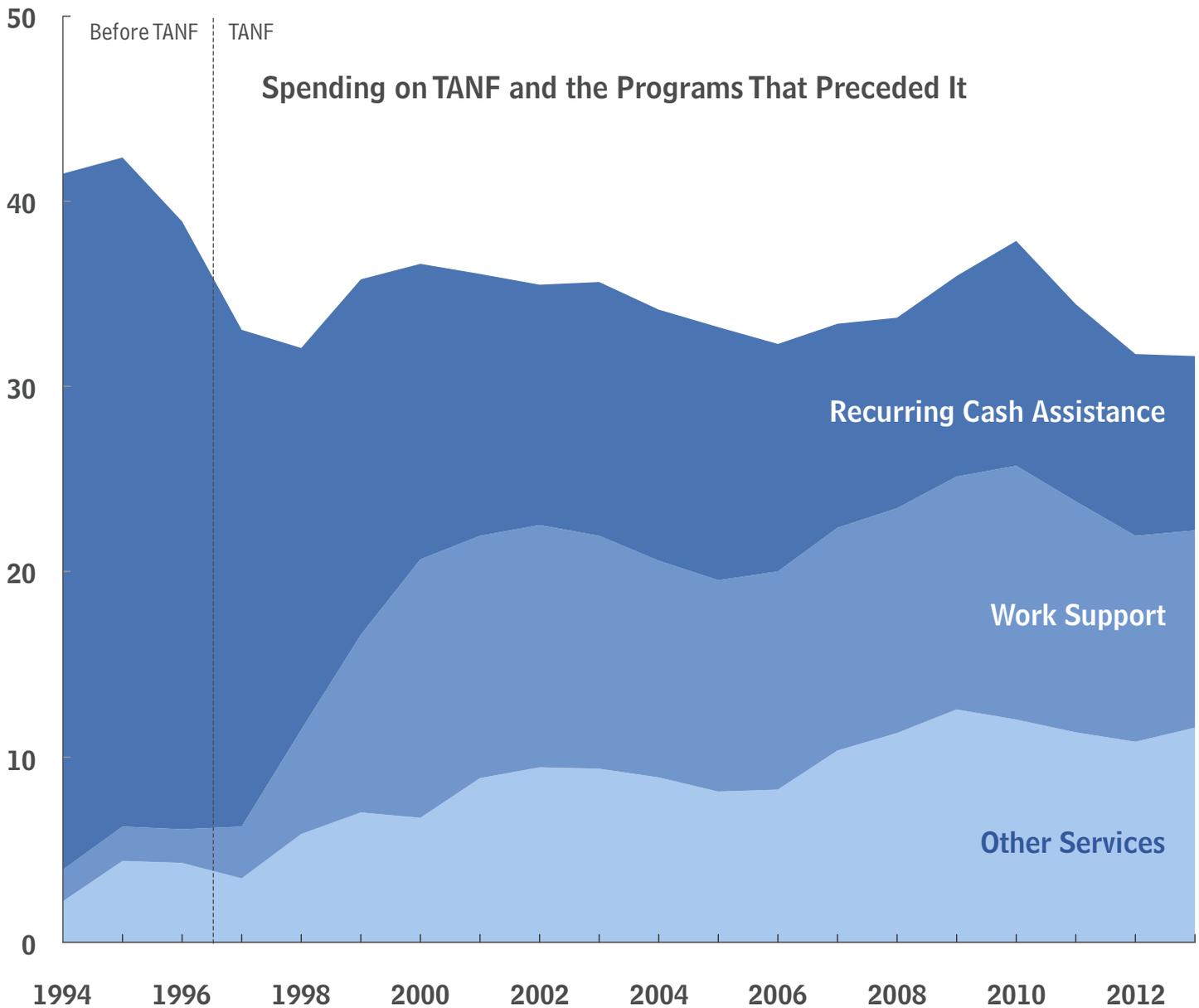


CBO

Temporary Assistance for Needy Families: Spending and Policy Options

Billions of 2013 Dollars



JANUARY 2015

Notes and Definitions

This report draws on statistics from the Department of Health and Human Services (HHS). When the report was published, HHS had yet to release certain data for 2012 and 2013. Therefore, the report draws on statistics from 2011 and 2012 in some cases.

Figures for government spending that are expressed in 2013 dollars were converted from nominal amounts with the price index for personal consumption expenditures, which is calculated by the Bureau of Economic Analysis.

Unless this report indicates otherwise, the years that it mentions are federal fiscal years, which run from October 1 to September 30. References to states include the District of Columbia. Numbers in the text may not add up to totals because of rounding.

AFDC (Aid to Families With Dependent Children): A program that provided cash assistance to low-income families and that was replaced by TANF.

Contingency fund: A mechanism that can increase the amount of federal TANF funding available to states that are experiencing economic downturns.

DRA (Deficit Reduction Act of 2005): A law that made various modifications to TANF, including the imposition of a more stringent work standard.

JOBS (Job Opportunities and Basic Skills Training): A program that supported recipients' ability to work and that was replaced by TANF.

MOE (maintenance-of-effort) requirement: A rule that penalizes a state in which nonfederal spending on TANF is less than 75 percent of nonfederal spending in 1994 on the programs that preceded TANF.

PRWORA (Personal Responsibility and Work Opportunity Reconciliation Act of 1996): The law that established TANF.

SFAG (state family assistance grant): A block grant through which almost all of the federal government's TANF funding takes place.

SNAP (Supplemental Nutrition Assistance Program): A program that provides nutrition assistance to low-income families.

SSI (Supplemental Security Income): A program that provides cash assistance to disabled and elderly people with low income.

TANF (Temporary Assistance for Needy Families): A program that provides cash assistance, work support, and other services to low-income families.

Work participation rate: The percentage of families getting TANF cash assistance that include an adult "engaged in work"—that is, participating in a qualifying work-related activity for a sufficient number of hours per week.

Work standard: A set of rules that requires a state to maintain a certain work participation rate.



Contents

Summary	1
How Much Is Spent on TANF and What Does It Provide?	1
How Does TANF Compare With Other Federal Programs and Tax Credits for Low-Income Families?	1
How Does TANF Affect Employment?	2
How Would Various Policy Options Affect TANF?	2
An Overview of TANF	2
Eligibility	4
Characteristics of Recipients	4
Spending on TANF	4
Federal Spending	5
State Spending	7
How the Spending Is Used	9
TANF and Other Federal Programs for Low-Income Families	16
How TANF Compares With Other Federal Programs for Low-Income Families	16
Recipients of TANF Cash Assistance and Assistance From Other Federal Programs	17
The TANF Work Standard	19
The Work Participation Rate	19
Exclusions From the Work Participation Rate	21
How States Usually Meet the Work Standard	22
How States Limit Penalties for Not Meeting the Work Standard	22
Challenges for States in Meeting the Work Standard	22
Options for Changing TANF	23
Options That Change Funding	25
Options That Change the Work Standard	27
Options That Change the Maintenance-of-Effort Requirement	30
List of Tables and Figures	32
About This Document	33



Temporary Assistance for Needy Families: Spending and Policy Options

Summary

Temporary Assistance for Needy Families (TANF) is a federal program that provides cash assistance, work support, and other services to some low-income families. The cash assistance is generally limited to families with income well below the poverty threshold and few assets; it goes to roughly 2 million families per month, most of them headed by single mothers. The work support (such as subsidized child care) and the other services (such as initiatives to reduce out-of-wedlock pregnancies and promote marriage) are usually available to families with income up to twice the poverty threshold.

The states administer TANF and have considerable latitude in determining the mix of cash assistance, work support, and other services that it provides. However, if too few families receiving cash assistance are participating in work-related activities, a state can lose some federal funding. States therefore impose work requirements on recipients of cash assistance. Also, those recipients face federal limits on how long they are eligible for cash assistance. The work requirements and the time limits are intended to achieve one of TANF's goals: ending recipients' dependence on government benefits.

How Much Is Spent on TANF and What Does It Provide?

Almost all of the federal government's TANF funding takes place through a block grant called the state family assistance grant (SFAG). Because the size of that grant has not been adjusted for inflation, its purchasing power has declined by about 25 percent since 1998, the first full year the program was in operation. Through the SFAG and a smaller funding mechanism called the contingency fund, the federal government spent \$17 billion on TANF in 2013, which was the lowest inflation-adjusted amount in the program's history.

TANF is funded not only by the federal government but also by the states, which must document a certain amount of nonfederal funding (often state funding, but also funding from local governments and private organizations) to avoid losing part of their SFAG allotments. States that spend more than that amount can receive more federal support through the contingency fund. In 2013, states reported spending about \$15 billion of nonfederal money on services intended to meet TANF's goals. For the most part, state and federal funds support the same array of TANF services.

Most TANF funding was initially spent on cash assistance. Between 1998 and 2008, however, the share of funding spent on cash assistance fell from about 65 percent to about 30 percent. A number of changes explain that decline. For one thing, the number of families receiving cash assistance, which had already fallen from 5 million in 1995 under the program that preceded TANF to 3 million in 1998 under TANF, continued to fall through 2008. Also, the inflation-adjusted value of the monthly benefit that those families received decreased substantially. Meanwhile, spending on work support and on other services grew. Cash assistance, work support, and other services now account for about a third of total TANF funding apiece.

Over the past few years, only about one-quarter of families with income below the poverty threshold have received TANF cash assistance in a typical month. The average monthly benefit was about \$400, or roughly one-third of the poverty threshold for a family of two.

How Does TANF Compare With Other Federal Programs and Tax Credits for Low-Income Families?

Spending on TANF has been declining as a share of federal spending on means-tested programs (that is, programs targeted at people with low income) and tax credits

for low-income people. As the inflation-adjusted value of federal spending has fallen for TANF, it has increased substantially over the past two decades for many of the other programs and credits: Supplemental Security Income (SSI), which provides cash assistance to low-income people who are elderly or have disabilities; the earned income and child tax credits, which help low-income people who have earnings; and programs that provide health care, nutrition assistance, and grants for college and other postsecondary education to low-income people. Today, the federal government spends far more on many of those programs and tax credits than on TANF.

Most families that receive cash assistance through TANF also receive health insurance through Medicaid and nutrition assistance through the school meal programs and the Supplemental Nutrition Assistance Program (SNAP). Some TANF families also receive additional cash assistance because of a family member's disability or through the earned income and child tax credits. In addition, a small number of families receiving cash assistance through TANF receive subsidized housing.

How Does TANF Affect Employment?

Like many means-tested programs, TANF creates an incentive not to work by reducing benefits as recipients' earnings rise. However, the program includes mechanisms to counter that effect. In particular, the federal government requires a certain percentage of each state's adult cash assistance recipients—50 percent, before adjustments are made—to be either employed or participating in activities that could lead to employment. If that “work standard” is not met, states risk losing some of their TANF funding (though they can take a variety of measures to retain it). States therefore require most adult recipients to work or to prepare for employment in other ways.

The work standard and state work requirements generally apply only to people who are the parents of children receiving cash assistance and who are not disabled. In most years, only about a third of those adults have had enough hours in qualifying activities to count as work participants. But that level of participation nevertheless allowed most states to meet the work standard before 2007, because the federal government, in accordance with the law that established TANF, reduced each state's 50 percent requirement in proportion to the reduction in

the number of families receiving cash assistance in that state since 1995.

In 2007, however, the Congress changed the work standard's reference year from 1995 to 2005; that is, the 50 percent requirement would now be reduced in proportion to each state's (much smaller) reduction in the number of families receiving cash assistance since 2005. To date, most states have met the higher work standard that resulted by using a variety of approaches, but not by increasing the number of recipients with enough hours in qualifying activities. The states that have failed to meet the higher work standard run the risk of incurring financial penalties.

How Would Various Policy Options Affect TANF?

The Congressional Budget Office (CBO) has assessed 12 ways that the Congress might decide to change TANF. Those options are listed in Table 1.

The first five options would change the size of the SFAG or the contingency fund. Two of those options would affect the federal budget deficit over the next 10 years; the remaining three would shift TANF funding to different groups of low-income families but keep the total amount of federal spending constant.

The next five options would change the TANF work standard. In general, loosening the work standard would give states more flexibility to experiment and to provide the services that they thought were best for their residents; tightening it could prevent families from becoming dependent on government aid. Those options would probably not have a significant effect on the federal budget: Though they could change the extent to which states paid penalties for violating the work standard, those penalties are typically quite small.

The final two options would change the incentives for states to spend their own money on TANF. Those options could affect how many families have access to cash assistance. But they would probably not have a significant effect on the federal budget, because states would probably adhere to the new requirements and thus avoid losing part of their SFAG allotments.

An Overview of TANF

TANF, usually pronounced “*tan*-if,” was established by the Personal Responsibility and Work Opportunity

Table 1.
Options for Changing TANF

Options That Change Funding	Options That Change the Work Standard	Options That Change the Maintenance-of-Effort Requirement
Option 1: Reduce the State Family Assistance Grant by 10 Percent	Option 6: Prohibit States From Using Different Work Standards	Option 11: Prohibit States From Counting Private Spending Toward the Maintenance-of-Effort Requirement ^a
Option 2: Increase the State Family Assistance Grant to Account for Inflation	Option 7: Credit States for Former Recipients' Continued Employment, Not for Caseload Reductions	Option 12: Require States to Spend at Least One-Fifth of TANF Funding on Cash Assistance
Option 3: Link the State Family Assistance Grant to the Unemployment Rate	Option 8: Eliminate Credits for Spending in Excess of the Maintenance-of-Effort Requirement ^a	
Option 4: Make the Contingency Fund More Responsive to High Unemployment	Option 9: Loosen the Limit on Counting Job Readiness Activities as Engagement in Work	
Option 5: Reinstate Supplemental Grants but Reduce the Contingency Fund	Option 10: Loosen the Limit on Counting Vocational Education as Engagement in Work	

Source: Congressional Budget Office.

Note: TANF = Temporary Assistance for Needy Families.

a. The maintenance-of-effort requirement penalizes a state in which nonfederal spending on TANF is less than 75 percent of nonfederal spending in 1994 on the programs that preceded TANF.

Reconciliation Act of 1996 (PRWORA). The program—which replaced Aid to Families With Dependent Children (AFDC) and two smaller programs, Job Opportunities and Basic Skills Training (JOBS) and Emergency Assistance—gives states more flexibility than its predecessors did to determine how to spend federal aid to low-income families.¹ The federal government provides a block grant that, PRWORA specifies, states may use “in any manner reasonably calculated” to achieve four goals:

- Providing assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- Ending the dependence of needy parents on government benefits by promoting work, job preparation, and marriage;

- Preventing and reducing out-of-wedlock pregnancies; and
- Encouraging the formation and maintenance of two-parent families.

To reduce dependence on cash assistance, TANF restricts most adults from receiving it for more than five years over the course of their lives. (Under AFDC, low-income families were entitled to monthly cash payments with few strings attached.) Also, the federal government imposes a work standard on each state that specifies how many cash assistance recipients must participate in work-related activities. States risk losing a modest portion of their federal TANF funding if they do not meet the standard, so all of them require recipients of cash assistance to participate in work-related activities.

A family’s eligibility for TANF is based on the amounts of its income and assets. Most of the families receiving cash assistance have income far below the poverty threshold, and in many cases, only the children in a family receive benefits.

1. In this report, the word “family” usually refers to an arrangement in which at least one adult lives with at least one child under the age of 18.

Eligibility

According to federal law, only families with needy children may receive cash assistance through TANF, but the states determine what constitutes need. Almost no states accept applications for cash assistance from families with income above the poverty threshold, which is about \$1,300 a month for a family of two, and in about half of the states, the income limit for cash assistance is less than half of the poverty threshold. In many states, recipients who quickly find work continue to receive cash assistance for several months, even if their income has grown past the limit; that approach increases their incentive to work. Initial eligibility for TANF is also restricted to families with few assets (not counting some vehicles). The asset threshold in most states is under \$5,000.

