

March 6, 2007

Federal and State Welfare Reform Overview

LEGISLATIVE ANALYST'S OFFICE

Presented To:

Assembly Human Services Committee

Hon. Jim Beall, Chair





Key Features of 1996 Temporary Assistance for Needy Families (TANF) Program

- ☑ **Block Grant and Maintenance-of-Effort (MOE).** The previous entitlement program was replaced with a TANF block grant of \$3.7 billion. To receive the block grant, states must meet a MOE requirement that state spending on welfare for needy families be at least 80 percent of the federal fiscal year (FFY) 1994 level, which is \$2.9 billion for California (75 percent, if the state meets the federal work participation requirement discussed below).
- ☑ **Elimination of Entitlement.** By eliminating Aid to families with dependent children as a federal entitlement, states have the flexibility to redesign their welfare systems, thereby determining who is eligible for benefits, the duration of benefits (with certain limits on federal funding), and the amount of benefits. The previous MOE on individual grant levels is eliminated.
- ☑ **Work Requirements.** The act requires that states have an increasing percentage of their TANF caseload (families with an adult receiving aid and children over age one) engaged in work or some other type of work-related education, job training, or job search activity. For all families the required rate is 50 percent and the rate for two-parent families is 90 percent. States must reduce grants for recipients who refuse to engage in work (as defined by the state). Failure to meet the work requirements subjects a state to a penalty of up to 5 percent of its block grant (increasing 2 percent per year for consecutive failures, with a cap of 21 percent).
- ☑ **Time Limits.** The federal welfare reform legislation sets a five-year lifetime limit on any family's use of federal block grant funds. The law also permits states to exempt up to 20 percent of its cases for reasons of hardship. It is important to note that the federal act places no time limits on the use of state funds.



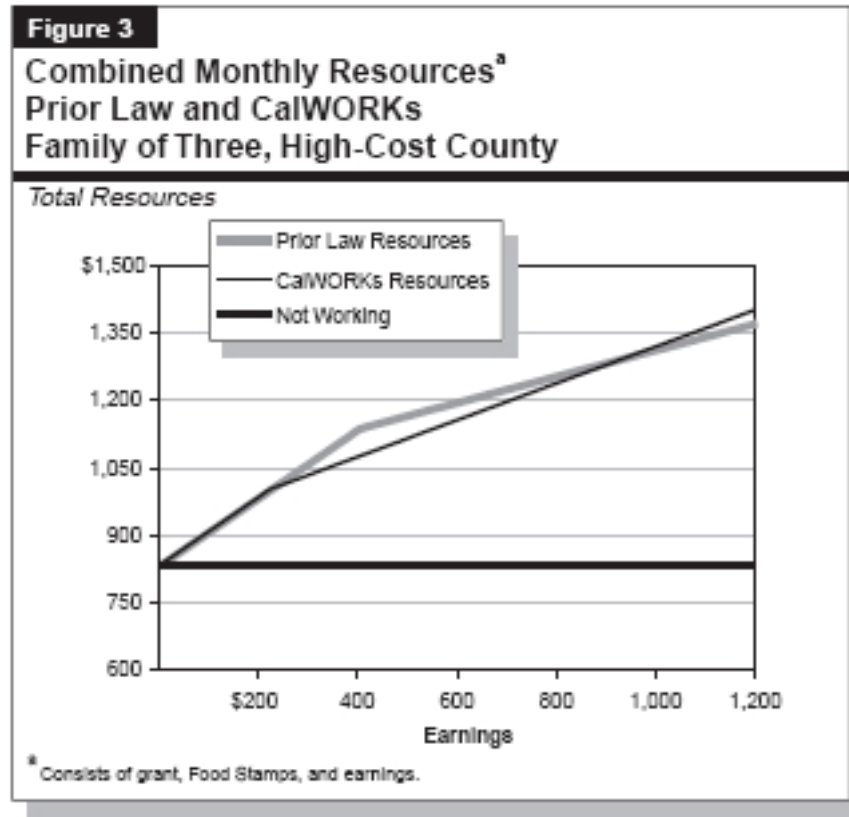
CalWORKs Eligibility Changes

The California Work Opportunity and Responsibility to Kids (CalWORKs) program retains many aspects of prior law with respect to eligibility. In particular, families meeting specified income and asset tests are entitled to receive a grant. Major changes include:

