STAFF WORKING PAPERS

WORK AND WELFARE:
THE FAMILY SUPPORT ACT OF 1988

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SUMMARY

On October 13, 1988, the Family Support Act of 1988 (Public Law 100-485) became law. This act makes dozens of changes in the Aid to Families with Dependent Children (AFDC) and Child Support Enforcement programs. It creates a new program of education, training, and other work-related services for AFDC recipients and mandates the AFDC-Unemployed Parent program in all states. It adds to the Child Support Enforcement program requirements for automatic wage withholding of child support, use of state child support guidelines, and increases in the establishment of paternity. In addition, the act extends Medicaid coverage for families leaving AFDC because of increased earnings or loss of the earnings disregards to 12 months and establishes a new program of child care assistance for 12 months to these same families.

New federal government costs projected under the act will total $3.3 billion over the five-year period from fiscal year 1989 through fiscal year 1993. The act includes funding provisions primarily dealing with the recovery of debts owed the federal government and changes in the dependent care credit under the income tax system. Revenues and receipts from the funding provisions will balance the added spending and leave the projected federal deficit essentially unchanged over the five years (see Summary Table).

New projected costs to state and local governments--$0.7 billion---will be one-fifth of federal government costs. Moreover, states will be affected very differently by the act, depending on whether they already have an AFDC-Unemployed Parent program and on the size of their existing work-related programs.

The act will have only a minor effect on the numbers of AFDC recipients by the end of the fifth year. While some of the act's provisions will increase the numbers of recipients, others, such as the new work-related program, will decrease the numbers of recipients. Hundreds of thousands of families with a working adult that have left AFDC, however, will receive a new transitional child care subsidy and extended Medicaid assistance.

This paper concentrates on the provisions of the act that are related to work: the new work-related program, the transitional child care program, and the transitional Medicaid program. In many respects, these provisions, along with the changes in Child Support Enforcement, are the centerpiece of the act. Moreover, the majority of AFDC families aided by the act will be those who work or who have the potential to work.

Title II of the act establishes a new work, training, and education program for recipients of AFDC: the Job Opportunities and Basic Skills Training program, or JOBS. The program's provisions are complex, establishing many new requirements for the states. In terms of the implications of JOBS for government costs, two aspects of the program are most important. First, the federal match rate for these work-related

SUMMARY TABLE. ESTIMATED COST TO THE FEDERAL GOVERNMENT OF THE FAMILY SUPPORT ACT OF 1988 (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
Family Support Spending	62	313	1,024	1,038	866	3,305
Funding Provisions a/	-473	-678	-708	-730	-745	-3,334
Increase or Decrease (-) in the Federal Deficit	-411	-365	316	308	121	-29

SOURCE: Congressional Budget Office projections.

NOTE: Details may not add to totals because of rounding.

a. A minus sign indicates reduced spending or increased revenues.

programs is increased, in general to the AFDC benefit match rate with a floor of 60 percent. Under prior law most AFDC work-related spending was matched at a rate of 50 percent and most spending on education and training was not matched at all. These increased federal match rates will provide states with an incentive to spend more on education, training, and other work-related programs. Second, the act sets requirements for participation in work-related programs among a percentage of nonexempt AFDC recipients: for single-parent AFDC families the required participation rate rises from 7 percent in 1990 to 20 percent in 1995, after which a requirement is no longer specified in the law, and for AFDC-Unemployed Parent families it rises from 40 percent in 1994 to 75 percent in 1998, when it is repealed.

Together, these two aspects of JOBS will raise combined federal/state spending to one and one-half to one and three-quarter times projected levels under prior law. Over the five-year projection period, federal government costs will rise by an estimated $1.2 billion, while state and local government costs will decline by an estimated $0.4 billion. Federal spending in the JOBS program, which is an entitlement, is capped at $600 million in 1989. The cap gradually rises to $1.3 billion in 1995, and falls to $1.0 billion a year thereafter. According to CBO's estimates, however, federal spending will fall below the cap in all years.

Increased spending on work-related programs will permit the numbers of participants to increase by an estimated 1 million over the five years. Participation in AFDC work-related programs has been found to result in welfare savings and fewer families receiving AFDC, although these effects appear to be modest. By CBO's estimates, 50,000 families will be off AFDC by the end of the five-year period, a reduction of about 1 percent in caseloads.

Title III of the act establishes a transitional child care program for all families who leave AFDC because of increased earnings. Assistance is provided for 12 months, with families making copayments under a state-established sliding scale formula. Payments are limited to actual costs, up to local market rates. States may set maximum payments below market rates, provided such maximums are at least $175 a month for each child two years of age or older, and $200 a month for each child under age two.

Federal costs for transitional child care assistance are estimated to rise from $25 million in 1990 to $260 million in 1993, totaling $735 million over the 1989-1993 projection period. State child care spending is estimated to increase by $430 million over the same period. Approximately 280,000 children, less than half the number of eligible children, are estimated to receive assistance; the remaining children will continue in informal and unpaid arrangements. Monthly costs are estimated to average $123 in 1990, based on $175 in child care costs and $52 in family copayments.

Title III also expands transitional Medicaid assistance from 4 months for most families under prior law to 12 months. Both transition programs are effective April 1, 1990, and repealed September 30, 1998. Families eligible for benefits are the same as those eligible for transitional child care assistance, except that families with gross earnings after child care expenses above 185 percent of the poverty thresholds lose eligibility. After the first six months of benefits, states may charge a premium to families in which gross earnings after child care expenses are above the poverty thresholds. The premium can be no more than 3 percent of a family's gross earnings.

The expanded Medicaid transition is estimated to cost the federal government $430 million over the five-year projection period. State costs are estimated to rise by $350 million. These costs include the effects of setting premiums in some states, which will reduce federal government spending by an estimated 15 percent. An estimated 355,000 families on average each year will participate by fiscal year 1993. Because a number of families are expected to drop out of the program rather than pay premiums, the number of participating families (445,000 in 1993) is estimated to be much higher during the first six months of transition benefits.

INTRODUCTION

The Family Support Act of 1988 will change welfare in significant ways. Indeed, it will bring about one of the largest additions to spending on the Aid to Families with Dependent Children (AFDC) program since its inception in 1935. The added spending, however, is unlikely to have any major effect on the numbers of AFDC recipients. Some of the act's provisions will increase the numbers of recipients, while other provisions will decrease the numbers, resulting in little change overall.

This act builds upon and extends changes to AFDC made during recent decades. For example, it requires all states to provide AFDC for at least six months every year to two-parent families in which the primary earner is unemployed, extending the 1961 change that allowed states to provide assistance to such families. The act further strengthens the Child Support Enforcement (CSE) program, enacted in 1975 and reformed in 1984. It also strengthens and funds at significantly increased levels the work requirements, first instituted under the Work Incentive (WIN) program in 1967.

The provisions related to work are central to the act. The majority of AFDC families aided by the act will be those who work or who have the potential to work. It is these families and these work-related provisions--the new work program and the transition programs for child care and Medicaid--on which this paper focuses.

This paper has three sections and an appendix. The first section discusses the Job Opportunities and Basic Skills Training Program (JOBS). The second section discusses the new transitional child care program, which helps pay for 12 months of child care for families who leave AFDC because of earnings increases. The third section discusses the transitional Medicaid program, which entitles families who leave AFDC because of earnings increases to 12 months of Medicaid. Each section describes and analyzes the provisions of the act, presents their costs and effects, and discusses CBO's estimating methodologies. An appendix briefly describes the other major provisions of the act and presents their estimated costs for federal and state and local governments. A second appendix briefly notes the Administration's estimated federal costs of the act.

JOB OPPORTUNITIES AND BASIC SKILLS TRAINING PROGRAM

Title II of the Family Support Act establishes a new work, training, and education program for AFDC recipients. The new JOBS program requires more from the states than did prior law and simultaneously provides more federal funding. Under prior law, states could require AFDC caretakers whose youngest child was six years of age or older to participate in work-related, training, or education programs under the Work Incentive (WIN) program or under WIN demonstration programs. Funding levels for WIN, which have been subject to annual appropriations, were cut sharply during the 1980s. States also placed caretakers in specific work-related programs--community work experience programs (CWEP) or workfare, work supplementation, and job search--funded under the AFDC program, which is an entitlement.

Major Elements of JOBS

The JOBS program will be administered by the state agency that administers AFDC; welfare agencies and departments of labor previously shared responsibility. States are to require participation of all nonexempt AFDC recipients to whom they guarantee necessary child care, subject to the condition that "state resources otherwise permit." With this condition, and except for the participation rate requirements discussed below, participation and spending levels will presumably be left up to the states. The act requires states to institute the JOBS program by October 1, 1990, but states may choose to participate in the new program as early as July 1, 1989. The major elements of the program are discussed below. Table 1 summarizes the most important of these elements.

Work-Related Activities. States must provide a broad range of activities including education, job skills training, job development and job placement, and job readiness. Also, states must include two of the following four activities: group and individual job search, on-the-job training, work supplementation, and community work experience or other work experience approved by the Secretary of the Department of Health and Human Services (DHHS). Both the intensity of these activities and their duration are likely to vary, although the act does set limits on hours of required participation each week for certain families.

Supportive Services. States must either provide child care or pay for it if it is necessary for participation in a work-related activity. The amount paid for child care, however, is limited to actual costs, up to local market rates. States may set maximum payments below market rates, provided they are at least $175 a month for each child two years of age or older and $200 a month for each younger child. Other necessary expenses, including transportation, must also be reimbursed.

Priorities Among Recipients. Each state must spend 55 percent of its funds on three priority groups: long-term recipients, defined as those who have received AFDC for any 36 of the preceding 60 months; parents under the age of 24 who have not completed high school or had little or no work experience in the preceding year; and members of a family in which the youngest child is within two years of being ineligible for AFDC. Volunteers from any of these groups are to be given first priority. If a state does not meet this requirement, the federal share of its JOBS expenditures declines to 50 percent, although the Secretary of DHHS may waive the requirement if the characteristics of a state's caseload make meeting it infeasible. CBO estimates that these priority groups together represent roughly 60 percent of average monthly AFDC families, although

TABLE 1. IMPORTANT ELEMENTS OF JOBS

FUNDING PROVISIONS	<u>Federal Match Rates</u> o 90 percent for $126 million (equal to 1987 WIN funding) o AFDC benefit match rate with a floor of 60 percent for most expenditures (the highest state benefit match in 1989 will be 80 percent) o AFDC benefit match rate for child care o 50 percent for most administrative costs and other services

<u>Entitlement Caps (excluding child care)</u>

Fiscal Year	Millions of Dollars
1989	600
1990	800
1991	1,000
1992	1,000
1993	1,000
1994	1,100
1995	1,300
1996 and after	1,000

WORK-RELATED ACTIVITIES	States must include these activities: education, job skills training, job readiness, job development and job placement States must include two of the following activities: group and individual job search, on-the-job training, work supplementation, community work experience or other approved work experience
PRIORITY GROUPS	States must spend 55 percent of their funds on: (1) Recipients or applicants who have received AFDC for any 36 of the preceding 60 months. (2) Parents under age 24 who have not completed high school or had little or no work experience in the preceding year. (3) Members of families whose youngest child is within two years of being ineligible for AFDC. States must give priority to volunteers within these three groups.

PARTICIPATION REQUIREMENTS

General		AFDC-UP	
Fiscal Year	Percent	Fiscal Year	Percent
1990[a]	7	1994	40
1991	7	1995	50
1992	11	1996	60
1993	11	1997	75
1994	15	1998	75
1995	20		

SOURCE: Congressional Budget Office.

a. There is no penalty for not meeting the 1990 requirement.

considerable variation exists among the states. If only nonexempt families with children age three or older are considered, they represent roughly 40 percent of average monthly AFDC families.

Recipients Exempt from Participation. Recipients caring for a child under three years of age, or at state option under one year of age, are exempt, and those with children under six years of age cannot be required to participate for more than 20 hours a week. At state option, however, both parents in AFDC-Unemployed Parent (UP) families may be required to participate, regardless of the children's ages if necessary child care is provided. About 38 percent of AFDC families are those in which the youngest child is under three years of age. Others are exempted if they are ill, incapacitated, aged, needed in the home to care for another member because of illness or incapacity, working 30 or more hours a week, under age 16 or attending school full time, late in pregnancy or have given birth recently, or living in an area where the program is not available.

Participation Rates. States must meet participation rate targets that rise from 7 percent in 1990 to 20 percent in 1995, or be penalized with a reduced federal match rate. The law does not specify participation rates for years after 1995. In general, the participation rates must be met on a monthly basis; that is, the targets are defined as the number of participants in JOBS in a month divided by the number of AFDC recipients required to participate in that month. For the years 1990 through 1993, however, the definition is more complex in that it takes the highest month of participation during a relevant computation period into account, raising somewhat a state's measured participation rate. If a state does not meet these requirements beginning in 1991, the federal share of its JOBS expenditures declines to 50 percent. In addition to this general participation requirement, JOBS includes a separate participation rate requirement for AFDC-UP families, which rises from 40 percent in 1994 to 75 percent in 1997 and 1998, after which the rates are repealed. At least one parent must participate for at least 16 hours a week in a limited set of activities, including CWEP or other work experience, work supplementation, on-the-job training, education if the parent is under age 25 and has not completed high school, or some other state-designed program approved by the Secretary of DHHS.

Performance Standards. The Secretary of DHHS is to develop performance standards and to submit recommendations for standards to the Congress by the beginning of fiscal year 1994. The Secretary must also propose to Congress modifications in the federal match rate to reflect the relative effectiveness of the states in meeting the standards. The standards are to include outcome measures, such as increased earnings or reduced welfare dependency, not just levels of activity or participation. A participation rate target, however, could be part of the standards, continuing the participation rate requirement that will otherwise expire after 1995.

Funding. Federal JOBS funding is provided through a capped entitlement. Federal funds for other than child care, which is not subject to the cap, are limited to $600 million in 1989, rising to $1.3 billion in 1995, and then declining to $1.0 billion each year thereafter. These funds are to be allocated to states on the basis of each state's share of adult AFDC recipients (including minor parents). The federal match rates are 50 percent for most administrative costs and support services other than child care, the AFDC benefit match rate (that is, the federal medical assistance percentage) for child care, the AFDC benefit match rate with a floor of 60 percent for other expenditures (including full-time JOBS staff), and 90 percent for an amount equal to the state's 1987 allotment under the WIN program--$126 million. WIN funding will phase out as the states phase into the JOBS program, but the $126 million will remain.

JOBS should alter significantly the extent of training, education, and other work-related programs for AFDC recipients. Not only will federal funds for these activities increase, but states should also be able to count on the funds because JOBS is an entitlement program, albeit with spending caps. (Supportive services under WIN were also meant to be an entitlement, but they were never treated as such by the appropriations committees.) Moreover, the nature of many state programs will also have to change because of JOBS requirements: assessments of participants' needs and skills will now be required, and certain groups of recipients, thought to benefit most from work-related programs, will have to be given priority. The numbers of nonexempt recipients will increase sharply because of the lowering of the age of the youngest child exemption. As a result of these and other JOBS provisions, spending on work-related programs will rise significantly, as will the numbers of recipients participating in such programs.

Costs and Effects

The JOBS program will raise federal government costs but lower state government costs, relative to costs prior to the JOBS program. Federal net costs--gross program costs less any resulting savings in welfare programs--are estimated to rise from $33 million in 1989 to $212 million in 1993, totaling $1.2 billion over the five-year period 1989 through 1993 (see Table 2). States are estimated to save $4 million in 1989 and $134 million in 1993, totaling $412 million over the five-year period. Both federal and total net costs peak in 1991, and then decline as savings in welfare programs build up over time, as discussed later.

Gross costs of the JOBS program, before any welfare savings, are, of course, higher than net costs. In 1993, federal gross costs are estimated to be $458 million, more than double net costs (see Table 2). States will save money during the early years of JOBS as the federal government pays for a larger share of state spending. As the participation requirement takes effect, however, states' gross costs will increase and more than offset savings from the reduced state match rates.

