

THE WHITE HOUSE
WASHINGTON

February 17, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
LYN HOGAN

SUBJECT: Welfare Caseload Statistics

We have been working with HHS to compile a series of estimates which you may find useful as you talk about the challenges ahead in welfare reform. The numbers are daunting, but not as impossible as you might think.

I. Caseload Reduction, 1993-96

When you took office, there were 14.1 million people on welfare, including nearly 5 million adults. By October 1996 (the latest figures available), the caseload had dropped to 11.9 million people, fewer than 4.3 million of them adults. The 2.25 million decline (a 16% decrease) is the largest caseload drop in history.

The decline is even more striking when you consider that the caseload did not peak until March 1994, when it reached 14.4 million (5.1 million adults). The caseload dropped 18% between March 1994 and October 1996.

If these trends hold, the total decline from January 1993 to January 1997 should be more than 2.5 million people and between 900,000 and 1 million adults.

No studies have been done to determine how much of the recent caseload decline is due to a good economy and how much to state welfare reforms. Historically, the food stamp caseload has closely tracked the business cycle, but the welfare caseload has not. More than half the welfare caseload has never worked; an economic downturn is not what landed them on welfare. A CRS study of the surge in welfare rolls during the Bush years attributed most of the increase to the rising number of births to never-married mothers, not the 1990 recession.

Over the last four years, the largest drops have come in states with the most aggressive welfare reform experiments -- including 40% declines in Wisconsin and Indiana. The past four years have been a time of unprecedented state experimentation in welfare reform, and all the tough talk from Washington on down has probably had some behavioral impact as well. (The caseload drop was sharpest during the three-month period around the signing of the welfare law, even though no recipient was affected by the new law during that period.)

Still, it would be a mistake to give welfare reform all the credit for caseload changes over the past four years. Virtually every state with a vigorous statewide effort has cut caseload by a quarter or more. But some states did little or nothing to reform their welfare systems, and others experimented in only a few counties.

Four states had caseload increases between January 1993 and October 1996: Alaska, Hawaii, New Mexico, and most important, California, which has 20% of the national caseload. In each state, a mix of factors is at work: None of them has done much statewide on welfare reform, and each has experienced population growth. California was late to join the economic recovery, and leads the nation in child-only cases -- U.S.-citizen children of illegal immigrants who are eligible for welfare because they were born here.

II. Key Facts about the Caseload

Family Size: The average size of a welfare family is 2.8 people. Moving 360,000 adults off welfare will reduce the caseload by 1 million people.

Able-Bodied Recipients: HHS estimates that 80-90% of adult welfare recipients are capable of joining the workforce. The other 10-20% are considered unable to work because of health, age, or severe mental or physical disabilities.

III. Meeting the New Work Requirements

Under the new welfare law, every able-bodied adult is supposed to work within 2 years of receiving benefits. (About 35% of current recipients have been on the rolls less than 2 years.) It is up to the states whether to enforce that requirement. The only enforceable federal requirements are the 5-year lifetime limit on federal benefits and the work participation rates.

Time Limits: Every welfare recipient now has a 5-year lifetime clock, which begins ticking when a state's new plan is certified complete, and stops every time the recipient goes off welfare. States can exempt 20% of the caseload from the 5-year limit, and use state dollars to exempt others if they choose. Most recipients will take longer than 5 years to reach the 5-year limit, because all but the permanent underclass (about a quarter of recipients) cycle on and off the caseload. Until we have a national time clock -- which was envisioned in our 1994 bill, but not

included in the final law -- some recipients also may be able to circumvent the lifetime limit by moving from state to state.

Work Participation Rates: Under the new welfare law, states must have 25% of their adult caseload in work activities in 1997, 30% in 1998, 35% in 1999, 40% in 2000, 45% in 2001, and 50% in 2002 and beyond. But states get credit for people they move off welfare altogether in the meantime. If a state's caseload has dropped since FY1995, the state's work participation rate is reduced accordingly. Effective work rates for this year and beyond have already been reduced 8% nationwide by recent declines in the caseload. (Many states have lowered their caseloads and their effective work rates by twice that much. A few haven't lowered their caseloads at all.)

The following projections were calculated by HHS but are considered preliminary and are under review. About a quarter of the adult caseload is exempt for a variety of reasons, primarily the exemption for parents with children under one. By these estimates, states will be required to put 1 million adults into work activities by the year 2000, and 1.1 million by the year 2002. That number will be lower if caseload declines are greater than projected. (The current caseload is already slightly smaller than the FY2000 projection.)

	FY 95	FY 96	FY 2000 (projected)	FY 2002 (projected)
Average monthly caseload	4.9 million	4.5 million	4.3 million	4.0 million
Non-exempt adult caseload		3.3 million	3.2 million	2.9 million
Work participation rate			40%	50%
Caseload reduction from '95		6.7%	8%	12%
Effective work participation rate (minus caseload reduction)			32%	38%
Total number of adults required to work (Effective work rate multiplied by non-exempt caseload)			1 million	1.1 million

Only a portion of the 1 million would be in subsidized work programs in the private or public sector. States can count vocational education as "work" toward a fifth of its participation requirement. Several states may raise their earnings disregards so that they can count more of the working poor toward their participation rates.

We will ask HHS to run these numbers on a state-by-state basis as well. By these estimates, New York State, with more than 9% of the national caseload, will have to place around 100,000 in work by the year 2000.

IV. Hiring Power in the U.S.

There are 826,000 U.S. businesses with more than 20 employees.

There are 135,119 congregations with more than 200 members, and 205,583 congregations with more than 100 members.

There are 1.1 million nonprofit organizations (not including congregations).

We will run these numbers on a state-by-state basis as well.

V. Miscellaneous Statistics

State Plans: So far, 42 states have submitted their new state plans to HHS under the new law. Of the 42, HHS has certified 35 complete (including New York).

Work Supplementation: As of August 22, 1996, when you signed the welfare law, 11 states had received waivers to modify work supplementation rules. Oregon and Missouri pioneered this concept. Most of those waivers sought to combine AFDC and food stamp benefits to subsidize jobs.

Out-of-Wedlock Births: The birth rate for unmarried women dropped 4% in 1995, the first decline in 19 years. The proportion of all births to unmarried mothers declined slightly to 32.0% in 1995, from 32.6% in 1994. Three years ago, Senator Moynihan predicted that the ratio would rise to 40% or even 50% over the next decade.

Teen Pregnancy: The teen birth rate has declined four years in a row by a total of 8% between 1991 and 1995. Half a million teenagers 15-19 give birth every year. Moynihan wrote an op-ed last month criticizing us for taking credit for reducing teen pregnancy when the illegitimacy ratio for teenagers actually rose (from 70% in 1992 to 72% in 1995). But the teen birth rate fell faster than the teen illegitimacy ratio went up, and the overall illegitimacy ratio has stopped rising.

Child Support: Child support collections increased 50%, from \$8 billion in 1992 to \$12 billion in 1996.

Paternity Establishment: Paternity establishments have increased under the Clinton

Administration from 554,637 in 1993 to 903,000 in 1995.

Poverty: The number of people in poverty dropped by 2.9 million between 1993 and 1995, after four straight years of increases.

VI. Other Questions

Childless Adults: Most states do not provide welfare benefits for single, childless adults. This population will be hit hard by the 3-month time limit on food stamps. Our budget would restore their eligibility (unless they turn down a work slot), provide states with funds for 380,000 new work slots, and make childless adults eligible for our expanded Work Opportunities Tax Credit, which gives employers a 50% credit on the first \$10,000 in annual wages.

Organizing CEOs: Eli Segal has drafted a strategic plan for a non-profit organization to recruit businesses to hire people off welfare. He will send us a copy after his board approves it next week. Eli will probably serve as president of the organization, with most of the CEOs you met as a governing board.

Organizing Non-Profits and Religious Organizations: We have spoken with Maria Echaveste about the need for a full-time staffer in Public Liaison to organize religious institutions, non-profits, and businesses to move people from welfare to work.



African-American and Hispanic voters are no less supportive of welfare reform than white voters. Indeed, Hispanics are nearly identical to whites in their priorities for change. Black voters focus more on policies that would help keep people off welfare in the first place – a campaign against teen pregnancy or day care subsidies for low income working families – but they are also strongly supportive of aggressive child support enforcement and "two years and work."