The states also determine the size of the payments that families receive; those payments are usually smaller for families with other income and for families with fewer eligible members. Adults are typically ineligible if they are disabled and receiving SSI benefits or if they have immigrated to the United States within the past five years. In addition, nonparental caretakers seldom qualify for payments; one common reason is that their income is too high. As a result, in many of the families receiving cash assistance, only the children are eligible, so those families get smaller payments than they would if the adults were also eligible.

Many families are eligible for cash assistance for a limited time. In particular, PRWORA allows families with adult recipients to receive federally funded cash assistance for no more than five years. States have the option of setting shorter time limits, however, and 13 of them had done so as of 2013. States may also exempt up to 20 percent of families with adult recipients from the five-year limit if those families have experienced hardship (as defined by each state); nevertheless, as of 2012, in only six states had more than 10 percent of adult recipients received benefits for more than five years.

The states tend to set broader eligibility criteria for other TANF-funded services than for cash assistance. The work support, pregnancy prevention, and family formation services funded by TANF are usually available to families with income up to twice the poverty threshold.² The rationale is that some of those activities are designed to prevent families from falling into poverty in the first place, whereas cash assistance is meant to assist families already in poverty.

Characteristics of Recipients

From 2006 through 2013, about 1.7 million families received cash assistance through TANF in an average month. Most of those families had very low income. In 2012, only about 25 percent had any cash income from a source other than TANF, and that income was about \$600 per month, on average—about 45 percent of the poverty threshold for a family of two. Most of the income came from employment.

Since PRWORA was enacted, fewer parents have received cash benefits on their own behalf, and the result is that children have become a larger percentage of beneficiaries. In 2012, about three-quarters of cash assistance was provided on behalf of children. Of those children, roughly half lived in families in which the adults were ineligible for cash assistance, and most of the others lived with one adult recipient. Of parents who did receive cash benefits on their own behalf, about 85 percent were mothers (most of them in their twenties), and 87 percent were single or separated.

Many cash recipients also benefited from the other services funded by TANF. The federal government does not generally collect information on families that receive *only* those other services; however, in 2002, the Government Accountability Office found that the states were providing TANF-funded child care to several hundred thousand low-income families that were not receiving cash assistance.³ That is probably still the case, because the states continue to spend a substantial portion of their TANF funding on subsidized child care—which goes to only a small percentage of the families that receive cash assistance.

Spending on TANF

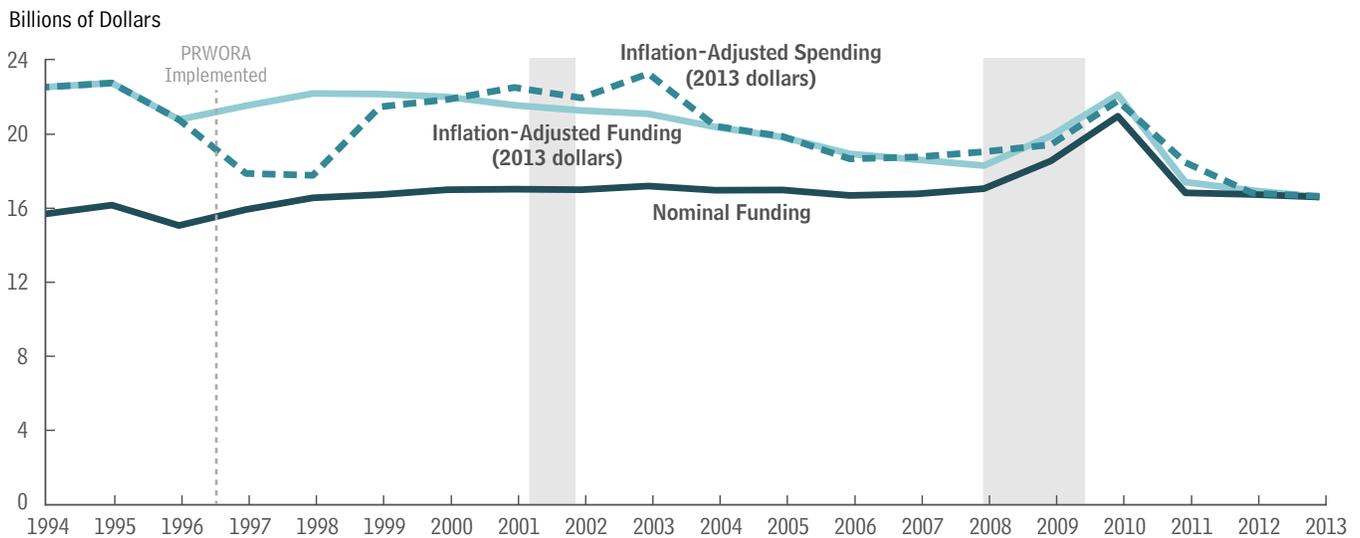
TANF is funded by the federal government and the states. In 2013, a total of \$32 billion was spent on TANF, the lowest amount in the program's history after inflation is accounted for. That money was spent on monthly cash

2. Gene Falk, *The Temporary Assistance for Needy Families Block Grant: An Introduction*, Report for Congress R40946 (Congressional Research Service, January 2014).

3. Government Accountability Office, *States Provide TANF-Funded Work Support Services to Many Low-Income Families Who Do Not Receive Cash Assistance*, GAO-02-615T (April 2002), www.gao.gov/products/GAO-02-615T.

Figure 1.

Federal Funding and Spending for TANF and the Programs That Preceded It, 1994 to 2013



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: PRWORA replaced three programs—Aid to Families With Dependent Children, Emergency Assistance, and Job Opportunities and Basic Skills Training—with TANF.

This figure includes TANF funding that states transferred to the Child Care and Development Block Grant and to the Social Services Block Grant.

Because the available data are limited, the figure does not include three of the smaller federal funding mechanisms for TANF. In every year, those mechanisms have provided less than \$0.3 billion in total.

Vertical bars indicate the duration of recessions.

TANF = Temporary Assistance for Needy Families; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

payments, activities that increased parents’ ability to work, and other services for low-income families.

Federal Spending

Before PRWORA was enacted, federal funding for cash assistance through AFDC was directly tied to the amount that states spent on cash assistance: If the latter rose, the former rose. PRWORA changed that arrangement, fixing the size of the main TANF grant at \$16.5 billion, which was the highest level of funding that the states had received under AFDC, JOBS, and Emergency Assistance combined. That funding level was not increased subsequently to keep up with inflation; as a result, the value of federal funding, adjusted for inflation, declined by about 25 percent from 1998 to 2013 (see Figure 1).

Even though the value of federal funding through the main TANF grant has declined steadily with the rising cost of living, *total spending* on the program has

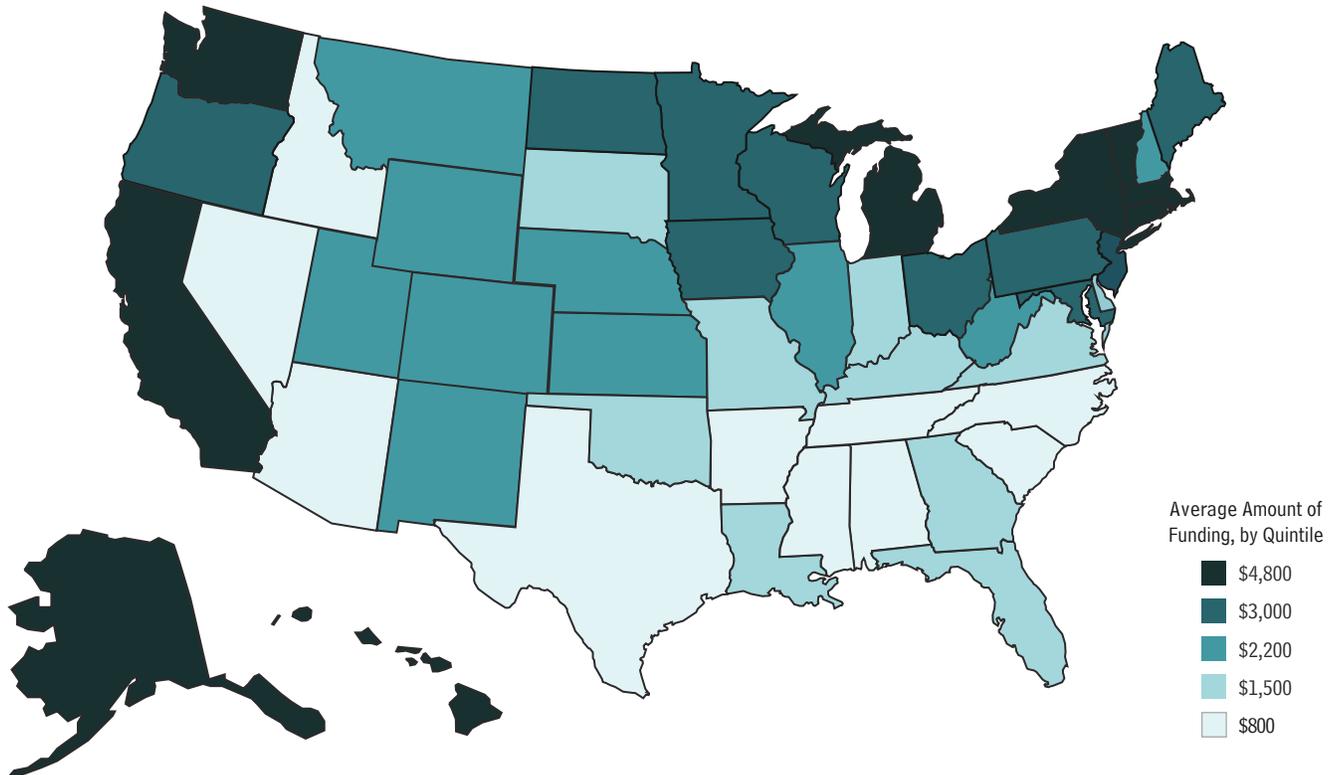
fluctuated. One reason for that difference is that states are allowed to save TANF funding to spend in future years; they accumulated substantial balances of funds during the late 1990s, when economic growth was strong, and then increased spending by depleting those balances after the 2001 recession. In addition, the federal government temporarily boosted TANF funding (not through the main grant, however) in response to the 2007 recession.

The federal government currently provides most of its TANF funding to the states through two mechanisms:⁴

4. The federal government also provides up to \$150 million a year in TANF grants to promote marriage and responsible fatherhood; \$78 million a year in TANF grants to Guam, Puerto Rico, and the Virgin Islands; and \$8 million a year for TANF work support programs operated by Native American tribes. In this report, those mechanisms are not included in TANF spending because data about them are limited.

Figure 2.**Federal Funding Through the State Family Assistance Grant, by State, 2013**

2013 Dollars per Family Below the Poverty Threshold



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: To divide the 50 states and the District of Columbia into five groups (or quintiles), this chart includes 11 states in the middle quintile.

Neither the definition of poverty nor the funding amounts are adjusted for differences among the states in the cost of living. If they were, the differences in funding between the quintiles would generally be smaller, because the states in the lower quintiles typically have lower costs of living.

■ *The state family assistance grant.* The SFAG, which totals \$16.5 billion, has accounted for over 95 percent of TANF's federal funding in most years. Through that block grant, each state is entitled to the highest annual level of federal funding that it had received for the programs that preceded TANF. Consequently, states that spent less on AFDC, and therefore received less federal funding, during the early 1990s continue to receive less federal funding through TANF. If the states are ranked by SFAG funding per poor family in 2013, the top 10 states received about \$4,800 per poor family, compared with about \$800 for the bottom 10 states (see Figure 2).⁵

■ *The contingency fund.* This mechanism can increase the amount of funding available to states that are experiencing economic downturns. To be eligible, a

state must have a high and rising unemployment rate or higher enrollment in SNAP than it had in the past. In addition, the state must document an increase in nonfederal spending on TANF. The federal government allocated \$2 billion to the contingency fund when it was established in 1996, but few states drew from the fund until the depths of the recent severe recession, when roughly 20 states did. All of the money in the fund was obligated by the end of fiscal year 2010, but the Congress provided \$334 million

5. In general, comparisons among states in this report are not adjusted for differences among the states in the cost of living. Here, for example, neither the definition of poverty nor the funding amounts are so adjusted. If they were, the difference in funding between the two groups of states would be smaller, because the average cost of living is lower in the bottom 10 states than in the top 10.

for it in 2011, about \$610 million in 2012, and about \$610 million again in 2013.⁶

In the recent past, the federal government has provided two additional sources of funding for TANF:

- *The emergency contingency fund.* This fund, which was established by the American Recovery and Reinvestment Act of 2009, provided \$5 billion over the course of 2009 and 2010 to help states handle the additional need for aid created by the recession.
- *Supplemental grants.* These block grants provided additional funding to states where, before the advent of TANF, the ratio of AFDC spending to the number of people living in poverty had been relatively low. The grants also provided funding to states that had experienced high population growth in the early 1990s. Because SFAG funding for each state is based on its historic AFDC spending, the supplemental grants slightly reduced differences in total funding among the states. They went to 17 states, closing about 5 percent of the gap in funding per poor family between those states and the rest of the country. The grants provided \$319 million per year between 2001, when they were fully implemented, and 2011, when they expired.

Federally funded spending on TANF has fluctuated moderately with economic conditions. In 2003, when the unemployment rate peaked at 6 percent in the wake of the 2001 recession, the states responded by spending an additional \$1.9 billion of federal funding on TANF, drawing on savings from previous years (see Figure 3). By 2005, states' balances of unobligated federal funding had dipped to \$1.9 billion. Few states managed to replenish those balances before a more severe recession began in 2007; this time, the states again provided additional TANF services, but instead of drawing heavily on savings, they used money from the contingency fund and the emergency contingency fund. Spending from those funds peaked at \$3.2 billion in 2010.

Despite those fluctuations, TANF spending has been less responsive to economic conditions than spending for some other programs that provide income security.⁷ One reason that other programs are more responsive is that their funding changes according to the number of

eligible recipients. For example, all people who meet the eligibility criteria for unemployment compensation can receive benefits through that program by enrolling. In contrast, the amount of funding provided through the SFAG is not adjusted automatically to changes in the number of families that are eligible for TANF-funded services.

State Spending

The amount that states spend on TANF is affected by federal rules, states' financial conditions, and other factors. The most important federal rule is the maintenance-of-effort (MOE) requirement, which is designed to limit the extent to which federal funding displaces money that state governments would otherwise have spent on services for low-income families. Specifically, for each dollar that nonfederal spending on TANF is less than 75 percent of nonfederal spending in 1994 on the programs that preceded TANF, the state loses a dollar of federal funding through the SFAG. (No state has ever been penalized in that way, however.) Related to that rule is an incentive for states to spend *more* than the MOE requirement: The federal government rewards each state that does so by reducing the number of families that must participate in work-related activities for the state to receive its full allotment of federal funding.

