work barriers? For example, are assets provisions a problem?

What are the benefit packages available if on welfare? What are the likely benefit packages available, if work? Is there any evidence that high marginal tax rates or notches are major concerns to low income workers?

How many, and which, low income workers are covered by Unemployment Insurance, if they lose their job? Could we improve coverage? Would this improve make-work strategy?

What are the likely functions of a Work Support Administration? What are the additional costs to implement it?

What are the likely interactions between Make Work Pay and the Child Support and Transitional Welfare proposals? What about Program Simplification proposals?

Prepared by Bill Prosser
6/11/93

TRANSITIONAL SUPPORT GROUP DRAFT--NOT FOR DISTRIBUTION

Thoughts on Modeling Needs for Transitional Support

Intro: Need a dynamic model that can track caseload, benefit payments, administrative costs and service costs over time and can accommodate: 1) different treatments (i.e., time limits, exemptions, E&T participation, services utilization, sanctions); 2) different impacts of such treatments; and 3) different patterns of welfare receipt for different categories of individuals and families. The different types of individuals and families would include:

incoming recipients (first-time applicants and returnees) vs. current caseload
two-parent, one-parent, and no-parent cases
teen parents
cases by # and age of children beginning <6 mos., <1 year
disability of recipients and others in the house
education levels
work experience
pregnancies and repeat pregnancies
sex

Goal: to be able to measure the effects of the changes from the current system to a transitional one in terms of cash assistance paid each year, expenditures on administration and services, the number on welfare at end of "two years", and the number on welfare for more than "two years" when repeat spells are considered.

I. For initial assumptions would propose a short-term (ST) (e.g., 4-mo) voluntary period followed by a medium-term (MT) transitional program (either 24-mo. or 24-mo. minus ST period) which could incorporate any of the following participation assumptions:

participation at current participation rates
full participation
intermediate level of participation (such as doubling of current)

Subsequent iterations would accommodate different assumptions about treatments (including different time rules), impacts and costs for the entire caselaod and different subgroups.

II. To compute these items, need information or assumptions in the following areas:

unit costs of activities
expected participation patterns

current E&T utilization info (what activities, how long, how funded)
child care costs and utilization, by age of child
impacts expected from participation, time limits
current welfare dynamics for different groups
availability of outside E&T for different groups
support services costs/utilization

Following are some more specific examples of data which might be needed

- Participation in employment, education, training activities over time, by characteristics (sex, age, number and ages of children, work experience, education)

- Employment experience (e.g., worked at least six of last twelve months, at least 12 of last 24 months, no work experience in past year, two years, five years)

- Educational levels, by characteristics (age, head of case, dependent)

- Number of recipients and number of JOBS participants who attend regular or alternative high school programs

- Number of recipients and number of JOBS participants who attend two or four year college academic degree programs

- Number of recipients and number of JOBS participants who attend ABE, GED, ESL classes

- Number of recipients and number of JOBS participants receiving educational tuition assistance

- Number of recipients currently claiming EITC, either at end of year and on regular schedule through the year

- Number of recipients and number of JOBS participants in JTPA-funded programs, by type of program and characteristics of recipient

- Number of teenagers receiving AFDC by status (heads of case, parent/pregnant but not head of case, teenage dependent non-parenting)

- Number of pregnant recipients at any point in time

- Disability rates among recipients (low: learning disability or temporary medical disability; medium: physical or mental handicap; high: should be none)

NOTE: These data focus on potential AFDC impacts. The model could develop a broader focus and encompass other assistance and benefit programs, including EITC, FS, SSI.

Other subject areas for which data would be needed

I. <u>AFDC Simplification</u>

What do we know about the costs and benefits of the existing AFDC system of monthly calculations and recalculations?

How much instability is there in AFDC cases in terms of income fluctuations, child support collections, and other factors?

How much is spent on AFDC administration--including MR/MB and QC? Are there any State studies on MR/RB payoff?

How much recomputation is done? How much do benefit computations change? How much is recouped?

How would the answers to the above questions change if Food Stamp benefits were brought into the picture? Is there comparable, separate FS information? Is there any information about the costs associated with administering a dual system? Do we know anything about cash-out savings, effects?

