# WORK-RELATED PROGRAMS

# FOR WELFARE RECIPIENTS

The Congress of the United States
Congressional Budget Office

# PREFACE

Proposals to help recipients of welfare benefits become self-sufficient through work-related activities have been the subject of considerable legislative interest in recent years. This paper, prepared by the Congressional Budget Office (CBO) at the request of the Senate Budget Committee, examines work-related programs for recipients of benefits from the Aid to Families with Dependent Children (AFDC) program, reviews the evidence regarding their effectiveness, and considers a range of legislative options. In accordance with CBO's mandate to provide objective and impartial analysis, this paper contains no recommendations.

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## SUMMARY

Each month, about 3.7 million families receive benefits through the Aid to Families with Dependent Children (AFDC) program, the major source of government cash assistance to low-income children and their families. Nine out of ten recipient families are headed by women. When the program was created in 1935, one of the purposes of providing assistance to fatherless families was to enable the mothers to devote full time to rearing their children, rather than working outside the home. More recently, however, increasing attention has focused on how to help mothers receiving AFDC become self-sufficient through paid employment.

Work-related programs for AFDC recipients--including job search assistance, training and education, and unpaid work experience (known as workfare)--have been a subject of particular interest in recent years. The sometimes overlapping objectives of such efforts include:

- Raising the living standards of recipients and their families;
- Reducing welfare costs; and
- Requiring recipients to contribute to society in whatever ways they can.

Several proposals to promote these goals are being considered by the 100th Congress.

### CURRENT WORK-RELATED PROGRAMS FOR WELFARE RECIPIENTS

Legislation involving work-related programs for welfare recipients has developed along two tracks. Since the early 1960s, the Congress has enacted a series of employment and training programs for low-income people, many of whom are also beneficiaries of income transfer programs. Participation in these employment and training programs is voluntary. The Job Training Partnership Act of 1982 (JTPA) is the most recent such effort. State and local governments are largely responsible for operating JTPA programs, but are not required to provide any funding of their own.

The other set of programs has been explicitly designed for recipients of income transfer programs. The Work Incentive Program (WIN), enacted as part of the Social Security Amendments of 1967, provides AFDC recipients with activities intended to help them become self-sufficient. Unless exempt, recipients must register for work and training as a condition of eligibility. The most common reason for adults being exempted is that they are caring for dependent children under six years of age. The federal government provides 90 percent of the funds for WIN, and states pay the remaining 10 percent.

Legislation enacted in 1981 and 1982 authorized states to establish alternatives to WIN and to require, at each state's option, that certain registrants participate in job search assistance, workfare, or other activities. As with other AFDC administrative costs, the federal government reimburses states for half of the costs of these activities. In response to this legislation, many states have experimented with new ways of providing work-related activities to AFDC recipients. Half of the states reorganized their WIN programs, and many established new programs to provide job search assistance, training, and work experience, partly funded by federal AFDC matching grants.

## EVIDENCE REGARDING THE EFFECTIVENESS OF WORK-RELATED PROGRAMS

Much is being learned from the recent state initiatives that could be useful in formulating future federal policy on work and welfare. Evaluations by the Manpower Demonstration Research Corporation (MDRC) of experiments in Arkansas, California, Maryland, Virginia, and West Virginia, together with studies of earlier programs, indicate that carefully designed work-related programs for AFDC recipients can be moderately successful in achieving many of the goals sought by their proponents. Desired outcomes are not always realized, however, and the best available information is not always good enough to predict the circumstances under which they will occur.

### Effects on Participants' Incomes

Work-related programs, such as job search assistance and training, usually increase the average earnings of economically disadvantaged female participants. Gains in earnings are typically larger for participants who have no recent work experience than for those who do. Most evaluations of previous training programs, WIN, and the recent demonstration projects reached these conclusions. For example, a program in San Diego, California, involving job search assistance and short-term workfare, was estimated to increase participants' average quarterly earnings by about $140 during the period for which data were available; among those who had not worked during the year before entering the program, the average quarterly gain was $210, compared with $70 for participants who had worked during that year.