MOE spending—that is, nonfederal spending that can be counted toward the MOE requirement—must be for services that try to achieve one of TANF's four goals. And for services that were not part of the programs that TANF replaced, only state spending in excess of 1995 levels can be included in MOE spending. A state can include spending by local governments and nongovernmental entities, such as private charities, that is directed at one of TANF's goals; however, spending by nongovernmental entities accounted for only 2 percent of MOE spending in 2011.⁸

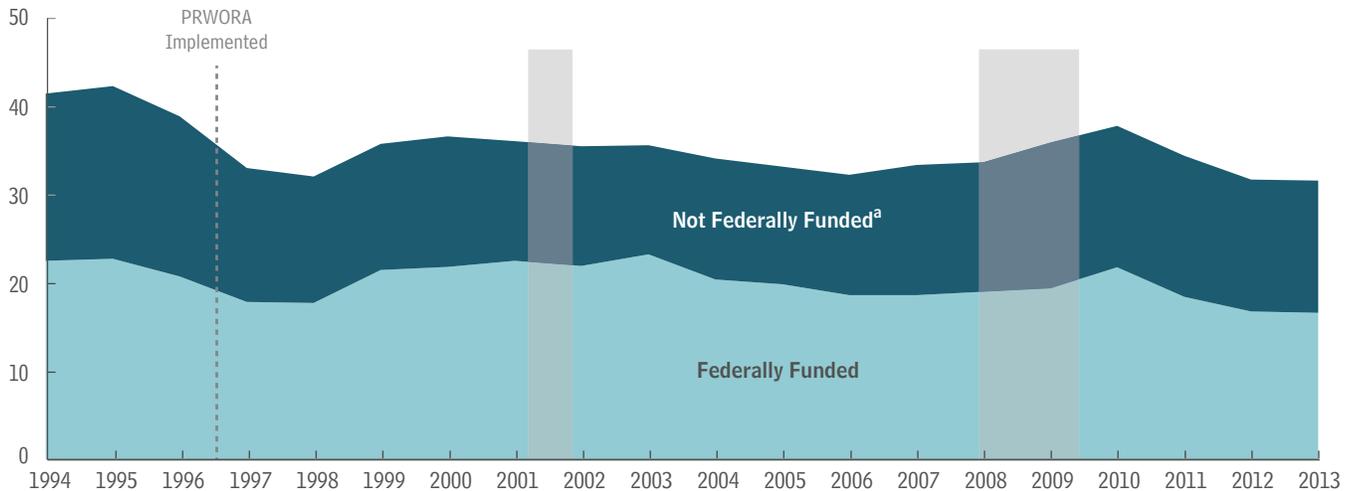
6. An obligation is a legally binding commitment that will result in spending, immediately or in the future.

7. Marianne P. Bitler and Hilary W. Hoynes, "The State of the Social Safety Net in the Post-Welfare Reform Era," *Brookings Papers on Economic Activity* (Fall 2010), pp. 71–127, <http://tinyurl.com/kr82wtk>; and Ron Haskins, Vicky Albert, and Kimberly Howard, *The Responsiveness of the Temporary Assistance for Needy Families Program During the Great Recession* (Brookings Institution, August 2014), <http://tinyurl.com/ppb9f8d>.

8. CBO's calculation to reach that figure was based on data from the Government Accountability Office, *Temporary Assistance for Needy Families: More States Counting Third Party Maintenance of Effort Spending*, GAO-12-929R (July 2012), www.gao.gov/products/GAO-12-929R. Data about spending by local governments are not readily available.

Figure 3.**Spending on TANF and the Programs That Preceded It, by Source of Funding, 1994 to 2013**

Billions of 2013 Dollars



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: PRWORA replaced three programs—Aid to Families With Dependent Children, Emergency Assistance, and Job Opportunities and Basic Skills Training—with TANF.

This figure includes TANF funding that states transferred to the Child Care and Development Block Grant and to the Social Services Block Grant.

Because the available data are limited, the figure does not include three of the smaller federal funding mechanisms for TANF. In every year, those mechanisms have provided less than \$0.3 billion in total.

Vertical bars indicate the duration of recessions.

TANF = Temporary Assistance for Needy Families; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

- a. Consists of spending that states count toward the maintenance-of-effort requirement—mostly spending by state and local governments, but also spending that private organizations direct to TANF objectives.

In the early years of TANF, the states' documented MOE spending was about 20 percent lower than the amount that they had spent in 1995 on the programs that preceded TANF. That fact does not necessarily mean, however, that the states' actual TANF-related spending had fallen; some states simply did not report all of their spending, because documenting spending above the amount defined by the MOE requirement no longer entitled a state to additional federal funding, as it had under AFDC. In fact, most of the states that the Government Accountability Office surveyed for a 2001 study had maintained or increased their spending on TANF-related services from 1995 to 2000. The study also found that the composition of states' spending had changed once TANF was introduced. In particular, spending on cash assistance and training programs had declined

substantially, while spending on health care for the working poor and other social services had increased.⁹

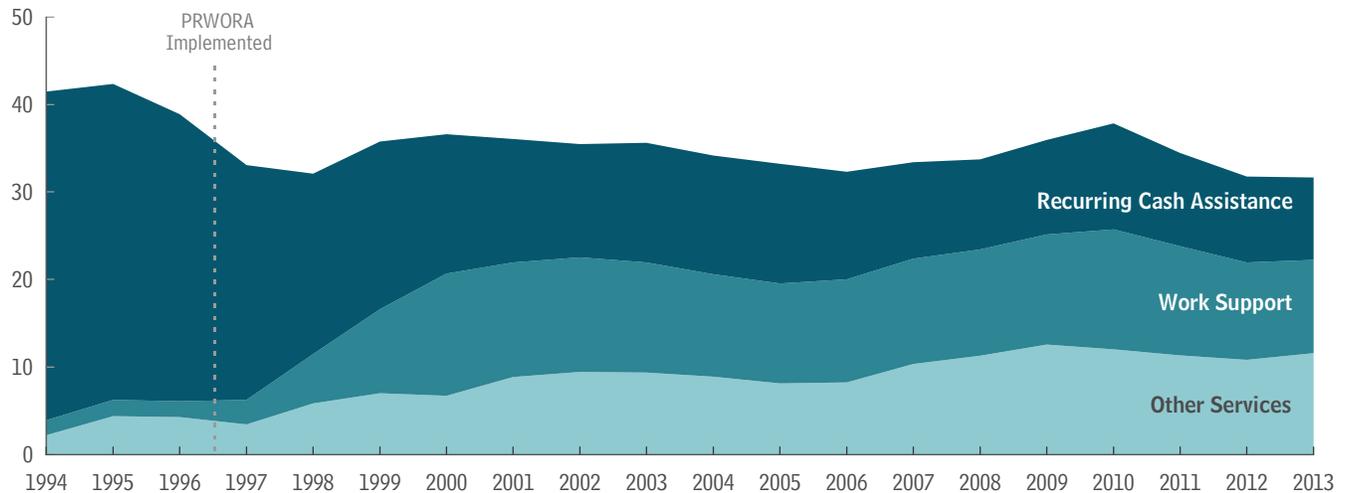
Through 2006, most states continued to report only enough spending to meet the MOE requirement, but after that, they began documenting more spending in response to three incentives. First, the Deficit Reduction Act of 2005 (DRA) had imposed a more stringent work standard that took effect in 2007 (as this report explains in more detail in "The TANF Work Standard"), and several states responded by spending more, which brought the required work participation rate in those states back down. Second, by 2009, enrollment in SNAP was high

9. Government Accountability Office, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (August 2001), www.gao.gov/products/GAO-01-828.

Figure 4.

Spending on TANF and the Programs That Preceded It, by Type of Assistance, 1994 to 2013

Billions of 2013 Dollars



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: Before PRWORA, Aid to Families With Dependent Children distributed recurring cash assistance, while the Job Opportunities and Basic Skills Training program provided work support and the Emergency Assistance program supplied other services for low-income families. Administration and systems costs are distributed proportionally among the three types of assistance.

This figure includes TANF funding that states transferred to the Child Care and Development Block Grant and to the Social Services Block Grant.

Because the available data are limited, the figure does not include three of the smaller federal funding mechanisms for TANF. In every year, those mechanisms have provided less than \$0.3 billion in total.

TANF = Temporary Assistance for Needy Families; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

enough that nearly all of the states could get additional federal support through the contingency fund—as long as they documented more MOE spending. Third, through the emergency contingency fund, the federal government encouraged the states to spend more in 2009 and 2010 by reimbursing 80 percent of their increased spending on certain TANF services. After the emergency contingency fund expired, MOE spending declined to about \$15 billion, where it remained through 2013.

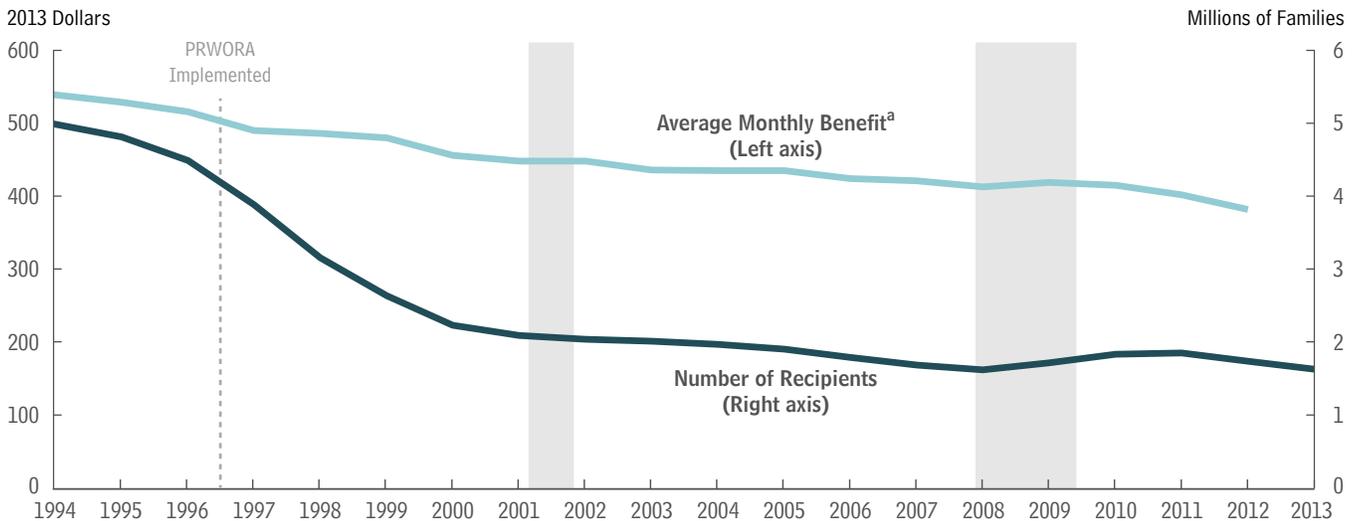
By 2013, states were probably spending less on low-income families through TANF than they would have if AFDC had never been replaced. The amount that states are required to spend on TANF to receive their full federal allotment has not increased since 1995, but the cost of living has risen substantially, and the number of families in poverty has also grown. Under AFDC, the states would have had a greater incentive to increase aid to those families, because the federal government covered at least 50 percent of total spending on cash assistance and

imposed no limit on that arrangement. In 1995, state and local governments provided about \$3,200 per poor family (in 2013 dollars); in 2013, they spent about \$2,300, a 30 percent decrease.

How the Spending Is Used

In 1996, the year before PRWORA was implemented, 84 percent of the funding for the programs that preceded TANF was spent on AFDC, which provided recurring cash assistance. The other 16 percent was spent on the JOBS program, which supported recipients’ ability to work, and on the Emergency Assistance program, which provided short-term help, such as nonrecurring cash assistance (see Figure 4).¹⁰

10. In this section of the report, spending on administration and systems, which accounted for less than 10 percent of TANF spending in most years, is distributed proportionally among cash assistance, work support, and other services.

Figure 5.**Recurring Cash Assistance Through TANF and AFDC, 1994 to 2013**

Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: Vertical bars indicate the duration of recessions.

TANF = Temporary Assistance for Needy Families; AFDC = Aid to Families With Dependent Children; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

a. Data on the average monthly benefit are available only through 2012.

Then those three programs were replaced with TANF, which emphasized helping parents achieve self-sufficiency through employment and gave the states more discretion to choose services for low-income families. Spending subsequently fell for cash assistance and increased for work support and other TANF-funded services—which included initiatives to reduce out-of-wedlock pregnancies, form two-parent families, and support the foster care system.¹¹ By 2001, cash assistance accounted for only 39 percent of total spending, work support accounted for 36 percent, and other services accounted for 25 percent—portions that remained roughly constant until 2007. After DRA changed the MOE requirements and work standard in 2007, cash assistance declined further, while spending on work support remained stable and spending on other services grew to account for about a third of TANF funding.

11. Unless this report specifies otherwise, cash assistance consists of recurring monthly benefits and does not include onetime cash payments, which are included in other assistance. In most years, TANF has provided less than \$0.5 billion for onetime cash payments, though such funding was temporarily boosted by the emergency contingency fund.

Cash Assistance. The large decrease in inflation-adjusted spending on cash assistance can be explained by two changes: The number of recipients has declined substantially, and so has the inflation-adjusted value of the average cash payment (see Figure 5).¹² Those declines were sharper in some states than in others.

The Number of Recipients. Most of the decline in the number of cash assistance recipients occurred during the 1990s; it began even before the implementation of PRWORA and accelerated after the transition to TANF in 1997. By 2000, just 2.2 million families received cash assistance, a 55 percent drop from the 1994 level of 5.0 million. A major reason for the decline was that rising employment among single mothers helped pull many families out of poverty during the 1990s. That rise in

12. The decrease in cash assistance through TANF may overstate slightly the decrease in total cash assistance available to low-income families. That is because some states have chosen to provide cash assistance to some families through other programs in order to avoid including those families in the calculation of whether the TANF work standard has been met. However, the amount spent on cash assistance through those programs is much smaller than the decrease in spending on cash assistance through TANF.

employment, in turn, had three main causes: the rapid growth of the economy, which increased employment opportunities for workers with little education or work experience; the expansion of the earned income tax credit (EITC), which increased the compensation that those workers received for working and thus increased their incentive to work; and PRWORA and earlier reforms implemented by the states, which supported work (for example, by expanding subsidies for child care) and increased its appeal by requiring more recipients of cash assistance to work.¹³ However, the falling number of poor families during the 1990s accounted for only about 60 percent of the decline in the number of families receiving cash assistance. During those years, a growing number of low-income families were neither receiving cash assistance nor working.¹⁴

After 2000, economic growth slowed and poverty increased. Specifically, from 2000 through 2008, the number of families with income below the official poverty threshold increased by 24 percent. As poverty rose, so did the number of families with income low enough to qualify for TANF cash assistance.¹⁵ Nevertheless, the number of families receiving such cash assistance continued to decline, falling 28 percent from 2000 to 2008. Research suggests that the work requirements that states

imposed on recipients played a substantial role in that decline: Some recipients did not meet the requirements and were therefore removed from the program, while the burden of meeting the requirements deterred others from applying in the first place.¹⁶

From 2008 to 2011, the number of families receiving cash assistance increased by 14 percent. That rise was roughly in line with the increase in poverty brought on by the 2007 recession. Since 2011, however, the number of families receiving cash assistance has declined more quickly than the number of poor families has.

All in all, the number of families receiving cash assistance through TANF or its predecessors fell by nearly 70 percent between 1994 and 2013. By contrast, the number of families with income below the official poverty threshold was nearly as high in 2013 as in 1994. Thus, the ratio of cash assistance recipients to poor families also fell by about 70 percent during that period. By 2013, for every 100 families in poverty, there were about 25 families receiving cash assistance (see Figure 6).

The ratio of cash assistance recipients to poor families is one basis for evaluating the effectiveness of TANF: A falling ratio could indicate that the program was not effectively providing assistance to needy families, which is one of PRWORA's stated goals. A problem with that basis, however, is that the Census Bureau, which makes the official tally of poor families, does not count in that tally the noncash assistance and tax credits that those families receive as income—and a rising number of families were receiving those benefits during the years when the number of families receiving TANF cash assistance was falling. If the Census Bureau had included those benefits in its definition of income, the number of families counted as poor would have fallen by about 20 percent over the past 20 years, CBO estimates. Still, even with that drop in the number of poor families, the ratio of cash assistance recipients to poor families has dipped substantially—by about 60 percent.¹⁷

13. Some research has concluded that the expansion of the EITC and the reforms implemented under PRWORA contributed more than the strength of the economy did to the decline in the number of families receiving cash assistance. See Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families," *The Review of Economics and Statistics*, vol. 85, no. 2 (May 2003), pp. 394–408, <http://tinyurl.com/mdle36b> (PDF, 97 KB); and Jeffrey Grogger, "Welfare Transitions in the 1990s: The Economy, Welfare Policy, and the EITC," *Journal of Policy Analysis and Management*, vol. 23, no. 4 (Autumn 2004), pp. 671–695, <http://tinyurl.com/mh8zs7m>. Other research has argued that estimates of the relative importance of those three factors could be inaccurate, because the effects of the policy changes were probably reinforced by the strong economy. See Rebecca M. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature*, vol. 40, no. 4 (December 2002), pp. 1105–1166, <http://tinyurl.com/luwront>.