The major findings are set out below:

- **Unanimous support for two years program.** There is virtually no opposition to a welfare reform program that expands job training and day care, but then cuts off welfare benefits after two years and requires people to work. Regardless of whether the plan is introduced as Congress' or President Clinton's, it garners almost unanimous support – 88 percent in favor. There is little difference between races: blacks (82 percent favor), whites (88 percent), and Hispanics (90 percent) overwhelmingly favor the plan.
- **Democratic funding approach runs ahead of Republican alternative.** Voters are more supportive of Democratic plans to cover reform costs with a combination of reduction in welfare rolls by making work pay more, cuts in welfare for the wealthy, and a crackdown on welfare fraud. When compared to the Democrats, the Republican approach of barring benefits to legal immigrants maintains support only among core Republican constituencies.
- **Child support payments key to reform and financing.** The public's top priority in welfare reform is a program of aggressive child support enforcement (65 percent single highest or top few priorities). They are much more likely to back a Democratic funding proposal that includes "strict enforcement of child support payments" (61 percent) than an alternative without such a program (51 percent). Republican women abandon the Republican financing proposal when the Democratic alternative includes a child support provision.
- **Responsibility, individual accountability important to reform.** There is little about the current system that voters want to maintain, and they are particularly supportive of reforms and funding proposals that promote responsibility and accountability – such as sponsors taking responsibility for new immigrants or limiting benefits to drug and alcohol abusers. Minorities are strongly supportive of a national campaign against teen pregnancy.



- Perot voters eager for reforms. Welfare reform is popular with most voters, but Perot supporters are especially enthusiastic. Three quarters place "two years and work" in their top few priorities, compared to 63 percent of Bush voters and 59 percent of Clinton voters. Perot voters are supportive of almost every type of reform, resembling Democrats on day care subsidies but looking like Republicans on denying additional benefits to women who have children while on welfare.

Priorities for Welfare Reform

Voters are clear in their top priorities for welfare reform -- they want fathers to take responsibility for their children and they want people off the welfare rolls and into work. Other components of reform are grouped together, but there is a clear desire to eliminate the fraud voters associate with welfare and a call for individuals to take responsibility for their own lives:

	Percent Top Few
Aggressive child support enforcement	65
Expand job training and day care but cut off benefits after 2 years and require people to go to work	63
Strict measures like fingerprinting to make sure that people don't receive benefits in more than one locality	51
National campaign against teen pregnancy	48
Stop additional benefits to women who have new children while on welfare	48
Day care subsidies for low income working families	48
Require teen-age parents to finish school and live at home with parent or responsible adult	45

Child support enforcement is universally popular. There is almost no gender or partisan variation, although independents (71 percent top few priorities) and Republicans (67 percent) are somewhat more supportive. The two years/ job training initiative is also strong among almost every group. Interestingly, Perot voters place it much higher in their top priorities (75 percent) than either Bush (63 percent) or Clinton voters (59 percent).

Perot voters in general are more supportive of every reform, looking like Clinton supporters on day care subsidies (53 percent each top few priorities, compared to 42 percent of Bush voters), but looking like Bush supporters on denying additional benefits to welfare mothers who have new children (54 percent each, compared to 41 percent of Clinton voters). They are open to almost any type of reform that will change the system, including a program to stop teen pregnancy.



Black and Hispanic voters have different top priorities than whites, but their overall agendas are similar. Blacks place the single highest priority on a campaign to end teen pregnancy (21 percent single highest priority) followed by child support enforcement (18 percent). Hispanics split between two years/ job training (22 percent), a teen pregnancy initiative (20 percent) and fingerprinting (20 percent). Whites place their top initiatives as two years/ job training (20 percent) and child support enforcement (17 percent).

Blacks vary somewhat in their overall rankings of the "two years and work" initiative. Child support enforcement is by far ranked number one (67 percent single highest or top few priorities), with day care subsidies (54 percent), finger printing (52 percent), teen pregnancy (52 percent) and "two years" (51 percent) essentially tied for second.

Funding Alternatives

There is strong support for all funding alternatives tested, including denying benefits to legal immigrants. Tested individually, most of the Democrat alternatives run ahead of the Republican plan -- except the welfare for the wealthy provisions. But eliminating these tax breaks and subsidies is more popular with Democratic voters, and will help to consolidate support for the overall plan. Most of the other proposals are more popular with independent and Republican voters than they are with Democrats, although Democrats provide at least majority support for each one. The proposals rank as follows:

	Percent Favor
Require gamblers to pay withholding tax	83
Require immigrant sponsors to take responsibility for those immigrants for 5 years	77
Deny benefits to new immigrants until they become citizens	73
Limit benefits to drug and alcohol abusers	71
Eliminate benefits to legal immigrants	64
Eliminate tax breaks for annuities	62
Cut farm subsidies for wealthy farmers	61



Eliminating benefits for legal immigrants is an attractive alternative for many swing voters. Indeed, more independents favor the proposal (71 percent) than Republicans (69 percent). Even a majority of Democrats support the idea (56 percent).

While voters find the GOP scheme attractive, they do not stay with it when contrasted with a Democratic alternative. When asked to choose between two approaches, the Democratic approach wins a majority each time. A Democratic alternative that includes aggressive child support enforcement runs far ahead of the Republican plan:

Welfare for Wealthy/ Work Contrast	Fraud/ Deadbeat Dad Contrast
<i>The Democrats pay for their reforms by cutting welfare for the wealthy in the form of tax breaks and subsidies, and reducing the welfare rolls by making work pay with more tax breaks for the working poor.</i> 51 percent	<i>The Democrats pay for their reforms with spending cuts in other programs, by cracking down on welfare fraud and with strict enforcement of child support payments from deadbeat dads.</i> 61 percent
<i>The Republicans pay for their reforms by barring further welfare benefits to legal immigrants who are not American citizens.</i> 34 percent	<i>The Republicans pay for their reforms by barring further welfare benefits to legal immigrants who are not American citizens.</i> 27 percent

The first approach (welfare for wealthy) breaks out largely along partisan lines, although nearly one-third of Republicans back the Democratic alternative. A bare majority of Perot voters also sides with the Democrats. When the Democratic approach includes a crackdown on welfare fraud and deadbeat dads, a plurality of Republicans back the Democratic approach. Most of this movement comes from Republican women – 53 percent back the Democratic plan (compared to just 27 percent on the first alternative). Perot voters back the deadbeat dad proposal by 62 to 24 percent.

Voters are most concerned about the effects of denying benefits to legal aliens. The strongest arguments against the funding proposal focus on the costs of dealing with these people when they get sick (62 percent serious doubts) and the possibility of more hungry and homeless people in their communities (60 percent). Arguments dealing with constitutionality and the legal status of immigrants are strong but less effective. Groups that are most responsive to the arguments against denying benefits to legal immigrants are mostly non-college (74 percent, 46 percent high school or less) and disproportionately older (47 percent). A plurality (40 percent) are older non-college voters.

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THE WHITE HOUSE
WASHINGTON

January 27, 1997

MEMORANDUM FOR THE PRESIDENT

17 JAN 27 1997

FROM BRUCE REED

SUBJECT **Add On To The Micro Credit Awards Event**

On Thursday, January 30, 1997 you are scheduled to take part in the micro credit ceremony in the East Room. The First Lady and Secretary Rubin, with you, will present the first annual Presidential Awards in Excellence for domestic micro credit programs. You will be honoring seven successful micro-entrepreneurs. A reception will follow.

In addition, you will be able to make two related announcements -- a new public-private partnership to pursue highly aggressive welfare to work efforts, and a commitment to increase CDFI funding. The announcements will emphasize new private sector involvement and funding for welfare to work efforts, including microenterprise. The public-private partnership will give you the opportunity to highlight another corporation -- Chase Bank -- stepping up to meet your welfare to work challenge to corporate America.

1. Announce the Chase Manhattan Bank/Rockefeller Foundation/HUD Welfare-to-Work \$9.0 Million Dollar Partnership.

Chase Manhattan Bank and the Rockefeller Foundation have teamed with HUD in a three-way partnership to plan and fund long-term private sector welfare-to-work demonstrations designed to raise employment rates by as much as 20-30 percent in small urban neighborhoods. Chase and Rockefeller have committed a total of \$7.5 million to the project along with an initial \$1.5 million commitment from HUD. The Rockefeller Foundation expects to raise an additional \$7.5 million from corporations, foundations, and government agencies.

Organizations in 15 urban communities throughout the country will be selected to participate in these demonstrations. Systematic research will monitor activities and community outcomes to determine whether dramatic increases in employment can be achieved.