These new costs resulting from the JOBS program will raise federal spending on AFDC work-related programs two and three-quarter times above projected levels prior to the JOBS program (see Table 3). State spending will decline slightly in 1991 but rise slightly in 1993. Total spending--

TABLE 2. ESTIMATED COST AND SAVINGS OF JOBS PROGRAM
(By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
			Federal			
Gross Cost a/	38	267	467	513	458	1,742
Welfare Savings	-5	-25	-65	-160	-245	-500
Net Cost	33	242	402	352	212	1,241
			State			
Gross Cost or Savings a/	-4	-53	-53	2	31	-77
Welfare Savings	b/	-10	-50	-110	-165	-335
Net Cost	-4	-63	-103	-108	-134	-412
			Total			
Gross Cost a/	33	214	414	515	489	1,666
Welfare Savings	-5	-35	-115	-270	-410	-835
Net Cost	28	179	299	244	78	829

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers. Details may not add to totals because of rounding.

a. Costs are in addition to spending on AFDC work-related programs prior to the JOBS program.

b. Less than $500,000.

federal plus state--will be about one and one-half to one and three-quarter times greater. The higher spending will allow large increases in the numbers of AFDC recipients participating in work-related programs. As Table 3 shows, in 1993 there will be 360,000 more participants, bringing the total to just under 1 million.

The numbers of additional participants in work-related programs, above those participating before the JOBS program, are estimated to rise from 15,000 in 1989 to the 360,000 in 1993 (see Table 4). As the required participation rate rises to 15 percent in 1994 and to 20 percent in 1995, the numbers of new participants will rise still more--to an estimated 550,000 in 1994 and 800,000 in 1995. Requiring, or allowing, more AFDC families to participate in work-related programs will lead to savings in welfare programs, as participants find jobs or as potential participants are sanctioned (that is, removed from AFDC) for failure to participate or as they leave AFDC rather than participate. CBO estimates that 10,000 families will leave AFDC in 1991 and that 20,000 will leave in 1993 as a result of the JOBS program, as shown in Table 4. By the end of five years, 50,000 families will have left AFDC, a 1.3 percent reduction in the

TABLE 3. SPENDING AND PARTICIPATION IN AFDC EDUCATION, TRAINING, AND OTHER WORK-RELATED PROGRAMS BEFORE AND AFTER IMPLEMENTATION OF JOBS PROGRAM

	Fiscal Year 1991			Fiscal Year 1993		
	Before	Change	After	Before	Change	After
Spending (Millions of dollars)						
Federal	269	467	736	253	458	711
State	537	-53	484	393	31	424
Total	806	414	1,220	646	489	1,135
Participants	600,000	235,000	835,000	615,000	360,000	975,000

SOURCE: Congressional Budget Office projections.

NOTE: Spending and participants before the implementation of JOBS are estimates subject to considerable uncertainty. Firm data, even for years before 1988, do not exist. In general, the estimates of participants were based on estimated spending divided by an estimated average cost for a participant in a work program lasting about three months.

TABLE 4. ESTIMATED EFFECTS OF JOBS PROGRAM (By fiscal year)

	1989	1990	1991	1992	1993	Five-Year Total
Additional Participants in Work-Related Programs a/	15,000	85,000	235,000	360,000	360,000	1,055,000
Families Off AFDC as a Result of JOBS a/	b/	5,000	10,000	15,000	20,000	50,000

SOURCE: Congressional Budget Office projections.

a. These estimates represent additions to participants in work-related programs and additions to families leaving AFDC prior to the JOBS program. The five-year total may reflect some double-counting because some individuals may participate in more than one work program.

b. Fewer than 500 families.

number of AFDC families. The effect of the JOBS program on AFDC recipiency or on spending on benefits in welfare programs is thus expected to be modest.[1]

The special participation requirement for AFDC-UP families begins in 1994, rising from 40 percent in 1994 to 75 percent in 1998, after which it is repealed. Based largely on 1993 dollars and recipiency levels, the number of additional work program participants from the AFDC-UP requirement will rise by an estimated 90,000 in 1998. In 1998, gross federal costs for these additional participants will be an estimated $55 million, welfare savings $60 million, and net savings $5 million. These estimates assume that no general participation requirement exists in 1998. If it did, states would probably meet both the general and the specific AFDC-UP requirements simultaneously. That is, they would use the AFDC-UP

[1] The focus of this paper is on the effects of the JOBS program on federal, state, and local governments. The effect of work programs on participants, another perspective, is discussed in Congressional Budget Office, Work-Related Programs for Welfare Recipients (April 1987).

families required to participate in work-related programs to fulfill the general requirement, resulting in no additional costs from the AFDC-UP requirement.

As families leave AFDC, or remain on AFDC with reduced benefits, savings accrue in the program. Savings accrue to the Medicaid program as families leave AFDC and lose automatic eligibility for benefits; savings may accrue to the Food Stamp program if participants' earnings rise sufficiently. Such savings to the federal government are estimated to rise from $5 million in 1989 to $245 million in 1993, totaling $500 million over the five-year period (see Table 5). State governments also share in the AFDC and Medicaid savings, which are estimated to total $335 million over the five years.

Many uncertainties surround these estimates. Data on current AFDC work-related programs are poor or lacking. Only rudimentary knowledge exists of the budgetary effects of AFDC work-related programs in general, and even less is known about the effects of specific design options. Finally, how states react to JOBS will have a major influence on outcomes. The next section discusses these uncertainties.

Three Critical Estimates and Assumptions

Although dozens, perhaps even hundreds, of specific assumptions and estimates underlie the costs and effects discussed above, a few stand out in importance. First are the CBO estimates of current and projected spending on AFDC work-related programs prior to JOBS. Second are the estimates of costs of work-related programs per participant and effects on welfare programs. Third are the assumptions of how states will respond to the incentives and requirements in JOBS.

Spending on Work-Related Programs Prior to JOBS. Spending prior to JOBS is an important component of the CBO cost estimates. The CBO cost estimates always show incremental costs resulting from a piece of legislation--that is, the additional costs above current law. Spending before JOBS determines how much states will save as a result of the increased federal match rates, and therefore how much they might add to spending on work-related programs. Moreover, spending before JOBS and after the match rate change determines how much more states will have to spend to meet the participation rate targets in JOBS.

In the CBO estimates, spending by federal, state, and local governments on AFDC work-related programs is projected to total $647 million in fiscal year 1989. Spending is projected to rise to $846 million in 1990 before declining to $646 million in 1993 (see Table 6). The sharp rise, and then decline, in spending is caused by projections for California. California is running the largest AFDC work-related program in the country--Greater Avenues for Independence (GAIN)--for which spending in their fiscal year 1988-1989 is estimated to total

TABLE 5. ESTIMATED WELFARE SAVINGS FROM JOBS PROGRAM, BY PROGRAM (By fiscal year, in millions of dollars)

Program	1989	1990	1991	1992	1993	Five-Year Total
			Federal			
AFDC	-5	-15	-45	-105	-160	-330
Medicaid	a/	-5	-10	-25	-40	-80
Food Stamps	a/	-5	-10	-30	-45	-90
Total	-5	-25	-65	-160	-245	-500
			State			
AFDC	a/	-10	-40	-85	-130	-265
Medicaid	a/	a/	-10	-25	-35	-70
Food Stamps	0	0	0	0	0	0
Total	a/	-10	-50	-110	-165	-335
			Total			
AFDC	-5	-25	-85	-190	-290	-595
Medicaid	a/	-5	-20	-50	-75	-150
Food Stamps	a/	-5	-10	-30	-45	-90
Total	-5	-35	-115	-270	-410	-835

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers.

a. Less than $500,000.

$408 million.[2] In the early years of GAIN, many participants are being put into education and training activities, which raises costs. Later on, as more participants are put into activities like CWEP, spending is projected to decline. The California GAIN program accounts for about 60 percent of CBO's estimated non-WIN spending in 1989 and 50 percent in 1993, thus driving the national spending estimates.

The components of spending for work-related programs are shown in Table 6. WIN accounts for only 17 percent of spending in 1989 and rises little over the five-year period. Spending matched by the federal government under AFDC, primarily on job search and CWEP activities, is projected to rise from $240 million in 1989 to $280 million in 1993. It accounts for 37 percent of all spending in 1989 and a somewhat larger share by 1993. Spending on education and training paid for entirely from state and local monies is estimated to total $300 million in 1989, accounting for 46 percent of all spending.

These projections are very tentative. Even current spending on AFDC work-related programs is not reported with any regularity or accuracy. The CBO projections are based, first, on actual and projected levels of spending in three states with large and growing work-related programs: California, Massachusetts, and New Jersey. For other states, spending on work-related programs covered under AFDC is reported by the federal government (DHHS's Family Support Administration), but even these data are poor because not all states itemize such spending. This type of spending in future years was projected to increase at a 5 percent rate, based on discussions with state officials and other experts. Spending on education and training by other states was estimated from data for 1985 reported in a Government Accounting Office (GAO) study, and was projected to increase at a 7.5 percent rate based on discussions with experts.[3]

<u>Per-Participant Costs and Effects on Welfare Program Budgets</u>. Where possible, estimates of costs and effects per participant were based on published studies by the Manpower Demonstration Research Corporation (MDRC) of findings on AFDC work-related programs in selected states. These studies were based on an experimental design that compared persons assigned to work programs ("experimentals") with persons not in work programs ("controls"), permitting valid findings of the effects of the work programs. Without such an experimental design, it is difficult to isolate the effect of the work program on the numbers of participants who

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[2] This was California's estimate of spending (including federal and state funds) earlier this year when CBO's revised estimates were developed. Recently, the GAIN budget for fiscal year 1988-1989 was cut to $385 million. Also, implementation in some counties has been slower than projected, so that actual spending could fall short of budgeted spending.

[3] General Accounting Office, <u>Work and Welfare. Current AFDC Work Programs and Implications for Federal Policy</u> (1987), Table 2.4, p. 40.

TABLE 6. ESTIMATED SPENDING ON AFDC WORK-RELATED PROGRAMS BEFORE JOBS PROGRAM
(By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993
			WIN a/		
Federal	96	100	104	108	113
State	11	11	12	12	13
Total	107	111	116	120	126
			Spending Covered Under AFDC b/		
Federal	120	155	165	145	140
State	120	155	165	145	140
Total	240	310	330	290	280
			Spending Not Covered Under AFDC c/		
Federal	0	0	0	0	0
State	300	425	360	305	240
Total	300	425	360	305	240
			Total Spending		
Federal	216	255	269	253	253
State	431	591	537	462	393
Total	647	846	806	715	646

SOURCE: Congressional Budget Office projections.

a. Outlays for the Work Incentive program are based on CBO's February 1988 baseline.

b. Spending on work-related programs covered by the AFDC federal match rate.

c. Spending on work-related programs for AFDC recipients that is not matched by the federal government. Spending is primarily for education and training and does not include spending under the Job Training Partnership Act program.

leave AFDC, because the numbers who leave in the absence of any work program are large. The MDRC studies found that by the end of a year or a year and a half, 30 percent to 65 percent of recipients not assigned to a work program--the control group--had left AFDC.

In early 1988, when CBO was preparing revised estimates for the House and Senate bills leading to the act, final studies were available for programs in six states: Arkansas, California, Illinois, Maryland, Virginia, and West Virginia.[4] The CBO estimates were based on unweighted averages of costs or savings in five of those states; West Virginia was excluded because its work program--participation in CWEP throughout a person's stay on AFDC--is not representative of the programs most other states provide. In addition, the unusually high unemployment rate in the state makes program savings unrepresentative.

The MDRC findings on costs were adjusted in several ways. Most important, they were approximately doubled to convert them from costs per experimental to costs per participant. Based on the MDRC studies, it appeared that about one-half of the experimentals were never placed in work programs. Before they can be assigned to a work program, some registrants may find a job, leave welfare, or be deregistered for other reasons; other registrants may be excused from participation for health or other reasons. In addition, a small amount was added for registration costs (because the control group usually included such registration costs), and the estimates were adjusted for increases in prices and wages by the implicit GNP deflator for state and local purchases. After these

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4 These studies were: Daniel Friedlander, Gregory Hoerz, Janet Quint, and James Riccio, Arkansas : Final Report on the WORK Program in Two Counties (MDRC, 1985); Barbara Goldman, Daniel Friedlander, and David Long, California: Final Report on the San Diego Job Search and Work Experience Demonstration (MDRC, 1986); Daniel Friedlander, Stephen Freedman, Gayle Hamilton, Janet Quint and others, Final Report on Job Search and Work Experience in Cook County (MDRC, 1987); Daniel Friedlander, Gregory Hoerz, David Long, and Janet Quint, Maryland: Final Report on the Employment Initiatives Evaluation (MDRC, 1985); James Riccio, George Cave, Stephen Freedman, Marilyn Price and others, Final Report on the Virginia Employment Services Program (MDRC, 1986); and Daniel Friedlander, Marjorie Erickson, Gayle Hamilton, and Virginia Knox, West Virginia: Final Report on the Community Work Experience Demonstrations (MDRC, 1986). For Arkansas and Maryland, information for longer-term follow-ups was also available; the Arkansas data were unpublished, and the Maryland data were from Daniel Friedlander, Maryland: Supplemental Report on the Baltimore Options Program (MDRC, 1987). Recently, reports for a Maine work program (Patricia Auspos, George Cave, and David Long, Maine: Final Report on the Training Opportunities in the Private Sector Program (MDRC,1988)) and for a second California program (Gayle Hamilton, Interim Report on the Saturation Work Initiative Model in San Diego (MDRC, 1988)) became available, but the data came too late to be included in CBO's estimates.

adjustments, costs per participant in work programs other than education and training were estimated to rise from $840 in 1989 to $1,030 in 1993, as shown in Table 7.

The work-related programs studied by MDRC generally did not include education and training. The CBO estimates of costs of education and training programs were based on an average of costs in three programs: the federal Job Training Partnership Act program, using costs for AFDC participants; the education and training portions of the Massachusetts Employment and Training (ET) Choices program for AFDC recipients; and the training portion of the Maryland AFDC program, as reported by MDRC. Costs per participant in education and training programs were estimated to rise from $2,500 in 1989 to $3,075 in 1993 (see Table 7). In these estimates, per-participant costs of education and training are roughly three times per-participant costs for other work-related programs.

As participants in work programs find jobs and as eligible participants are sanctioned (that is, removed from AFDC), or leave AFDC rather than participate, savings accrue in welfare programs. Because savings for a single participant can continue for a period of years, aggregate savings for all participants build up over time. For a single participant, however, savings may diminish over time--for example, as a job is lost and the participant returns to AFDC. (The rate at which savings diminish is known as the "decay rate.") The MDRC studies reported savings over a period of one and one-half to three years, depending on the

TABLE 7. ESTIMATED TOTAL COSTS PER JOBS PARTICIPANT (By fiscal year, in dollars)

	1989	1990	1991	1992	1993
Education and Training Programs	2,500	2,635	2,775	2,920	3,075
Other Work-Related Programs	840	885	930	980	1,030
Average Cost a/	1,390	1,465	1,540	1,620	1,705

SOURCE: Congressional Budget Office projections.

a. Average costs assume 33 percent of participants will be in education and training and 67 percent will be in other work-related programs. Costs do not include costs of assessments, employability plans, or extra child care for young children.

state, and any decay was already included in the reported savings. Based on the apparent decay in the MDRC-reported savings, CBO used a decay rate of 15 percent for periods after which MDRC reported data were not available. Actual decay rates, however, are unclear, and in some areas it is even uncertain whether there was any decay.

The CBO estimates included savings in AFDC benefits and administration, in Food Stamp benefits, and in Medicaid benefits and administration. Unlike the MDRC studies, no savings were shown for increased revenues--income tax or Social Security tax. Generally, CBO estimates do not include the effects of spending programs on revenues, unless the effect is both large and measurable. Because these work-related programs will probably not result in the creation of any new jobs, and may largely replace one worker with another, any revenue effects are very uncertain. Moreover, the MDRC revenue effects were estimated prior to recent changes in the tax law, and thus are overestimated compared with current tax law.

For AFDC and Food Stamp benefits, savings per experimental were reported in the MDRC studies. These numbers were approximately doubled to adjust them from per-experimental to per-participant savings (as discussed above for costs), and inflated over time by the percentage increase in average benefit levels in the two programs. The resulting number was used for the estimated two-thirds of participants in other work-related programs.

For the estimated one-third of participants in education and training programs, another adjustment had to be made to estimate savings. The state programs studied by MDRC included virtually no education and training and, in fact, no pertinent studies exist on the effects of education and training programs on welfare benefits. Because CBO did not want to influence comparisons of different bills with different mixes of training and other work programs in the absence of any valid data, savings <u>per dollar spent</u> on work programs were kept the same for training, education, and other work programs. Thus, to estimate savings for education and training programs, reported savings for other work programs were increased by three (the ratio of per-participant costs for education and training programs to costs for other work programs).