14. Pamela Loprest, *Disconnected Families and TANF* (Urban Institute, November 2011), www.urban.org/publications/412568.html.

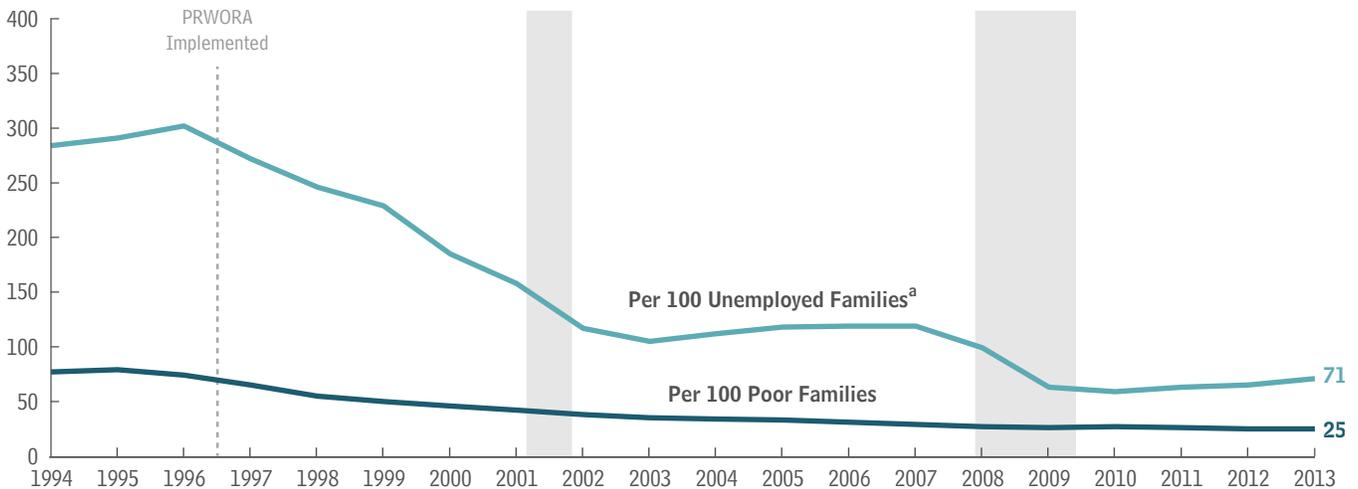
15. See Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Office of Human Services Policy, *Welfare Indicators and Risk Factors: Thirteenth Report to Congress* (2014), p. II-18, <http://go.usa.gov/pQYd> (PDF, 2.1 MB).

16. Government Accountability Office, *Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession's Impact on Caseloads Varies by State*, GAO-10-164 (February 2010), www.gao.gov/products/GAO-10-164.

17. For more detail, see Department of Health and Human Services, *Welfare Indicators and Risk Factors: Thirteenth Report to Congress* (2014), p. III-9, <http://go.usa.gov/pQYd> (PDF, 2.1 MB).

Figure 6.**Coverage Ratios for Recurring Cash Assistance Through TANF and AFDC, 1994 to 2013**

Number of Families Receiving Cash Assistance



Source: Congressional Budget Office based on data from the Census Bureau.

Notes: Because a small portion of cash assistance recipients have income above the poverty threshold, the lower line does not represent the percentage of poor families that receive cash assistance. Similarly, the upper line does not represent the percentage of unemployed families that receive cash assistance.

Vertical bars indicate the duration of recessions.

TANF = Temporary Assistance for Needy Families; AFDC = Aid to Families With Dependent Children; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

a. A family is classified as unemployed if it is headed by an unemployed parent.

Another basis for evaluating the effectiveness of TANF is the ratio of cash assistance recipients to families headed by an unemployed parent. Over the past 20 years, that ratio has also fallen considerably, from nearly 300 recipients per 100 families headed by an unemployed parent to roughly 70 recipients per 100 families. Because tallies of unemployed parents, unlike poverty counts, exclude adults who are neither employed nor looking for work, the ratio's decline was a sign that TANF was serving fewer families headed by a parent who was not in the labor force—which could be viewed as consistent with PRWORA's stated goal of ending dependence on government benefits by promoting work. However, the count of unemployed parents might overstate—or understate—the number of families that some policymakers might want to receive benefits. On the one hand, the count of unemployed parents includes people who are ineligible for TANF because they have substantial assets or are receiving payments through unemployment insurance. On the other hand, the count excludes workers with low earnings and some people who are not currently looking for work (and are therefore not classified as unemployed) but who could probably find a job if they had access to

the work support services provided to recipients of cash assistance.

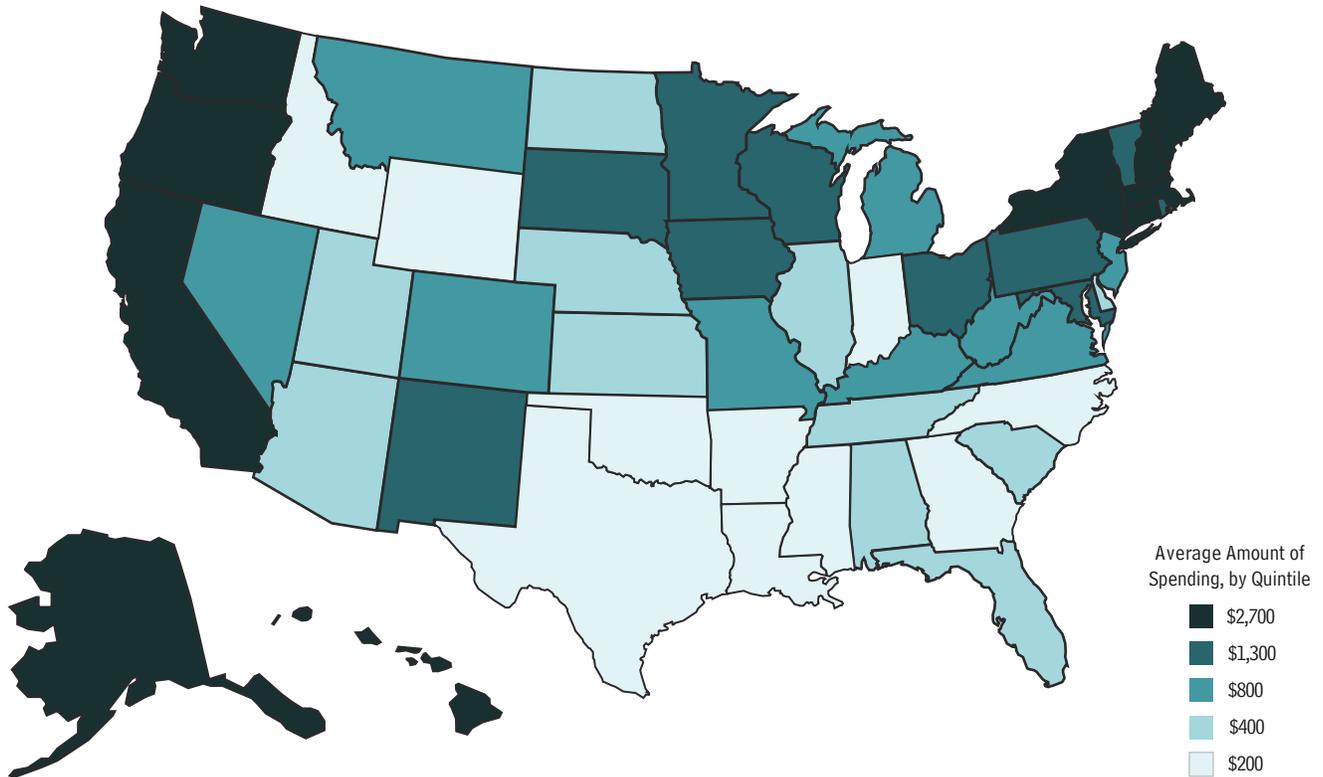
The Value of the Average Payment. The value of the average monthly payment that families received through cash assistance remained roughly constant in nominal dollars from 1994 through 2012. When adjusted for inflation, the value of that payment declined by 30 percent, from about \$540 to about \$380 in 2013 dollars. The size of the payment that a family receives depends on its income and on benefit levels set by the states—and many states have not adjusted benefit levels to keep pace with inflation, in part because federal funding has not increased with inflation, making such adjustments more difficult to finance. The size of a family's payment also depends on the number of family members who qualify for benefits, which has fallen.

Differences Among the States. Spending on cash assistance varies substantially among the states. In the 10 states where spending on cash assistance per poor family was highest in 2012, federal and state spending for that purpose equaled about \$2,700 per poor family, compared

Figure 7.

Spending on Recurring Cash Assistance Through TANF, by State, 2012

2013 Dollars per Family Below the Poverty Threshold



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: To divide the 50 states and the District of Columbia into five groups (or quintiles), this chart includes 11 states in the middle quintile. Neither the definition of poverty nor the spending amounts are adjusted for differences among the states in the cost of living. If they were, the differences in spending between the quintiles would generally be smaller, because the states in the lower quintiles typically have lower costs of living.

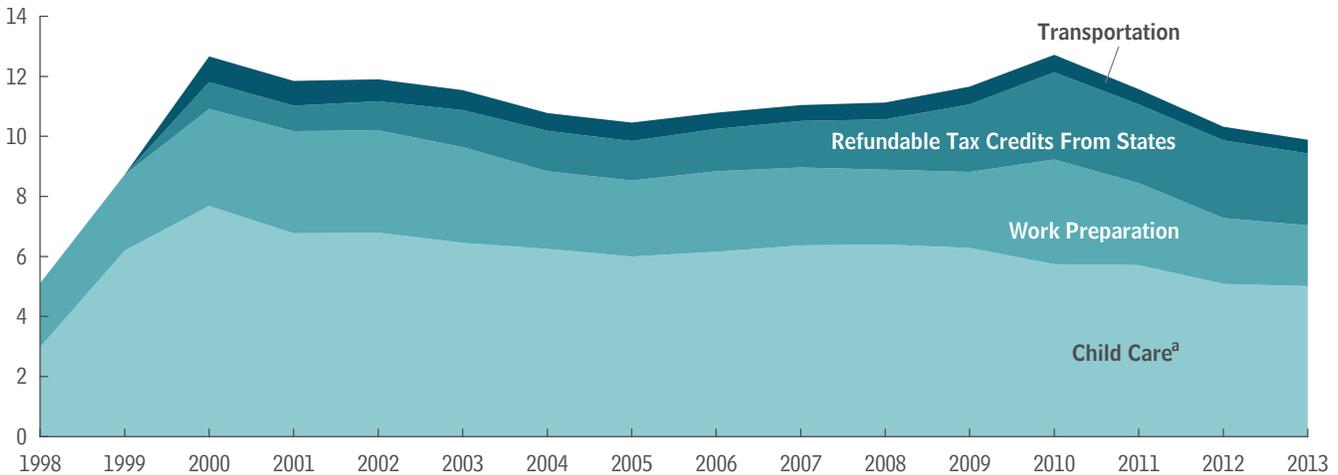
TANF = Temporary Assistance for Needy Families.

with roughly \$200 in the 10 states where spending per poor family was lowest. The variation is largely attributable to disparities in how much states spent on TANF’s predecessors in the early 1990s, which PRWORA set as the basis for determining the states’ allocations of SFAG spending and their MOE requirements. However, the variation has since been amplified, because states with less TANF funding have generally allocated a smaller portion of that funding to cash assistance. Also, most of the states that spend the least on cash assistance per poor family are in the South (see Figure 7), whose population has grown more rapidly than the rest of the country’s since the allocation of SFAG funding was established; that population growth means that less cash is available for each poor family.

The 10 states that spent the least on cash assistance per poor family typically aided a smaller percentage of those families. For every 100 poor families in those states, about 7 families received cash assistance, compared with 48 families in the 10 states that spent the most. The states that spent the least also provided lower payments per family receiving cash assistance—about \$210 per month, on average, or roughly one-sixth of the federal poverty threshold for a family of two, compared with \$470 per month in the states that spent the most. Under both TANF and AFDC, most of the states that spent the least have provided cash assistance only to families with income far below the federal poverty threshold—perhaps partly because those states’ costs of living are below average.

Figure 8.**Spending on TANF for Work Support, 1998 to 2013**

Billions of 2013 Dollars



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: Before 1998, the federal government and the states funded work support through the Job Opportunities and Basic Skills Training program and other programs. CBO has not compiled comprehensive data about those programs.

TANF = Temporary Assistance for Needy Families.

a. Includes TANF funding that states transferred to the Child Care and Development Block Grant.

Work Support. Spending on initiatives that aimed to increase parents' ability to work rose from \$5.1 billion in 1998 to \$12.7 billion in 2000 (in 2013 dollars), a rise that was largely driven by increased spending on child care (see Figure 8). Since then, spending on work support has remained around \$11 billion, except for a temporary boost in 2010 from the emergency contingency fund. CBO has grouped the work support funded through TANF into four categories:

- **Child care.** In recent years, about half of the funding for work support has subsidized child care to help parents work, train, or search for a job.
- **Work preparation.** Such services include helping parents search for jobs or giving them work experience by paying businesses to employ them. Until 2012, work preparation received the second-most funding.
- **Refundable tax credits from states.** Just as the federal government does in its own tax system, some states provide tax credits that are refundable. That is, if the amount of the credit exceeds a filer's other state income tax liability, the state pays the excess to the filer. Many states have a refundable earned income tax credit, for example, which boosts the income of

parents who work but have low earnings. TANF spending on tax credits surpassed TANF spending on work preparation in 2012. In that year, 21 states were counting part of their credits as MOE spending under TANF.

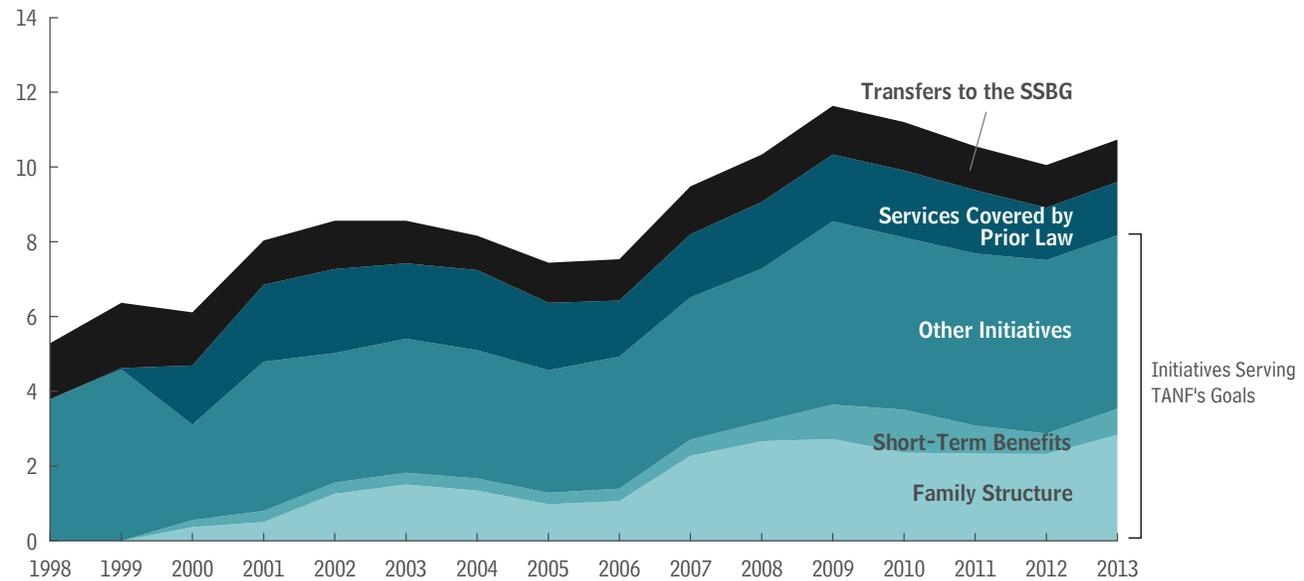
- **Transportation.** In most years, a small share of funding for work support has been spent on transportation services, such as subsidizing the commutes of low-income parents.