II. <u>Infant Exemption</u>

What do we know about parental bonding and the effects of parental work or separation on small children?

III. <u>Disability</u>

How many AFDC recipients and applicants (adults and children) would be considered disabled under different definitions? How many are disabled enough to qualify for SSI? How much would it cost to provide appropriate therapies (such as drug treatment) and participation opportunities for them? To develop appropriate work sites? How many can be reasonably accommodated, and how many cannot?

How many AFDC families live in households where there is a disabled individual needing care?

IV. <u>Fall-out</u>

For the following programs, what could be the effects on benefits and Federal expenditures if AFDC payments are cut?

housing, Food Stamps, foster care, SSI

Date: 06/12/93 Time: 09:45

White House Names Welfare Reform Task Force

WASHINGTON (AP) The White House has named a task force to overhaul the nation's welfare system. At least one member of the group, Fernando Torres-Gil, says he grew up on welfare and lived in public housing.

The 27-member task force will spend the summer and fall developing a plan to reform welfare. Record numbers of Americans collect benefits under some of the country's biggest welfare programs, including food stamps and Aid to Families with Dependent Children.

The task force members include representatives of several federal departments and agencies. Torres-Gil, assistant secretary for aging at the Department of Health and Human Services, comes from a family of migrant farm workers but could not work in the fields himself because he was disabled by polio.

David Ellwood, assistant HHS secretary for planning and evaluation, said the task force will hear from welfare recipients, social services employees, state and local officials, governors and members of Congress.

''We think it's very important that we get input and ideas from people from all walks of life, who are involved with the welfare system and the child support enforcement system throughout the country,'' Ellwood said Friday.

President Clinton campaigned on a promise to ''make welfare a second chance, not a way of life.'' He had pledged to name the welfare task force by mid-February.

Task force leaders will be Ellwood, Bruce Reed, deputy assistant to the president for domestic policy, and the HHS assistant secretary for children and families. Mary Jo Bane, New York state commissioner of social services, has been nominated to that post but has not been confirmed.

Other members of the task force include representatives of the White House, HHS, and the departments of Treasury, Labor, Agriculture, Education, Commerce, Justice, and Housing and Urban Development.

The White House said welfare reform must expand education and training, limit the time a welfare recipient may collect benefits and help them get jobs.

Aid to Families with Dependent Children, a state-federal welfare program, reaches a record 5 million households, most headed by a single parent. The cost of the program this year is estimated at $22 billion.

Ten years ago, AFDC had 3.65 million families on the rolls and a budget of less than $14 billion.

Other welfare programs have seen similar explosions in their caseloads and budgets.

APNP-06-12-93 0944EDT

June 11, 1993

MEMORANDUM

To: HSP Staff

From: Wendell

Re: Attached welfare reform proposal

Attached is the initial draft of my proposal to reform the welfare system. These are preliminary ideas, and in some cases the proposal is not fully developed. **The proposal ought to be treated as VERY confidential**. One of the primary reasons for circulating it is to understand our data analysis needs and capabilities. If we can estimate the cost of a proposal such as this, it will give us a good understanding of what is involved in analyzing various options. I would greatly appreciate your feedback and comments.

2013-0854-S
DETERMINED TO BE AN
ADMINISTRATIVE MARKING
INITIALS: MA DATE: 7/5/13

~~CONFIDENTIAL~~

Wendell Primus
6/11/93

WELFARE REFORM PROPOSAL

The following describes the author's proposal for reforming the current welfare system. The proposal includes improved child support enforcement, child support assurance, amendments to the current AFDC program, and a time limit with corresponding education, training and CWEP.