For Medicaid and AFDC administration, savings were based in part on the MDRC findings. MDRC reported the percentages of experimentals who left AFDC as a result of their participation in a work-related program to be 2.3 percent in the first year after participation, 3.1 percent in the second year, 2.8 percent in the third year, and 2.4 percent in the fourth year.[5] The CBO estimates, adjusted as above by doubling and inflating for the share of participants in education and training, were 6.7 percent,

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[5] Data for the first year were averages of state data reported by MDRC. For the second through the fourth years, data were partly estimated by CBO depending on the length of reported findings for any state.

TABLE 8. ESTIMATED TOTAL SAVINGS PER JOBS PARTICIPANT
(By fiscal year, in dollars)

	1989	1990	1991	1992	1993
AFDC Benefits	320	330	345	355	370
AFDC Administration	45	45	45	45	50
Food Stamp Benefits	65	70	70	75	80
Medicaid	100	110	120	130	140

SOURCE: Congressional Budget Office projections.

NOTE: Savings are for the fourth year after a person's participation in JOBS. Savings in the first through third years after a person's participation are usually higher because the savings for a single participant diminish over time.

9.0 percent, 8.1 percent, and 7.2 percent in years one through four, respectively. For each family off AFDC, administrative savings were calculated to be $620 in 1989 and $660 in 1993. In addition, Medicaid savings will accrue for about 65 percent of the families off AFDC.[6] For those families who lose Medicaid, annual savings (federal and state) were estimated to be $2,120 in 1989 and $2,970 in 1993.

Estimated savings (federal and state) per JOBS participant are shown in Table 8 for the various programs. These savings are quite modest, and reflect the modest effects of work programs found in the MDRC studies. AFDC benefits were estimated to be reduced by $320 in 1989, AFDC administrative costs by $45, Food Stamp benefits by $65, and Medicaid costs by $100. Most participants will not find a job or be removed from

[6] The remaining 35 percent of families no longer receiving AFDC were estimated to still receive Medicaid because they qualified as medically needy, or because they were pregnant women or children who qualified under other Medicaid provisions. During families' first year off AFDC, Medicaid savings will be smaller because of transitional Medicaid assistance, discussed in a later section. The expanded Medicaid transition in the act will lower Medicaid savings from JOBS, but this effect is shown in the cost of the transitional Medicaid provision.

AFDC as a result of JOBS, so that savings per participant on average are quite small. For a participant who is affected by the work program, however, savings will be much higher.

Moreover, savings do accumulate over time, as noted earlier, because participants affected by the work program may contribute to welfare savings for a number of years. Table 9 shows how estimated savings accumulate over time for a hypothetical 100,000 participants in work programs each year. For 100,000 participants in a work program in year 1, AFDC savings (federal and state) would rise from $20 million in year 1 to $50 million in year 2, and then decline gradually to $35 million in year 5. But as 100,000 more participants were put into work programs each year, AFDC savings would rise from $20 million in year 1 to $205 million in year 5. Total savings in the three welfare programs--AFDC, Food Stamps, and Medicaid--would rise from $30 million in year 1 to $295 million in year 5.

Just as welfare savings accumulate over time, so also do the numbers of families off AFDC. Based on an example of 100,000 work program participants each year, 33,000 families would be off AFDC at the end of five years, about 6.6 percent of work program participants (see Table 9).

Both the estimated costs and welfare effects are quite uncertain, though not nearly so uncertain as they would be without the evidence from the MDRC studies. Nonetheless, the MDRC studies show that both costs and savings vary greatly among the state programs studied, and even among counties in the same state with supposedly similar programs. Reported program costs ranged from $158 per experimental in Arkansas to $838 per experimental in Maryland. Maryland's costs were high because its program included some education and training components, but California's costs, without education and training, were $640 per experimental. Reported welfare effects also varied sharply among states. For example, the percentage receiving AFDC in a quarter was reduced by five percentage points in Arkansas as a result of its work program but by less than one percentage point in Maryland and Virginia.[7]

Many other uncertainties also exist. One results from the absence of any evidence on the welfare effects of education and training. The procedure followed by CBO--namely, assuming that savings for each dollar spent on education and training are equal to savings for each dollar spent on other work-related programs--may overstate savings from education and training. Another uncertainty results from the extrapolation of MDRC's results for all experimentals to estimated results for only those experimentals who participated in work programs. Finally, having results for only a few states makes it difficult to estimate savings. Welfare savings certainly depend on the level of a state's AFDC benefits: the higher the AFDC benefits, the higher the AFDC savings should be, other

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7 These statistics were averaged over the quarters for which data were reported in the MDRC studies. See Congressional Budget Office, Work-Related Programs, Table 7, pp. 52-53.

TABLE 9. WELFARE EFFECTS OVER TIME FROM 100,000 WORK PROGRAM PARTICIPANTS A YEAR

	Year 1	Year 2	Year 3	Year 4	Year 5
	Welfare Savings (In millions of dollars)				
AFDC					
Year 1 Participants	20	50	45	40	35
Year 2 Participants		20	50	45	40
Year 3 Participants			20	55	50
Year 4 Participants				25	55
Year 5 Participants					25
Total Savings	20	70	115	165	205
Federal Savings	10	40	65	90	110
State Savings	10	30	50	75	95
Medicaid					
Year 1 Participants	5	15	15	15	10
Year 2 Participants		5	15	15	15
Year 3 Participants			5	15	15
Year 4 Participants				5	15
Year 5 Participants					5
Total Savings	5	20	35	50	60
Federal Savings	3	10	20	30	35
State Savings	2	10	15	20	25
Food Stamps					
Year 1 Participants	5	5	5	5	5
Year 2 Participants		5	5	5	5
Year 3 Participants			5	10	5
Year 4 Participants				5	10
Year 5 Participants					5
Total Savings	5	10	15	25	30
Federal Savings	5	10	15	25	30
State Savings	0	0	0	0	0
Total Welfare Savings					
Year 1 Participants	30	70	65	60	50
Year 2 Participants		30	70	65	60
Year 3 Participants			30	80	70
Year 4 Participants				35	80
Year 5 Participants					35
Total Savings	30	100	165	240	295
Federal Savings	18	60	100	145	175
State Savings	12	40	65	95	120
	Number of Families Off AFDC				
Year 1 Participants	3,000	9,000	8,000	7,000	6,000
Year 2 Participants		3,000	9,000	8,000	7,000
Year 3 Participants			3,000	9,000	8,000
Year 4 Participants				3,000	9,000
Year 5 Participants					3,000
Total Families Off	3,000	12,000	20,000	27,000	33,000

SOURCE: Congressional Budget Office estimates.

things being equal. In the CBO estimates, the welfare effects for the five states were simply averaged because the average of their AFDC benefit levels approximately equaled average AFDC benefit levels in the United States.

State Responses to JOBS. The JOBS program combines both a carrot and a stick approach in attempting to raise spending on AFDC work-related programs. On the one hand, the program raises federal match rates above those under the law prior to JOBS, inducing states to spend more. On the other hand, the program sets participation rate requirements that states must meet or be penalized. How states respond to these program changes will determine future spending on work-related programs, but the nature of their responses is uncertain.[8]

Under JOBS, the federal match rate will rise significantly--from 50 percent for work-related program spending under AFDC, and from zero for most education and training program spending--to the federal AFDC benefit match rate, with a floor of 60 percent for most spending. By CBO's estimates, the average match rate under JOBS, excluding the small amount of funds matched at 90 percent, will be 59 percent. This rate includes an estimated 62 percent for most JOBS spending and 50 percent for the estimated 25 percent of spending not covered by the higher match rate. At the 59 percent federal match rate, states will save an estimated $25 million a year beginning in 1991 from projected spending levels on work-related programs under AFDC, and an estimated $140 million to $185 million a year from projected spending levels on education and training for AFDC recipients.

These savings will not be spread evenly among the states. A small number of states with large work programs, especially in education and training, will be the main beneficiaries of the increased federal match rate. A few states that spend only WIN monies on work-related programs will have no savings from the higher match rate, and many others that spend little on work programs will have smaller savings.

What will states do with these savings? In particular, to what extent will the savings be used for AFDC work-related programs? Under JOBS, states will have to maintain their spending at 1987 levels. For remaining spending, CBO assumed that states will put one-half of their savings back into the JOBS program. One-half is obviously a midpoint

[8] Moreover, the CBO estimate ignored many of the other important changes required by the JOBS program that may affect state programs, such as targeting certain groups of recipients and the performance standards yet to be developed.

between the extremes of putting all or none of their savings back into JOBS. Moreover, it is consistent with the findings of a study on how states reacted to a change in federal match rates on AFDC benefit levels.[9]

The more of their savings states put into JOBS, the higher will be federal and total spending increases resulting from JOBS. Over the 1989-1993 period, federal gross costs will be $1.0 billion if the states put none of their savings back into JOBS other than what the maintenance-of-effort provision requires, $1.4 billion if they put one-half back as CBO assumed, and $1.9 billion if they put all of their savings back. Total gross costs (federal plus state) will vary even more depending on states' responses: $0.5 billion if no savings are put back into JOBS, $1.2 billion if one-half are put back, and $1.9 billion if all are put back. In the first case, states will save $0.6 billion and in the second $0.3 billion. Net costs, after welfare savings, will not be as sensitive because the more total spending increases, the higher welfare savings will be, offsetting some of the higher costs.

States will have less leeway in meeting the participation rate requirement. Nonetheless, states will decide whether to emphasize job search, CWEP, or education and training programs, and the different types of programs may vary considerably in cost for a participant month. Because the states most affected by the participation rate requirement are precisely the states that have chosen not to spend much on work-related programs currently, they may well choose to minimize costs per participant. The higher the participation rate requirement, the greater is the likelihood that states will choose the minimum cost route.

States may also choose not to meet the general requirement. In this case, their federal match rate for the JOBS program is reduced to 50 percent. But states may still minimize their spending by following this strategy. For example, suppose that a state currently spending $10 million a year on work-related programs for AFDC recipients is now required to increase spending by $10 million to a total of $20 million to meet the participation rate requirement. If the state's match rate for JOBS is 40 percent, its cost will be $8 million ($20 million times 0.4). But if it chooses to take the reduced federal match rate for not meeting the requirement, its cost will be only $5 million ($10 million times 0.5). Only if a state's match rate is less than 25 percent will it save money by meeting the participation rate requirement <u>under this example</u>, and only one state has such a low match rate in 1989. The larger the increase in spending above current law required by the participation targets, the more the state can save by taking the reduced match rate. Of course, in doing so, the state does forgo the opportunity to increase resources for work-related programs.

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[9] Edward M. Gramlich and Deborah S. Laren, "Migration and Income Redistribution Responsibilities," <u>The Journal of Human Resources</u>, vol. 19 (Fall 1984), pp. 489-511.

How states respond to the carrot and stick of JOBS is another source of uncertainty in estimating the costs and effects of the program. There are, however, offsetting effects of the incentive from the increased federal match rate and the participation requirement. The less states are induced to spend on work-related programs as a result of the increase in the federal match rate, the more they are required to spend to meet the participation rate requirement.

Estimating Methodology

These three critical sets of estimates were combined and added to other estimates to generate the costs and effects of the JOBS program. The three major components of the program--the general program characterized by its changed match rates, the participation rate requirement, and the special participation rate requirement for AFDC-UP families--were estimated separately and are discussed separately below.

The costs of any one component depend on the order in which the estimates were undertaken. The estimates were done in the order in which they are discussed. If the participation rate requirement had been estimated first, its costs would have been higher than shown here.

General Program. As a result of the increased federal match rates, federal costs are estimated to rise, by $1.1 billion over the five-year period, and state costs to decline, by $0.5 billion over the same period (see Table 10). The general work program will account for two-thirds of the total net new costs from JOBS in 1993.

These estimates of the costs and effects of the general work program are driven by the states' responses to the increased federal match rate. In brief, given the estimates of spending on work-related programs prior to JOBS, the legislated change in the match rates determined how much states will save--that is, how much their current spending will be reduced. Then the assumptions about how much of these savings states will put back into work-related programs determined the increased spending on such programs. This increased spending was divided by the estimated cost per participant of the work-related programs, resulting in an estimate of the number of new program participants. Finally, the number of new participants determined the estimated welfare savings, given the estimates of welfare savings per participant.

Two additional aspects of the estimates are important: the effects of the entitlement caps and ancillary spending in areas such as child care and assessments of participants. Although the JOBS program will provide federal funds up to the entitlement caps specified in the act (excluding child care, which is not subject to the caps), CBO's estimated spending falls below those caps in every year. The estimated percentage of the capped amount that will be spent ranges from 59 percent to 64 percent during the 1990-1993 period, as shown in Table 11. In 1994 and 1995, the

TABLE 10. ESTIMATED COST AND SAVINGS OF THE GENERAL WORK PROGRAM (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
			Federal			
Gross Cost a/	38	267	417	393	323	1,437
Welfare Savings	-5	-25	-60	-115	-155	-360
Net Cost	33	242	357	277	167	1,076
			State			
Gross Cost or Savings a/	-4	-53	-88	-78	-64	-287
Welfare Savings	b/	-10	-45	-80	-105	-240
Net Cost	-4	-63	-133	-158	-169	-527
			Total			
Gross Cost a/	33	214	329	315	259	1,151
Welfare Savings	-5	-35	-105	-195	-260	-600
Net Cost	28	179	224	119	-2	549

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers. Details may not add to totals because of rounding.

a. Costs are in addition to spending on AFDC work-related programs prior to the JOBS program.

b. Less than $500,000.

required participation rate will rise to 15 percent and then to 20 percent, raising spending, while the entitlement cap will rise to $1.1 billion and then to $1.3 billion. Based on CBO's estimates, spending in these years will also be substantially below the caps.

Even though aggregate spending is projected to fall below the caps, spending will be constrained by the caps because some states will receive less under the allocation formula applied to the caps than they would have received under an open-ended entitlement. Based on CBO's estimates of spending prior to JOBS, the allocation formula will reduce federal funds available to certain states by about $335 million over the 1989-1993 period, primarily in 1990 and 1991. About 80 percent of the reduced state funds were estimated to be California's, although the state is not projected to lose funds after 1991.

TABLE 11. ESTIMATED FEDERAL SPENDING AS A PERCENT OF ENTITLEMENT CAPS (By fiscal year)

	1989	1990	1991	1992	1993
Entitlement Caps a/ (Millions of dollars)	75	536	1,000	1,000	1,000
Gross Federal Spending Subject to Caps b/ (Millions of dollars)	50	345	600	635	590
Spending as a Percent of Caps	67	64	60	64	59

SOURCE: Congressional Budget Office projections.

a. In 1989 and 1990, the entitlement caps in the act are $600 million and $800 million, respectively. States may join the JOBS program before 1991. The caps will be reduced to allow for only those states actually in JOBS. The CBO assumed that 12.5 percent of spending in 1989 and 67 percent in 1990 will be covered under JOBS, and multiplied the entitlement caps by these percentages.

b. Spending subject to the caps is gross federal spending under JOBS, excluding child care expenses.

A second adjustment was made in the estimates to account for certain types of spending required under JOBS. State agencies must make initial assessments of the educational and supportive services needs of participants, as well as of their skills and prior work experience. They must also develop employability plans for participants, and may require participants to negotiate and enter into agreements with them. Based largely on data from California's GAIN program, the cost of these requirements was estimated to average $235 per participant and total about $75 million to $100 million a year in additional federal and state costs beginning in 1991. Child care expenses for families with children under the age of six and other work expenses, not including transportation, were estimated to total about $30 million to $40 million a year. Child care for families with older children was already included in the base cost of work programs per participant discussed earlier. Spending on assessments, plans, and child care for families with young children was estimated separately because it is often not included in spending on current work programs. Thus, without this adjustment, the estimated numbers of new participants in work programs would have been too high.

The major uncertainties in the estimate of the general JOBS program have already been discussed. The most important of these is the uncertainty of how states will react to their reduced match rates. Further, estimates of spending on work programs prior to JOBS and estimates of any welfare savings from higher participation levels are subject to error.

Participation Rate Requirement. To meet the participation rate requirement, federal and state governments will be required to increase spending by an estimated total of $280 million over the 1989-1993 period (see Table 12). Not all states will be affected by the requirement, however, because some will already have surpassed their participation targets.

The effects of the participation rate requirement depend on the levels of participation in work-related programs before any requirement is imposed. That is, they depend on participation levels prior to JOBS and after the increases in participation that will be associated with the change in match rates under the general work program. They also depend on the state-by-state distribution of participation in work programs.

Because estimates of participation in work-related programs do not exist by state, the CBO estimates were based on spending on such programs by state. Estimates of state-by-state spending are available for spending on programs matched under AFDC from the Family Support Administration (FSA) and for spending on WIN. The FSA data were adjusted by CBO's estimates for California, Massachusetts, and New Jersey. This state distribution of spending was used to allocate by state both prior-law spending on education and training and increased spending resulting from the act's general work program. These calculations thus provided estimates of spending on work-related programs before the participation requirement.