Other Services. States may allocate TANF funding to initiatives other than cash assistance or work support if they serve TANF's goals or were funded by the Emergency Assistance program that preceded TANF. A state may also transfer TANF funding to the Social Services Block Grant (SSBG) that it receives from the federal government. Spending on initiatives other than cash assistance or work support rose from about \$5.3 billion in 1998 to about \$8.6 billion in 2002 (in 2013 dollars; see Figure 9). It began increasing again in 2007, after DRA allowed states to spend TANF funds on certain initiatives aimed at reducing out-of-wedlock pregnancies and encouraging the formation of two-parent families without verifying that those initiatives were targeted at low-income families.

Figure 9.

Spending on TANF for Services Other Than Recurring Cash Assistance or Work Support, 1998 to 2013

Billions of 2013 Dollars



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: States can spend TANF funding on initiatives for low-income families that are directed at any of the four goals established in the statute that created TANF. Such initiatives include efforts to affect family structure (such as those intended to prevent out-of-wedlock pregnancies and encourage the formation of two-parent families) and the provision of short-term benefits (such as food, clothing, or cash provided on a nonrecurring basis). In addition to directing funding at TANF's goals, the states can spend TANF funding on services that were formerly covered by the Emergency Assistance program and can transfer TANF funding to the SSBG, which supports a wide variety of social services.

CBO has not compiled comprehensive data about the Emergency Assistance program and about the other programs that provided these services before 1998.

TANF = Temporary Assistance for Needy Families; SSBG = Social Services Block Grant.

- **Initiatives serving TANF's goals.** States can spend federal or state TANF funds on any service that aims to achieve at least one of the four goals enumerated in PRWORA. States have spent about \$8 billion per year on such services recently (not counting what they have spent on cash assistance and work support). About 40 percent of that spending went to efforts related to family structure—that is, efforts to prevent out-of-wedlock pregnancies and to encourage the formation of two-parent families—and to the provision of short-term benefits, such as nonrecurring cash payments. The Department of Health and Human Services (HHS) has not usually required states to supply information on the services funded by the other 60 percent of the spending.

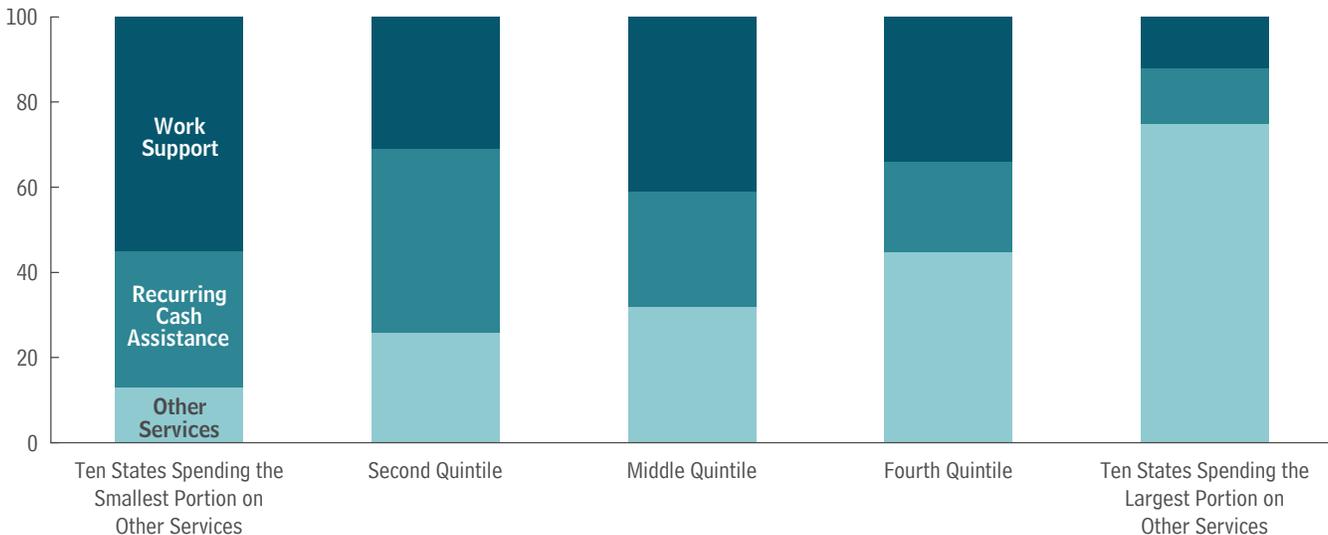
four goals if that service was provided by Emergency Assistance before PRWORA was enacted. TANF funding for such initiatives totaled \$1.4 billion in 2013 and supported foster care, adoption assistance, and other services for children, especially for abused and neglected children.

- **Transfers to the Social Services Block Grant.** Since 2011, states have transferred about \$1.1 billion of federal TANF funding to the SSBG each year. The services provided through that grant include child protective services, services for the disabled, and subsidized child care.

The states differ substantially in the portion of TANF spending that they allocate to services other than cash assistance and work support. In 2013, in the 10 states that allocated the smallest portions of their TANF

Figure 10.**States' Allocations of TANF Funding, by Their Spending on Services Other Than Recurring Cash Assistance and Work Support, 2013**

Percentage of TANF Spending



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: To divide the 50 states and the District of Columbia into five groups (or quintiles), this chart includes 11 states in the middle quintile.

TANF = Temporary Assistance for Needy Families.

spending to those other services, the portion averaged about 15 percent—in contrast to 75 percent in the 10 states that allocated the largest portions of their TANF spending to other services (see Figure 10).

The federal government requires the states to report the characteristics of cash assistance recipients and their progress toward self-sufficiency, but few statistics are collected for recipients of other TANF-funded services. Therefore, little information is available about the number of families receiving those services or the extent to which the services meet TANF's objectives.¹⁸

TANF and Other Federal Programs for Low-Income Families

TANF is not the only program that provides assistance to low-income families; the federal government funds dozens of others, which help families obtain health care, food, education, and housing, among other things. The

federal government also makes cash payments to low-income families through SSI and refundable tax credits.

How TANF Compares With Other Federal Programs for Low-Income Families

TANF spending is only a small piece of the federal government's total spending on programs for low-income families. While inflation-adjusted spending on AFDC and then on TANF has shrunk over the past 20 years, spending on many other means-tested programs and tax credits has increased substantially (see Figure 11).¹⁹ In 2013, TANF accounted for less than 3 percent of federal spending on means-tested programs and tax credits for low-income families.

Moreover, only about 3 percent of federal means-tested cash assistance was given through TANF in 2013. SSI provided 12 times as much cash to low-income families as TANF did in that year, and the refundable earned income and child tax credits distributed 19 times as much. But

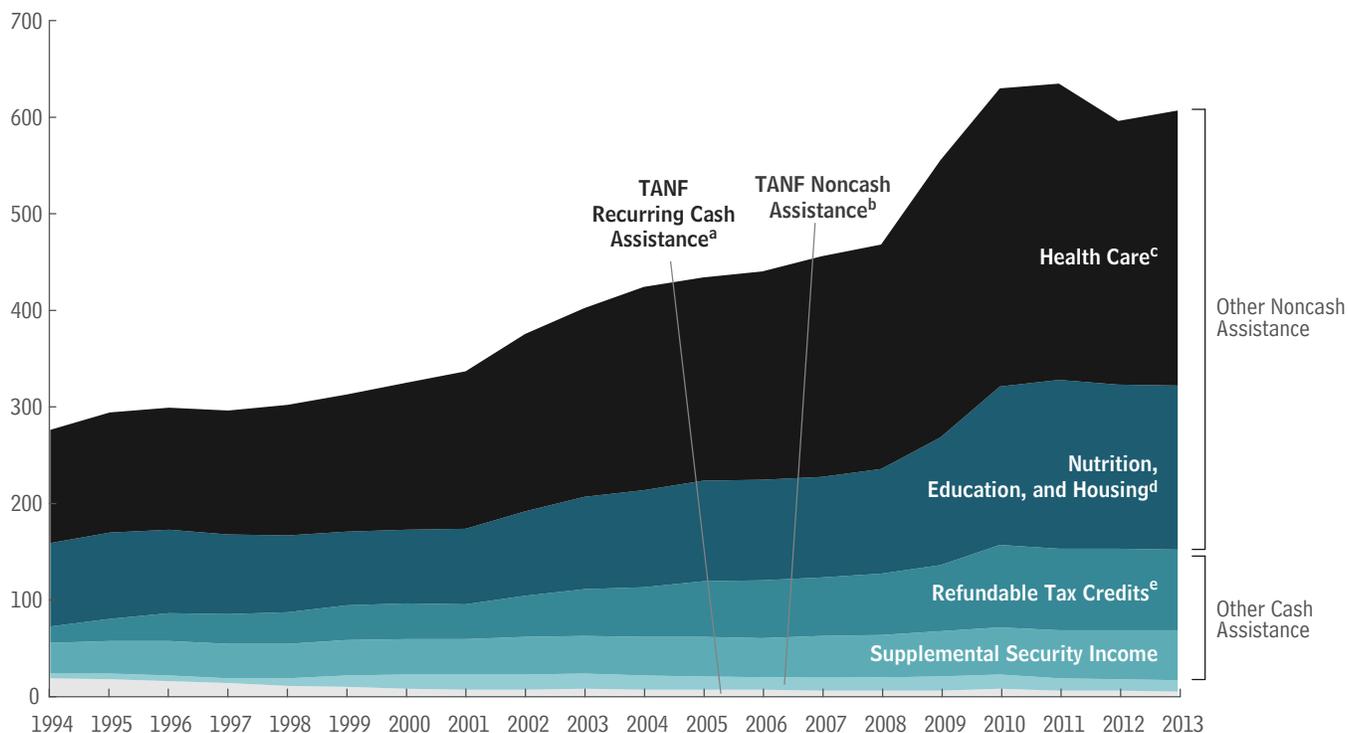
18. See Government Accountability Office, *Temporary Assistance for Needy Families: More Accountability Needed to Reflect Breadth of Block Grant Services*, GAO-13-33 (December 2012), www.gao.gov/products/GAO-13-33.

19. See Congressional Budget Office, *Growth in Means-Tested Programs and Tax Credits for Low-Income Households* (February 2013), www.cbo.gov/publication/43934.

Figure 11.

Federal Spending on Selected Means-Tested Programs and Tax Credits, 1994 to 2013

Billions of 2013 Dollars



Source: Congressional Budget Office.

Note: TANF = Temporary Assistance for Needy Families.

- a. Before 1997, shows spending on Aid to Families With Dependent Children.
- b. Includes nonrecurring cash assistance, which amounted to less than \$0.5 billion in most years. Before 1997, shows spending on the Job Opportunities and Basic Skills Training program and the Emergency Assistance program.
- c. Consists of Medicaid and the low-income subsidy for Part D of Medicare, which provides prescription drug coverage.
- d. Consists of the Supplemental Nutrition Assistance Program; child nutrition programs; the Federal Pell Grant Program; and a collection of housing programs, including Section 8 housing vouchers and public housing.
- e. Consists of the refundable portions of the earned income tax credit and the child tax credit.

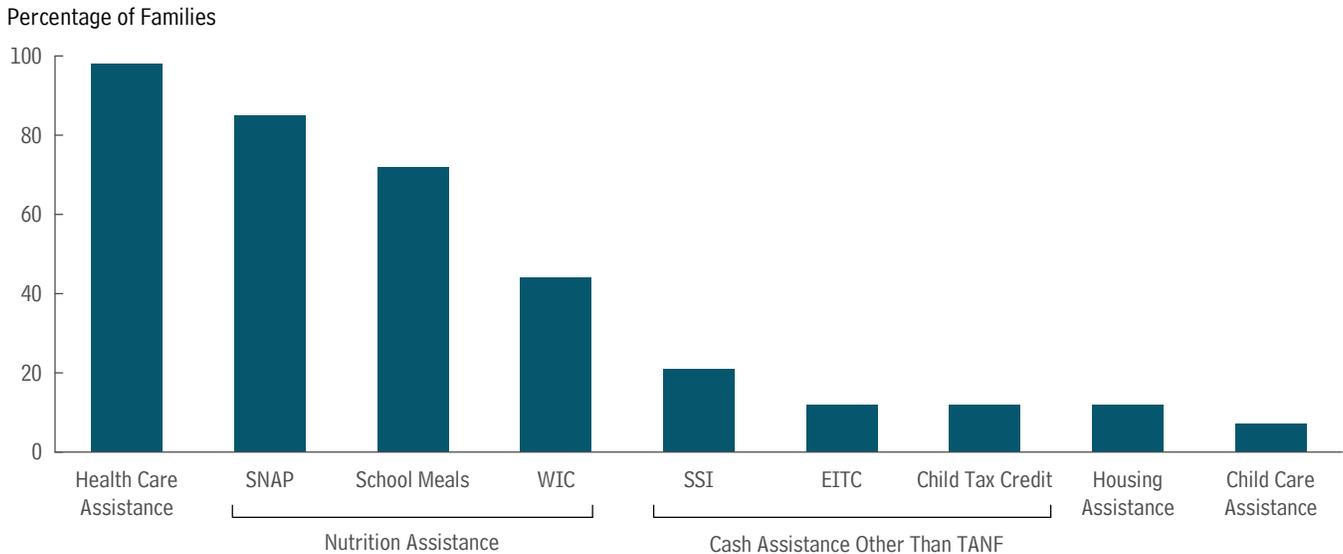
eligibility for SSI is limited to the elderly and to younger people with qualifying disabilities, and the tax credits are available only to families with earnings.²⁰

Recipients of TANF Cash Assistance and Assistance From Other Federal Programs

Most families receiving cash assistance through TANF have low enough income to qualify for subsidized health care and nutrition assistance from the federal

government. In 2012, about 98 percent of the families receiving TANF cash assistance also received health care assistance, especially through Medicaid, which provides health care to people with low income and few assets (see Figure 12). About 85 percent of the families that received cash assistance also received funds to purchase food through the Supplemental Nutrition Assistance Program (formerly known as food stamps). In 2009, the latest year for which data are available, roughly 72 percent of families receiving TANF cash assistance had children who received free or reduced-price school meals, and about 44 percent received food through the Special Supplemental Nutrition Program for Women, Infants, and Children

20. See Congressional Budget Office, *Supplemental Security Income: An Overview* (December 2012), www.cbo.gov/publication/43759, and *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

Figure 12.**Participation in Other Means-Tested Programs by Families Receiving Recurring Cash Assistance Through TANF**

Source: Congressional Budget Office based on data from the Department of Health and Human Services and from the Census Bureau.

Notes: Most of the percentages are based on data from 2012, but for school meals, WIC, and SSI, the most recent readily available data cover 2009.

Health care assistance is typically provided through Medicaid or the Children's Health Insurance Program. Free and reduced-price school meals are provided through the National School Lunch Program and the School Breakfast Program. Participation in the earned income and child tax credits is approximated by the percentage of families that had earnings and received cash assistance through TANF in the same month. In some cases, child care assistance is provided through TANF. TANF participants may also receive benefits from low-income assistance programs not included in this list.

TANF = Temporary Assistance for Needy Families; SNAP = Supplemental Nutrition Assistance Program; WIC = Special Supplemental Nutrition Program for Women, Infants, and Children; SSI = Supplemental Security Income; EITC = earned income tax credit.