- "Look Back" Provision.** Eliminates the requirement that two-parent families applying for assistance have a prior connection to the labor force.
- Resource Limits.** Conforms resource limits to the amounts permitted under federal law for the Food Stamps program. (This increases the asset limit for automobiles, as applied to applicants, from \$1,500 to \$4,650.)
- Diversion Program.** Permits counties to provide eligible applicant families with up to three months of aid payments in the form of a lump sum, for purposes of providing temporary assistance so that the family does not enter the program.
- Immunizations.** Requires recipients to document that all children required to attend school have received all age-appropriate immunizations. Failure to comply results in removal of the adult from the assistance unit for purposes of determining the family's grant. There are exemptions for good cause and for cases in which immunizations are contrary to the recipient's religious beliefs.
- School Attendance.** In order to receive a grant for all members of the assistance unit, all children for whom school attendance is compulsory must attend school.



CalWORKs Work Incentive



- The CalWORKs program replaced the \$30 and one-third disregard and the “fill-the-gap” grant structure with a \$225 and 50 percent disregard, whereby the first \$225 of earnings plus 50 percent of each additional dollar of earnings are disregarded in determining the family's grant.
- The new disregard provides a greater incentive to earn at least \$1,000 per month.
- Also, the CalWORKs earnings disregard feature is easier to understand than prior law (by eliminating the fill-the-gap feature, for example), which may encourage more recipients to work.



CalWORKs Participation Requirements, Services and Child Care

- Participation Requirements.** The CalWORKs requires recipients to be employed or participate in welfare-to-work activities, pursuant to their individualized case plans, for a specified number of hours per week. Specifically, adults in single parent families must participate in work or approved education or training activities for 32 hours. An adult recipient in a two-parent family must participate for 35 hours per week.

- Participation Exemptions.** The following individuals are exempt from the weekly participation requirements:
 - Teen parents in the Cal-Learn program.
 - Pregnant women for whom the pregnancy impairs the ability to participate.
 - Individuals with a medically verified disability anticipated to last at least 30 days.
 - Individuals with a child under six months of age, with county discretion to change this exemption to children as young as three months or up to twelve months.
 - Individuals caring for ill or incapacitated members of the household.
 - Individuals of “advanced age.”
 - Nonparent caretaker relatives caring for a ward of the court or a child at risk of placement in foster care.

- Welfare-to-Work Services.** The CalWORKs recipients receive welfare-to-work services including: job search, assessment, welfare-to-work activities (education and training), and community service and work experience. Following the assessment, counties and recipients will develop individualized welfare-to-work plans.



CalWORKs Participation Requirements, Services and Child Care *(Continued)*

- Child Care.** The CalWORKs creates a three-stage child care delivery system administered by county welfare departments (CWDs) and the State Department of Education (SDE). Stage I child care is administered by CWDs and is provided during a recipient's first six months on aid or until the recipient's child care situation is stable. Stage II child care is administered by SDE, and may last no longer than two years after a family leaves assistance. Stage III is also administered by SDE and is available for recipients no longer on aid, subject to the condition that they earn less than 75 percent of the statewide median income.

- Sanctions.** The sanction for failure to participate in work activities or community service is removal of the adult portion of the grant.



CalWORKs Five-year Time Limit

- Five-Year Time Limit/Safety Net.*** After five cumulative years on aid, the amount of the CalWORKs grant is reduced by the portion for the adult. Counties have the option of providing the reduced level of aid in the form of cash or vouchers.

- Exemptions From Five-Year Limit.*** Individuals exempt from the five-year limit are (1) certain nonparent caretaker relatives; (2) those age 60 or older; (3) those caring for ill or incapacitated household members; (4) recipients of Supplemental Security Income, In-Home Supportive Services, State Disability Insurance, or Workers' Compensation Temporary Disability; and (5) those determined by the county to be unable to participate, provided they have a history of cooperation with program requirements.



Perspectives on Reauthorization

- ☑ The TANF program was originally authorized through FFY 2002.
- ☑ National Conference of State Legislatures task force on reauthorization began meeting in October 2001 and adopted multiple policy statements stressing the need to retain state flexibility.
- ☑ States were largely successful in reducing caseload and increasing employment. Since the enactment of federal welfare reform, California's caseload has declined by approximately 45 percent. During the same time period, the percent of cases with earnings increased from approximately 17 percent to over 43 percent.
- ☑ President Bush, The U.S. House of Representatives, and the Senate all put forward different reauthorization plans.
- ☑ The final version of TANF reauthorization adopted in the Deficit Reduction Act of 2005 included higher effective work participation rates and less state flexibility than any of the previous proposals.