TABLE 12. ESTIMATED COST AND SAVINGS OF PARTICIPATION RATE REQUIREMENT (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
			Federal			
Gross Cost a/	--	b/	50	120	135	305
Welfare Savings	--	b/	-5	-45	-90	-140
Net Cost	--	b/	45	75	45	165
			State			
Gross Cost or Savings a/	--	b/	35	80	95	210
Welfare Savings	--	b/	-5	-30	-60	-95
Net Cost	--	b/	30	50	35	115
			Total			
Gross Cost a/	--	b/	85	200	230	515
Welfare Savings	--	b/	-10	-75	-150	-235
Net Cost	--	b/	75	125	80	280

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers. Dashes (--) indicate that the requirement has not yet taken effect.

a. Costs are in addition to spending on AFDC work-related programs prior to the JOBS program.

b. Less than $500,000.

The second step was to estimate spending on work-related programs required by the participation rate targets. This was done by estimating a required number of participants by state, and a cost per program participant. The numbers of families receiving AFDC were estimated to rise from 3.8 million in 1991 to 4.0 million in 1995, and somewhat less than 50 percent of these families were estimated to be subject to the participation requirement. Families exempted from the requirement included about 38 percent whose youngest child was below the age of three. Of the remaining families, 8 percent were estimated to be exempt because they included no adults. As a percentage of each remaining group, 5 percent were estimated to be exempt because of health problems, 2 percent because they work 30 or more hours a week, and 10 percent because they live in geographic areas with no available program.[10] An estimated 55,000 children over the age of 16 and not in school were added to required participants. The resulting numbers of persons required to participate in work-related programs each month of the year were estimated to rise from 135,000 in 1991 to 400,000 in 1995 (see Table 13).[11]

In estimating a cost per participant, affected states were assumed to spend only two-thirds of the average that states now spend on participants either in a work-related program or in education or training. States required to meet the participation targets are likely to opt for less costly programs. Costs per participant were estimated to rise from $745 in 1991 to $870 in 1995. Even though these costs are well below estimated average costs of work programs, they are at least twice the 1991 costs per participant of the Arkansas and Illinois AFDC work programs. They are lower than average costs of work programs not only because of the two-thirds assumption but because most of the states affected by the participation requirement spend little on the more expensive education and training programs.

Because costs per participant were estimated to be lower than what states spend on other participants, welfare savings per participant were also estimated to be lower. The rule of keeping savings proportional to spending was followed, as it was in all of these work program estimates.

The number of states (including the District of Columbia) affected by the participation requirement is estimated to rise steadily from 26 in

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[10] The estimate did not allow for the fact that the act permits persons enrolled in education or training programs prior to participation in JOBS to be considered JOBS program participants. Such persons will thus lower the required number of new participants and the costs of the participation requirement. The number of such persons is not known, but one California program had 11 percent of its participants in this category. See Hamilton, Saturation Work Initiative Model, p. 12.

[11] The participation requirement actually begins in 1990, but no penalties are attached to a failure to meet the requirement. Thus, CBO's estimates show no effects of the requirement in 1990.

1991 to 42 in 1995, as shown in Table 13. Thus, about one-half of the states will be affected in the first year of the requirement, and over 80 percent by 1995 when the requirement hits 20 percent.

The number of new work program participants that results from the rate targets depends on the average length of time any single participant is in a work program. In its estimates, CBO has assumed that participants will be in programs an average of 3.3 months, the approximate length of time participants seem to spend in work programs now. With this assumption, the new participants will number 115,000 in 1991 under the 7 percent target, 260,000 in 1992 and 1993 under the 11 percent target, 450,000 in 1994 under the 15 percent target, and 700,000 in 1995 under the 20 percent target (see Table 13).

TABLE 13. EFFECTS OF PARTICIPATION RATE REQUIREMENT (By fiscal year)

	1991	1992	1993	1994	1995
Participation Rate (Percent)	7	11	11	15	20
Required Participants Each Month	135,000	210,000	215,000	295,000	400,000
Additional Participants in a Year a/	115,000	260,000	260,000	450,000	700,000
Number of Affected States	26	34	34	39	42

SOURCE: Congressional Budget Office projections.

NOTE: The participation requirement begins in 1990, but no penalties are attached to a failure to meet the requirement. Thus, CBO's estimates show no effects until 1991.

a. Additional participants are those resulting only from the participation requirement. The estimates assume that participants will be in a work program for 3.3 months of the year, so that over the course of the year there will be more total participants than those required to be in a program in each month of the year.

These estimated numbers of new participants exceed the number required to participate in every month, because the former counts all those who participate in a work program during the course of a year. In fact, the participation rate targets are more stringent than they appear because they must be met monthly. An example best illustrates this point. If a rate target required that 1,000 new persons participate in a work program every month, and if states kept each person in a work program for the entire year, then the number of new participants during the year would be 1,000. If states kept each person in a work program for three months rather than one year, the number of new participants during the year would have to total 4,000 in order to meet the target.

Another way of addressing the stringency of the participation rate requirement is to ask what the targets would have been if the same number of new participants were required but participation were measured sometime during the year rather than monthly. If the number of new required participants rose from 115,000 to 700,000 over the period, as discussed above, and participation were measured sometime during the year, then the target rates consistent with that measurement definition would have been 21 percent, 34 percent, 48 percent, and 65 percent rather than 7 percent to 20 percent.

These higher rates raise a question that has been of concern to some policymakers: Are they so high as to cause some states to lower their current spending per participant in order to reduce overall spending? This question cannot be answered at present, but some states that are already spending significant sums on work programs (though not the states spending the most) will have to spend much more in order to meet the targets, especially in 1994 and 1995.

The participation rate estimates are quite uncertain, for several reasons. First, states could choose not to meet the targets and take the reduced federal match rate, or they could overshoot the targets in attempting to meet them. Second, the amounts states will spend per work program participant could either raise or lower the cost. Third, the welfare savings are uncertain. Finally, the estimates of state-by-state distributions of spending on work-related programs are quite poor. Because some states fail to report spending on work programs at all, the costs of this provision may, on this count, be overestimated.

Moreover, CBO has assumed that states will have computerized data systems capable of measuring participation rates. Such measurements appear to be simple but, according to one study, require accurate data and considerable resources.[12] Without such data systems, measurements of participation rates will be subject to considerable error, and any penalties for not meeting the requirement could be difficult to impose.

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[12] Hamilton, Saturation Work Initiative Model, p. 16.

Participation Rate Requirement for AFDC-UP Families. Beginning in 1994, states will be required to place a substantial proportion of their AFDC-UP families in work-related programs. The Family Support Act created this work requirement as a companion measure to its mandate that all states provide an AFDC-UP program. Only about one-half of states now do so. Appendix A discusses the AFDC-UP mandate provision.

Because the participation requirement for AFDC-UP families begins in 1994, after CBO's estimating period, only rough estimates could be done of this provision. In general, the estimates were done using 1993 dollars and 1993 recipiency levels. Table 14 shows these rough estimates for the 1994-1998 period. As the participation rate rises over this period from 40 percent to 75 percent, the number of additional participants is estimated to rise from 5,000 to 90,000. These participants are the result of the specific AFDC-UP participation requirement, and are in addition to any AFDC-UP recipients already participating in JOBS.

The estimates shown in the table were based on the assumption that participants will be in a work program all year (except for those only on AFDC for six months in the newly mandated states that choose to limit participation). To the extent that states are able to meet the requirement by keeping participants in work-related programs for less time, they will probably do so. Then the number of participants will be much higher. For example, if participants were in work programs for an average of 3.3 months, much like now, additional participants would number 25,000 in 1994 and 335,000 in 1998. Although turnover in the AFDC-UP program is quite high, states would probably need work programs longer than 3.3 months by 1996 in order to meet the required participation rate of 60 percent.

These estimates of participants were based on estimates of the number of AFDC-UP families not exempt from participation and the number of families already participating in work-related programs. An estimated 200,000 families will be recipients of AFDC-UP in 1993 under law prior to the Family Support Act, and another estimated 70,000 will become recipients because of the act's provision that mandates the AFDC-UP program in all states. Of these families, 10 percent were assumed to be exempt from the requirements, primarily because they resided in an area of the state without any work program. About 90,000 families on average each month were estimated to have a member in a work program prior to the requirement. Good data on the number of AFDC-UP recipients participating in work programs do not exist. The CBO estimate was based primarily on a GAO study, which reported that about 20 percent of AFDC work program participants in 1985 were AFDC-UP recipients.[13]

[13] General Accounting Office, Work and Welfare, p. 58. AFDC-UP families in the late 1990s will account for only about 7 percent of all AFDC families, so they represent a disproportionate share of work program participants.

TABLE 14. ESTIMATED COSTS AND PARTICIPANTS FROM THE AFDC-UP PARTICIPATION REQUIREMENT, 1994-1998 (By fiscal year)

	1994	1995	1996	1997	1998
Participation Rate (Percent)	40	50	60	75	75
Number of Additional Participants a/	5,000	30,000	55,000	90,000	90,000
	Cost and Savings (-) b/ (In millions of dollars)				
Federal					
Cost	3	20	30	55	55
Savings	-1	-5	-15	-35	-60
Net	2	15	15	20	-5
State					
Cost	2	10	25	35	35
Savings	c/	-5	-10	-25	-40
Net	2	5	15	10	-5
Total					
Cost	5	30	55	90	90
Savings	-1	-10	-25	-60	-100
Net	4	20	30	30	-10

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers.

a. These participants represent additions to persons participating in work programs before the AFDC-UP requirement. Estimates are based on 1993 estimated numbers of AFDC-UP recipients. They assume no overlaps with the general participation requirement.

b. Costs are in 1993 dollars. Savings are based on 1989-1993 program benefit levels.

c. Less than $500,000.

To calculate costs, CBO estimated a per-participant cost of $1,020 (1993 dollars), based primarily on costs in West Virginia of a full-time CWEP requirement for AFDC-UP families.[14] Reported costs had to be adjusted in several ways: reduced to convert them to annual costs, increased to convert them to costs per participant, increased to allow for registration costs and higher wage levels in other states, and inflated from 1984 to 1993 dollars. A cost for transportation stipends was estimated independently at $3 per day of participation.

Based on this cost per participant and the numbers of additional participants, CBO estimated aggregate costs (see Table 14). Total costs (federal plus state) are estimated to rise from $5 million in 1994 to $90 million in 1998. By 1998, savings are estimated to total $100 million, providing net savings of $10 million. As before, savings were kept proportional to spending per participant, and were thus lower for each participant than for the general work program. The potential size of any savings for AFDC-UP recipients in a long-term program is discussed further below.

The costs and effects of the AFDC-UP participation requirement shown in Table 14 do not account for any interactions with the general participation requirement. States will, in fact, probably meet both requirements at the same time, by using AFDC-UP recipients to meet the general requirement as well as the specific one. Such an approach will minimize states' costs resulting from the participation requirements. As a result, there should be no additional work program participants, costs, or savings in 1994 and 1995 when both the general and the AFDC-UP requirements are in effect. Moreover, if the performance standards include a participation requirement that could be satisfied with AFDC-UP recipients, no additional participants, costs, or savings would probably result from the specific AFDC-UP requirement during the period 1996 to 1998.

Many factors make these estimates uncertain: how states will mesh the general and specific participation rate requirements, what costs per participant will be, and how many AFDC-UP recipients already participate in work programs. In addition, three other factors are important. First, the numbers of families receiving AFDC-UP are very sensitive to the unemployment rate. Recipient families have been falling steadily since fiscal year 1984, when they numbered 287,000, along with the decline in the unemployment rate. If the unemployment rate were to rise significantly, the participation rate requirement would be harder to meet because more families would be eligible and costs would be higher.

Second, participation rates of 75 percent, or even 60 percent, might not be achievable. In two work programs with high goals for participation rates studied by MDRC, actual participation rates fell below target levels. In the San Diego Saturation Work Initiative Model (SWIM), average

[14] Friedlander and others, West Virginia: Final Report.

monthly participation rates were about 50 percent.[15] In the West Virginia program, average monthly participation rates for AFDC-UP families over a 13-month period were 60 percent; average participation in one month peaked at 69 percent.[16] Moreover, MDRC analysts have noted that other areas might not be able to achieve even these participation levels, because both areas had considerable experience with work programs.

Third, work programs for AFDC-UP parents could, in principle, yield savings that are either larger or smaller than would be obtained from programs targeted on the regular AFDC caseload, which are the basis of CBO's savings estimates. On the one hand, average monthly benefit levels are generally higher for AFDC-UP families. On the other hand, AFDC-UP cases tend to be of shorter duration. Similarly, enforcement of a requirement of unlimited duration could yield savings that are either larger or smaller than would result from shorter work-related programs. Very little useful information is available for addressing these issues, and what is available is inconclusive. The West Virginia program for AFDC-UP recipients did achieve substantial caseload reductions.[17] The Baltimore Options demonstration, which included only 337 cases, found no significant welfare savings for AFDC-UP families.[18] The evaluation of the San Diego demonstration did find significant welfare reductions for AFDC-UP families, and the estimated impacts were larger than the corresponding estimates for single-parent AFDC families.[19] The evaluation of SWIM indicated that the welfare savings for the AFDC-UP group were similar to those estimated for the entire AFDC group, but fewer of the AFDC-UP group left AFDC.[20]

Although many uncertainties exist in the estimates for all segments of the JOBS program, it is clear that the additional dollars and the new participation requirements will sharply increase activity in AFDC work-related programs from previous levels. As a result, the numbers of participants in work-related programs will rise significantly, resulting in welfare savings. Based on the experience of AFDC work-related programs to date, however, any savings will be modest. Nonetheless, with the work experience, increased education, or training, some additional families will be able to leave AFDC, and the new child care and Medicaid transition programs may increase those families' chances of escaping welfare.

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[15] Hamilton, Saturation Work Initiative Model, pp. 3-4.

[16] Friedlander and others, West Virginia: Final Report, pp. 159 and 160.

[17] Friedlander and others, West Virginia: Final Report, p. 190.

[18] Friedlander and others, Maryland: Final Report, p. 141.

[19] Goldman and others, California: Final Report, pp. 54 and 102.

[20] Hamilton, Saturation Work Initiative Model, pp. 18-19.

Section 302 of the Family Support Act requires states to provide child care assistance for 12 months to families who leave the AFDC program because of increased earnings or loss of earnings disregards. Families will contribute to the cost of such care based on their ability to pay. This assistance is intended to help families make the transition from welfare dependency to self-supporting employment. Until now, most states either have provided no transitional assistance or have provided limited assistance to families acquiring jobs through work-related programs.

Under the act, states can provide child care directly, provide vouchers, reimburse the family, or use other appropriate funding mechanisms. Reimbursements are limited to actual costs, up to local market rates. States may set payment maximums below market rates, provided such maximums are at least $175 per month for each child two years of age or older, and $200 per month for each child under age two. States must establish schedules for family copayments, which are to vary according to the family's ability to pay. The program is an uncapped entitlement, and the federal government matches state spending at the AFDC benefit match rate. The transitional child care amendments are effective on April 1, 1990, and are repealed on September 30, 1998. Table 15 summarizes major elements of the transitional child care program.

Costs and Effects

Federal costs for transitional child care assistance are estimated to rise from $25 million in 1990 to $260 million in 1993, totaling $735 million over the five-year period 1989 through 1993 (see Table 16). State costs are estimated to rise from $15 million in 1990 to $150 million in 1993. In total, the Family Support Act is estimated to increase spending on transitional child care assistance by $410 million in 1993. These costs are in addition to an estimated $50 million to $60 million in state spending that would have occurred in the absence of any federal legislation.

An estimated 280,000 children per month are expected to receive transitional child care assistance beginning in 1991 (see Table 17). The majority of these children will be under six years of age. Fewer than half of the children eligible for transitional care subsidies are expected to participate, reducing potential program costs. The remaining children will continue to be placed in informal and unpaid child care arrangements.