(WIC).²¹ However, the income of most TANF cash assistance families—including not only the cash assistance but also nutrition assistance and earnings—remained below the poverty threshold.²²

Many fewer cash assistance families receive benefits through other federal programs. For example, most states do not allow people to receive cash assistance through both SSI and TANF. However, the elderly or disabled members of a low-income family may participate in SSI while other members of the same family participate in

TANF. In 2009, about 21 percent of families receiving cash assistance through TANF also received monthly cash payments through SSI. Also, people can receive cash through both TANF and the earned income tax credit or child tax credit. But to receive the credits, a family must have earnings (in excess of \$3,000 per year, in the case of the child tax credit), and only about 12 percent of families receiving TANF cash assistance had earnings in an average month during 2012.

21. Because HHS does not publish participation rates of TANF recipients in WIC, SSI, or free or reduced-price school meals, the rates for those programs are based on data from Shelley K. Irving, *Comparing Program Participation of TANF and Non-TANF Families Before and During a Time of Recession*, Current Population Reports P70-127 (Census Bureau, November 2011), <http://go.usa.gov/pQQF>.

22. For example, the average two-recipient family participating in TANF received about \$900 in TANF cash assistance, nutrition assistance, and earnings in 2012, 70 percent of the poverty threshold for such a family. The National Academy of Sciences recommends excluding health benefits from such calculations of income because the poverty threshold does not adequately account for medical needs. See Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (National Academy Press, 1995), <http://go.usa.gov/my5h>.

The federal government also provides housing assistance (for example, through Section 8 housing vouchers) and child care assistance (for example, through the Child Care and Development Fund and TANF) to some low-income families. However, the housing assistance programs serve only a small portion of all low-income families, which helps explain why only about 12 percent of families receiving TANF cash assistance in 2012 received housing assistance as well. And just 7 percent of families receiving TANF cash assistance also obtained child care assistance—in large part because that assistance is focused on families with working parents, and most families that receive cash assistance do not include working parents.

The benefits that a family receives from one means-tested program can reduce the benefits available to that family from other means-tested programs. For instance, SNAP and some housing assistance programs reduce the benefits that they provide as families' income—including TANF cash assistance—rises. SNAP benefits typically fall by 30 cents for each dollar of cash assistance that a family receives from TANF. Similarly, some states reduce the cash assistance that a family receives from TANF if the family also receives assistance from SNAP, housing assistance programs, or tax credits.

The TANF Work Standard

The work standard is intended to limit ongoing dependence on TANF cash assistance. It involves a state's work participation rate, which is the percentage of families getting cash assistance that include an adult "engaged in work" (that is, participating in qualifying work-related activities for a sufficient number of hours per week). A state risks losing some of its TANF funding if it does not demonstrate to HHS that its work participation rate is at least 50 percent. The states are therefore responsible for implementing policies that result in meeting that general work standard. For example, they help recipients search for employment, and they encourage recipients to participate in work-related activities by reducing their benefits if they do not. In addition to the general work standard, states that elect to provide TANF cash assistance to two-parent families are required to demonstrate that 90 percent of them include an adult participating in work-related activities.²³

In practice, few states can say that 50 percent of families getting cash assistance are engaged in work; indeed, the national average is roughly one-sixth (see Figure 13). Nevertheless, the states have seldom lost federal funding, for three reasons:

- PRWORA allows states to exclude many nonworking families from the calculation of the work participation rate.
- The required work participation rate is actually much lower than 50 percent for most states; the law reduces it to reward the states for shrinking their caseloads (that is, the number of recipients of cash assistance) and for spending more on TANF.
- Even states that do not meet their required work participation rates can avoid losing funds by taking corrective action.

It is often difficult for states to raise the share of families engaged in work. The adults in families receiving TANF cash assistance tend to have less education than average, and many have other barriers to employment, such as health problems.

The Work Participation Rate

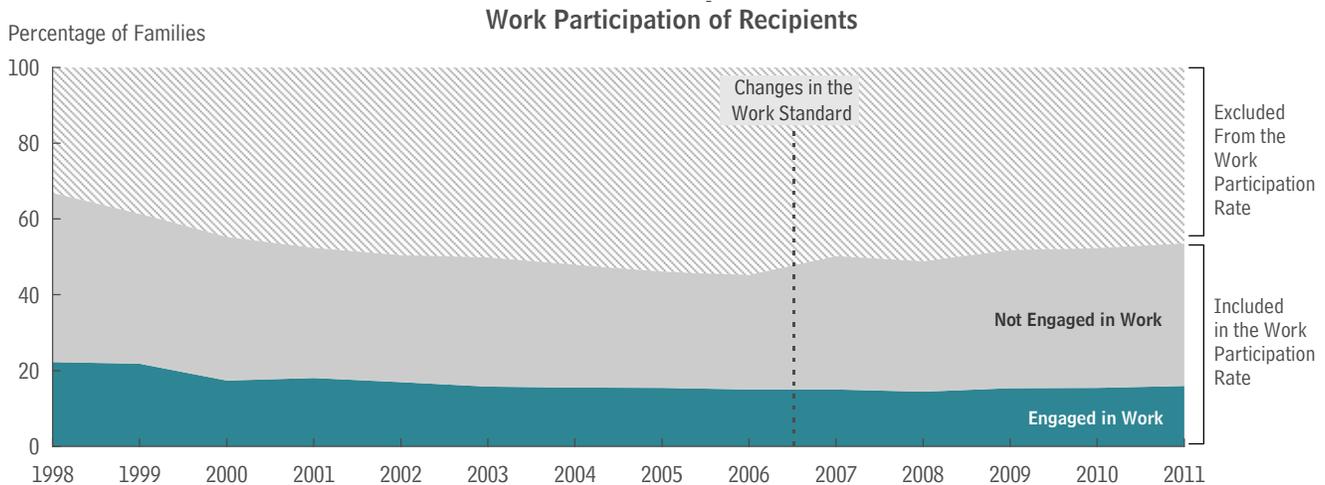
Of families receiving TANF cash assistance that were included in the calculation of the work participation rate, roughly a third, in each year from 1998 through 2006, were engaged in work. The work participation rate was therefore about 33 percent. It fell a few percentage points in 2007 because many of the families that DRA had added to the calculation of the rate did not have enough hours of work participation to count as engaged in work. The rate remained near 30 percent through 2011.

A recipient of cash assistance usually counts as engaged in work if he or she performs the work-related activities specified in PRWORA for an average of at least 30 hours a week. Only 20 hours a week are required for single parents with children younger than six, and 55 hours a week are required for two-parent families receiving subsidized child care. CBO has grouped those work-related activities into four categories:

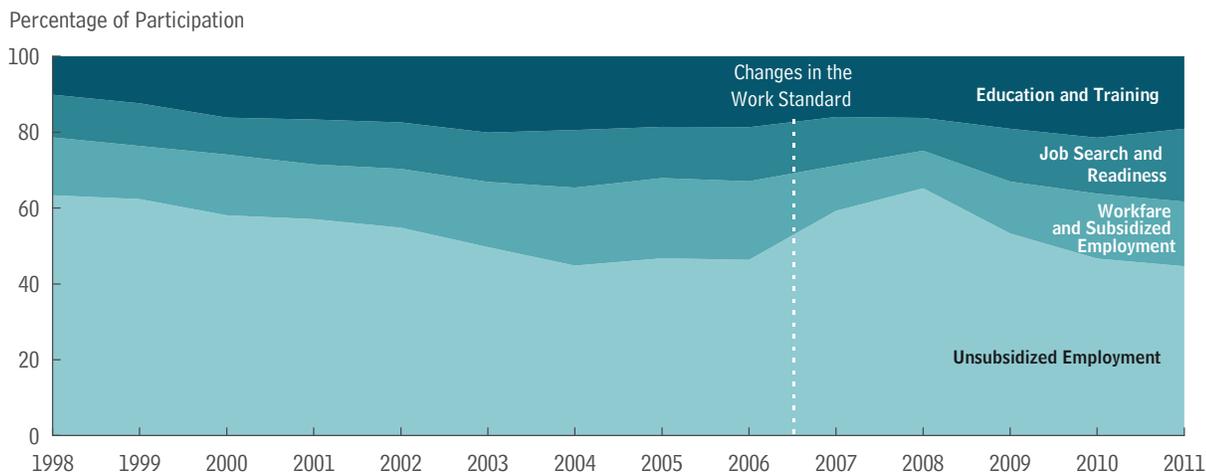
23. However, two-parent families have consistently accounted for less than 6 percent of cash assistance recipients in TANF. This report therefore focuses on the general work standard, which applies to the combination of one- and two-parent families.

Figure 13.

Work Participation Status and Activities of Families Receiving Recurring Cash Assistance Through TANF, 1998 to 2011



Activities of Recipients Who Were Engaged in Work



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: Under TANF's work standard, a state risks losing some of its federal funding if a sufficient percentage of its families are not engaged in qualifying work-related activities for a sufficient number of hours. However, many families are excluded from the calculation of that work participation rate. The Deficit Reduction Act of 2005 tightened the work standard, beginning in 2007.

As of the end of 2014, the Department of Health and Human Services had not published data about work participation for 2012 or 2013.

Workfare refers to giving families TANF cash assistance in return for work, such as community service, that they would otherwise not be paid for.

TANF = Temporary Assistance for Needy Families.

- *Unsubsidized employment.* The most common activity that lets adults count as engaged in work is conventional employment.
- *Workfare and subsidized employment.* Workfare refers to giving families TANF cash assistance in return for

work, such as community service, that they would otherwise not be paid for; the recipients are intended to gain experience that can improve their chances of finding conventional employment. Similarly, recipients can gain experience through subsidized employment, in which the government bears at least

part of the cost of the recipients' wages and other payroll expenses in a conventional job. Subsidized employment is far less common than workfare.

- *Job search and readiness.* Recipients can usually count as engaged in work if they are looking for work or participating in job readiness activities, which include substance abuse treatment and training in basic life skills. However, they can do so for no more than six weeks per year. That limit rises to 12 weeks if a state's unemployment rate exceeds certain levels established in PRWORA. The limit also rises to 12 weeks if a state's rate of participation in SNAP exceeds certain levels—which was the case in all 50 states in 2013.
- *Education and training.* Education and training related to a particular occupation or job can allow recipients to count as engaged in work; so can completing high school. Recipients engaged in vocational education, which is the most common activity in this category, can meet the work requirement through it for only 12 months. Recipients engaged in another kind of education or training in this category must combine it with other qualifying work activities if they are older than 19.

Conventional, unsubsidized employment has consistently been the most common work-related activity of adults in cash assistance families who are engaged in work. It accounted for 63 percent of those adults' work activities in 1998 (see the bottom panel of Figure 13). Over the next eight years, the number of adults in unsubsidized employment declined, while the number in other work activities held fairly constant. As a consequence, unsubsidized employment accounted for only 46 percent of participation by 2006. HHS then narrowed the range of activities other than unsubsidized employment that could be counted as engagement in work, and the portion of participation held by unsubsidized employment rose to 65 percent in 2008. However, by 2011, it had fallen to 44 percent. Most of that decline was because of an increase in the number of adults participating in job search activities, vocational education, and workfare; but a drop in the number of adults engaged in unsubsidized employment, probably caused partly by the severe economic downturn, was also a factor. From 2008 to 2011, the national unemployment rate rose from 5.3 percent to 9.2 percent, and the states with higher unemployment rates were often the ones with smaller percentages of adult recipients engaged in unsubsidized employment.

Nearly all states require adults to begin participating in work-related activities immediately upon receipt of benefits. The states assess each family's appropriate path to self-sufficiency on the basis of its situation; place recipients in work-related activities; and help them find jobs. To encourage recipients to participate in work-related activities, all states reduce or terminate benefits for those who fail to do so. Many states have increased the extent to which they continue providing cash assistance to recipients who have found work, a tactic that allows the states to continue counting those recipients in calculations of the work participation rate and also reduces the disincentive to work that might otherwise confront recipients of cash assistance. States have also increased the work participation rate by reducing the number of nonworking families that receive cash assistance through TANF. For example, some states have diverted applicants who face serious obstacles to employment to other cash assistance programs or given them onetime payments in lieu of recurring assistance.²⁴

Exclusions From the Work Participation Rate

The most common reason for allowing a family to be excluded from the calculation of the work participation rate is that the children receiving cash assistance are being cared for not by their parents but by other relatives who are not recipients of cash assistance themselves. Parent-headed families, too, are excluded from the calculation if the parents are ineligible for cash assistance, either because of immigrant status or because they receive benefits through SSI. States can also exclude a single parent with an infant, but for a total of no more than 12 months over the course of the parent's life. Even fewer of the excluded adults are employed than adults in TANF in general are, so their exclusion from the calculation of the work participation rate probably raises that rate.

The percentage of families receiving TANF cash assistance nationwide that were included in the calculation of the work participation rate declined from 67 percent in 1998 to 45 percent in 2006 (see the top panel of Figure 13). Then, in 2007, provisions of DRA restricted the conditions under which some families could be excluded from the rate and mandated the inclusion of others, and the percentage of families included in the rate

24. For a more detailed discussion of states' strategies for meeting the work standard, see Heather Hahn, David Kassabian, and Sheila Zedlewski, *TANF Work Requirements and State Strategies to Fulfill Them* (Urban Institute, March 2012), www.urban.org/publications/412563.html.

rose to about 50 percent that year, where it hovered through 2011.

How States Usually Meet the Work Standard

In most years, only about 10 states have reported work participation rates above the statutory 50 percent threshold. Nevertheless, most of the states have met the general work standard—mainly by taking advantage of provisions in PRWORA that reduce a state’s required work participation rate if that state reduces its caseload or increases its spending.

Shrinking the Caseload to Reduce the Required Work Participation Rate. From 1998 to 2006, if a state provided cash assistance to fewer families than it had in 1995, the federal government gave that state a caseload reduction credit that lowered the work participation rate that the state had to meet. Specifically, the required work participation rate fell by 1 percentage point for each 1 percent decline in the caseload from 1995. From 1995 to 2011, 20 states saw their caseloads fall by more than 50 percent, which voided the general work standard entirely. Even so, all states engaged some cash assistance recipients in work activities; in 2006, work participation rates ranged from 14 percent to 79 percent, with a median of 36 percent.

In 2005, however, DRA changed the year from which reductions in the number of cash assistance recipients were measured. Starting in 2007, that year would be not 1995 but 2005. The change increased the required participation rate by more than 25 percentage points in about half of the states. In 2007, 12 states failed to meet the newly tightened work standard. Of the states that did meet the standard, about half increased their work participation rates by substantially reducing the number of families receiving TANF cash assistance—a step that also reduced the states’ *required* work participation rates by increasing the number of credits that they received for caseload reductions.

Using Spending Credits to Reduce the Required Work Participation Rate. Several other states that met the new work standard did so by taking advantage of another provision of PRWORA: They could receive credits that lowered their required work participation rates if they documented spending in excess of the maintenance-of-effort requirement. Regulations stemming from DRA made that approach easier for states by allowing them to count spending on some programs aimed at preventing

out-of-wedlock pregnancies and encouraging the formation of two-parent families, regardless of whether that spending was directed at low-income families.

How States Limit Penalties for Not Meeting the Work Standard

After 2007, violations of the work standard continued; several states failed to meet it in each year from 2008 through 2011. HHS is in the process of determining the funding penalties for those violations. Before 2007, nearly all violations were of the work standard for two-parent families, whereas many of the violations since then have been violations of the general work standard. The more recent violations could carry larger penalties, because the general work standard applies to far more recipients than the one for two-parent families does. However, states have taken a variety of measures that could reduce or negate the penalties—for example, agreeing to a “corrective compliance plan” in which a state promises to meet the work standard in the future.²⁵

Challenges for States in Meeting the Work Standard

States face a number of challenges in meeting the work standard. Less educated workers—a group that includes most recipients of TANF cash assistance—often struggle to find employment. And that problem is even starker for recipients of TANF cash assistance.