Key CalWORKs Changes in the Federal Deficit Reduction Act

- Resetting the Base Period for the Caseload Reduction Credit.*** Previously, the caseload reduction credit was determined by finding the state's percentage reduction in the caseload since 1995. Beginning in FFY 2007, the act resets the base period for the caseload reduction credit to 2005.
- Cases in Separate State Programs No Longer Excluded From Work Participation Calculation.*** The act makes cases served in separate state funded MOE programs subject to the work participation calculation. Accordingly, California will no longer be able to avoid the 90 percent rate for two-parent families by using a state-only MOE funded program.
- New Regulatory Authority Concerning Work Participation.*** The act gives the Secretary of the U.S. Department of Health and Human Services new authority to promulgate regulations concerning "verification of work and work eligible individuals." This gives the Secretary specific authority to define work participation activities, how participation in these activities is documented, how participation is reported, and whether nonaided adults residing with children that are aided with TANF or MOE funds may be subject to work requirements.
- More Spending Countable Toward the MOE Requirement.*** The act expands the definition of what types of state spending may be used to meet the MOE requirement. Currently, countable state spending must be for aided families or for families who are otherwise eligible for assistance. The act allows state expenditures designed to prevent out-of-wedlock pregnancies or promote the formation of two-parent families to count toward the MOE requirement even if the target population is not otherwise eligible for aid.



Key CalWORKs Changes in the Federal Deficit Reduction Act

(Continued)

Deficit Reduction Act of 2005 Major Changes to Work Participation Calculation

Provision	Prior Law/Regulations	Deficit Reduction Act/ Associated Regulations	Impact on Participation Rate Calculation
Calculation of caseload reduction credit (CRC)	Based on reduction since FFY 1995 (46%)	Based on reduction since FFY 2005 (3.5%)	Reduces CRC by 42 percentage points
Separate State Programs (SSP)	Cases in SSP excluded from a work participation calculation	Cases in SSP must be included in work participation calculation	State may no longer avoid 90 percent rate for two-parent families through SSP
Adults in sanction for more than 90 days	When adult is removed from case for sanction, the case is excluded from work participation calculation	Must be included in work participation calculation	Adds 40,100 cases to participation calculation (+40,100 in denominator)
Safety net for children of parent hitting five-year time limit	When adult is removed from a case for time limit, the case is excluded from work participation calculation	Must be included in work participation calculation	Adds 46,000 cases to participation calculation, 9,000 of which are meeting work requirement (+9,000 to numerator, +46,000 to denominator)
Caring for ill or incapacitated family member	Included in work participation calculation	Excluded from work participation calculation	Removes 5,000 cases from work participation calculation (-5,000 from denominator)

FFY = federal fiscal year.



California's Work Participation Rate

Work Participation Status—All Families^a Under Prior and Current Law			
	Prior Law and Regulations	Current Law/DRA Regulations	Change From Prior Law
Families meeting requirements	60,148	69,174	9,026
Families subject to participation	215,822	296,975	81,153
	=	=	
Participation rate	27.9%	23.3%	-4.6%

^a Based on California data from federal fiscal year 2005.
DRA = Deficit Reduction Act of 2005.

Estimated Work Participation Rates— Based on Current Law		
	Federal Fiscal Year	
	2007	2008
Base participation rate	23.3%	23.3%
Projected increase from policy changes		
Homeless assistance	0.2%	0.5%
Ending durational sanctions	1.0	1.0
All other policies	4.0	10.0
Subtotals	5.3%	11.4%
Total Estimated Participation Rate	28.6%	34.7%

Totals may not add due to rounding.



California Projected to Meet Participation Requirements, but There Are Risks

	Federal Fiscal Year (FFY)	
	2007	2008
Federal requirement	50.0%	50.0%
Caseload reduction credit		
“Natural” caseload decline since FFY 2005	3.5%	4.1%
Excess MOE reduction	1.2	12.9
Total Credit	4.7%	17.0%
Net requirement	45.3%	33.0%
Estimated participation rate (see page 10)	28.6%	34.7%
Estimated Participation Shortfall(-)/Surplus	-16.7%	1.7%

MOE = maintenance-of-effort.

- California’s work participation rate is projected to exceed the required federal rate by 1.7 percent in FFY 2008.

- Risks and Caveats.** Meeting participation depends on obtaining an “excess MOE” caseload reduction credit of 12.9 percent and achieving a 10 percent increase in participation based on recent program changes that will implement over the coming years.