The proposal definitely meets the charge to "end welfare as we know it". It institutionalizes male responsibility, it provides opportunities for both custodial and noncustodial parents to help support their children, and it promotes parental responsibility. Its primary focus is the child, and it is based on the assumption that child poverty should be reduced and income stabilized through a strong child support enforcement and assurance system. Under the proposal, the programs providing cash or near-cash assistance are simplified, and a consistent time limit is applied across all programs. The custodial parent can receive AFDC, food stamps and housing benefits for a limited period during which intensive efforts through a variety of services, education, and training programs should enable the parent to move towards self-sufficiency. After this time period ends, the recipient is offered a minimum-wage CWEP job where the earnings (and hence hours) are limited by the amount of assistance previously received. During this time period, the welfare office recomputes benefits under the three assistance programs assuming the recipient is working the required number of hours at the job provided. Earnings are reduced proportionately for hours not worked, but any assistance benefits are not affected. Thus, there is a direct and immediate relationship between work and economic well-being. At the end of two years, the CWEP job ends. The recipient is then assumed to be working in the private sector full-time at minimum wage, and assistance benefits are determined accordingly. Depending upon state AFDC benefit levels, AFDC has probably ended. Food stamps and housing benefits would be reduced significantly but not eliminated. The incentive to take a part-time job at that point would be very strong, as benefits would be calculated assuming half-time work, and the recipient would actually receive the wages. At all points in time, there would be a large incentive to participate in the child support assurance system. The details of the proposal are described below.

Paternity Establishment

The paternity establishment component of the proposal is very similar to the design of the Downey/Hyde proposal, with the goal of developing a system which facilitates universal compliance. Under the proposal, Federal funding would be made available to each State to implement a paternity establishment program that meets certain Federal requirements and guidelines. The goal of the Federal requirements is to ensure that paternity is established for as many children born out of wedlock as possible, regardless of the parents' welfare or income status and as soon as possible following birth.

Under its paternity establishment program, each State would establish simple, nonadversarial procedures for the voluntary acknowledgement of paternity shortly after birth, preferably in the hospital through an administrative process. Each State would be required to establish a civil procedure to adjudicate contested paternity cases through a judicial or administrative process. In addition, each State would be required to improve efforts to locate absent parents by ensuring that the parent locate service has access to requisite State and private records, and that other State have direct access to the State data bases in order to process interstate cases.

The Federal government would reimburse States for seventy percent of the cost of establishing and operating the paternity establishment program. An increase in the reimbursement rate would be based on performance, relative to other States.

For children born after January 1, 1996, custodial parents who had not established paternity or who had not been granted a good cause exception would be unable to claim the personal tax exemption for each child for whom paternity had not been established.

Establishment of Child Support Orders

Under the proposal, States would establish all initial orders through an administrative procedure according to uniform, national guidelines indexed annually for inflation. Orders would be established on all noncustodial parents regarding of current ability to pay, by assuming they would work full time at minimum wage. The Federal government would establish and maintain a national, universal database of all existing orders with current information from the Federal income tax returns of all custodial and noncustodial parents including addresses, and States would be required to use this information to update orders every two years.

Collection and Enforcement of Child Support Orders

This section includes many recommendations from the report of the Interstate Commission on Child Support and existing papers. It is similar to the new Federal-State model (option 3) described in the paper on child support enforcement restructuring options. Under the proposal, States would assume primary responsibility for the collection, disbursement and enforcement of child support payments. Employers would withhold support from wages based on information from the revised W-4 form and would forward all withholdings to the State office. The State office would forward child support payments to custodial parents on a monthly basis, and would include separately any child support assurance amounts.

In addition, all new employees would be required to notify their employer of their child support obligations by filing the Federal W-4 form, which would be revised to collect information regarding the employee's name, address, Social Security number, earnings per period, child support order and health insurance benefits. Employers would forward this information to the Federal government to be verified against the national database of orders.

Under the proposal, any child support owed by a noncustodial parent at the end of the year in excess of that withheld during the year would be due to the State office and collected via the annual income tax form. Child support payments would have precedent over Federal tax liabilities.

The State office, through its administrative law judges, would have the discretion to reduce child support arrearages on a case-by-case basis, but only if the office determines that such reduction will promote the payment of current child support obligations by the noncustodial parent. An ALJ could also reduce arrearages by reducing the present value of Social Security retirement benefits based upon changes in the earnings records of noncustodial parents.

The rules for distribution of arrearages would be simplified. The Federal government would retain any arrearages which resulted in the payment of the assured benefit. No monies would be distributed to States as a result of any change in welfare benefits. Arrearages would be cancelled working backwards from the date of the arrearage payment on an annual basis.

The entire system would be universal and proactive, as opposed to reactive. It would be fully automated, and noncustodial parents would be required to keep the child support office fully informed of any change in address and employer. The noncustodial parent would have various choices on how to pay his child support such as automatic withdrawal from a checking account, predated checks, wage withholding or other methods. The choice employed might dictate the necessity of one or two months of advance payments.