The Employment of Less Educated Workers. Unemployment among workers with no more than a high school diploma was already high during the decades leading up to the recent recession. In 2007, the unemployment rate among those workers was 6.7 percent (considerably higher than the 4.5 percent among all workers), and an additional 11.3 percent of less educated workers were employed only part time—less than 30 hours a week. Labor market conditions for less educated workers became even worse during and after the recession, when weak demand for goods and services led to low demand for workers at all levels of education. By 2010, the unemployment rate for people with a high school diploma or less had grown to 13.9 percent, and another 11.7 percent were working less than 30 hours a week. Similar conditions persisted in 2011, though they have abated somewhat since then.

25. For more detail on penalties for violations of the work standard, see U.S. House of Representatives, Committee on Ways and Means, *Green Book* (December 2011), Chapter 7, <http://go.usa.gov/EzaA>.

Various factors may be responsible for persistently high rates of unemployment among less educated workers. Some research suggests that the federal minimum wage has prevented wages from falling to levels at which employers would have demanded more such workers.²⁶ Unemployment rates could also be higher among less educated workers because the lower wages available to them make working less attractive. In addition, means-tested programs, such as SNAP and housing assistance, make working less attractive because the benefits they provide decline as earnings increase, and those programs disproportionately serve the families of less educated workers.²⁷

High unemployment among less educated workers presents a challenge to states trying to meet the TANF work standard because almost all of the adults who are included in the calculation of the work participation rate have no more than a high school education. In fact, about 40 percent never completed high school. Some evidence tying higher unemployment among less educated workers to low work participation rates is that the states with the former often have the latter as well. Those states also had higher unemployment rates among less educated adults who were not eligible for TANF, which suggests that the high unemployment rates were not driven by the program itself.

The Employment of TANF Recipients. Many recipients of TANF cash assistance have even more trouble finding and holding a job than less educated workers in general do. Only about 10 percent of adult TANF recipients were working 20 or more hours per week when they entered the program, and about a third of them were not looking for work. In many cases, barriers to employment—that is, conditions that are associated with low rates of employment—probably contribute to recipients’ not being engaged in work. For example, about 25 percent of adult TANF recipients report having a work-limiting physical condition. Less common barriers to employment include a lack of work experience, a criminal record, a disabled

child who must be cared for, poor mental health, and drug abuse.²⁸

Options for Changing TANF

CBO has assessed 12 options that illustrate a variety of approaches to changing TANF. Five of the options would change the program’s funding, five would change the work standard, and two would change the MOE requirement. CBO has evaluated the options’ effects in four areas:

- *Federal spending.* Only two of the options—one that reduces the SFAG, and one that increases it—would be likely to have a substantial effect on federal spending and hence on the deficit.²⁹
- *Access to assistance.* Most of the options would change the number of low-income families that received cash or other assistance through TANF. Also, some of the options would shift funding to times or locations with more unemployment and poverty. Such shifts could make cash assistance more available to the families with the lowest income by reducing the budgetary pressure on states to tighten eligibility requirements during periods when the greatest need existed.
- *Duration of assistance.* Most of the options could affect the average number of months during which participants received cash assistance over the course of their lives.³⁰ An option would be consistent with the goals stated in PRWORA if it reduced the average duration of assistance by helping families find employment more quickly. But some ways of reducing the average duration of assistance—for example,

26. For a review of research on how the minimum wage affects employment, see Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income* (February 2014), www.cbo.gov/publication/44995.

27. For a description of the extent to which means-tested benefits decline as earnings increase, see Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers* (November 2012), www.cbo.gov/publication/43709.

28. Pamela Loprest and Sheila Zedlewski, *The Changing Role of Welfare in the Lives of Low-Income Families With Children*, Occasional Paper 73 (Urban Institute, August 2006), pp. 26–34, www.urban.org/publications/311357.html; and Susan Hauan and Sarah Douglas, *Potential Employment Liabilities Among TANF Recipients: A Synthesis of Data From Six State TANF Caseload Studies* (Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, October 2004), <http://go.usa.gov/EFNd>.

29. Authorization for TANF expires on September 30, 2015, but by law, CBO’s baseline budget projections incorporate the assumption that the program will be extended at current funding levels, which would lead to about \$170 billion of federal spending on TANF from 2016 through 2025.

30. In calculating the duration of assistance, CBO excluded families that were exempt from the five-year limit on cash assistance.

Table 2.
Effects of Options That Change TANF Funding

Option	Federal Spending, 2016–2025 ^a	Access to Assistance ^b	Duration of Assistance ^c
Option 1: Reduce the SFAG by 10 Percent	\$16 billion lower	There would be modest reductions in access, even when it was needed most.	The effect would depend on which services states chose to cut most.
Option 2: Increase the SFAG to Account for Inflation	\$22 billion higher	Access would be sustained more over time.	The effect would depend on which services states chose to expand most.
Option 3: Link the SFAG to the Unemployment Rate	Negligible effect	Access would increase substantially when it was needed more and decrease substantially when it was needed less.	There would probably be a reduction in the number of families receiving cash assistance for long periods.
Option 4: Make the Contingency Fund More Responsive to High Unemployment	Negligible effect	More federal funding would be provided to states with more unemployment, but less would be provided to states that spent more of their own funds on TANF.	There would probably be a reduction in the number of families receiving cash assistance for long periods.
Option 5: Reinstate Supplemental Grants but Reduce the Contingency Fund	Negligible effect	More federal funding would be provided to states with more poverty, but less would be provided to states that spent more of their own funds on TANF.	Funding would be less targeted at states where families typically received cash assistance for longer periods.

Source: Congressional Budget Office.

Notes: These options would have little effect on the flexibility that states have in administering TANF.

TANF = Temporary Assistance for Needy Families; SFAG = state family assistance grant.

- a. This column shows changes in budget authority, which could differ from changes in outlays if states changed the amount of funding that they saved. At current funding levels, the federal government would obligate about \$170 billion to TANF from 2016 through 2025.
- b. In this report, access to assistance is measured by the number of families receiving assistance and by the extent to which assistance is targeted at the families with the lowest income.
- c. In this report, the duration of assistance is measured by the average number of months during which recipients get cash assistance over the course of their lives.

diverting to other programs applicants who were unlikely to meet work requirements quickly, an approach that states have sometimes taken—might not help families find employment more quickly.³¹

- *Flexibility for the states.* PRWORA also emphasized giving the states more flexibility to tailor aid to their residents’ needs and to experiment with policies that

might increase the effectiveness of TANF.³² However, that flexibility entails the risk that some of the experiments will not be consistent with federal objectives.

31. Heather Hahn, David Kassabian, and Sheila Zedlewski, *TANF Work Requirements and State Strategies to Fulfill Them* (Urban Institute, March 2012), www.urban.org/publications/412563.html.

32. The goals for TANF established in PRWORA also include reducing the incidence of out-of-wedlock pregnancies and promoting the formation and maintenance of two-parent families. However, the body of research on TANF’s performance in achieving those objectives is largely inconclusive. For a review of that research, see Jacob Alex Klerman, “Family Structure,” in Jeffrey Grogger and Lynn A. Karoly, eds., *Welfare Reform: Effects of a Decade of Change* (Harvard University Press, 2005), pp. 173–198, <http://tinyurl.com/pkuxq4y>.

Options That Change Funding

CBO has assessed five options that would change funding for TANF. Two of them would affect total federal spending over the next 10 years, either by reducing the SFAG or by increasing it (see Table 2). The remaining three options would shift funding but have little effect on total federal spending. The option that reduced the SFAG would provide services to fewer low-income families, and the one that increased it would provide them to more families. None of the five options would have much effect on the states' flexibility in administering TANF.

Changes in funding could either increase or reduce the average number of months during which participants received cash assistance, depending on how states distributed the funding among TANF services. For example, if the SFAG was increased, some states would probably boost funding for cash assistance, which would probably lead to families' receiving it for longer periods. However, states would also be likely to increase funding for job search activities, which would probably reduce the average duration of cash assistance. Which of those effects would dominate is unclear.

Option 1: Reduce the State Family Assistance Grant by 10 Percent. This option would reduce the funding available to each state through the SFAG by 10 percent, saving about \$16 billion over 10 years. Thus, access to assistance would be reduced, by a modest amount, even when the unemployment rate was high.

Option 2: Increase the State Family Assistance Grant to Account for Inflation. Under this option, the amount of funding that each state received through the SFAG in the future would be linked to the consumer price index—the same index that other means-tested programs and Social Security use to adjust their benefits to account for the rising cost of living. Indexing the SFAG by means of the consumer price index would cost about \$0.3 billion in 2016, and the cost would grow to roughly \$4.2 billion by 2025, for a total of \$22 billion over 10 years. The states could use that additional funding to keep the number of low-income families that they assisted from falling.

Option 3: Link the State Family Assistance Grant to the Unemployment Rate. To provide more cash assistance during periods when it was needed more, this option would increase a state's funding through the SFAG by 20 percent when that state's unemployment rate was above 6.5 percent and by 30 percent when the rate was above 8 percent. To offset the cost of doing so, the option

would also reduce a state's funding through the SFAG by 20 percent when its unemployment rate was below 5 percent and by 30 percent when the rate was below 4 percent. After studying differences in unemployment rates among states and consulting its forecast of the national unemployment rate, CBO concluded that this option would probably have little effect on total federal spending over the next 10 years.³³

The option would provide a substantial boost in funding during periods of high unemployment. If it had been in effect during 2009 and 2010, when the national unemployment rate peaked at 10 percent, it would have increased funding in 47 states by a total of \$8.5 billion. Increasing funding during periods of high unemployment would be less likely to deter employment than many other approaches to increasing funding would be—because during periods of high unemployment, fewer recipients would otherwise have been able to find work.

In contrast, if the option had been in effect in 2014, when unemployment rates in some parts of the country had declined substantially, nine states would have received at least 20 percent less in SFAG funding than they did—although those cuts would have been smaller than the increases in states with high unemployment in that year. The number of states getting less funding would grow as the economy continued to recover from the recent recession, CBO estimates, and with a sufficiently strong recovery, funding nationwide would ultimately fall below the amount that would occur under current law.

Cutting funding during periods of low unemployment would probably reduce the number of families whose time on cash assistance lasted for several years, because some states, compensating for the funding cuts by trying to reduce the number of cash recipients, would tighten time limits or work requirements. A potential drawback of such funding cuts is that some TANF services are needed *more* when jobs are plentiful. For example, most subsidized child care is provided to parents with jobs, which suggests that demand for it is higher at times when many parents are able to find employment.

There are reasons to think that low-income families do not necessarily need TANF cash assistance more when

33. CBO's model is designed to forecast the number of states that would have high and low unemployment rates, but not which states those would be.

the unemployment rate is high. First, that rate refers to the population in general, not to the less educated people who are TANF's main beneficiaries. Second, as the unemployment rate rises, more low-income families receive cash assistance through the unemployment insurance system. However, the unemployment rate among less educated people and the rate of child poverty tend to rise and fall with the overall unemployment rate, which suggests that the unemployment rate is indeed indicative of the need for TANF cash assistance.³⁴

Option 4: Make the Contingency Fund More Responsive to High Unemployment. A state with a high and rising unemployment rate can become eligible for the contingency fund (as is explained above in “Spending on TANF”). In recent years, however, money from the contingency fund has not been concentrated on the states with the highest unemployment rates, because a state can also qualify if the number of its residents participating in SNAP has increased by more than 10 percent since 1994 or 1995—a criterion that every state met in 2013 because of population growth, the effects of the most recent recession, and efforts to increase the percentage of eligible families that enrolled in SNAP. The distribution of the contingency fund in 2013 was therefore determined solely by the third criterion for eligibility: state spending in excess of the MOE requirement.

This option would change the eligibility criteria in order to direct more of the contingency fund to states with high unemployment rates. The SNAP criterion would be eliminated, and a state's unemployment rate would have to be only high, not rising, for the state to qualify for the contingency fund. The option would also change the state spending requirement so that states had to increase their spending only on certain categories of services. Back when the emergency contingency fund existed, states could qualify for it by increasing spending on cash assistance, short-term benefits, or subsidized employment, even if the sum of their spending on all TANF services remained unchanged. Allowing states to qualify for the contingency fund in the same way would increase the number of states with high unemployment that could use the fund; however, it would also remove an incentive for states to spend in excess of the MOE requirement. States

with low unemployment rates could no longer qualify for the contingency fund by spending more of their own funds on TANF, even though such spending might reflect high demand for TANF services among their residents.

This option might reduce the average duration of TANF cash assistance. In recent years, the states that would have lost eligibility under this option have provided cash benefits to adult recipients for several more weeks, on average, than other states have. Faced with reductions in funding under this option, some of those states would probably tighten work requirements or time limits. In addition, states that lost their funding would probably see that funding transferred to states where the average duration of assistance was lower, which might increase the percentage of recipients who got benefits for short periods.

Option 5: Reinstate Supplemental Grants but Reduce the Contingency Fund. Between 2001 and 2011, supplemental grants reduced differences in total TANF funding among the states by providing additional funding to those with low historic ratios of AFDC spending to people living in poverty (again, see “Spending on TANF” above). This option would reinstate the supplemental grants, providing \$319 million in funding for them each year while reducing appropriations for the contingency fund by the same amount.

Unlike the two previous options, which link funding to unemployment rates, this option steers funding to states that would otherwise receive little of it. Part of the rationale is that SFAG funding per poor family varies much more from state to state than it does because of fluctuations in the business cycle. In 2013, SFAG funding per poor family averaged about \$4,800 in the 10 states where it was highest, more than five times the average in the 10 states where it was lowest. By contrast, in 2007, when the unemployment rate was 4.5 percent, funding per poor family averaged about \$2,800 nationwide, 18 percent higher than the average in 2010, when the unemployment rate was 9.7 percent.

Shifting money from the contingency fund to supplemental grants would move funding toward states that have higher poverty rates and away from states that have more MOE spending. It would also shift funding toward states where families' average length of time on cash assistance has been shorter. However, the option would also reduce states' incentives to fund TANF, because the supplemental grants would not require states to spend in

34. The unemployment and child poverty rates are charted in Gene Falk, *The Potential Role of the Temporary Assistance for Needy Families (TANF) Block Grant in the Recession*, Report for Congress R40157 (Congressional Research Service, September 2009), p. 4.

excess of the MOE requirement, as the contingency fund does. The option could also reduce the amount of cash assistance and work support funded through TANF, because the states that would be eligible for supplemental grants have traditionally allocated a smaller portion of their TANF funding to those services. If lawmakers wanted to counter that trend, they could require those states to increase spending on cash assistance and work support as a condition for receiving the supplemental grants.

Options That Change the Work Standard

CBO has assessed five policy options that would change the TANF work standard. The first would prevent states from applying for waivers from the standard. The rest would change the work standard itself—by replacing the caseload reduction credit, by eliminating the credits for spending in excess of the MOE requirement, or by allowing certain activities to qualify as work-related for longer.

These five options would probably not affect federal spending significantly. It is true that when a state violates the work standard, it risks forfeiting some of its federal funding, in which case federal spending would fall by the amount of the penalty. But the penalties have been small to date—the largest has amounted to \$0.2 million—and these options would not change how the size of the penalties was calculated. However, the options could affect states' flexibility to provide the services that they believe are best suited for their residents.

Option 6: Prohibit States From Using Different Work Standards. In 2012, HHS encouraged states to apply for waivers from the work standard so that they could try other approaches to promoting stable employment for needy families.³⁵ That initiative arose as some policymakers were voicing concern that the work standard was failing to help many low-income families become self-sufficient.³⁶ Other policymakers, however, view the large decline in the number of cash assistance recipients as an indication that the work standard has substantially reduced dependence on government assistance, and they have expressed concern that waiving the standard could

reverse some of that change. As of mid-December 2014, no state had applied for a waiver.

This option would prevent HHS from waiving the current work standard for a state. It would thus prevent states from experimenting with work standards that might be able to outperform the current one by better promoting self-sufficiency or serving a larger percentage of poor families, and it would prevent states from diminishing work standards in ways that might increase dependency.