A participant whose earnings increase does not necessarily attain a higher standard of living, at least in the short run, because transfer payments and other benefits such as Medicaid could fall and child care costs and other work-related expenses could rise. For example, the average gain in earnings of the participants in the San Diego demonstration cited above was more than double the average reduction in AFDC benefits; in a demonstration in Arkansas, however, the estimated gains in earnings were similar to the reduction in participants' AFDC receipts. Many of the individuals who stopped receiving AFDC benefits would probably also lose their eligibility for Medicaid some months later.

## Effects on Government Costs

The costs to governments of operating work-related programs for welfare recipients are offset to some extent by savings generated from reduced outlays for AFDC, Medicaid, and other transfer programs for the participants. The federal government receives the majority of the savings, because it finances the majority of the benefits. Whether the net result is to save taxpayers money in the long run is uncertain. The answer depends, in part, on the effects of the work-related programs beyond the short post-participation period for which data are generally available, and on the extent to which the jobs obtained by program participants would have been held by other individuals who then become eligible for AFDC or other benefits.

## Effects on Recipients' Contributions to Society

Recent experience in several locations suggests that it is feasible to engage a larger share of AFDC recipients in work-related activities. Most states, however, have not given this goal a high priority. Participation in job search assistance programs usually is the most that has been required. Requiring greater participation in work-related programs could help assure that recipients contribute to society. It might also discourage individuals from becoming dependent on public assistance, although whether it does so is not known.

Workfare programs appear to have been carried out in ways that are generally considered equitable by participants and productive by their employers. Surveys of workfare participants suggest that the majority of them accepted participation in the program as a reasonable requirement in return for their benefits. In West Virginia, program planners promoted workfare partly as a way of providing worthwhile public services that the state government could not otherwise afford. Surveys of worksite supervisors there and elsewhere indicate that the workfare participants were, on average, about as productive as regular employees.

## ISSUES AND APPROACHES

If the Congress decided to change the current work-related programs for AFDC recipients or to develop new ones, several issues would need to be resolved, including whom to serve, what activities to provide, and how to pay for them. The Congress would also need to determine how prescriptive the federal government should be in designing the programs, and how much flexibility should be given to states.

Whatever specific choices might be made, an important lesson from studies of earlier efforts is the need to be moderate in one's expectations about what the programs are likely to accomplish. For example, the estimated gains in earnings of the participants in several of the recent demonstrations were significant, but generally did not bring their earnings up to very high levels.

### Eligibility Criteria

One issue in the design of work-related programs is eligibility. Under current law, only about one-third of women receiving AFDC are required to participate in WIN or other work-related activities. Because the most common basis for exempting adult recipients is that they are caring for children under age six, whether to change this rule is an especially important matter.

Requiring recipients with pre-school-age children to work or to participate in programs that would prepare them for paid employment, at least on a part-time basis, might be considered more reasonable today than would have been the case even two decades ago, when staying home with young children was the norm. Moreover, women who begin receiving AFDC when their youngest child is under age six stay on welfare for more years, on average, than do other women. Participating in work-related programs might help them find jobs and lessen their reliance on public assistance sooner. On the other hand, child care costs would probably be higher for this group.

Minimum Participation Rates and Performance Standards

Another important issue is whether the federal government should enact incentives or requirements for states to enroll specific percentages of their nonexempt AFDC recipients in work-related activities or to achieve specific outcomes.

Setting targets for participation rates and specifying performance standards would provide a means of holding states accountable for meeting national objectives. A recent survey of state programs by the General Accounting Office indicates that, under current rules, most states are not opting to engage large percentages of eligible AFDC recipients in activities other than registration and job search assistance. Proponents of giving work-related requirements a higher priority argue that targets for participation rates are needed. Similarly, those who want to emphasize raising recipients' incomes or cutting welfare costs contend that specifying standards, such as minimum employment rates following participation in the program or a certain degree of reduced dependence on AFDC, is a necessary step.