Funding will go in part to community organizations committed to undertaking intensive training and private sector job placement efforts with four common elements: work incentives; state-of-the-art job placement and retention services; expanded access to capital for neighborhood residents and business owners; and a creation of a community culture that supports work. Funding will also go to Public Housing Authorities in 5-6 cities to train and place public housing residents in jobs while simultaneously modifying welfare and housing policies to encourage work.

Peter Goldmark, President of the Rockefeller Foundation, the Vice Chair of Chase Bank, and a high level representative from HUD will be present.

2. Reiterate commitment to increase the Community Development Financial Institutions (CDFI) Fund budget.

Your new budget includes a \$1 billion increase over five years for the CDFI Fund, which coordinates the Administration's numerous microenterprise programs. The exact dollar amount for our FY '98 budget has not yet become public.

THE WHITE HOUSE
WASHINGTON

July 24, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
CYNTHIA RICE

SUBJECT: NEXT WEEK'S SPEECH ON STATE WELFARE REFORM EFFORTS

On Monday, July 28th, you will speak to the National Governors' Association in Las Vegas. We believe your speech is an opportunity to make a major statement on welfare reform one year after you signed the new law into effect and four years after you began to reform welfare by granting waivers to the states. You are scheduled to follow this speech with a Welfare to Work Partnership event on August 12th with several hundred business leaders in St. Louis who will accept your challenge to hire welfare recipients.

We thought that in the NGA speech you could provide a statement of the principles and values that have guided welfare reform. You could discuss the importance of work and responsibility, of requiring both parents to support their children, and also of teaching teenagers that staying in school and avoiding parenthood are the right things to do. You could talk about the new role of welfare workers: not to dole out checks, but to assist welfare recipients in meeting the challenge of joining the workforce. And you could talk about the need to support work -- to make sure it pays better than welfare -- through the minimum wage, EITC, child support, and investments in health care, child care, and transportation.

We also thought that in the NGA speech you could turn the spotlight on the states: to underscore the successes -- but also point out some of the shortcomings -- of state welfare reform efforts. You could emphasize that while we have much to be proud of, we cannot rest on our laurels. Instead, states must seize the opportunity to use savings from declining caseloads and the growing economy to put even more people to work. Many states are investing new funds in child care, transportation, and other welfare-to-work efforts; others are diverting savings to other parts of their budgets. We thought you could praise those who are doing the right thing, and scold, though not by name, those who are not. Overall, we hope in this speech that you could send a signal that we intend to hold states accountable for their actions.

Finally, you could include an update on education standards in the speech, probably referring to the announcements you will have made on Friday of the big city school districts that have agreed to adopt the new tests.

The State of the States

As you know, welfare reform began long before last August, with the waivers we granted to 43 states to allow them to impose tough work requirements and time limits and provide incentives to make work pay better than welfare. Under the new law, nearly 90 percent of these states have chosen to continue or build upon their waivers. Many of these states have intensified their efforts, either expanding small demonstration projects state-wide or leveraging additional financial or community resources for welfare to work efforts. Other states are simply in a holding pattern, postponing changes because of political conflict (i.e., New York and California) or for other reasons. Here's a summary of some of the interesting trends we've uncovered.

Child Care: Efforts to expand child care are widespread. Because of the additional \$4 billion we secured in the welfare law, all states are receiving more federal funds, which they must match with their own dollars. About half the states are increasing their spending beyond what is needed to match the new federal funds. Some states are adding quite a bit more: Wisconsin is adding \$160 million, Illinois is adding \$100 million, and Florida is adding \$23 million in new funds and shifting \$60 million from the welfare block grant to child care. A new paper by the Progressive Policy Institute praises Illinois, Michigan, and Washington for establishing "seamless" child care systems which provide subsidies for all workers below a certain income, whether they've been on welfare or not. (There's a growing concern that some states are short-changing the working poor by giving former welfare recipients priority for child care subsidies. Creating a universal, income-based system avoids that problem.)

Transportation: Several states have developed strategies to ensure welfare recipients have the transportation they need to get to work. Kentucky is now implementing an initiative to ensure that transportation is available in all areas of the state. Connecticut is earmarking \$2.2 million of its TANF funds for new transportation services for welfare recipients. New Jersey has announced a \$3.7 million initiative to move *Work First New Jersey* participants to work. In May, the Department of Transportation worked with NGA to award planning grants to help 24 states develop transportation strategies to support their welfare to work efforts.

Welfare to Work Programs: Nearly all state welfare-to-work programs include the traditional elements: job search, training, education, community work experience, and placement in unsubsidized jobs. But now, according to a new survey by NGA, 36 states are using welfare checks to subsidize private jobs, although mostly on a small scale. Twenty-seven states have "upfront diversion" programs which provide job search assistance or emergency cash grants to help prevent people from going on welfare. Several states (Maryland, Pennsylvania, Florida) provide tax incentives to companies that hire welfare recipients. In many states, the governor and other elected officials are reaching out to the business community to forge new partnerships. In Nevada, the state has set a goal for new casinos to set aside 10 percent of all positions for former welfare recipients.

Diverting Welfare Savings for Other Uses: Not all states are investing welfare savings in child care, transportation, or other welfare to work efforts. According to the Progressive Policy Institute, Ohio is actually cutting state spending on child care and is using some of its savings from lower welfare caseloads for tax cuts (the state protests that, with the infusion of federal dollars, it is still spending more overall on child care than before). In Connecticut, the governor proposed and the legislature enacted a plan which uses federal TANF dollars to replace existing state social services spending. In Texas, the state spent less than one-third of its surplus from declining caseloads on welfare to work programs; the rest was used on state programs previously funded by state dollars.

Child Support Enforcement: As you know, we have made progress in child support enforcement, increasing collections by 50% from 1992 to 1996. Last year's welfare law included tough new measures to help states track deadbeat parents across states lines. To date, however, many states have not enacted all the state laws needed to put these tough new measures into place. According to HHS, one state -- Idaho -- has not enacted any of the new child support provisions required by the new federal law. Moreover, nine states -- including California, which has 22% of the nation's welfare caseload -- will likely not make this October's deadline to put in place new child support computer systems. We think that in your speech you should underscore the need for prompt state action in these areas.

THE WHITE HOUSE
WASHINGTON

December 16, 1997

MEMORANDUM TO THE PRESIDENT

THROUGH: Sylvia Matthews

FROM: Bruce Reed
Diana Fortuna

SUBJECT: SSA Report on Implementation of Children's SSI Cutoffs

The Social Security Administration intends to release a report this Thursday on its implementation of the new definition of childhood disability for SSI. This report follows Commissioner Ken Apfel's promise, at his confirmation hearing in September, of a "top to bottom" review of SSA's process for redetermining the eligibility of children.

As you know, the welfare law tightened the definition of childhood disability for SSI, and required the Social Security Administration to redetermine the eligibility of approximately 288,000 children, out of about one million children now on the rolls. These reevaluations have led to almost 140,000 terminations to date. (At the time the welfare law was enacted, CBO estimated that 180,000 children would lose SSI; when SSA announced its interpretation of the law, it projected that 135,000 children would become ineligible.) Advocates charge that SSA has done a poor job on these reevaluations, causing eligible children to be dropped from the rolls.

The report concludes that SSA did a generally good job of redetermining eligibility for these children. The report, however, identifies three areas of concern and announces actions to address them.

First, SSA will review the cases of all children "coded" as mentally retarded who were cut from the rolls and have not appealed. This action addresses SSA's finding that some of these children may have been terminated incorrectly. Second, SSA will review a portion of every state's unappealed terminations, choosing the kinds of cases most needing review in each state and focusing heavily on states that SSA has found to have a relatively high error rate. This review will allow SSA to give special attention to states with the highest error rates, without singling them out as "bad actors." Third, SSA will offer all 70,000 families who did not appeal its termination decisions a new opportunity to do so. These actions, and the problems they address, are further described in an appendix attached to this memo.

In all, SSA will review the cases of 48,000 children dropped from the program. (Another 70,000 have appealed.) As a result of these actions, SSA now projects that approximately 100,000 children ultimately will lose SSI benefits.

With the report, SSA also plans to release case studies of a random sample of 151 children who have lost benefits. This document is intended to explain to the public what kinds of children are no longer eligible. Most of the children have mental disabilities other than mental retardation, including learning disabilities and attention deficit disorder. Over a third have improved since they were first found eligible. The majority are teenagers; only a handful are age six or younger.

Advocates will probably have a mixed reaction to the report -- generally pleased about the actions, but still arguing that SSA's regulation interpreting the statute is needlessly strict. The report does not address the latter issue. The Republican leadership in Congress has been extremely supportive of SSA's implementation of the law to date, but probably will criticize this report on the ground that it bends over backwards to restore benefits.