Another factor limiting program costs is that average costs per child are estimated to be lower than market rates for full-time licensed care. Monthly costs are estimated to average $123 in 1990, and rise by 4.4 percent annually, reaching $140 in 1993, as shown in Table 17. Average costs were reduced to reflect lower costs for part-time care, subsidized care, and care by relatives and unlicensed providers. Costs were also reduced to reflect funding limitations set by state governments,

TABLE 15. IMPORTANT ELEMENTS OF THE TRANSITIONAL CHILD CARE PROGRAM

FUNDING PROVISIONS	Uncapped entitlement at AFDC benefit match rate (50 percent to 80 percent).
ELIGIBILITY	Families who leave AFDC because of increased earnings, hours of work, or loss of the earnings disregards. Families must have received AFDC in at least three of the preceding six months. No income limits.
BENEFITS	Direct child care services, vouchers, cash, reimbursements, or other arrangements adopted by state agency. Care must meet state and local standards. Last for 12 months.
MAXIMUM PAYMENTS	Reimbursements are limited to actual costs, up to local market rates. States may set payment maximums below market rates. These caps may not be less than the AFDC child care disregards of $175 a month for children two years and older and $200 a month for children under age two unless local market rates are lower than these levels.
FAMILY COPAYMENTS	Vary with family's ability to pay as determined by states in sliding scale formulas.
EFFECTIVE DATES	Program begins April 1, 1990. Program ends September 30, 1998.

SOURCE: Congressional Budget Office.

including maximum payment levels and family copayments. Many uncertainties surround these estimates, which are discussed in detail in the following section.

Estimating Methodology

Costs of the transitional child care program are based on the number of participating children and on average monthly costs. The number of participating children is estimated by applying an estimated participation rate to the number of eligible children. Monthly costs are child care costs less family copayments. The federal share of total program costs averages approximately 55 percent across states, and the state share averages about 45 percent. State costs are reduced by estimated spending on existing state-funded transitional child care programs. Costs are lower in 1990 and 1991 because the program begins April 1, 1990, and families are assumed to enter the program over a 12-month period.

TABLE 16. ESTIMATED COST OF TRANSITIONAL CHILD CARE ASSISTANCE (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
Federal	--	25	205	245	260	735
State	--	15	120	145	150	430
Total	--	40	325	390	410	1,165

SOURCE: Congressional Budget Office projections.

TABLE 17. ESTIMATED NUMBER OF PARTICIPATING CHILDREN AND MONTHLY COSTS (By fiscal year)

	1989	1990	1991	1992	1993
Participating Children	--	140,000	280,000	280,000	280,000
Average Monthly Costs (Dollars)	--	123	129	134	140
Costs of Transitional Program (Millions of dollars) a/	--	50	370	445	470

SOURCE: Congressional Budget Office projections.

a. Costs are higher than those in Table 16 because these costs include state spending under prior law. For example, the $470 million total in 1993 includes $410 million in spending resulting from the Family Support Act and $60 million in state spending that would have occurred under prior law. Costs in both tables were reduced in 1990 and 1991 to reflect the effect of the April 1, 1990, starting date.

Eligible Children. Eligibility is restricted to families who leave the AFDC program because of increased earnings, hours of work, or loss of the earnings disregards.[21] Although many families leaving AFDC have some earnings, the principal reason for leaving welfare is often the marriage of the female head of household, or another change in family composition. One study estimated that only 20 percent to 40 percent of the families who left AFDC did so because of increased family earnings.[22]

Based on this research and on AFDC program statistics, CBO estimated that one-fourth of the 1.9 million families leaving AFDC annually do so because of increased earnings or loss of the earnings disregards. Families returning to welfare shortly after leaving were removed from the

[21] Earnings disregards are subtracted from an AFDC family's earnings when determining eligibility and benefits. The $30 disregard is limited to 12 months, and the one-third disregard is limited to 4 months. When these disregards end, a family's countable income rises and the family may become ineligible for AFDC benefits.

[22] David Ellwood, "Working Off of Welfare: Prospects and Policies for Self-Sufficiency of Women Heading Families," Institute for Research on Poverty, Discussion Paper No. 803-86, March 1986.

TABLE 18. ELIGIBLE AND PARTICIPATING CHILDREN, 1993

	Children Under Age 6	Children Aged 6-14	Total Children Under Age 15
Eligible Children	300,000	480,000	790,000
Participation Rate (Percent)	68	16	36
Participating Children	210,000	80,000	280,000

SOURCE: Congressional Budget Office projections.

NOTE: Details may not add to totals because of rounding.

eligible population, and families leaving because of work programs were added. After these adjustments, a total of 470,000 families with 790,000 children under age 15 were estimated to be eligible for transitional child care assistance (see Table 18).[23]

Approximately 300,000, or fewer than 40 percent, of the 790,000 eligible children were estimated to be children under age six with greater child care needs than school-age children. AFDC caseload statistics report a higher percentage of children under age six, but CBO assumed that families working their way off AFDC have fewer young children than families remaining on AFDC. CBO also assumed that a high proportion of families leaving welfare as a result of work-related programs will have school-age children, following the patterns of existing work-related programs.

The dynamics of how families move on and off welfare are not well understood. Most existing studies of families who leave welfare are based on data from the 1960s and 1970s. Transitions between welfare and work may be different today because of different economic conditions, increases in work-related programs, and legislative changes such as those made in the 1981 Omnibus Reconciliation Act. The Family Support Act may lead to further changes in welfare. Policymakers hope that transitional child care and Medicaid assistance will help vulnerable families keep jobs longer, and thus reduce movements on and off the welfare system. Some fear, however, that flows on and off welfare will increase, as some

[23] The law does not limit eligibility to children under age 15, but CBO assumed that older children do not require child care assistance.

families apply (or reapply) for AFDC benefits for short intervals, in order to qualify for transitional benefits. Unfortunately, the evidence is not sufficient to quantify the effect of these potential behavioral changes on the number of eligible families.

Participation Rate. Only 36 percent of the eligible children are expected to receive government-paid child care assistance. This participation rate was based on a CBO estimate that 36 percent of children of single working mothers will be in paid child care arrangements in 1993. The remaining 64 percent are assumed to be in informal and unpaid child care arrangements. Estimated participation rates are much higher for children under six than for school-age children (see Table 18). Thus, although younger children account for less than 40 percent of the eligible children, they account for nearly three-fourths of participating children.

Estimates of how many single mothers use paid child care arrangements were based on CBO analyses of three Census Bureau surveys.[24] Arrangements are quite different for young children and school-age children (see Table 19). By 1993, 60 percent of the young children are expected to be cared for by persons not related to them (non-relatives), and 35 percent by relatives outside the immediate family, leaving only 5 percent in other arrangements, including care by the schools, siblings, parents, or the children themselves. In contrast, one-fourth of the school-age children are expected to be in care by non-relatives or relatives, with the remaining three-fourths cared for in other arrangements. These projections are based on arrangements used by single working mothers in the early 1980s, adjusted to reflect a gradual shift over time toward greater use of care by non-relatives.

These differences in care arrangements translate into differences in the use of paid care. Families using care by non-relatives such as child care centers and family day care providers pay for that care nearly 90 percent of the time; families using relatives pay for that care 45 percent of the time. Families were assumed to make no payments for care by parents, siblings, the child, and the schools. Combining this information with the percentage of children in each type of care, CBO estimated that 68 percent of young children and 16 percent of school-age children will be in paid child care arrangements in 1993.

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[24] Bureau of the Census, "Who's Minding the Kids: Winter 1984-85," ser. P-70, no.9; "After-School Care of School-Age Children: December 1984," ser. P-23, no. 149; and "Child Care Arrangements of Working Mothers: June 1982," ser. P-23, no. 129.

TABLE 19. CHILD CARE ARRANGEMENTS USED BY SINGLE WORKING MOTHERS, 1993 (In percent)

	Children Under Age 6	Children Aged 6-14
Care by Non-Relatives	60	13
Care by Relatives	35	12
Care by Schools, Siblings, Parents, Self	5	75
Total	100	100

SOURCE: Congressional Budget Office projections.

All families paying for child care were assumed to participate in the new transitional program; families using unpaid child care were not.[25] The overall participation rate is expected to rise gradually from 35 percent in 1990 to 36 percent in 1993, following historical trends in the use of paid care. If the new subsidies cause a greater demand for paid care, the participation rate estimate, and hence the cost estimates, would be low. However, there is surprisingly little evidence of such a shift in states currently offering similar subsidies. On the other hand, if families with paid child care costs do not apply for government assistance, the cost estimate would be high.

Child Care Costs. Child care costs for children under age 15 are estimated to average $159 per month in 1988 dollars. Cost estimates vary by the age of the child, decreasing from $180 for infants (under age 2) to $169 for preschoolers (2 through 5) to $118 for school-age children (6 through 14).

In estimating a national average monthly cost, CBO used an assortment of cost data from provider surveys, household surveys, state regulations on Title XX maximum payments, and state budgets. (Selected data on

[25] Some families who do not report paying for child care are probably receiving subsidized care. Likewise, some families who do not participate in the transitional program may use Title XX or other subsidized care. Thus total government spending on child care for families leaving AFDC may exceed the transitional program costs shown in Table 17.

monthly child care costs are shown in Table 20.) Estimates from several state work programs were averaged with national estimates based on Census Bureau data and Title XX maximums. All figures were inflated to 1988 dollars. This process resulted in the average cost of $169 for preschoolers. Infant care costs were then estimated as 7 percent higher than costs for preschoolers, and costs for school-aged children were estimated as 70 percent of preschool costs, assuming that children in school require nine months of part-time (20 hours per week) care and three months of full-time care.

These costs may seem low compared with commonly quoted market rates of $250 per month and higher. Surveys of child care providers in three states, however, suggest that average market rates may be lower than the levels frequently quoted in personal and media stories. Local average market rates for center care for preschool children, for instance, range from $147 to $221 in North Carolina, from $223 to $340 in Minnesota, and from $161 to $387 in California (whose rates are believed to be among the highest in the country). Generally, costs seem to be lower in rural counties than in urban ones, and lower for family day care homes than for child care centers.

States differ, moreover, in how they use local market rates to limit assistance. North Carolina, for instance, caps publicly funded child care assistance at the mean county rates; Minnesota at 110 percent to 125 percent of the service delivery area median rates; and California at 1.5 standard deviations above the mean county rates. Under the Family Support Act, reimbursements cannot be higher than applicable local market rates as determined by the states in accordance with regulations to be issued by the federal government. States have the further option of capping reimbursements below market rates, as long as the caps are above certain minimums established by the act.

Anecdotal evidence suggests that Title XX child care rates are often set below market rates by states trying to serve as many children as possible without increasing state expenditures. In 1987, the median state limited Title XX subsidies for preschool care to a maximum of $192 per month for both family day care homes and child care centers. CBO assumed that states will generally use their Title XX maximum payment levels for transitional subsidies. Some states will have to set higher caps for transitional care (or raise their Title XX caps), however, because the caps for transitional care may not be less than the AFDC child care disregards of $175 for children age two years and over and $200 for children under age two unless local market rates are lower than these levels.

Rates for full-time, licensed care reflect only part of the market for child care. Average costs fall when part-time care, care by relatives, subsidized care, and unlicensed care are included. The Census Bureau reported that the median cost of paid child care among employed women was $169 monthly for one child under age 15. Single women

TABLE 20. SELECTED DATA ON MONTHLY CHILD CARE COSTS, BY TYPE OF CARE (In dollars)

	Family Day Care Home	Center	Any Paid Care a/
	Local Market Rates in Three States b/		
North Carolina	n.a.	147 to 221	n.a.
Minnesota	194 to 280	223 to 340	n.a.
California	184 to 405	161 to 387	n.a.
	Title XX Maximum Payment Levels c/		
Lowest (Alabama)	95	140	n.a.
25th Percentile (New Mexico)	163	163	n.a.
Median (Virginia)	192	192	n.a.
75th Percentile (Vermont)	198	274	n.a.
Highest (Massachusetts)	390	449	n.a.
Weighted Average d/	250	273	n.a.
	Child Care Costs Paid by All Employed Mothers e/		
Median Costs for Child Aged 0-14	177	187	169
Median Costs for Child Aged 0-14, Paid by Single Mothers	n.a.	n.a.	158
	Child Care Costs for AFDC Work-Related Programs		
Michigan Special Needs Payments to Employed AFDC Mothers f/	53	82	54
New York Education and Training Program Child Care Allowances g/	n.a.	n.a.	234
Massachusetts ET Program Vouchers h/	n.a.	n.a.	270

SOURCE: Congressional Budget Office compilation of data from various sources.

NOTE: All figures were converted to monthly costs, assuming 9 hours per day, 5 days per week, and 4.3 weeks per month of care.

n.a. = not available.

a. Includes care by relatives and baby-sitters, as well as centers and family day care homes. Also includes part-time care.

b. Lowest and highest mean or median rates, by county, for full-time care for preschool-age children. North Carolina Department of Human Resources, "1988 County Market Rates." Minnesota Department of Human Services, "Median Provider Rates State Fiscal Year 1987 Updates." California Child Care Resource and Referral Network, "California Inventory of Child Care Facilities," February 1987.

c. Maximum payment levels for full-time care for preschool-age children in 1987. States were ranked by the sum of rates for both centers and family day care homes. Compiled from information in Children's Defense Fund, "State Child Care Fact Book 1987" (Washington, D.C.).

d. State AFDC caseloads were used as weights when averaging. The average is higher than the median because larger states tend to have higher maximums. The four states with the highest maximums (Massachusetts, California, New York, and Ohio) account for nearly one third of the AFDC caseload.

e. Median rates for employed mothers with one child paying non-zero amounts, 1984-1985. Census Bureau, "Who's Minding the Kids: Winter 1984-85," ser. P-70, no. 9.

f. Stephen Smucker, Michigan Department of Social Services, "Cost of Day Care in FY82: Savings of the Transfer to IV-A."

g. New York Department of Social Services and Department of Labor, "Report to the Governor and the Legislature on Employment Programs for Public Assistance Recipients, 1986."

h. Massachusetts Department of Public Welfare, "The Massachusetts Employment and Training Choices Program: Program Plan and Budget Request, FY88."

generally used less expensive care, paying a median rate of $158 monthly. Costs to single employed women were assumed to be a better measure of transitional care costs than costs to all employed women.

Costs for publicly funded child care can be strongly affected by the funding mechanisms and service delivery systems used in states and counties. In the Massachusetts Employment and Training (ET) Choices program, child care costs are fairly high: $270 per voucher per month was budgeted for 1988. State officials discourage the use of informal baby-sitters, do not pay for care by relatives, and have worked to expand the supply of child care centers and family day care homes. California's GAIN work program also places a high priority on child care assistance, requiring that participants be offered the choice of at least two providers, and paying up to local area market rates. Furthermore, the GAIN program was enacted in conjunction with legislation to expand the supply of after-school child care services. However, some advocates have charged that local GAIN officials have encouraged care by relatives and license-exempt providers in order to limit costs.[26]

The ability of state agencies to control costs is evident in a Michigan study comparing child care spending for employed AFDC recipients in 1981 and 1982.[27] Costs fell from $79 per child to $54 per child when the state shifted from providing care directly through the Title XX system to reimbursing mothers up to $160 per child per month for care arranged and purchased privately. The flexibility that states have in setting caps, selecting funding mechanisms, and regulating and licensing child care providers is expected to result in significant variations among states in average costs for transitional child care.

Many sources of uncertainty affect child care cost estimates. Cost variations among states and counties make it difficult to determine a nationally representative cost. The mix of infants, preschool-age, and school-age children in families leaving welfare is uncertain, as is the need for part-time as opposed to full-time care. Costs will also depend on whether families choose centers, family day care homes, baby-sitters,

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[26] Heidi Strassburger, "California's GAIN Program Falls Short in Meeting Child Care Needs," Youth Law News (May-June 1987).

[27] Stephen Smucker, "Cost of Day Care in FY 82: Savings of the Transfer to IVA" (Office of Planning, Budget and Evaluation, Michigan Department of Social Services, March 1982).

TABLE 21. AVERAGE MONTHLY CHILD CARE COSTS AND COPAYMENTS
(By fiscal year, in dollars)

	1988	1989	1990	1991	1992	1993
Average Costs	159	167	175	182	190	199
Monthly Copayments	-47	-49	-52	-54	-56	-58
Net Costs	112	117	123	129	134	140

SOURCE: Congressional Budget Office projections.

NOTE: Details may not add to totals because of rounding.

or relatives, and on whether they use licensed or unlicensed providers.[28] Parental choices will be significantly influenced by state regulations and local practices for implementing the transitional assistance program, and also by the general availability of child care in local areas. Child care proposals such as the federal Act for Better Child Care (ABC) bill, or various state initiatives, could lead to higher or lower costs for the transitional program by changing the overall supply and demand for child care.

Family Copayments. Average costs were reduced by monthly copayments averaging $47 per month in 1988 dollars, as shown in Table 21. Subtracting the $47 average copayment from the $159 average child care cost results in an estimated net monthly cost of $112. Net monthly costs were estimated to rise to $140 by 1993, based on CBO projections for price inflation. The copayment estimates are quite uncertain, reflecting scanty earnings and income data for former AFDC recipients and large variations in state copayment schedules under Title XX.