Opponents of minimum participation rates argue that the various goals of work-related programs are, to some extent, in conflict and that targets would deny states the flexibility to give priority to the other objectives. They are also concerned that states might be penalized unfairly because, as indicated by the recent demonstration programs, achieving high rates of participation can be difficult. In West Virginia's workfare program, for example, the average monthly participation rate for eligible mothers was only about 20 percent. Achieving greater participation would require more rigorous enforcement than states have generally chosen to undertake, as well as higher operating costs.

Some people argue that the technical difficulties in specifying performance standards are so serious that such standards could be counterproductive. For example, the findings presented in this report indicate that standards would need to take into account the normal movement of many AFDC recipients off welfare and into jobs even when they do not participate in special programs. Otherwise, specified standards could inadvertently give states an incentive to enroll the recipients who were most likely to find jobs on their own, thus minimizing the actual gains from the program.

## Priorities Among Recipients and Activities

Work-related programs could be designed so as to encourage states to serve individuals with specific characteristics or to provide particular types of activities. Which approaches should be taken depends, in part, on the primary objective of work-related programs. If it is to increase participants' earnings, the evidence on effectiveness strongly supports giving priority for job search assistance and training to women with little or no recent work experience, although this approach would exclude some people who would also gain from the program. If the goal is to assure that recipients contribute to society, then workfare--either alone or in combination with other work-related programs--might be used, even if participation did not increase recipients' earnings or reduce welfare costs.

Whether priorities should be specified in the legislation also depends on the extent to which the federal government should tell states what to do. An advantage of having the federal government specify which groups and which activities should be given priority is that doing so would help to assure that the federal funds would be used to achieve the program's intended goals. A disadvantage is that states might be in a better position to determine what would work best for whom within their own environments.

## Funding Arrangements

Another issue is whether to change the share of work-related program costs paid by the federal government. Proponents of increased federal funding for work-related programs point out that, because it pays for a large share of the costs of AFDC and other transfer payments, the federal government receives the majority of the budgetary savings attributed to these programs. They argue that it would be appropriate for the federal government to pay a larger share of the costs as well. Such an arrangement would give states a greater incentive to operate programs, especially relatively intensive ones.

On the other hand, the evaluation studies show that work-related programs achieve other goals as well, including ones for which the federal interest might not be as strong--having workfare participants perform services for state and local governments, for example. Moreover, substantially increasing the rate at which the federal government matches state outlays could increase expenditures by unknown amounts, a particular concern during a period of high federal budgetary deficits.

# CHAPTER I

# INTRODUCTION

Work-related programs for recipients of public assistance--including job search assistance, training and education, and unpaid work experience (known as workfare)--have received considerable attention in recent years. Partly as a result of legislation enacted by the Congress in 1981 and 1982, many states have implemented programs to help welfare recipients attain the skills and work experience they need to become self-sufficient. The President, in his 1986 State of the Union Address, declared that the "success of welfare should be judged by how many of its recipients become independent of welfare" and called for the development of new approaches to achieve this objective. During the 99th Congress, several bills were introduced, and the topic is being addressed by various committees in the 100th Congress as well.

This report examines the issues surrounding the design, implementation, and evaluation of programs to provide work-related aid to recipients of public assistance, with an emphasis on federal programs for recipients of Aid to Families with Dependent Children (AFDC). As background, this chapter provides an overview of the AFDC program, the characteristics of AFDC recipients, and the history and goals of work-related programs for welfare recipients. Later chapters review current programs and evidence regarding their effectiveness, and examine a range of federal policy options.

## BACKGROUND

Requirements and expectations regarding work by recipients of public assistance have changed substantially during the history of such programs. When AFDC--the major source of government cash assistance to low-income children and their families--was created a half-century ago, recipients were neither required nor expected to seek work outside the home. More recently, however, much attention has been focused on how to help recipients become self-sufficient through unsubsidized employment.