SSA Report on Childhood Disability Process

SSA's report examined three areas of concern raised by advocacy groups:

I. Mental Retardation

Advocates' Charge: Too many children with mental retardation were cut from the rolls.

SSA Finding: Of the 136,000 children terminated to date, 42,000 were "coded" as mentally retarded (MR). However, most of these children do not actually have MR, because until recently SSA's systems did not have all the necessary codes. Instead, most of these children have other mental disorders, such as learning disabilities or "borderline intellectual functioning" (which falls short of full-fledged MR). Some unknown subset of the 42,000 do have MR, but either their impairments are not severe enough to qualify them for SSI, or they were denied incorrectly.

Even with these terminations, approximately 350,000 children coded as MR will remain on the rolls, out of the total of one million children on SSI.

SSA Action: SSA will review all cases terminated that were coded as MR, to ensure that all those decisions were made properly.

II. State Variations in Cutoffs

Advocates' Charge: Errors in cutoffs appear likely, since termination rates varied widely by state, from 32% in Nevada to 82% in Mississippi. Also, SSA may not have acquired all documentation, such as school records, needed to judge a child's disability. Finally, some states were disqualifying too many families for failure to cooperate without making adequate efforts to reach them.

SSA Findings: SSA data show that on average 93% of termination decisions were both accurate and complete (i.e., they included all required documentation). This exceeds SSA's required level of overall state performance for SSI, which is 90.6%. However, 10 states had accuracy/completion rates below 90%. Another 9 states had accuracy/completion rates below the national average. (SSA's experience is that about one-third of the errors identified in these measures will ultimately prove to be accurate decisions that simply lacked documentation.) SSA found that many inaccurate decisions stem from an overly strict interpretation of the new rules for children who exhibit maladaptive behavior.

Claims that SSA did not acquire all needed documentation were determined to be largely unfounded. However, SSA found wide state variations in the percentage of children cut off because their families did not cooperate with the redetermination. In a study of such cessations, SSA found that 68% of the cases did not include documentation that all required efforts to contact the family had been made.

SSA also performed a regression analysis to determine whether wide state-to-state variations in overall termination rates should be expected because of legitimate factors, such as the child's age and impairment and whether the child was initially added to the rolls based on the less strict criteria eliminated by the welfare law. SSA found that these factors would lead you to expect the cutoff rate to vary from 40% in Idaho to 78% in Mississippi. While this regression analysis does not fully explain the actual state-by-state variance, it does convince SSA that most of the variance among states is due not to errors, but to characteristics of the children.

SSA Action: SSA will review a portion of the decisions in all states, focusing more on states with lower accuracy rates. All cases terminated as a result of failure to cooperate will be reviewed. SSA will also provide more training on maladaptive behavior.

III. Appeal Rights

Advocates' Charge: Too few families are appealing because SSA's notice to families was confusing, and workers discouraged appeals. Also, SSA discouraged families from requesting that benefits be continued during the appeal, and didn't do enough to publicize free legal services.

SSA Finding: SSA found that its workers did not discourage appeals, although this may have occurred in isolated instances. At the same time, a survey conducted by SSA confirms that many families did not understand their appeal rights.

SSA Action: All 70,000 families of children who were terminated and did not appeal will be given a new opportunity to do so. In addition, all families of children who appealed but did not request continuation of benefits during the appeal will also be given a new opportunity to make that request. SSA will also publicize the availability of free legal services for families.

THE WHITE HOUSE
WASHINGTON

February 5, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED

SUBJECT: SECRETARY SHALALA'S REPORT ON WELFARE REFORM

The attached memo from Secretary Shalala provides a good update on welfare reform.

Among the most interesting findings:

- The stunning caseload drop continues -- 2.4 million in the first 13 months of the new law. Twenty one states have dropped by 25 percent or more in that time.
- There has been no "race to the bottom" -- states are spending more per recipient than in 1994. All states are meeting the maintenance of effort requirement we fought for in the welfare law, and 20 states are exceeding it.
- Many more recipients are now working. State evaluations show a substantial increase in the share of people who leave welfare for work (from 45-50 percent under AFDC to up to 60 percent now), even as record numbers leave the rolls.
- There is little evidence of hardship among those who are sanctioned for not meeting program rules. Only nine states have adopted lifetime limits of less than five years.
- Forty states have enacted policies to make work pay, generally by increasing earnings disregards so families can keep their welfare subsidy while earning more.
- About a half dozen states (CA, NY, MD, OH, FL, CO, NC) are devolving key decisions to the counties.

Something not mentioned in the memo, but discovered from the new state financial data, is that seventeen states have created state-only welfare programs to which TANF work requirements and time limits don't apply.

JAN 27 1998



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

MEMORANDUM FOR THE PRESIDENT

The purpose of this memo is to outline the information we have so far on the impacts of changes in welfare programs. The information is still quite preliminary, but some conclusions are emerging. These include:

- o The total number of welfare recipients has fallen below 10 million for the first time since 1971. Caseloads have fallen by more than 30 percent since their peak in 1994.
- o Many more recipients are now working, and the proportion of former recipients at work after leaving welfare appears to be somewhat higher than in the past.
- o States are making very serious efforts to move recipients into work, both by mandating work programs and sanctioning those who do not comply, and by increasing the benefits of working through simpler and higher earnings disregards and on-going supports such as child care.
- o As we found with AFDC waivers, States are adopting common approaches but with many variations in specifics. Several large States are devolving key policy decisions to the county level.
- o There has been no "race to the bottom" in State welfare benefits; States are spending more per recipient than in 1994 across TANF and related programs, and State maximum benefit levels are generally unchanged.
- o So far there is little evidence of extreme hardship among those who leave welfare as a result of sanctions, although many do experience fairly large declines in income. Overall, however, half or more of former recipients appear to increase their incomes after leaving welfare.
- o Even when recipients move to work and improve their incomes, they are still likely to have total incomes below the poverty line.

This memo looks first at what the States are doing, in terms of both spending choices and broader policy choices. It then turns to impacts on recipients, assessing both results from evaluations of State waivers similar to current State policies and the very early results from State surveys of recipients and former recipients. Finally, the implications of these findings for Federal and State policy choices are briefly discussed.

State Responses to Welfare Reform

Welfare caseloads have declined dramatically since their peak at 14.4 million recipients in March 1994. Overall, the number of people receiving aid had declined by more than 30 percent to 9.8 million recipients by September 1997 (the most recent monthly report available). This decline has continued at an even more rapid pace since the enactment of welfare reform in August 1996. In the first year of welfare reform alone, almost 2 million recipients left the rolls. As Chart 1 (attached) shows, these declines are spread across almost all of the States.

Changes in State Spending on Welfare Programs. There has been no "race to the bottom" in State welfare spending. Because there are now fewer recipients, total State spending on welfare programs has declined since 1994. On average, however, States are spending somewhat more per recipient than they did in 1994—reported State spending on welfare and related programs is about 18 percent below the level seen in 1994, while caseloads have declined by more than 30 percent. This increased spending has not affected direct payments to recipients, which remain very close to the levels seen in both 1994 and 1996 (about \$370 per family per month on average.) In all, four States have increased maximum benefit levels since the enactment of TANF, while five States have decreased maximum benefits for at least some categories of recipients.

States are reporting that they are meeting their Maintenance of Effort (MOE) requirements under welfare reform. They are required to spend 80 percent of previous (generally 1994) levels, or 75 percent if they meet the minimum participation requirements, and 20 States report exceeding that goal, some by considerable amounts (see Chart 2). Further, reported spending may understate actual amounts spent, since there are no incentives for States to report additional spending once their MOE requirements have been met. There is little in these data to suggest declines in spending levels—rather, States appear to be using at least some of their own money to provide services such as child care and job training and placement and to increase work incentives.

Changing State Policies. A focus on work is a major theme in State welfare policies, although there is considerable variation in plan specifics and in implementation across States. The following key points emerge from an overview of State policies:

1. States are focusing on encouraging and requiring work.

- a 40 States have enacted policies to make work pay, generally by increasing the amount of earnings disregarded in calculating welfare benefits. (See Chart 3.) Connecticut, for example, now disregards all earnings up to the poverty level. Most States have also simplified the treatment of earnings compared to the AFDC treatment, with the result that recipients can see more clearly how even a low-wage job will make them better off.