[28] The act states that child care must meet applicable standards of state and local law. Relatives, baby-sitters, and small family day care homes are exempt from licensing standards in many states, and so not all child care funded under the transitional program will be provided by licensed providers. The Family Support Act does authorize $13 million in grants to states in 1990 and 1991 to improve child care licensing and registration requirements, and to monitor child care provided to AFDC children.

Women leaving AFDC because of earnings increases were estimated to have mean earnings of $750 monthly and mean family incomes of $970 monthly in 1988 dollars. These means were based on an estimated income distribution formed from earnings data of former AFDC recipients and wage rates from AFDC employment programs.[29] Family income was increased to allow for unearned income and earnings of other family members. Adjustments were also made for wage inflation and state-by-state estimates of income levels at which AFDC eligibility ends.

Copayments for Title XX child care subsidies tend to vary by family income, family size, age of child, hours in care, and number of children in care. Copayments also vary significantly among states. CBO analyzed the relationship between family income and copayments in a dozen states for a hypothetical family of three with one preschool child in full-time care. At the $970 monthly income level, such a family would pay no fee in California and the District of Columbia, $41 in Maryland, $73 in Kentucky, $103 in Oklahoma, and the full cost of care in Alabama. Costs for a second child in care varied from no cost to full cost. CBO estimated a national average copayment of $65 for one preschool child in care, under the income distribution assumptions for families leaving AFDC because of earnings increases. The reduction to $47 for all participating children reflects lower fees for school-age children receiving part-time care, as well as lower fees for a second or third child in care.

Costs of the transitional child care program are uncertain and depend in large measure on the future behavior of state agencies and welfare families. The Family Support Act has created a new entitlement program, guaranteeing child care benefits to a large number of families leaving the AFDC program. This assistance, combined with the Medicaid transition program described in the next section, is intended to enhance a family's chances of successfully making the transition from welfare to work.

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[29] Ellwood, "Working Off of Welfare"; General Accounting Office, Work and Welfare, Analysis of AFDC Employment Programs in Four States (January 1988); and General Accounting Office, Work and Welfare.

A family's need to ensure the continuation of its health care benefits may be an important factor in the decision of an AFDC beneficiary to seek or accept employment. Under previous law, an AFDC beneficiary who lost eligibility because of increased earnings also often lost Medicaid eligibility within as little as four months of leaving AFDC. Families who could not replace the lost Medicaid benefits with other basic health coverage may have had an incentive to stay on AFDC in order to maintain their Medicaid eligibility. Section 303 of the Family Support Act is designed to weaken the importance of this incentive.

The transitional Medicaid provision requires states to provide extended Medicaid eligibility for a minimum of 12 months to all AFDC beneficiaries who lose eligibility because of increased hours of work, increased earnings, or loss of the earnings disregards. Within these guidelines, states have considerable flexibility in designing benefit plans for covering those eligible for the extended benefits. As a condition of receiving extended benefits for the second six months, states may charge participants a premium. This premium cannot exceed 3 percent of a family's average gross monthly earnings. Moreover, participants are exempted from paying any premium if their average gross monthly earnings (less the average monthly cost of any child care required by the employment of the caretaker relative) are below the federal poverty thresholds. This program, like the transitional child care program, will begin on April 1, 1990, and end on September 30, 1998. Table 22 summarizes these and other important elements of the Medicaid transition provision.

Costs and Effects

Federal government costs for transitional Medicaid assistance are estimated to rise from $5 million in 1990 to $165 million in 1993, and will total $430 million over the five-year period 1989 to 1993 (see Table 23). State costs are estimated to rise from $5 million in 1990 to $135 million in 1993. These are net costs after allowing for the effects of premium charges.

Premium charges will reduce federal costs by an estimated $16 million in 1991 and $30 million a year in 1992 and 1993. This reduction includes both the federal government's share of any premium collections and the savings resulting from participants who drop out rather than pay the premium. For many states, the administrative costs of collection will be high enough to deter them from imposing the premiums. Therefore, the federal share of these premiums is expected to be a modest $2 million per year after 1990. The reduction of federal benefit costs in those states that do impose the premiums is estimated to be $14 million in 1991 and $28 million in 1992 and 1993.

TABLE 22. IMPORTANT ELEMENTS OF THE TRANSITIONAL MEDICAID PROGRAM

FUNDING PROVISIONS	Uncapped entitlement at Medicaid match rate (50 percent to 80 percent).
ELIGIBILITY	Families who leave AFDC because of increased earnings, hours of work, or loss of the earnings disregards. Families must have received AFDC in at least three of the preceding six months.
	Families whose average gross monthly earnings (less necessary child care expenses) are below 185 percent of the poverty thresholds.
BENEFITS	Last for 12 months.
	Second six months are contingent on payment of a premium, which is at state option.
PREMIUMS	States allowed to charge a premium after six months to families whose average gross monthly earnings (less necessary child care expenses) are above the poverty thresholds.
	Premiums limited to no more than 3 percent of a family's average gross monthly earnings.
EFFECTIVE DATES	Program begins April 1, 1990. Program ends September 30, 1998.

SOURCE: Congressional Budget Office.

These costs of the Family Support Act are in addition to spending on transitional Medicaid assistance under the prior law. When fully implemented, the new law will increase existing transitional Medicaid costs by about 60 percent (see Table 24). Under previous law, states were required to provide only four months of extended Medicaid benefits to families leaving AFDC because of an increase in earnings or in hours of work. An additional five months (totaling nine months) was mandatory for those who lost AFDC eligibility because of losing the $30 and one-third earnings disregards, as long as they otherwise remained eligible for AFDC. Provision of six more months of benefits (totaling 15 months) for these latter families was at state option. Moreover, some families leaving AFDC may continue to receive Medicaid indefinitely, on the basis of family characteristics, income, and medical expenses. Pregnant women, infants,

TABLE 23. ESTIMATED COST OF TRANSITIONAL MEDICAID ASSISTANCE (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
Federal	--	5	105	155	165	430
State	--	5	85	125	135	350
Total	--	10	190	280	300	780

SOURCE: Congressional Budget Office projections.

and children not on AFDC are eligible for Medicaid if they meet certain eligibility criteria. Also, families may receive Medicaid if they qualify as "medically needy," paying out-of-pocket for medical care until they have "spent down" their income into the eligible range.

Under the new law, the number of families that will receive the extended Medicaid benefits will vary before and after imposition of the premium. An estimated 445,000 families will participate during their first six months of receiving benefits in 1993, but the number is estimated to decline to 265,000 by their second six months as a result of the premiums (see Table 25). All of these families would have received some Medicaid under previous law, but usually for shorter periods and without having to pay any premium. The only group that clearly loses benefits is that small number of families who would have received 15 months of transitional assistance under previous law. Families that would have received nine months of assistance could also lose benefits, if they are charged premiums and choose not to pay them.

Estimating Methodology

The budgetary effect of Section 303 was estimated in two steps. The costs of providing the extended Medicaid benefits were estimated first, ignoring the effects of any premiums charged by the states. Then the effects of the premiums on revenues and participation were estimated. Benefit costs less the premium offsets provided the estimated costs of the Medicaid transition provision.

TABLE 24. SPENDING ON TRANSITIONAL MEDICAID ASSISTANCE BEFORE AND AFTER THE FAMILY SUPPORT ACT (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993
Spending After the Act					
Federal	--	45	350	425	455
State	--	35	280	340	365
Total	--	80	630	765	820
Spending Before the Act a/					
Federal	--	40	245	270	290
State	--	30	195	215	235
Total	--	70	440	485	525
Additional Cost of the Act					
Federal	--	5	105	155	165
State	--	5	85	125	135
Total	--	10	190	280	300

SOURCE: Congressional Budget Office projections.

Note: Details may not add to totals because of rounding.

a. The estimates for 1990 are for a partial year only to be consistent with the midyear enactment date of the Medicaid transition provision.

TABLE 25. ESTIMATED NUMBER OF FAMILIES PARTICIPATING IN TRANSITIONAL MEDICAID ASSISTANCE (By fiscal year)

	1989	1990	1991	1992	1993
Families Participating During Their First Six Months	--	200,000	440,000	440,000	445,000
Families Continuing Participation During Their Second Six Months	--	--	260,000	265,000	265,000
Average Number of Families Participating During Fiscal Year	--	200,000	350,000	355,000	355,000

SOURCE: Congressional Budget Office projections.

NOTE: These are all families receiving transitional assistance. All such families also received Medicaid under prior law but usually for shorter periods of time or only after a "spend-down" of their own funds if they were "medically needy."

Benefit Costs. Benefit costs are the full costs of providing the new benefits to participating families (before premium effects) minus the costs of providing the Medicaid benefits to those same participating families under previous law. Each of these costs was estimated separately.

The cost of providing transitional Medicaid assistance depends both on the number of eligible families and on whether they have private health insurance, either through their jobs or from some other source. An estimated 485,000 families will be eligible under the new law. This number includes those who now leave AFDC because of increased earnings, hours of work, or loss of the earnings disregards (an estimated 25 percent of the 1.9 million beneficiaries who leave AFDC every year),[30] as well as those expected to leave AFDC because of new work and training programs and because the AFDC-UP program is mandated in all states. The number is slightly higher than for transitional child care assistance (470,000 eligible families) because the new two-parent families in the expanded AFDC-UP program leaving AFDC were assumed to have no need for child care.

[30] Ellwood, "Working Off of Welfare."

An estimated 55 percent of the families leaving AFDC because of increased earnings will have health insurance.[31] Some families with health insurance will choose not to use Medicaid, even though they remain eligible, and the rest will have lower Medicaid costs because Medicaid will act as a secondary payer. Although no data exist on Medicaid costs for families with private health insurance, CBO assumed that their Medicaid costs will be just under 30 percent of "full" costs--that is, the costs incurred by families without private health insurance--and that 85 percent of these families will retain Medicaid, at least until the premium is due at the end of the first six months (see Tables 26 and 27).

For the 220,000 families without private health insurance, CBO assumed a participation rate of 100 percent and standard Medicaid costs (see Tables 26 and 27). Average Medicaid costs for these families were estimated to be $2,120 in 1989 and $2,970 in 1993, rising at an annual rate of about 9 percent. Because the adults in these families will be working, and presumably healthy, average costs are estimated to be only 80 percent of the overall Medicaid average cost for the same size family.

The costs of providing Medicaid benefits to these families under previous law were also estimated as the product of numbers of families and costs per family. As discussed earlier, CBO assumed that several groups received benefits under prior law. Of those families, 85 percent were estimated to receive four months of assistance after leaving AFDC because of increased earnings or hours of work, and 15 percent were estimated to receive a minimum of nine months of transitional assistance. About one-third of the 15 percent were estimated to receive an additional six months available in some states. The estimated average cost per family of each of these groups was the same as for families without private health insurance under the new law, but was adjusted for their differing lengths of eligibility. In addition, 35 percent of these families were assumed to qualify for Medicaid under medically needy provisions after they lost their transitional Medicaid assistance. Costs were also increased slightly to account for recent legislation that extended Medicaid to low-income pregnant women and young children.

Estimated benefit costs, both for the previous law and for the new law, rest on a number of assumptions about which there is considerable uncertainty. Projected costs per family are generated from Medicaid statistics on past usage and costs and are fairly reliable, although the extent to which private health insurance coverage will reduce costs is an issue. Estimates of the number of eligible families and participation rates are also subject to error. These uncertainties are potentially magnified by the fact that the final estimate of costs is a difference of two benefit estimates--for new law and for prior law--both of which are subject to projection error.

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[31] Congressional Budget Office estimate based on data from the Bureau of the Census, <u>Current Population Survey: Annual Demographic File, 1985</u> (March 1985).

TABLE 26. ELIGIBLE AND PARTICIPATING FAMILIES, 1993

	Families With Health Insurance	Families Without Health Insurance	Total Families
Eligible Families	265,000	220,000	485,000
First Six Months			
Participation Rate (Percent)	85	100	92
Participating Families	225,000	220,000	445,000
Second Six Months			
Participation Rate (Percent)	34 a/	80	55
Participating Families	90,000	175,000	265,000
Average over 12 Months	160,000	200,000	355,000

SOURCE: Congressional Budget Office projections.

Note: Details may not add to totals because of rounding.

a. The participation rate for the second six months for families with health insurance is 85 percent times 40 percent (the effect of the premiums on participation), or 34 percent.

Moreover, extending Medicaid for longer periods to families who leave AFDC may affect their behavior in ways that will alter the costs of the extension. Some analysts have hypothesized that extending Medicaid will provide an incentive to work as well as reduce the number of families who return to AFDC. Any such behavioral effects were not included in CBO's estimate because of a lack of evidence.[32]

[32] One study in Hennepin County, Minnesota, found that the lack of private health insurance about doubled the likelihood that families who lost AFDC eligibility following the 1981 legislative changes would return to AFDC. See Ira Moscovice and Gestur Davidson, "Health Care and Insurance Loss of Working AFDC Recipients," Medical Care, vol. 25, no. 5 (May 1987). Only about 12 percent of families losing eligibility, however, actually returned to AFDC in this study. Moreover, Hennepin County apparently has relatively good employer-provided health care coverage. See Bonnie Morel Edington, "Integrating Welfare Research and Welfare Reform--the Health Insurance Issue" (paper prepared for delivery at the July 1988 annual workshop of the National Association for Welfare Research and Statistics), p. 11.

TABLE 27. ANNUAL MEDICAID COSTS PER FAMILY (By fiscal year, in dollars)

	1989	1990	1991	1992	1993
Families With Health Insurance	594	648	713	773	832
Families Without Health Insurance	2,120	2,314	2,545	2,759	2,970
Average a/	1,342	1,464	1,611	1,746	1,880

SOURCE: Congressional Budget Office projections.

a. Costs per family are before premiums are charged; average costs rise after premiums because participation rates of families with and without health insurance change.

The importance of this behavioral effect clearly depends on the availability of employer-provided health insurance, an availability that appears to vary greatly across geographic areas. A five-city study of AFDC families that lost eligibility after the 1981 legislative changes showed that 62 percent to 71 percent of the employed families in three of the cities had health insurance, but only 27 percent to 33 percent had coverage in the other two cities.[33] In addition to health insurance coverage, the health of the family members will help to determine whether a family leaves, and remains off, AFDC.

Although extending Medicaid may well enable some families to leave and remain off AFDC, another possible effect of the provision could increase AFDC recipiency, at least for short periods. If families understood that they could get another 12 months of Medicaid by returning to AFDC for a short period, they might do so, raising the cost of the provision. A study of such "recycling" behavior is to be part of an overall study of the Medicaid transition provision.

[33] General Accounting Office, An Evaluation of the 1981 AFDC Changes: Final Report (1985), p. 106.

TABLE 28. ESTIMATED FEDERAL BENEFIT COSTS AND PREMIUM OFFSETS (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
Benefit Costs	--	5	120	185	195	505
Premium Offsets						
Premium Revenues	--	1	2	2	2	7
Averted Costs	--	0	14	28	28	70
Total	--	1	16	30	30	77
Net Costs	--	5	105	155	165	430

SOURCE: Congressional Budget Office projections.

Note: Details may not add to totals because of rounding.

Premium Offsets. The federal costs of the Medicaid transition provision, before any premium offsets, were estimated to rise from $5 million in 1990 to $195 million in 1993. These costs were offset by the effects of allowing states to charge a premium during the second six months of the 12-month extended benefit period. The total premium offset reaches $30 million per year by 1993, reducing the costs of the provision by 15 percent (see Table 28).

The premium offsets have two components. The first component is the revenues collected by states that choose to impose a premium. The second component is the benefit costs that are averted because some eligible families drop out after the sixth month rather than pay the premium. The methodologies used to estimate these two offsets are as follows.

Estimated revenues from premiums rest on four basic assumptions: the number of states that will charge premiums; the levels at which premiums will be set by the states that charge them; the participation rates of families that will be required to pay the premiums[34]; and the costs

[34] Almost 40 percent of families will have the premium waived because of the act's provision that exempts those whose gross earnings (less child care expenses) are below the poverty thresholds. Earnings of families after stays on AFDC were estimated as discussed earlier for transitional child care assistance.

incurred by families choosing to pay the premium.[35] Assumptions about the number of states charging a premium and about the levels of premiums set by those states were combined into one assumption: the revenue collected as a percentage of the total that could be collected if all states charged the maximum allowed by the law (3 percent of gross earnings) was estimated at 20 percent of the potential total. A flat premium complying with this provision would be about $20 per month. If a state linked premiums to earnings, they could range as high as $60 per month. Revenues--about $2 million per year for the federal government, as shown in Table 28--were estimated to offset less than 10 percent of the total costs incurred for medical care for participating families who pay premiums. Participation rates of families affected by the premiums, discussed below, also affect the amount of revenue collected.