## The AFDC Program in Brief

The program now known as Aid to Families with Dependent Children was established by Title IV of the Social Security Act of 1935. It authorized matching grants to states to help them provide financial assistance to needy children in families in which a parent had died, was absent from the home, or was incapacitated. 1/

Under current law, each state determines its own program eligibility criteria and benefit levels, subject to a number of federal requirements. In general, AFDC benefits are available to single-parent families with children under 18 years of age and with incomes and assets that are below specified amounts. States are permitted to extend eligibility until a child's nineteenth birthday if the child is a full-time student in a secondary or technical school. Since 1961, states also have been allowed to provide benefits to families in which both parents are present if certain conditions are met, one being that the principal earner is unemployed or works fewer than 100 hours a month. About half of the states have taken up this unemployed parent option (known today as AFDC-UP). AFDC-UP families account for less than one-tenth of all AFDC families and outlays.

Unless exempt, able-bodied recipients age 16 and over must register for work and training as a condition of eligibility. Every state operates a Work Incentive Program (WIN) that is used, in part, to enforce this requirement. 2/ The most common reason for exempting adults is that they are caring for children under six years of age. 3/ Children who are full-time students in secondary or vocational school are also exempt. If recipients fail to register for, or refuse without good cause to participate in, work-related activities to which they have been assigned by the welfare agency, they can lose some or all of their benefits. 4/

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1. The program was called Aid to Dependent Children (ADC) until 1962. Two-parent families in which one parent is incapacitated are treated as one-parent families in this report.

2. States are permitted to operate alternative WIN Demonstration programs, as well as other work-related programs to which AFDC recipients and applicants may be assigned. These programs are described in Chapter II.

3. States may request temporary waivers from the Secretary of Health and Human Services to enable them to require mothers of children under age six to fulfill work requirements.

4. The principal earner in an AFDC-UP family must comply with this requirement or benefits for the entire family can be lost. If a single parent in other AFDC families fails to comply, the parent may lose his or her benefits, and payments on behalf of the children may be made to a third party instead of to the parent.

Each state establishes a standard of need and determines what percentage of this standard AFDC will provide for a family. Within each jurisdiction, a family's monthly benefit level is determined primarily by family size and the amount and sources of other income. For example, in January 1987 the median state had a need standard of $428, and a maximum AFDC grant of $354, for a one-parent family of three. 5/ In addition, receipt of AFDC benefits automatically establishes eligibility for Medicaid, the major federal/state program that provides health benefits for some low-income people.

Federal law requires states to disregard certain earned income in determining the amount of a family's benefits and prohibits states from paying AFDC benefits to a family whose total income exceeds 185 percent of its standard of need. Amounts ordinarily not counted as income during each of the first four months of a recipient's job include the first $105 of the individual's earnings, child care expenses of up to $160 a month per child, and one-third of the remaining earnings. After four months, the one-third "disregard" cannot be used. After 12 months, the initial disregard of $105 is lowered to $75. States are required to retain families on Medicaid for at least four months after they become ineligible for AFDC, if the reason for ineligibility is increased earnings. 6/

One result of these rules is that a recipient who takes a job would not have to earn very much before she (or he) would lose AFDC benefits entirely, particularly if she is in a state with low benefits. For example, for a mother in the median state with two children and no child care deductions, the break-even point--that is, the amount of monthly earnings that would raise her countable income to the level at which she would no longer receive AFDC

5. In most jurisdictions, AFDC benefits, together with food stamps, provide families with incomes well below the poverty threshold. For example, the maximum AFDC benefit, combined with food stamps, in the median state for a family of three would equal about three-quarters of the 1986 poverty threshold for a family of this size. House Committee on Ways and Means, *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, WMCP: 100-4, 100:1 (March 6, 1987), p. 407. The assumed amount of food stamps is based on the maximum food stamp allotment in most states of $214 for a family of three, after adjustments for receipt of AFDC benefits and for allowable deductions.

6. States are required to continue Medicaid eligibility for nine months if loss of AFDC is the result of removing the one-third disregard. At their option, states may continue Medicaid coverage for these families for an additional six months. In addition, three-quarters of the states extend Medicaid coverage to "medically needy" families with dependent children. Under this option, families whose incomes--net of incurred medical expenses--are below a state's need standard are covered, even though they are not receiving AFDC.

payments--is about $640 during the first four months, $460 during the next eight months, and $430 thereafter. 7/ A person working full time in a job paying about $3.70 an hour would earn $640.