- o 44 States have raised the level of resources and/or the maximum value of a vehicle allowed to welfare recipients. (See Chart 4.) This will make it easier for recipients to get to work and to accumulate savings that might lead to self-sufficiency.
- o Almost all of the States have moved to "Work First" models in their welfare programs, requiring recipients to move quickly into available jobs. Virtually every State has instituted "social contracts" or other personal responsibility agreements in which recipients commit to specific steps toward self-sufficiency. States are enforcing these contracts, sanctioning people who fail to sign or live up to their agreements.

2. Family violence issues and choices about exemptions for parents of very young children are being addressed by the States.

- o 24 jurisdictions have elected to screen for, provide appropriate services, and waive requirements where needed to ensure the safety of victims of domestic violence through the Family Violence Option (See Chart 5.) Additional States, including California, are expected to implement this option in the coming months.
- o As indicated in Chart 6, most States have chosen to exempt parents of infants under one year of age from work requirements. 16 States have chosen shorter exemptions (the law allows States to require parents with children over 12 weeks to work.)

3. State policies regarding time limits are varied and complex.

- o Chart 7 shows that eleven States have chosen "intermittent" time limits that limit the total months of reciprocity allowed within a longer time period (for example, Virginia limits TANF receipt to 24 months in any 60 month period). Nine States have chosen lifetime limits of less than five years. Both of these types of time limits often allow exceptions or exemptions. 27 States have chosen the Federal limit of 60 months. Four States have chosen other options involving supplements from State welfare programs for those reaching the Federal time limits.
- o Evaluation and survey data find that recipients are often unclear about the specifics of time limits (and other reform policies) that apply to them, although they do know that the nature of welfare has changed.
- o Few recipients have reached State time limits so far.

4. State plans vary considerably in their specifics and in their timing.

- o A few States are making choices that appear to have little to do with work, such as counting the SSI income of disabled children and adults in computing TANF benefits without taking into account the added costs of disability.
- o The amount of time that elapses between the determination of policy choices and their actual implementation varies greatly across States, usually based on whether, when and how extensively they undertook reforms through waivers. Many States have not completed the process of implementing proposed policy changes.

5. Finally, California, New York and several other states are devolving key decisions to counties.

- o Other States in the process of devolving include Maryland, Ohio, Florida, Colorado and North Carolina.
- o These States are devolving decisions about work activities, post-employment supports and, in some cases, sanctions; Colorado and North Carolina are also passing on decisions about other factors including eligibility. Benefit levels will still be determined at the State level, although in some cases the State will mandate only a floor which the counties can choose to exceed.

Impacts of Welfare Reform on Recipients

Moving recipients and potential recipients into work has been the focus of most State policies, and there is some preliminary evidence that employment levels are rising as caseloads decline. Evidence on the impacts of other aspects of the changes on recipients and would-be recipients is somewhat more mixed. Are they indeed better off in economic terms? What has happened to those who haven't gotten jobs? It is still very early to answer those questions, but we have some preliminary data that give a few indications.

Our preliminary data generally relate to the situations found in specific states. Thus, this report draws upon preliminary program evaluation reports of waiver-based policies from Michigan, Iowa, Minnesota, Delaware, and Florida, and on surveys of welfare recipients and people who have left welfare rolls in Massachusetts, Iowa, Wisconsin, Indiana, Maryland, South Carolina and Tennessee. The early stories emerging from these studies appear to be fairly consistent across those states. Although we are beginning to have some evaluation evidence on the impacts of policy changes as opposed to the strong economy, it is very difficult to sort out the relative importance of policy and economic factors at the National level.

Sanctions. States are generally working harder to enforce mandatory work requirements, and sanctions rose by about 30 percent nationally between 1994 and the end of 1996. Anecdotal evidence implies that these rates are still increasing. In the studies of specific States, sanction

rates of as high as 50 percent are seen, with rates in the 25 percent to 30 percent range not unusual. Sanctions may result in either a complete or partial loss of benefits. Across States we find that the majority of sanctions occur because recipients fail to show up for initial appointments. Far fewer families have been sanctioned for refusal to comply with work assignments. Sanctioned families may include many who are already working or who have good job opportunities; in Iowa, for example, families that did not comply with the State's Family Investment Plan tended to be more job-ready than the average.

Employment. Perhaps partly because of stricter work policies as well as the robust economy, more recipients and former recipients are now employed. Evaluations of specific State programs show policy-related increases in employment in the range of 8 percent to 15 percentage points. Surveys of people who have left welfare imply that 50 percent to 60 percent are working in the period following welfare reciprocity (with the remainder not employed). This is comparable to or slightly higher than the 45 percent to 50 percent of welfare exiters who worked after leaving AFDC. Some of this increase in work may result from the strong economy as well as from policy changes.

Incomes. While there do not appear to be dramatic changes so far in the average incomes of welfare recipients and those leaving the welfare rolls, these averages hide a great deal of variation. Among those leaving the program, incomes in the follow up period are very mixed. Generally, about half of former recipients saw increases in their incomes, while half experienced declines. There is some evidence that those who leave the program voluntarily are more likely to have increased incomes, although in both South Carolina and Iowa about 40 percent of those who left because of sanctions also experienced income increases.

There is little evidence at this point of extreme hardship even among families losing benefits altogether as a result of sanctions or time limits. However, events such as homelessness or entry of children into foster care are sometimes hard to observe in evaluations and follow up studies, which are usually unable to trace some proportion of former recipients. In the short run, many families experiencing large income losses appear to rely on help from friends and extended family. It should be noted also that even families whose incomes rise as a result of higher earnings and/or changes in State policies typically still do not have above-poverty level incomes while on TANF or in the period immediately after leaving the program.

Other Benefits. Families who leave TANF are often eligible to continue receiving benefits from other social support programs such as the Food Stamp Program, Medicaid, Supplemental Security Income (SSI) and housing programs. However, relatively low take-up rates for some of these benefits suggest that many former recipients may be unaware of their continued eligibility for other programs such as Medicaid, or that administrative barriers may be preventing some eligible families from participating in these programs. In both South Carolina and Indiana, for example, about half of the adults who were no longer receiving cash assistance reported that they did not have any health insurance.

Policy Implications and Next Steps: Supporting Low-Income Workers

These early results suggest that real progress is being made in focusing recipients on work and in moving them into employment. This is a significant and critical step on the path to reforming welfare. I believe that further steps need to be taken to consolidate and build on this accomplishment. In particular, we need to ensure that low-income working families, whether they are former welfare recipients or not, can continue to work and to earn enough to raise their families, weathering unemployment and other temporary setbacks without relying on long-term welfare receipt. In pursuing this goal, we would be building on the Administration's many achievements for working families, including expansion of the EITC, increasing the minimum wage, expanding health care coverage for children, enacting parental leave, and the introduction of this year's pathbreaking child care initiative. And we would also be building on the widespread and increasing interest of the States, which are starting to grapple with the question of what happens after welfare parents take their first jobs.

Both researchers and practitioners are telling us that when such parents move to work, most are likely to need continuing support in order to keep their jobs, support their families, improve their incomes over time, and avoid going back onto the welfare rolls. These supports can take many forms, from the EITC or increased earnings disregards to services such as child care, health care, transportation and mentoring. Currently, States have resources available to them through the TANF block grant and their Maintenance of Effort funds, as well as through other State resources that have been freed up as a result of declining caseloads. We can make progress on this agenda by challenging States to make key investments, showcasing effective practices and encouraging State innovation as well as by shaping a National agenda to help low-wage workers and their families.

A successful strategy to support low-income workers and their families would involve several components at both the State and National levels. These could include:

1. Raising the incomes of low-wage workers. Most welfare recipients moving into their first jobs continue to earn below-poverty level incomes. The major 1993 expansion of the EITC does a great deal for these families, and it must be protected. In addition, we could challenge States to expand State EITC's and to increase earnings disregards and other programs for low-wage workers. For example, Wisconsin has used TANF MOE funds to expand both its EITC and housing subsidies for low-income owners and renters. At the National level, policies such as a further increase in the minimum wage or tax incentives for employers to promote jobs and higher wages for low-skilled workers could be explored.
2. Providing other job supports. We must ensure that other critical job supports, such as health care, child care, transportation, and mentoring, are available for working families who need them. The Administration's new child care initiative is of course critical to this strategy, and the newly enacted Child Health Insurance Program should go a long way toward ensuring health care coverage for the children of low-wage workers. We need to

continue outreach efforts to make sure that low-income working families are aware of their potential eligibility for Medicaid. The Vice President's work on mentoring provides a valuable example, and States must be encouraged to continue to invest in these programs and other supports.