Assured Child Support Benefit

Under the proposal, the Federal government would provide (finance) an annual assured child support benefit on behalf of any child who has been awarded support, but whose noncustodial parent fails to pay. The benefit would be administered by the State and would be determined according to either of the following two options and indexed to inflation:

a) The amount shown in the schedule below, less any private child support collected:

Number of Children	Benefit
1	$2,000
2	3,000
3	3,500
4 or more	4,000

This option may also be accompanied by allowing the non-custodial parent to receive EITC. The details of this must still be worked out so as to not encourage family break-up, and in order to be fairly easy to understand and be limited by the amount of child support actually paid.

b) Fifty percent of the child support order, plus a bonus payment of 40 cents per dollar paid by the noncustodial parent up to a maximum of $100 per month. This option may be phased out according to the size of the order.

States must disregard up to $1,000 of child support and assured benefit payments before calculating the AFDC payment if the State's AFDC payment level was less than or equal to 40 percent of the Federal poverty level. Child support payments and the assured benefit would be treated as income to the custodial parent for tax purposes.

Advance Payment of the Earned Income Tax Credit

Certain low-income custodial parents who are eligible for the earned income tax credit (EITC) could request to receive payment of the credit on a regular basis along with their child support payment. The EITC would be administered by the State child support agency.

Amendments to the AFDC Program

Under the proposal, changes would be made to the AFDC program as follows:

a) Rules for determining eligibility and benefit levels would be simplified and standardized to facilitate coordination among other assistance programs such as food stamps and housing;
b) Under current law, when food stamps are calculated, AFDC benefits are taken into account. The AFDC benefit is assumed to be 50 percent for housing and 50 percent for other needs, and housing benefits are calculated assuming one-half of the AFDC check as income. The other one-half reduces the housing subsidy dollar for dollar. Unlike current rules, under the proposal, food stamps would be treated as income for housing subsidy purposes. Calculation of the food stamp benefit would not count the amount of housing assistance received;

c) The 100-hour rule (which specifies that a parent must work fewer than 100 hours in a month to be classified as unemployed) would be eliminated;
d) The quarters of work rule (which specifies that to be eligible for AFDC-UP the principal earner must have worked 6 or more quarters prior to one year before application) would be eliminated;
e) In place of the current $50 per month passthrough of child support, States would be required to increase AFDC benefit levels by $70 per month for families with a child support order; and
f) The standard disregard would be raised from $90 to $100 per month (with State option to increase to more than $100), the child care disregard would remain the same (20 percent of earnings to a maximum of $175 per month per child), and an additional disregard of 20 percent of earnings (with State flexibility) would be added. All benefits (including AFDC, food stamps and the assured benefit, as well as child support payments) would be taxable to the custodial parent.

Time Limit

Under the proposal, welfare receipt (including AFDC, food stamps, and housing) would be limited to 12, 15 or 18 months, based on the unemployment rate in each urban and rural area. For regions with an unemployment rate less than 6 percent, the time limit would be 12 months, for 6-9 percent, 15 months, and for greater than 9 percent, 18 months. Exemption from the time limit would apply to a caretaker of an AFDC child who meets one or more of the following conditions. He or she:

a) is not a natural or adoptive parent;
b) is working more than 20 hours per week (40 hours for both parents). (States could opt to increase to 30 and 60 hours, respectively);
c) has care of a child under age 2. (This could be limited to one child, and States could opt to decrease qualifying age to 6 months);
d) has care of a disabled child or relative;
e) is making satisfactory progress in secondary school or GED program;
f) is participating and making satisfactory progress in a rehabilitation, training or parenting program (including Head Start);
g) has a functional disability or impairment that significantly reduces employability; or
h) has insufficient child care arrangements.

Education and Training

Under the proposal, Federal funding for the JOBS program would increase by $3 billion. The Federal matching rate would be raised from the current level to 75 percent. Countercyclical assistance would be provided through an enhanced Federal match of 90 percent if the unemployment rate in a State rises above 7 percent.