AFDC benefits totaled an estimated $15.8 billion in fiscal year 1986, of which the federal government paid $8.5 billion. The federal share of the funding averaged about 54 percent for the nation as a whole and varied between a floor of 50 percent and about 78 percent, depending on each state's per capita income. The federal government also pays 50 percent of the costs of administering the program in every state, including the costs of certain work-related activities. 8/ Combined federal and state administrative costs amounted to an estimated $2 billion in 1986.

## Profile of AFDC Recipients

In an average month in 1986, 11 million people in 3.7 million families were estimated to be receiving AFDC benefits. The average monthly payment was $120 per person, or $352 per family. Two-thirds of the recipients were children; the rest were their mothers or other caretaker relatives. In most cases, the child's father was absent from the home. 9/

Large numbers of families move onto and off AFDC each year, even though the average monthly number of families receiving AFDC has not fluctuated very much during the past decade. 10/ For some families, AFDC provides short-term assistance during a crisis; for others, it provides long-term aid. Much attention has been focused on identifying which recipients are most likely to be in the latter group.

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7. Child care expenses, up to the allowable limit of $160 per child, would raise the break-even point on a dollar-for-dollar basis. The rules for disregarding certain earnings, and the changes that were made to them in 1967, 1981, and 1984, are described in "Costs and Effects of Expanding AFDC," Part III of House Committee on Ways and Means, *Children in Poverty*, WMCP: 99-8, 99:1 (May 22, 1985), pp. 414-417.

8. Although the federal government reimburses states for half of most covered administrative costs, it provides 90 percent of certain costs for automated data processing.

9. House Committee on Ways and Means, *Background Material* (1987), p. 429.

10. Ibid. Between 1976 and 1980, the average monthly number of families on AFDC remained between 3.5 million and 3.6 million. It rose to 3.9 million families in 1981 and then decreased to 3.6 million in the following year. Since then, it has stayed between 3.6 million and 3.7 million families.

Data from a sample of AFDC administrative records in 1985 provide a profile of mothers receiving AFDC and their families (see Table 1). The typical case consisted of a mother in her twenties, with one or two minor children (see the first column). About 60 percent of the mothers had at least one child under the age of six. Only 30 percent had to comply with WIN registration requirements; the remainder were exempted mainly because they were caring for young children (although some chose to register anyway).

Of the 3.3 million recipients in fiscal year 1985 represented in this sample, about 30 percent had been receiving AFDC for one year or less (see the second column), although some may also have received benefits in earlier periods. Another 30 percent had been receiving AFDC for 13 to 36 months, and the remaining 40 percent, for more than three years.

The "new" recipients were, not surprisingly, younger on average than the recipients already on the rolls, had fewer and younger children, and were less likely to be required to register with WIN (see the second column). For example, 25 percent of the new recipients were under age 22, compared with just 15 percent of all recipients.

The number of months since a case was opened, however, can seriously understate the extent to which mothers are dependent on AFDC for many years. These administrative statistics depict spells of receiving AFDC that are still in progress, not ones that have ended, so they cannot indicate total durations. Further, because previous and future spells are not included in the data, it is impossible to determine the extent to which these recipients were dependent up to the time of their current spell and the extent to which they may become dependent again in subsequent years. Thus, even though only about 40 percent of the recipients had been receiving AFDC for three years or more, the percentage who were or will be dependent for this length of time is much higher.

Data from the Panel Study of Income Dynamics (PSID), a nationwide survey that has tracked the experiences of members of about 5,000 households for over 15 years, provide important insights about long-term receipt of AFDC. An analysis of the PSID data for the years 1968 through 1982, conducted by David Ellwood, indicates that, of all mothers on AFDC for the first time, about half receive benefits for at least five years and about one-quarter do so for a total of nine years or more, though not necessarily in one continuous spell. 11/ Precisely because the latter group receives payments for so many years, it

11. David T. Ellwood, "Targeting 'Would-Be' Long-Term Recipients of AFDC" (Mathematica Policy Research, Inc., Princeton, N.J., January 1986).