In addition to generating revenues, premiums are likely to deter some eligible families from continuing to participate beyond the sixth month. This effect was calculated separately for families with and without health insurance, because it is reasonable to assume that each will behave differently. Little evidence exists on this question, and CBO assumed that 80 percent of families without health insurance will participate during the second six months (either by paying the premium, not being charged a premium, or being exempted from it). Only 40 percent of the families with health insurance were assumed to continue participation. (These participation rates are shown in Table 26.) For families continuing into the second six months, higher medical care costs were assumed, on average, than for those not continuing.[36] Averted federal costs were estimated at $14 million in 1991 and $28 million in 1992 and 1993.

Premium offsets could be large or small, depending on states' decisions about the premium (whether to charge one and how much to charge) and participants' behavioral responses to the premium. CBO's assumptions about the combined effect of states' decisions and participants' responses are subject to much uncertainty. Although the program costs estimated to be averted by charging modest premiums are far higher than the estimated premium collections, the deterrent effect of modest premiums may be less than assumed, and averted program costs may thus be correspondingly lower.

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[35] In a voluntary insurance program, those participating (by paying the premium) are more likely to need and use the benefits than those not participating. This "adverse selection" phenomenon means that average costs after imposing a premium will be higher than if one is not charged. However, since participation will drop, total costs will decline.

[36] For those with health insurance, the 40 percent of families continuing were expected to incur 55 percent of the costs expected for such families in the absence of the premium. For those without health insurance, the 80 percent continuing were expected to incur 90 percent of the costs expected for such families in the absence of a premium.

APPENDIX A: EFFECTS OF THE FAMILY SUPPORT ACT OF 1988 ON FEDERAL AND STATE BUDGETS

The Family Support Act is estimated to raise federal spending on welfare programs by $3.3 billion over the 1989-1993 period. To pay for this spending, the act includes provisions that will either raise revenues or reduce other outlays by the same $3.3 billion over the five years. The federal deficit is estimated to decline by $29 million through 1993.

Most of the spending increase will be in programs like AFDC, which are administered by the Family Support Administration in DHHS. Medicaid spending, however, will account for 30 percent of the total increase. Food Stamp spending is projected to decline, primarily because of increased AFDC benefits or work program effects. WIN spending declines with its repeal.

Costs to states and localities will be much less than to the federal government. They are estimated to total $0.7 billion over the five years, around one-fifth of federal costs. Groups of states will be affected quite differently by the act. States that do not have an AFDC-UP program will experience significantly increased costs. States that already have large work-related programs, especially if they also provide some transitional benefits, will face only small increases in costs or perhaps even save money. States with minimal work-related programs, on the other hand, will experience substantially increased budgets.

The numbers of families receiving AFDC benefits will be changed only slightly by the act's provisions during the next five years, according to CBO estimates. The provisions that mandate the AFDC-UP program in all states and change the deductions from earnings will add an estimated 80,000 families each month, an increase of about 2 percent from the 3.7 million families now receiving AFDC. On the other hand, the JOBS program is estimated to reduce the number of AFDC families by about 50,000 after five years. Also, the Child Support Enforcement provisions and the pre-eligibility fraud detection provision will reduce the numbers of families receiving AFDC, although the size of the reduction is not certain.

Beyond the five-year projection period, the numbers of families leaving AFDC because of the JOBS program will continue to grow. If the participation requirement is not extended beyond 1995, however, the numbers leaving will be smaller than they otherwise might be.

The two transition provisions will also increase benefits, but only to families that have left AFDC. Transitional child care assistance will provide new benefits to 280,000 children and their families each month. In addition, transitional Medicaid assistance will provide expanded benefits each month to an estimated average of 355,000 families who now receive some Medicaid after they leave AFDC.

This appendix briefly describes the major provisions of the act not covered in the body of this paper. Appendix Table A-1 provides a summary of the effects of the act on federal spending, revenues, and deficits. Appendix Table A-2 shows estimated costs to the federal government by spending provision and by program. Similarly, Appendix Table A-3 shows estimated costs to state and local governments. The tables appear at the end of this appendix.

<u>Title I</u>. In Title I, which deals with the Child Support Enforcement (CSE) program, the federal government is estimated to save $399 million over the five-year period, and states and localities $640 million. The federal government pays for a larger share of program costs--66 percent beginning in 1990--and receives a smaller share of child support collections. The act includes three major provisions affecting CSE:

- Mandating automatic wage withholding on all new and modified child support orders implemented through the CSE program, beginning two years after enactment;
- Requiring increases in establishing paternity, so that as of fiscal year 1992 states must: establish paternity for 50 percent of relevant CSE cases; increase the percentage of relevant cases for which paternity is established by three percentage points a year from a 1988 base beginning with fiscal year 1991; or establish paternity, for relevant cases, in the same proportion as all states in that fiscal year.
- Requiring judges to use state guidelines for child support awards, applied to all new or modified orders, beginning one year after enactment.

<u>Titles II and III</u>. Title II of the act deals with the JOBS program discussed earlier in the paper, and Title III deals primarily with the two transition provisions.

<u>Title IV</u>. Title IV includes a number of provisions that will expand the numbers of AFDC beneficiaries and AFDC benefits. Together, the provisions are estimated to cost the federal government $1.3 billion and state governments $1.0 billion during the 1989-1993 period. Most of the provisions do not start until fiscal year 1991. By 1993, their annual estimated federal cost is $473 million.

The major provision mandates that all states establish AFDC-UP programs for two-parent families in which the primary earner is unemployed; the provision is effective October 1, 1990, and will be repealed September 30, 1998. Currently, 22 states do not have the AFDC-UP program. States will be given several options: to limit cash assistance to a period of no less than six months in any 12-month period (but states with existing AFDC-UP programs may not limit their assistance); to require participation in work-related activities by one or both adults for up to 40 hours a week; and to pay benefits only after performance in the work-related activity. Even if a state limits the duration of AFDC assistance, it must provide Medicaid assistance as long as the family is otherwise eligible. This provision is estimated to bring an average of 65,000 new families onto AFDC each month, based on the assumption that newly mandated states will limit benefits to six months a year. If all of the affected states instead provided 12 months of benefits, 105,000 new families would be on AFDC each month and federal costs would rise from $420 million to $520 million in 1993.

Title IV will also assist AFDC families with earnings by liberalizing the earned income disregards. The act will raise the standard earnings deduction from $75 a month to $90 a month. This change is estimated to bring about 15,000 new families onto AFDC and to help another 220,000 or so with earnings. The cap on deductions for child care will be raised from $160 per month per child to $175 for children two years of age and older and to $200 for younger children. Also, instead of subtracting the allowed child care from earnings before taking the one-third disregard, families will take the disregard first, which will increase its amount. Finally, the Earned Income Tax Credit will be disregarded. Together, these provisions will cost the federal government $165 million over the five years.

Titles V and VI. Title V includes a number of demonstration projects that will cost the federal government an estimated $68 million over the 1989-1993 period. Title VI increases AFDC support for U.S. territories, extends the moratorium on collection of AFDC fiscal sanctions until July 1989, and requires that states institute measures for detecting pre-eligibility fraud. The provisions in Title VI are estimated to save the federal government $105 million over the five years, primarily because of the measures for detecting fraud.

Title VII. Title VII includes funding provisions that will result in $3.3 billion in receipts and revenues to the federal government over the 1989-1993 period. One of the provisions reauthorizes the Internal Revenue Service's (IRS's) refund offset program. This program, which allows the IRS to withhold refunds from taxpayers who are delinquent in repaying debts owed to the federal government, expired on June 30, 1988. By extending this program until January 10, 1994, the government will recover an estimated $400 million annually that otherwise would have gone uncollected, totaling $2 billion through 1993. These amounts are counted on the spending side of the budget, either as offsetting collections or offsetting receipts.

Title VII also includes provisions affecting federal tax revenues, including modifications to the dependent care credit and to the tax treatment of certain business expenses, and a requirement that taxpayer identification numbers be reported for dependents who are at least two years old before the close of the tax year.

The dependent care credit is modified so that it applies to children of taxpayers only if the children are under the age of 13 rather than under age 15. The amount of dependent care expenses eligible for the credit is now reduced by the amount of such costs that are reimbursed under an employer-provided dependent care program. In addition, the credit now can be claimed only if the taxpayer reports the name, address, and taxpayer identification number of the dependent care provider on his or her tax return. Under prior law, this reporting was not required. Together, these provisions are estimated to raise revenues by $50 million in 1989, and $959 million through 1993.

Title VII changes the tax treatment of business expense allowances for which the employee (1) is not required to substantiate his or her expenses and (2) may retain amounts in excess of actual expenses. Previously, taxpayers with such "nonaccountable" plans could deduct the amount of the allowance above-the-line, in arriving at adjusted gross income. The new law mandates that such allowances must be taken as an itemized deduction subject to the floor for business expenses of 2 percent of adjusted gross income. This change is estimated to increase revenues by $22 million in 1989 and $350 million over the 1989-1993 period.

The Tax Reform Act of 1986 required that taxpayers report the taxpayer identification number of dependents who are age five and over. Title VII makes this provision applicable for dependents who are at least two years old. Reducing the age for which taxpayer identification numbers must be reported is estimated to raise revenues by $1 million in 1989, and $25 million through 1993.

TABLE A-1. SUMMARY OF ESTIMATED COST TO THE FEDERAL GOVERNMENT OF THE FAMILY SUPPORT ACT OF 1988
(By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
Family Support Provisions (Titles I-VI)						
Direct Spending						
Estimated Budget Authority	73	364	1089	1117	963	3606
Estimated Outlays	73	364	1089	1117	963	3606
Amounts Subject to Appropriation Action a/						
Estimated Authorization Level	-10	-25	-64	-93	-112	-302
Estimated Outlays	-11	-51	-65	-79	-97	-301
Total Family Support Spending						
Estimated Budget Authority/ Estimated Authorization Level	63	339	1025	1024	851	3304
Estimated Outlays	62	313	1024	1038	866	3305
Funding Provisions (Title VII)						
Debt Collection b/						
Estimated Budget Authority	-400	-400	-400	-400	-400	-2000
Estimated Outlays	-400	-400	-400	-400	-400	-2000
Revenues	73	278	308	330	345	1334
Net Budget Impact						
Estimated Increase or Decrease (-) in the Deficit	-411	-365	316	308	121	-29

SOURCE: Congressional Budget Office projections.

NOTE: Savings in spending are shown as negative numbers.

a. Amounts subject to appropriation action include those for the Work Incentive Program (WIN), which would be phased out under the act, resulting in savings, and those for numerous studies, demonstration projects, and commissions. Food Stamp savings are shown under direct spending.

b. The debt collection provision results in reduced spending.

TABLE A-2. ESTIMATED COST TO THE FEDERAL GOVERNMENT OF THE FAMILY SUPPORT ACT OF 1988, BY PROVISION (Outlays, by fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
TITLE I: CHILD SUPPORT						
Mandate Income Withholding						
Family Support Admin. a/	—	—	-15	-40	-60	-115
Food Stamps	—	—	-5	-10	-20	-35
Medicaid	—	—	-5	-5	-10	-20
Total	—	—	-25	-55	-90	-170
Alter $50 Disregard for Months Due						
Family Support Admin.	1	1	1	1	1	5
Mandate Child Support Guidelines						
Family Support Admin.	—	-20	-55	-85	-115	-275
Food Stamps	—	-5	-10	-20	-30	-65
Medicaid	—	b/	-5	-10	-15	-30
Total	—	-25	-70	-115	-160	-370
Require Demonstrations on Model Procedures for Reviewing Child Support Awards						
Family Support Admin.	b/	4	4	—	—	8
Require Monthly Notification of Child Support Amounts						
Family Support Admin.	—	—	—	—	2	2
Mandate Increases in Paternity Establishment						
Family Support Admin.	—	—	40	25	15	80
Reimburse Laboratory Costs at 90 Percent						
Family Support Admin.	2	2	3	4	4	15
Establish Standards for Response Time						
Family Support Admin.	c/	c/	c/	c/	c/	c/
Mandate ADP for Most States						
Family Support Admin.	2	2	7	7	7	25
Repeal 90 Percent Match on ADP (Effective 9/30/95)						
Family Support Admin.	—	—	—	—	—	—
Permit Access to DOL INTERNET System						
Family Support Admin.	—	b/	b/	b/	b/	b/
Require Disclosure of Social Security Numbers						
Family Support Admin.	—	—	b/	b/	b/	b/
Establish Commission on Interstate Enforcement						
Family Support Admin.	b/	2	b/	—	—	2

TABLE A-2 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
Alter Incentive Payments by Excluding Interstate Demonstration Costs						
Family Support Admin.	b/	1	1	1	1	4
Study Child-Rearing Costs						
Family Support Admin.	b/	b/	—	—	—	b/
Require Data Collection on CSE Applicants						
Family Support Admin.	b/	b/	b/	b/	b/	b/
Subtotal Title I						
Family Support Admin.	5	-8	-14	-87	-145	-249
Food Stamps	—	-5	-15	-30	-50	-100
Medicaid	—	b/	-10	-15	-25	-50
Total	5	-13	-39	-132	-220	-399
TITLE II: JOBS PROGRAM						
Establish JOBS						
Family Support Admin.	45	319	481	425	335	1605
Food Stamps	b/	-5	-10	-20	-25	-60
Medicaid	b/	-5	-10	-20	-30	-65
WIN	-12	-67	-104	-108	-113	-404
Total	33	242	357	277	167	1076
Add Mandatory Participation Rates to JOBS						
Family Support Admin.	—	b/	45	90	75	210
Food Stamps	—	b/	b/	-10	-20	-30
Medicaid	—	b/	b/	-5	-10	-15
Total	—	b/	45	75	45	165
Require Participation in Work Programs by AFDC-UP Families						
Family Support Admin.	—	—	—	—	—	—
Food Stamps	—	—	—	—	—	—
Medicaid	—	—	—	—	—	—
Total	—	—	—	—	—	—
Authorize Demonstration Projects on Work Programs for Fathers Who Can't Pay						
Family Support Admin.	—	b/	2	2	2	6
Authorize Implementation Study						
Family Support Admin.	b/	b/	b/	b/	—	2
Authorize Demonstrations on Cost Effectiveness						
Family Support Admin.	—	1	5	4	—	10
Subtotal Title II						
Family Support Admin.	45	320	533	521	412	1833
Food Stamps	b/	-5	-10	-30	-45	-90
Medicaid	b/	-5	-10	-25	-40	-80
WIN	-12	-67	-104	-108	-113	-404
Total	33	243	409	358	214	1259

TABLE A-2 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
TITLE III: SUPPORTIVE SERVICES						
Reimburse Child Care for 12 Months After Leave AFDC						
Family Support Admin.	—	25	205	245	260	735
Provide Medicaid for 12 Months After Leave AFDC						
Medicaid	—	5	105	155	165	430
Delay Effective Date for Kentucky to 10/1/90						
Family Support Admin.	—	-1	—	—	—	-1
Require Studies by DHHS of Transition Provisions						
Family Support Admin.	—	—	b/	b/	b/	b/
Authorize Grants to States for Child Care Standards						
Family Support Admin.	—	9	13	4	—	26
Extend Medicaid to Families Who Leave AFDC Because of Increased Child Support to 10/1/89						
Medicaid	10	—	—	—	—	10
Subtotal Title III						
Family Support Admin.	—	33	218	249	260	760
Medicaid	10	5	105	155	165	440
Total	10	38	323	404	425	1200
TITLE IV: RELATED AMENDMENTS						
Mandate AFDC-UP Program						
Family Support Admin.	—	—	175	175	180	530
Food Stamps	—	—	-50	-55	-55	-160
Medicaid	—	—	180	260	295	735
Total	—	—	305	380	420	1105
Allow States to Amend Quarters of Work Rule						
Family Support Admin.	—	—	9	12	12	33
Food Stamps	—	—	-5	-6	-6	-17
Medicaid	—	—	5	6	7	18
Total	—	—	9	12	13	34
Raise Earnings Deduction to $90						
Family Support Admin.	—	25	30	30	30	115
Food Stamps	—	-15	-15	-15	-15	-60
Medicaid	—	5	15	15	15	50
Total	—	15	30	30	30	105
Raise Child Care Cap and Alter Sequencing of Disregards						
Family Support Admin.	—	8	8	8	8	32
Food Stamps	—	-3	-3	-3	-3	-12
Total	—	5	5	5	5	20