This proposal envisions the continuation of current State JOBS programs. As under current law, States would be given considerable flexibility as to how recipients move through the system. States would be required to properly inform all recipients of the implications of the time limit, including opportunities and obligations at various points in time. States must limit the length of time for which participation in education or training activities would qualify as an exemption from the time limit.

Transitional Assistance

All other individuals not exempt from the time limit would be required after the time-limit outlined above to 'work off' their welfare benefit in a CWEP-type program. CWEP programs must be designed to improve the employability of participants through actual work experience and training in order to enable individuals to move into regular employment as soon as possible. States would be required to offer a CWEP job within 90 days of when an individual goes on AFDC, if the individual so requests. The cost of providing CWEP would be funded at a Federal matching rate of 75 percent. States who wish to provide additional CWEP above that which is specified in the proposal could received Federal funds at a matching rate of 50 percent.

Individuals would be required to work the number of hours derived by dividing the total amount of their welfare benefit (including AFDC, food stamps and housing) by the Federal minimum wage, up to a maximum of 40 hours per week. Participants would be paid an hourly wage equal to the minimum wage, and for purposes of benefit calculation, the welfare department would assume that the participant is being paid for the hours specified. Wages under CWEP would be counted as earnings. For any required hours that the participant failed to work, wages would be reduced accordingly.

Earnings would not be counted as income for purposes of calculating the earned income tax credit, and no unemployment benefits would be paid. Child care would be guaranteed. Current law rules for the workmen's compensation program and the Social Security program (including payment of the FICA tax) would apply. All benefits would be calculated according to existing rules. This implies that individuals would leave the AFDC program first, the food stamp program second, and the housing program third.

Participation in CWEP would be limited to two years, after which individuals would be expected to move into a full-time minimum wage job. For every year off of AFDC, housing benefits, and CWEP, individuals would be able to earn two months of 'credit' in the welfare system for future use.

Teenage Pregnancy and Out-of-Wedlock Births

It is necessary to develop a proposal to address the issue of teenage pregnancy and out-of-wedlock childbearing. The author would recommend a program which would encourage the voluntary use of Norplant for birth control purposes. The teen parent demonstration project has shown that mothers often desire to prevent the birth of additional children, but they do not often have the means or the knowledge.

Work and Training Requirements for Noncustodial Parents

Under the proposal, the JOBS program would be modified and expanded to accommodate participation by noncustodial parents who have failed to, or are unable to, pay child support. A State administrative law judge (ALJ) could require mandatory participation in job search activities under the JOBS program for noncustodial parents who willingly fail to pay child support. Noncustodial parents who are unable to pay child support but are not more than two months delinquent would have an opportunity to volunteer for participation in the JOBS program or other specified activities, during which time the current child support order would be waived. Certain noncustodial parents would be eligible for public service employment (PSE) jobs administered by the State. States would be entitled to receive additional Federal funds to administer the JOBS program and to provide 50,000 public service employment jobs. Intact families would be given priority over separated families for the PSE slots.

Under the expanded JOBS program, States would face a reduced Federal match unless 30 percent of JOBS funds was spent on services to assist noncustodial parents. The current law requirement that 55 percent of JOBS funds must be spent on certain target populations would be reduced to 35 percent.

Tax Treatment of Child Support and Benefits

Under the proposal, the household standard deduction would be increased to the level of the joint standard deduction. For 1993, this implies an increase of $750. Child support payments and the assured benefit would be taxable to the custodial parent, and tax deductible to the noncustodial parent, if the custodial parent receives the personal exemption for the child. If the noncustodial parent receives the personal exemption, child support payments would continue to not be included in gross income to the custodial parent. AFDC benefits, food stamps, SSI and housing benefits would all be counted as taxable income to the custodial parent.

Demonstrations, Research and Evaluation

A thorough evaluation of all aspects of the program would be conducted after the CWEP program and the time limit had been fully implemented. If it was determined that harm was being done to children, the President would have the authority to eliminate the time limit. Demonstrations and research projects will be determined at a later date.

IMPACTS

- Reduced child poverty
- Paternities established on 400,000 additional children each year
- Increased parental responsibility
- Transfer of an additional $10 billion in child support
- Reduction in AFDC caseload
- Increased ability for parents to support their children
- Improved child outcomes