3. Ensuring that low-wage workers improve skills and earnings over time. Many States are beginning to grapple with the best way to promote growth in skills and earnings over time for former welfare recipients. Over the longer term, such growth will be necessary to meet both the needs of families and the needs of the economy as a whole. We should be challenging States to put together creative strategies and showcasing those that do. These strategies can involve linkages among workforce development, higher education, and welfare systems, as well as work with specific private employers. At the National level, strategies to increase educational opportunities for low-income families are a key to increasing skills and earnings over time.
4. Maintaining the safety net for workers. If a temporary setback is not to result in a return to welfare dependency, the safety net for low-wage workers must be maintained. At the National level, changes could be made in the Unemployment Insurance program to increase the probability that low-wage workers will earn coverage, as is now being discussed within the Administration. At the State level, we should showcase States that are implementing post-employment services and other strategies to address the fact that low-income workers are likely to experience considerable job turnover and some periods of unemployment. We should challenge States to invest in approaches that combine reliable short-term assistance with rapid re-employment help.

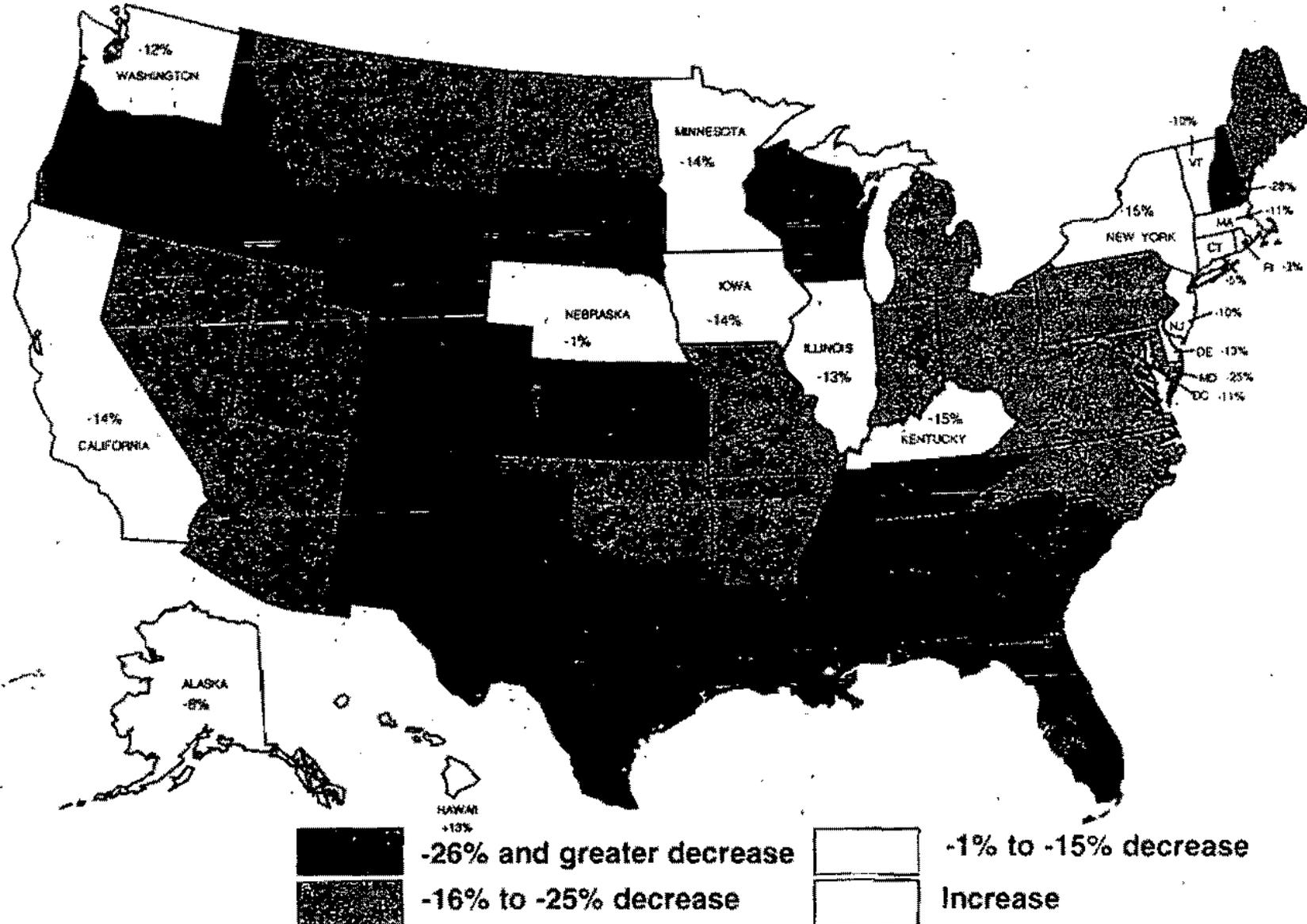
In summary, we must build upon and continue our efforts on behalf of low income workers. I look forward to further discussions with you regarding these important issues. Please let me know if you would like a briefing or further information.



Donna E. Shalala

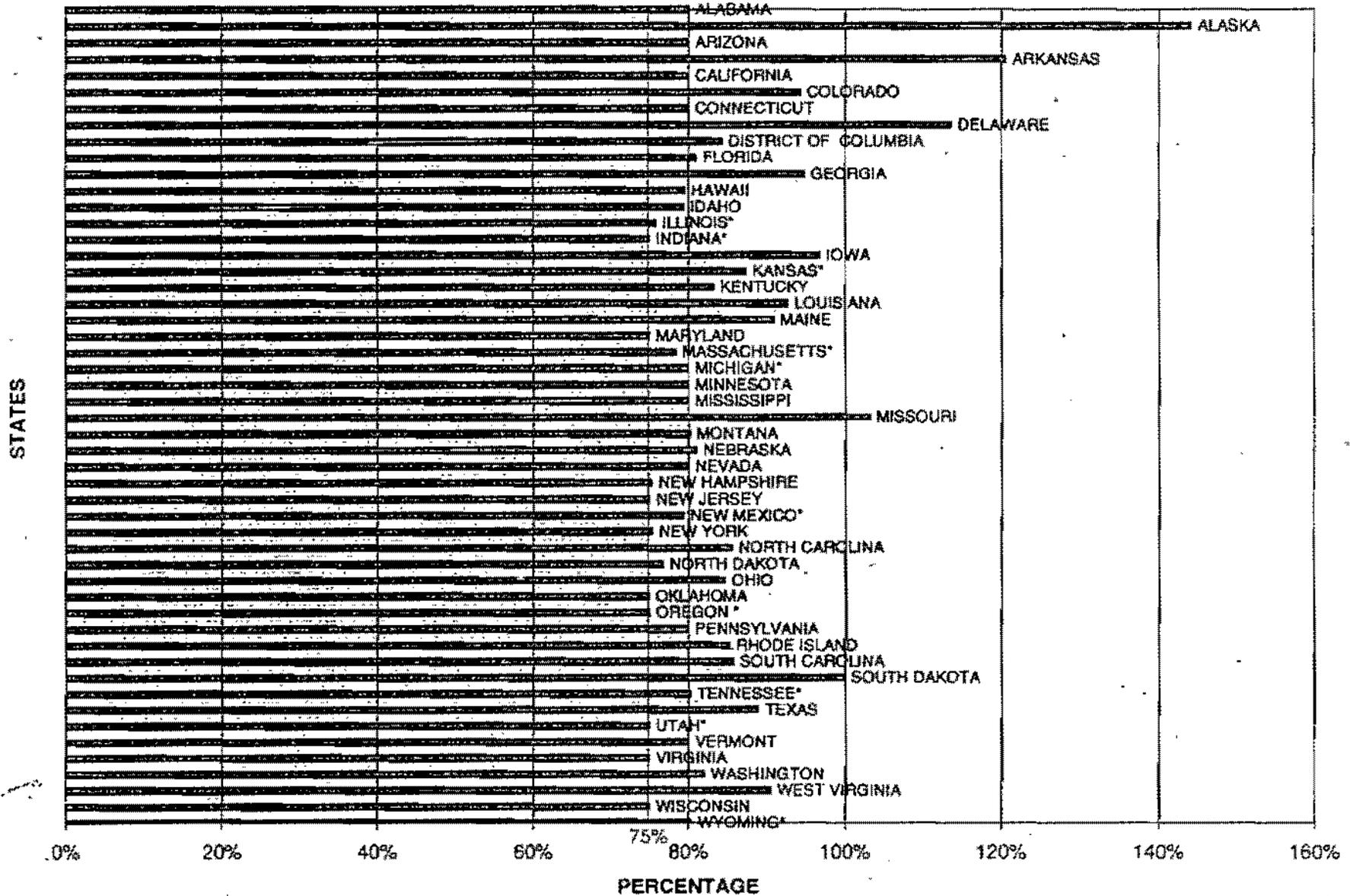
Attachments

Chart 1: RECIPIENT COUNT DOWN 2.4 MILLION SINCE ENACTMENT OF NEW WELFARE LAW (August 1996-September 1997)