The option could reduce recipients' access to cash assistance, because states might meet the current work standard by providing cash assistance to fewer families than they would under their own work standards (see Table 3). Further, if states achieved such reductions by making time limits shorter than they would have under their own work standards, or by imposing more penalties on non-working recipients, the option would probably reduce the average duration of cash assistance. However, no states have adopted their own work standards yet, and it is not clear whether any will.

Option 7: Credit States for Former Recipients' Continued Employment, Not for Caseload Reductions. The caseload reduction credit lowers a state's required work participation rate in proportion to reductions in the number of cash assistance recipients in that state since 2005. However, between 2005 and 2013, the number of families in poverty (as defined by the federal government) rose by about 15 percent. Faced with growing need, several states were unable to trim their caseloads and obtain the credit.

If this option was implemented, states would instead receive credits in proportion to the length of time that recipients remained employed after they stopped receiving cash assistance. With the caseload reduction credit, states can meet the work standard by denying families cash assistance instead of involving them in work-related activities. Removing that credit would reduce states' incentive to deny families cash assistance. However,

35. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "Guidance Concerning Waiver and Expenditure Authority Under Section 1115," TANF-ACF-IM-2012-03 (March 2012), <http://go.usa.gov/mCWB>.

36. About a third of former recipients report income below 50 percent of the poverty threshold shortly after leaving TANF. See Gregory Acs and Pamela Loprest, *TANF Caseload Composition and Leavers Synthesis Report* (submitted by the Urban Institute to the Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation, March 2007), www.urban.org/publications/411553.html.

Table 3.
Effects of Options That Change the TANF Work Standard

Option	Access to Assistance ^a	Duration of Assistance ^b	Flexibility for the States
Option 6: Prohibit States From Using Different Work Standards	States that are struggling to meet the current standard might shrink their caseloads.	States that are struggling to meet the current standard might reduce the duration of assistance.	States would not be able to implement work standards that accommodated local conditions.
Option 7: Credit States for Former Recipients' Continued Employment, Not for Caseload Reductions	Some states would probably increase the size of their caseloads if the number of credits that they received did not change.	Some recipients would probably receive benefits for longer periods, but others might be less likely to need assistance again in the future.	There would be little effect if the number of credits that states received did not change.
Option 8: Eliminate Credits for Spending in Excess of the Maintenance-of-Effort Requirement ^c	Some of the states that have used the credits to meet the work standard would probably shrink their caseloads.	Some of the states that have used the credits to meet the work standard would probably reduce the duration of assistance.	States would have fewer ways to meet the work standard.
Option 9: Loosen the Limit on Counting Job Readiness Activities as Engagement in Work	Some states would provide more aid to the people who were the least prepared for employment; services for others would probably be reduced.	Some states would probably increase the duration of assistance.	States would have more discretion to provide extensive job readiness services.
Option 10: Loosen the Limit on Counting Vocational Education as Engagement in Work	Some states would help more people earn postsecondary degrees; services for others would probably be reduced.	Some recipients would probably receive benefits for longer periods, but others might be less likely to need assistance again in the future.	States would have more discretion to provide extensive vocational education.

Source: Congressional Budget Office.

Notes: These options would be unlikely to have a substantial effect on federal spending.

TANF = Temporary Assistance for Needy Families.

- In this report, access to assistance is measured by the number of families receiving assistance and by the extent to which assistance is targeted at the families with the lowest income.
- In this report, the duration of assistance is measured by the average number of months during which recipients get cash assistance over the course of their lives.
- The maintenance-of-effort requirement penalizes a state in which nonfederal spending on TANF is less than 75 percent of nonfederal spending in 1994 on the programs that preceded TANF.

several states rely on credits for caseload reductions to meet the work standard. If they could not get enough employment credits to meet the work standard, they could lose some federal funding, which would reduce the amount of assistance that they provided.

It is unclear how crediting states for the continued employment of former recipients would affect the average duration of cash assistance. On the one hand, some states

would probably keep families in TANF longer in order to find them more stable employment. On the other hand, more stable employment would reduce the chances that the families needed assistance again in the future, and that would reduce the average duration of cash assistance.

An employment credit could more closely link a state's ability to meet the work standard—and hence its federal funding—to local job market conditions. If that was the

case, such a credit would probably reduce the number of families that received assistance during periods when jobs were scarce, because the employment of former recipients would probably be less stable in those periods, leaving the states with fewer credits. Conversely, because former recipients would probably be more steadily employed during periods when jobs were abundant, an employment credit would probably allow states to provide cash assistance to families for longer during those periods, which would reduce the families' incentive to find work at times when it was plentiful. Lawmakers could try to avoid that pitfall by providing more credits per month of continued employment when a state's unemployment rate was high.

Option 8: Eliminate Credits for Spending in Excess of the Maintenance-of-Effort Requirement. From 2007 through 2009, more than a dozen states met the work standard by using credits that they received for spending more than the MOE requirement, according to the Government Accountability Office.³⁷ That approach probably remained prevalent in 2010 and 2011, when many of the states that had work participation rates below the statutory requirement continued to spend in excess of the MOE requirement.

This option would eliminate the spending credits. If it was implemented, some states that had relied on those credits would probably meet the work standard by tightening work requirements or shortening time limits for benefits. Such changes would probably reduce the number of families that depended on cash assistance for long periods, but they would probably also increase the number of families with no access to cash assistance, even for brief periods. Also, with the incentive for states to spend in excess of the MOE requirement gone, some states would probably reduce their spending on TANF, which would be likely to further reduce the services available to low-income families. (If lawmakers did not want states to reduce their spending on TANF, they could retain the spending credits but stop states from counting spending by nongovernmental organizations in their MOE spending—an option that is discussed below.)

Option 9: Loosen the Limit on Counting Job Readiness Activities as Engagement in Work. Under the current

37. Government Accountability Office, *Temporary Assistance for Needy Families: State Maintenance of Effort Requirements and Trends*, GAO-12-713T (May 2012), www.gao.gov/products/GAO-12-713T.

work standard, a cash assistance recipient's participation in job readiness activities may count as engagement in work for no more than 12 weeks per year. However, some of the barriers to employment that those activities try to address, such as mental health problems and illiteracy, can take more than 12 weeks to overcome. This option would allow participation in job readiness activities to count as engagement in work for up to 24 weeks during a recipient's first year on cash assistance.

The option would increase the number of cash assistance recipients who counted as engaged in work, which would allow states to offer cash assistance to more families while remaining in compliance with the minimum work participation rate. But states would have to spend more on providing job readiness activities, which are often expensive. To cover the cost, some states would probably spend less on other TANF-funded services.

In recent years, only about a quarter of adult cash assistance recipients have had a job when they left the program. This option would let states experiment with a wider range of job readiness programs in the hope of increasing that percentage. However, demonstration projects that are focused on job readiness appear not to have raised the employment rates or earnings of cash assistance recipients with barriers to employment, which suggests that this option would probably allow recipients to remain in TANF longer without moving them closer to self-sufficiency. By contrast, some demonstration projects that required such recipients not only to participate in job readiness activities but also to work have succeeded in raising their employment rates and earnings.³⁸ But under current federal law, recipients who participate in job readiness activities and also work (or perform community service) can already be counted for more than 12 weeks as engaged in work.

Option 10: Loosen the Limit on Counting Vocational Education as Engagement in Work. Under the current work standard, a cash assistance recipient's participation in vocational education may count as engagement in work for no more than a year. This option would allow vocational education to count for up to two years, the

38. David Butler and others, *What Strategies Work for the Hard-to-Employ? Final Results of the Hard-to-Employ Demonstration and Evaluation Project and Selected Sites From the Employment Retention and Advancement Project*, OPRE Report 2012-08 (submitted by MDRC to the Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation, March 2012), <http://go.usa.gov/m4Jk>.

time typically required to complete an associate's degree in a vocational program.

Like the previous option, this one would increase the number of cash assistance recipients who counted as engaged in work, which would allow states to offer cash assistance to more families while remaining in compliance with the minimum work participation rate. But if the families of adults undertaking two years of education received assistance for longer periods than they do now, the amount of assistance available to other families would probably decline.

The option would allow states to encourage more vocational education. The existing body of research does not indicate clearly whether providing more vocational education to recipients would reduce the likelihood that they need cash assistance again in the future. Analyses of the shift from AFDC to TANF, as well as of more recent demonstration projects, have generally found that vocational education does not lead participants to well-paying or consistent employment better than programs in which participants are encouraged to make a quick transition to work. However, none of the programs that were studied supported two years of vocational education.³⁹

Options That Change the Maintenance-of-Effort Requirement

In recent years, some states have met the MOE requirement by counting more spending from nongovernmental organizations. Lawmakers could prohibit that tactic in order to increase funding from state and local governments. They could also alter the MOE requirement to increase the portion of TANF funding that states allocate to cash assistance. Those two options would affect federal spending significantly only if states failed to meet the MOE requirement and forfeited some of their federal funding, and such failures would be unlikely.

39. Ibid. See also Gayle Hamilton and others, *National Evaluation of Welfare-to-Work Strategies: How Effective Are Different Welfare-to-Work Approaches? Five-Year Adult and Child Impacts for Eleven Programs* (submitted by MDRC to the Department of Health and Human Services, Administration for Children and Families, Office of the Assistant Secretary for Planning and Evaluation, and to the Department of Education, Planning and Evaluation Service, Office of Vocational and Adult Education, December 2001), <http://tinyurl.com/q2br4v5>.

Option 11: Prohibit States From Counting Private Spending Toward the Maintenance-of-Effort Requirement.

In 2011, the most recent year for which data are available, 13 states counted spending by nongovernmental organizations toward the MOE requirement. In most of those states, spending by nongovernmental organizations accounted for 20 percent or less of MOE spending, but in two states, it accounted for nearly half.⁴⁰ This option would prohibit states from counting nongovernmental spending toward the MOE requirement.

The prohibition would reduce the extent to which some states met the work standard by spending in excess of the MOE requirement; to meet the standard, a number of those states would probably make up for what they had lost by tightening time limits and work requirements. Such measures would be likely to shorten the average duration of assistance and could also reduce the number of families that received that assistance (see Table 4). However, other states might continue to rely on MOE spending to meet the work standard; they could do so by increasing their own spending on TANF, which could fund additional aid for low-income families.

Option 12: Require States to Spend at Least One-Fifth of TANF Funding on Cash Assistance. This option would require states to spend at least a fifth of total TANF funding on recurring cash assistance, which would probably result in a modest boost to the amount of that assistance available to low-income families. In 2013, the 19 states that spent less than 20 percent of their TANF funding on cash assistance spent \$0.9 billion in total on it. If this option had been in effect, those states would have had to spend a total of about \$1.6 billion; eight of them would have had to more than double their spending on cash assistance.

States could provide more cash assistance by paying families more. Or they could make payments to more families, a task that they could accomplish by loosening eligibility standards and conducting outreach to increase the percentage of eligible families that applied for benefits. To cover the increased cost of the cash assistance, some states would probably reduce spending on other TANF services; others might spend more on TANF as a whole.

40. Government Accountability Office, *Temporary Assistance for Needy Families: More States Counting Third Party Maintenance of Effort Spending*, GAO-12-929R (July 2012), www.gao.gov/products/GAO-12-929R.

Table 4.**Effects of Options That Change the TANF Maintenance-of-Effort Requirement**

Option	Access to Assistance ^a	Duration of Assistance ^b	Flexibility for the States
Option 11: Prohibit States From Counting Private Spending Toward the Maintenance-of-Effort Requirement ^c	States might shrink their caseloads to compensate for the smaller credits, reducing access; or they might compensate by increasing their funding, making access grow.	Some states would probably reduce the duration of assistance.	States would have fewer ways to meet the maintenance-of-effort requirement. ^c
Option 12: Require States to Spend at Least One-Fifth of TANF Funding on Cash Assistance	Families would receive more cash assistance but would probably receive less TANF assistance of other kinds.	Some families would probably receive cash assistance for longer periods.	States would have less flexibility to provide TANF services that accommodated local conditions.

Source: Congressional Budget Office.

Notes: These options would be unlikely to have a substantial effect on federal spending.

TANF = Temporary Assistance for Needy Families.

- In this report, access to assistance is measured by the number of families receiving assistance and by the extent to which assistance is targeted at the families with the lowest income.
- In this report, the duration of assistance is measured by the average number of months during which recipients get cash assistance over the course of their lives.
- The maintenance-of-effort requirement penalizes a state in which nonfederal spending on TANF is less than 75 percent of nonfederal spending in 1994 on the programs that preceded TANF.

The limited evidence available suggests that the less TANF funding a state allocates to cash assistance, the less time families receive that assistance. In 2012, for example, recipients in the states that spent less than 20 percent of TANF funding on cash assistance had received that assistance for nine fewer weeks, on average, than recipients in the other states had. However, only a

small portion of the difference in spending on cash assistance can be explained by the shorter average spell of assistance per poor family; a larger portion is attributable to the fact that the states that spent less on cash assistance provided benefits to a far smaller portion of families in poverty—only about 10 percent of them.

List of Tables and Figures

Tables

1. Options for Changing TANF	3
2. Effects of Options That Change TANF Funding	24
3. Effects of Options That Change the TANF Work Standard	28
4. Effects of Options That Change the TANF Maintenance-of-Effort Requirement	31

Figures

1. Federal Funding and Spending for TANF and the Programs That Preceded It, 1994 to 2013	5
2. Federal Funding Through the State Family Assistance Grant, by State, 2013	6
3. Spending on TANF and the Programs That Preceded It, by Source of Funding, 1994 to 2013	8
4. Spending on TANF and the Programs That Preceded It, by Type of Assistance, 1994 to 2013	9
5. Recurring Cash Assistance Through TANF and AFDC, 1994 to 2013	10
6. Coverage Ratios for Recurring Cash Assistance Through TANF and AFDC, 1994 to 2013	12
7. Spending on Recurring Cash Assistance Through TANF, by State, 2012	13
8. Spending on TANF for Work Support, 1998 to 2013	14
9. Spending on TANF for Services Other Than Recurring Cash Assistance or Work Support, 1998 to 2013	15
10. States' Allocations of TANF Funding, by Their Spending on Services Other Than Recurring Cash Assistance and Work Support, 2013	16
11. Federal Spending on Selected Means-Tested Programs and Tax Credits, 1994 to 2013	17
12. Participation in Other Means-Tested Programs by Families Receiving Recurring Cash Assistance Through TANF	18
13. Work Participation Status and Activities of Families Receiving Recurring Cash Assistance Through TANF, 1998 to 2011	20

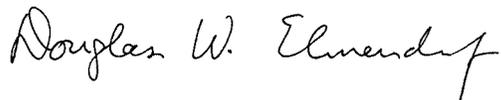
About This Document

This report was prepared at the request of the Ranking Member of the Subcommittee on Human Resources of the House Committee on Ways and Means. In keeping with the Congressional Budget Office's (CBO's) mandate to provide objective, impartial analysis, the report makes no recommendations.

Justin Falk of CBO's Microeconomic Studies Division wrote the report with guidance from Joseph Kile and Chad Shirley. Christina Hawley Anthony, Linda Bilheimer, David Brauer (formerly of CBO), William Carrington, Sheila Dacey, Molly Dahl, Kathleen FitzGerald, Chung Kim, Shannon Mok, Vi Nguyen (formerly of CBO), Sam Papenfuss, Kevin Perese, and David Rafferty provided useful comments on various drafts of the report.

Gene Falk of the Congressional Research Service, Lawrence Mead of New York University, and LaDonna Pavetti of the Center on Budget and Policy Priorities also offered helpful comments. The Department of Health and Human Services provided data. The assistance of external reviewers and data providers implies no responsibility for the final product, which rests solely with CBO.

Jeffrey Kling reviewed the report, Benjamin Plotinsky edited it, and Jeanine Rees and Maureen Costantino prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/49887).



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January 2015