TABLE A-2 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
Disregard Earned Income Tax Credit						
Family Support Admin.	---	20	20	20	20	80
Food Stamps	---	-10	-10	-10	-10	-40
Total	---	10	10	10	10	40
Require Evaluation of AFDC-UP						
Family Support Admin.	---	---	b/	b/	1	1
Require Minor Parents to Live with Parents at State Option						
Family Support Admin.	---	-5	-5	-5	-5	-20
Food Stamps	---	b/	b/	b/	b/	b/
Medicaid	---	-2	-2	-2	-2	-8
Total	---	-7	-7	-7	-7	-28
Require Evaluation of Need and Payment Standards at Least Every Three Years						
Family Support Admin.	b/	b/	1	1	1	3
Require Study on Partnership Act of 1987						
CBO	b/	---	---	---	---	b/
Study Alternative Minimum Benefit Proposals (NAS)						
Family Support Admin.	1	1	b/	---	---	2
Subtotal Title IV						
Family Support Admin.	1	49	238	241	247	776
Food Stamps	---	-28	-83	-89	-89	-289
Medicaid	---	3	198	279	315	795
CBO	b/	---	---	---	---	b/
Total	1	24	353	431	473	1282
TITLE V: DEMONSTRATION PROJECTS						
Authorize Family Support Demonstrations						
Family Support Admin.	---	1	6	6	5	18
Authorize Demonstrations on AFDC Parents as Child Care Providers						
Family Support Admin.	---	b/	1	1	1	3
Require Demonstrations on 100-Hour Rule						
Family Support Admin.	---	---	b/	3	4	7
Food Stamps	---	---	b/	-1	-1	-2
Medicaid	---	---	1	3	5	9
Total	---	---	1	5	8	14
Authorize Demonstrations on Child Access Problems						
Family Support Admin.	---	1	4	3	---	8
Authorize Demonstrations with Nonprofit Organizations to Create Job Opportunities						
Family Support Admin.	---	1	6	7	6	20

TABLE A-2 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
Authorize Demonstrations on Counseling and Services for High-Risk Teenagers						
Family Support Admin.	—	b/	2	2	1	5
Extend Minnesota Prepaid Medicaid Demonstration						
Medicaid	b/	b/	—	—	—	b/
Subtotal Title V						
Family Support Admin.	—	3	19	22	17	61
Food Stamps	—	—	b/	-1	-1	-2
Medicaid	b/	b/	1	3	5	9
Total	b/	3	20	24	21	68
TITLE VI: MISCELLANEOUS PROVISIONS						
Include American Samoa in AFDC						
Family Support Admin.	1	1	1	1	1	5
Increase AFDC Caps for Territories						
Family Support Admin.	11	11	11	11	11	55
Require Pre-eligibility Fraud Detection Measures in AFDC						
Family Support Admin.	—	5	-25	-25	-25	-70
Food Stamps	—	10	-5	-5	-5	-5
Medicaid	—	-10	-25	-30	-30	-95
Total	—	5	-55	-60	-60	-170
Require Uniform Reporting						
Family Support Admin.	1	1	1	1	1	5
Require Annual Reporting in Social Services						
Social Services	0	0	0	0	0	0
Extend Moratorium on Fiscal Sanctions to 7/1/89						
Family Support Admin.	0	0	0	0	0	0
Make Technical Corrections to Medicare and Medicaid	0	0	0	0	0	0
Subtotal Title VI						
Family Support Admin.	13	18	-12	-12	-12	-5
Food Stamps	—	10	-5	-5	-5	-5
Medicaid	—	-10	-25	-30	-30	-95
Social Services	0	0	0	0	0	0
Total	13	18	-42	-47	-47	-105

TABLE A-2 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
TOTAL OUTLAYS BY PROGRAM						
Family Support Admin.	64	415	982	934	779	3176
Food Stamps	b/	-28	-113	-155	-190	-486
Medicaid	10	-7	259	367	390	1019
WIN	-12	-67	-104	-108	-113	-404
CBO	b/	----	----	----	----	b/
Social Services	0	0	0	0	0	0
Total	62	313	1024	1038	866	3305

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers. Dashes (----) indicate that the requirement has not yet taken effect or is no longer in effect.

a. The Family Support Administration (FSA) in the Department of Health and Human Services has the operational responsibility for both the AFDC and Child Support Enforcement programs.

b. Less than $500,000.

c. Standards are to be set by the Secretary of Health and Human Services. Because the standards are not yet known, an estimate of costs or savings cannot be done at this time.

TABLE A-3. ESTIMATED COST TO STATES AND LOCALITIES OF THE FAMILY SUPPORT ACT OF 1988, BY PROVISION (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
TITLE I: CHILD SUPPORT						
Mandate Income Withholding						
Family Support Admin. a/	---	---	-25	-60	-95	-180
Food Stamps	---	---	0	0	0	0
Medicaid	---	---	b/	-5	-10	-15
Total	---	---	-25	-65	-105	-195
Alter $50 Disregard for Months Due						
Family Support Admin.	1	1	1	1	1	5
Mandate Child Support Guidelines						
Family Support Admin.	---	-35	-80	-125	-165	-405
Food Stamps	---	0	0	0	0	0
Medicaid	---	b/	-5	-10	-15	-30
Total	---	-35	-85	-135	-180	-435
Require Demonstrations on Model Procedures for Reviewing Child Support Awards						
Family Support Admin.	b/	b/	b/	---	---	1
Require Monthly Notification of Child Support Amounts						
Family Support Admin.	---	---	---	---	1	1
Mandate Increases in Paternity Establishment						
Family Support Admin.	---	---	20	b/	-20	b/
Reimburse Laboratory Costs at 90 Percent						
Family Support Admin.	-2	-2	-3	-4	-4	-15
Establish Standards for Response Time						
Family Support Admin.	c/	c/	c/	c/	c/	c/
Mandate ADP for Most States						
Family Support Admin.	b/	b/	1	1	1	3
Repeal 90 Percent Match on ADP						
Family Support Admin.	---	---	---	---	---	---
Permit Access to DOL INTERNET System						
Family Support Admin.	---	b/	b/	b/	b/	b/
Require Disclosure of Social Security Numbers						
Family Support Admin.	---	---	b/	b/	b/	b/
Establish Commission on Interstate Enforcement						
Family Support Admin.	0	0	0	---	---	0

TABLE A-3 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
Alter Incentive Payments by Excluding Interstate Demonstration Costs						
Family Support Admin.	b/	-1	-1	-1	-1	-4
Study Child-Rearing Costs						
Family Support Admin.	0	0	---	---	---	0
Require Data Collection on CSE Applicants						
Family Support Admin.	b/	b/	b/	b/	b/	b/
Subtotal Title I						
Family Support Admin.	-1	-37	-87	-188	-282	-594
Food Stamps	---	0	0	0	0	0
Medicaid	---	b/	-5	-15	-25	-45
Total	-1	-37	-92	-203	-307	-640
TITLE II: JOBS PROGRAM						
Establish JOBS						
Family Support Admin.	-3	-56	-111	-126	-131	-427
Food Stamps	0	0	0	0	0	0
Medicaid	b/	b/	-10	-20	-25	-55
WIN	-1	-7	-12	-12	-13	-45
Total	-4	-63	-133	-158	-169	-527
Add Mandatory Participation Rates to JOBS						
Family Support Admin.	---	b/	30	55	45	130
Food Stamps	---	0	0	0	0	0
Medicaid	---	b/	b/	-5	-10	-15
Total	---	b/	30	50	35	115
Require Participation in Work Programs by AFDC-UP Families						
Family Support Admin.	---	---	---	---	---	---
Food Stamps	---	---	---	---	---	---
Medicaid	---	---	---	---	---	---
Total	---	---	---	---	---	---
Authorize Demonstration Projects on Work Programs for Fathers Who Can't Pay						
Family Support Admin.	---	b/	1	1	1	3
Authorize Implementation Study						
Family Support Admin.	0	0	0	0	---	0
Authorize Demonstrations on Cost Effectiveness						
Family Support Admin.	---	b/	b/	b/	---	b/
Subtotal Title II						
Family Support Admin.	-3	-56	-80	-70	-85	-294
Food Stamps	0	0	0	0	0	0
Medicaid	b/	b/	-10	-25	-35	-70
WIN	-1	-7	-12	-12	-13	-45
Total	-4	-63	-102	-107	-133	-409

	1989	1990	1991	1992	1993	Five-Year Total
TITLE III: SUPPORTIVE SERVICES						
Reimburse Child Care for 12 Months After Leave AFDC						
Family Support Admin.	---	15	120	145	150	430
Provide Medicaid for 12 Months After Leave AFDC						
Medicaid	---	5	85	125	135	350
Delay Effective Date for Kentucky to 10/1/90						
Family Support Admin.	---	-1	---	---	---	-1
Require Studies by DHHS of Transition Provisions						
Family Support Admin.	---	---	0	0	0	0
Authorize Grants to States for Child Care Standards (90 Percent Federal Match)						
Family Support Admin.	---	1	2	b/	---	3
Extend Medicaid to Families Who Leave AFDC Because of Increased Child Support to 10/1/89						
Medicaid	8	---	---	---	---	8
Subtotal Title III						
Family Support Admin.	---	15	122	145	150	432
Medicaid	8	5	85	125	135	358
Total	8	20	207	270	285	790
TITLE IV: RELATED AMENDMENTS						
Mandate AFDC-UP Program						
Family Support Admin.	---	---	115	115	120	350
Food Stamps	---	---	0	0	0	0
Medicaid	---	---	105	160	180	445
Total	---	---	220	275	300	795
Allow States to Amend Quarters of Work Rule						
Family Support Admin.	---	---	7	10	10	27
Food Stamps	---	---	0	0	0	0
Medicaid	---	---	4	5	6	15
Total	---	---	11	15	16	42
Raise Earnings Deduction to $90						
Family Support Admin.	---	20	25	25	25	95
Food Stamps	---	0	0	0	0	0
Medicaid	---	5	10	10	15	40
Total	---	25	35	35	40	135
Raise Child Care Cap And Alter Sequencing of Disregards						
Family Support Admin.	---	7	7	7	7	28
Food Stamps	---	0	0	0	0	0
Total	---	7	7	7	7	28

TABLE A-3 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
Disregard Earned Income Tax Credit						
Family Support Admin.	—	15	15	15	15	60
Food Stamps	—	0	0	0	0	0
Total	—	15	15	15	15	60
Require Evaluation of AFDC-UP						
Family Support Admin.	—	—	0	0	0	0
Require Minor Parents to Live with Parents at State Option						
Family Support Admin.	—	-5	-5	-5	-5	-20
Food Stamps	—	0	0	0	0	0
Medicaid	—	-2	-2	-2	-2	-8
Total	—	-7	-7	-7	-7	-28
Require Evaluation of Need and Payment Standards at Least Every Three Years						
Family Support Admin.	b/	b/	1	1	1	3
Require Study on Partnership Act of 1987						
CBO	0	—	—	—	—	0
Study Alternative Minimum Benefit Proposals (NAS)						
Family Support Admin.	0	0	0	—	—	0
Subtotal Title IV						
Family Support Admin.	b/	37	165	168	173	543
Food Stamps	—	0	0	0	0	0
Medicaid	—	3	117	173	199	492
CBO	0	—	—	—	—	0
Total	b/	40	282	341	372	1035
TITLE V: DEMONSTRATION PROJECTS						
Authorize Family Support Demonstrations						
Family Support Admin.	—	1	6	6	5	18
Authorize Demonstrations on AFDC Parents as Child Care Providers						
Family Support Admin.	—	b/	1	1	1	3
Require Demonstrations on 100-Hour Rule						
Family Support Admin.	—	—	b/	2	3	5
Food Stamps	—	—	0	0	0	0
Medicaid	—	—	1	2	4	7
Total	—	—	1	4	7	12
Authorize Demonstrations on Child Access Problems						
Family Support Admin.	—	b/	3	1	—	4
Authorize Demonstrations with Nonprofit Organizations to Create Job Opportunities						
Family Support Admin.	—	0	0	0	0	0

TABLE A-3 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
Authorize Demonstrations on Counseling and Services for High-Risk Teenagers						
Family Support Admin.	----	0	0	0	0	0
Extend Minnesota Prepaid Medicaid Demonstration						
Medicaid	b/	b/	----	----	----	b/
Subtotal Title V						
Family Support Admin.	----	1	10	10	9	30
Food Stamps	----	----	0	0	0	0
Medicaid	b/	b/	1	2	4	7
Total	b/	1	11	12	13	37
TITLE VI: MISCELLANEOUS PROVISIONS						
Include American Samoa in AFDC						
Family Support Admin.	b/	b/	b/	b/	b/	b/
Increase AFDC Caps for Territories						
Family Support Admin.	4	4	4	4	4	20
Require Pre-eligibility Fraud Detection Measures in AFDC						
Family Support Admin.	----	-5	-30	-30	-30	-95
Food Stamps	----	10	10	10	10	40
Medicaid	----	-10	-20	-25	-25	-80
Total	----	-5	-40	-45	-45	-135
Require Uniform Reporting						
Family Support Admin.	1	1	1	1	1	5
Require Annual Reporting in Social Services						
Social Services	0	0	0	0	0	0
Extend Moratorium on Fiscal Sanctions to 7/1/89						
Family Support Admin.	0	0	0	0	0	0
Make Technical Corrections to Medicare and Medicaid	0	0	0	0	0	0
Subtotal Title VI						
Family Support Admin.	5	0	-25	-25	-25	-70
Food Stamps	----	10	10	10	10	40
Medicaid	----	-10	-20	-25	-25	-80
Social Services	0	0	0	0	0	0
Total	5	0	-35	-40	-40	-110

TABLE A-3 (Continued)

	1989	1990	1991	1992	1993	Five-Year Total
TOTAL SPENDING BY PROGRAM						
Family Support Admin.	1	-40	105	40	-60	47
Food Stamps	----	10	10	10	10	40
Medicaid	8	-2	168	235	253	662
WIN	-1	-7	-12	-12	-13	-45
CBO	0	----	----	----	----	0
Social Services	0	0	0	0	0	0
Total	8	-39	271	273	190	704

SOURCE: Congressional Budget Office projections.

NOTE: Savings are shown as negative numbers. Dashes (----) indicate that the requirement has not yet taken effect or is no longer in effect.

a. The Family Support Administration (FSA) in the Department of Health and Human Services has the operational responsibility for both the AFDC and Child Support Enforcement programs.

b. Less than $500,000.

c. Standards are to be set by the Secretary of Health and Human Services. Because the standards are not yet known, an estimate of costs or savings cannot be done at this time.

The Administration estimates that the Family Support Act will raise federal spending by $3.6 billion over the 1989-1993 period, slightly above CBO's estimate (see Table B-1). The funding provisions are estimated to save $3.4 billion, resulting in an increase in the federal deficit of $0.2 billion over the five-year period.

The similarity between costs as estimated by CBO and the Administration over the five-year period masks several important differences. First, the time path of the spending varies significantly. In the CBO estimate, federal costs peak in 1992 at $1.0 billion and then decline to $0.9 billion in 1993 because savings in Child Support Enforcement (CSE) and in welfare programs as a result of the JOBS program outpace spending increases. In the Administration estimate, costs peak in 1993 at $1.2 billion. The Administration's estimated savings for the CSE provisions show virtually no growth between 1992 and 1993.

Second, the CBO and Administration estimates vary sharply for some provisions. Among the major differences, CBO's estimated costs are somewhat higher for the JOBS program and for transitional child care, while the Administration's estimated costs are higher for transitional Medicaid and their estimated savings are lower for the CSE changes. Because no written documentation is available for the Administration's estimates, the reasons for differences between CBO and Administration estimates cannot be determined in any detail.

TABLE B-1. SUMMARY OF ADMINISTRATION ESTIMATE OF COSTS TO THE FEDERAL GOVERNMENT OF THE FAMILY SUPPORT ACT OF 1988 (By fiscal year, in millions of dollars)

	1989	1990	1991	1992	1993	Five-Year Total
	Family Support Provisions (Titles I-VI)					
Family Support Outlays	364	652	787	626	1170	3601
	Funding Provisions (Title VII)					
Debt Collection a/	-365	-390	-405	-475	-475	-2110
Revenues	57	239	286	320	359	1261
	Net Budget Impact					
Estimated Increase or Decrease (-) in the Deficit	-58	23	96	-169	336	230

SOURCE: Office of Management and Budget.

NOTE: Details may not add to totals because of rounding.

a. The debt collection provision results in reduced spending.