TANF PRO

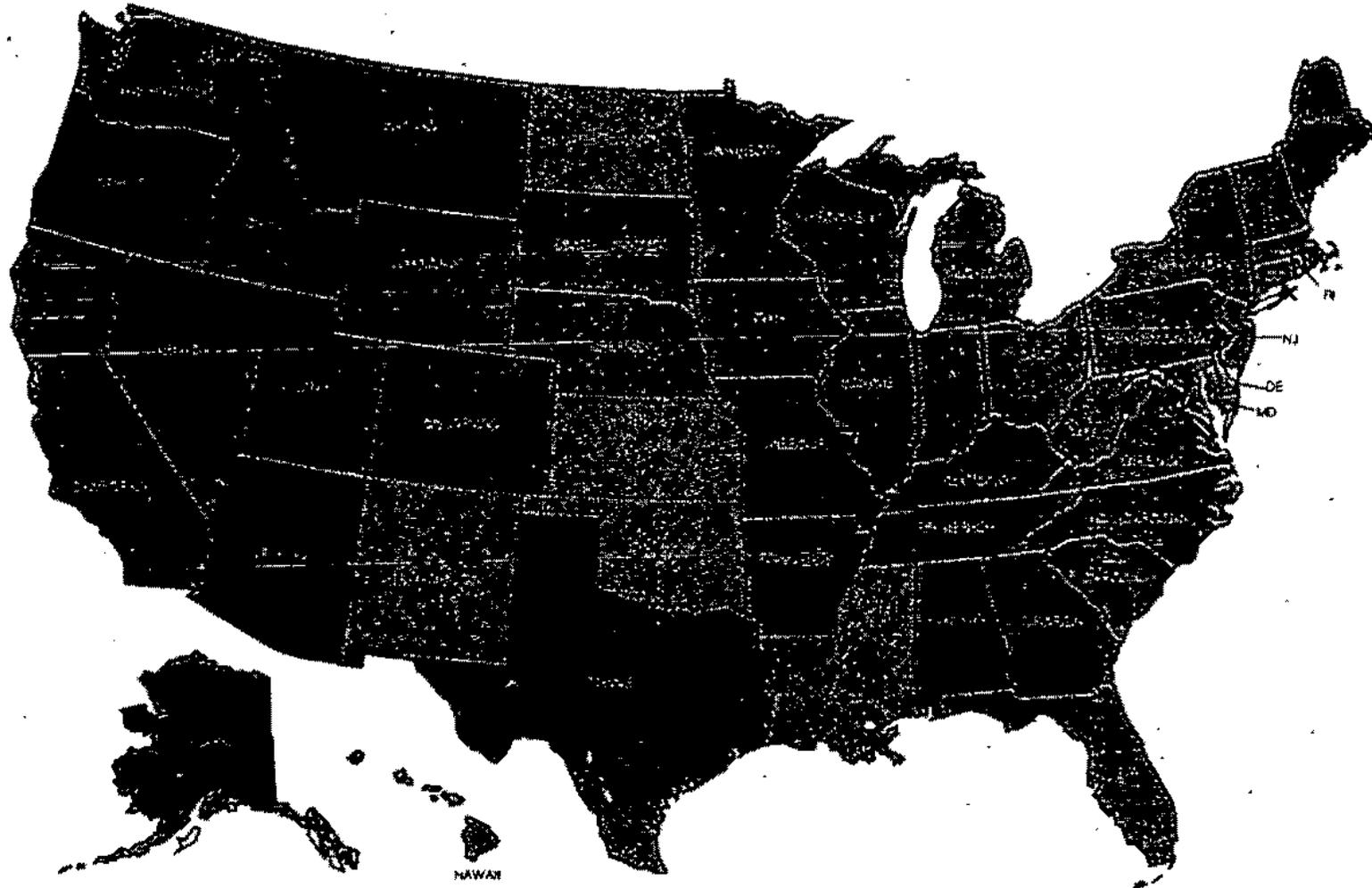
Chart 2: EXPENDITURE OF STATE FUNDS IN FY 1997 AS % OF MOE

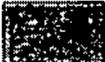


Data as of January 23, 1998

Chart prepared by U.S. Dept. of Health and Human Services
Administration for Children and Families

Chart 4: Increased Resource/Vehicle Limit



 Increased resource and/or vehicle limit

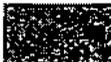
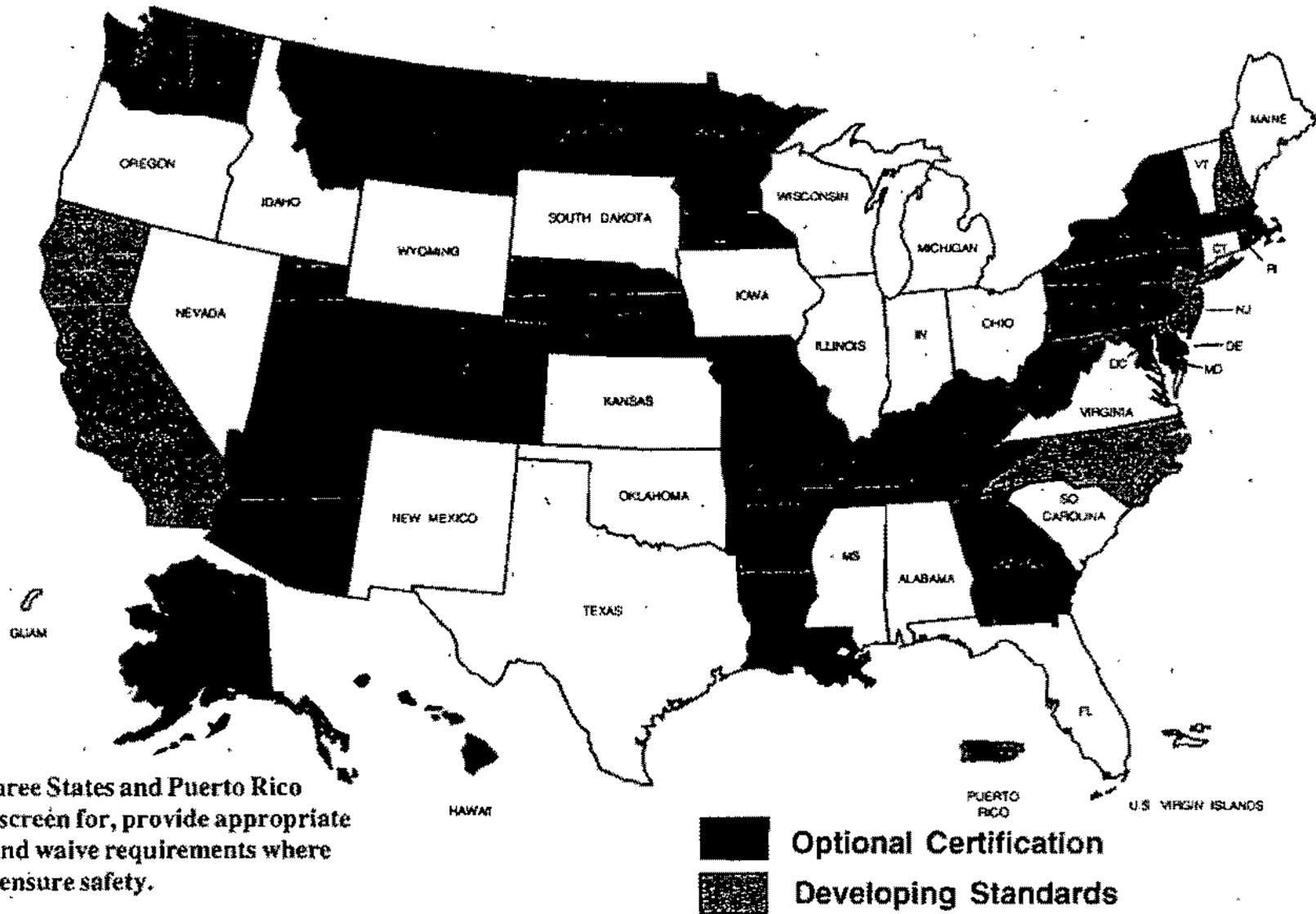
 As under former AFDC program

Chart 5: States Selecting Family Violence Option



Twenty-three States and Puerto Rico elected to screen for, provide appropriate services, and waive requirements where needed to ensure safety.

THE WHITE HOUSE

WASHINGTON

October 21, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Andrea Kane

SUBJECT: Minority Welfare Caseloads

You asked us to evaluate recent reports that African-American and Hispanic families are leaving welfare more slowly than whites, and to consider what more we could do to ensure all welfare recipients are making the successful transition from welfare to work. Here is a brief summary of the trends, along with some new ideas we are developing for consideration in your FY 2000 budget.

I. Caseload Trends

We have worked closely with NEC, CEA, OMB, HHS, and the Census Bureau to examine the most recent welfare caseload data (generally through 1997). As detailed in the attached tables, the data show:

1. Most of the changes in the welfare caseload can be attributed to changes in the composition of the population as a whole -- specifically, population growth explains nearly two-thirds of the difference in caseload decline between Hispanics and whites and nearly half the difference between blacks and whites.

Since 1994, the *number* of welfare cases has indeed dropped more among whites (26 percent) than among blacks (18 percent) and Hispanics (9 percent). However, when population growth is taken into account, the difference narrows dramatically. The *rate* of welfare dependency has dropped sharply for all populations -- by 26 percent among whites, 21 percent among blacks, and 20 percent among Hispanics. In other words, minorities are leaving or staying off welfare at nearly the same rate as whites, but make up a growing share of the welfare population because they make up a growing share of the population as a whole. [See Table 1.]

2. The difference in caseload decline is even narrower among adults. Since 1994, the adult rate of welfare dependency has declined by 30% among whites, 26% among blacks, and 24% among Hispanics.

Child-only cases -- which are decreasing more slowly because they are not significantly affected by welfare reform efforts to move recipients from welfare to work -- are disproportionately minority. The child-only caseload includes citizen children born to illegal immigrants, children whose parents receive SSI, and children living with relatives who are not on welfare. [See Table 2.]

The composition of the welfare caseload has changed gradually over time, largely driven by population changes. The composition of the adult caseload has not changed significantly since 1994; the most recent national data shows it is now 37 percent white, 37 percent black, and 21 percent Hispanic. [See Table 3.]

3. There is encouraging evidence that the employment rates of minority welfare recipients are catching up with the employment rate for whites. Between 1996 and 1998, the percentage of all prior year welfare recipients who were employed in the next year increased by 28%. The increase was highest for Hispanics (49%), followed by blacks (44%) and whites (5%). [See Table 4.]
4. Recent trends in marriage and teen illegitimacy rates could exacerbate the increasing proportion of Hispanic families on welfare. While the proportion of never-married single mothers is increasing for the entire population, the rate of increase is largest for Hispanic women. Also, the birth rate to unmarried teenagers is increasing for Hispanics while declining for whites and blacks. [See Table 5.]
5. To keep racial disparities from emerging as a problem down the road, we should do all we can to break the cycle for long-term recipients, who are disproportionately minority. Minorities are more likely than whites to be on welfare in the first place, and more likely to end up as long-term recipients once they go on the rolls. Blacks and Hispanics on welfare tend to have lower educational levels, marriage rates, and larger families than whites, and are more than twice as likely to live in central cities and areas of concentrated poverty. Hispanics also have less recent work history than whites or blacks. [See Table 6.]

II. What We Can Do

We will continue to monitor caseload trends and keep you informed. While initial press reports may have overstated disparities so far, these data underscore the importance of focusing our efforts on the hardest cases, which are disproportionately minority. Many of our existing welfare-to-work initiatives already target this population, but we also are developing some new proposals for your consideration in next year's budget.

A. Current Initiatives

As you know, you have put forward many initiatives to help the hardest-to-serve welfare recipients and those living in concentrated areas of poverty. Many of these initiatives were implemented in 1998, too late to influence 1994-1997 trends outlined above.

- The \$3 Billion Welfare-to-Work Fund you fought for in the Balanced Budget Act is designed specifically to help long-term welfare recipients (and non-custodial parents) in high-poverty areas obtain jobs and move up a career ladder. While it is too early to have demographic data on the individuals served by these funds, the

distribution formula and individual eligibility criteria ensure that most of these funds will be spent on minorities. The first of these funds were awarded in January 1998 and are just now starting to provide individual services.

- Welfare to Work Transportation Funds enacted in the TEA-21 transportation reauthorization bill will help welfare recipients and low-income workers get to where the jobs are, often in suburban areas not served by public transportation. The omnibus budget bill includes \$75 million for this year.
- Welfare-to-Work Housing Vouchers we've proposed will help families in isolated urban or rural areas move closer to job opportunities. Congress has funded our request for 50,000 vouchers.
- Community Empowerment Initiatives. The Administration's Community Empowerment initiatives -- empowerment zones, enterprise communities, Brownfields, CDFIs -- will spur economic development and job creation in distressed neighborhoods and help address the geographic isolation faced by minorities on welfare.

B. New Initiatives

In preparation for next year's budget, we are developing a number of options to address the particular challenges faced by minorities in making the transition from welfare to work:

- Increasing Investments in English-Language and Literacy Training. We hope to recommend targeted new investments in two areas that directly affect minority and long-term recipients: learning English and learning to read. This could be done by expanding existing Department of Education adult education programs, or better yet, by dedicating Welfare-to-Work funds for job-related literacy and ESL programs, provided either in the workplace or by community organizations preparing individuals for employment.
- Expanding Work-Related Drug Treatment. Since many of those remaining on welfare suffer from drug or alcohol dependencies, we are exploring ways to provide drug treatment for those who agree to go to work.
- Targeting Welfare-to-Work Funds to the Toughest Areas. While the current Welfare-to-Work formula favors high-poverty areas, we are going to examine whether the funds could be even more targeted.
- Increasing Work and Child Support Among Noncustodial Fathers. We may be able to attract bipartisan support for an effort to help states increase the employment and child support payments of noncustodial parents.

Minority Caseloads Analysis and Tables

Table 1: Population-Adjusted Change in Rate of Welfare Dependency

Since 1994, the *number* of welfare cases has dropped more among whites (26 percent) than among blacks (18 percent) and Hispanics (9 percent). However, when population growth is taken into account, the difference narrows dramatically. The *rate* of welfare dependency has dropped sharply for all populations -- by 26 percent among whites, 21 percent among blacks, and 20 percent among Hispanics. Specifically, population growth explains nearly two-thirds of the difference in caseload decline between Hispanics and whites and nearly half the difference between blacks and whites.

Table 1: Change from 1994 to 1997*

Race/Ethnicity	Number of Welfare Cases	Population Aged 15-49	Rate of Welfare Dependency (caseload adjusted for population)
White	-26%	-0.1%	-26%
Black	-18%	4.4%	-21%
Hispanic	-9%	13.0%	-20%

* National data is only available through June 1997. We do not yet have more recent data, or state-specific data, that we consider accurate. In July, The New York Times reported more recent data provided by some states, but HHS believes that data, particularly for New York and California, may contain significant reporting errors due to states implementation of the new TANF data reporting system. The trends in population aged 15-49 are used here because this is the population group most likely to be a welfare head of household, whose race/ethnicity would be counted when tallying the case demographics.

Table 2: Population-Adjusted Adult Rate of Decline

The difference in caseload decline among groups is even narrower for adults. Child-only cases are decreasing more slowly than the overall welfare caseload and are disproportionately minority; in fact, between 1994 and 1997 they increased (though they declined slightly between 1996 and 1997). Child-only cases are those in which the parent or adult is not part of the case, (e.g., adult is not a citizen but the child is; child is being cared for by a relative who is not part of the case; parent receives SSI rather than welfare). Therefore, child-only cases are not significantly affected by welfare to work efforts. After adjusting for population growth, the rate of welfare dependency for adults (percent of 15-49 year old population on welfare) has declined 30% among whites, 26% among blacks, and 24% among Hispanics.

Table 2: Population-Adjusted Rate of Decline in Adult Welfare Dependency: 1994 - 1997*

	Rate of decline for all cases	Rate of increase for child-only cases	Rate of decline for adult-headed cases	Population-adjusted rate of welfare dependency for adult cases
White	- 26%	7%	- 30%	- 30%
Black	- 18%	3%	- 23%	- 26%
Hispanic	- 9%	9%	- 15%	- 24%

*National data is only available through June 1997.

Table 3: Racial Breakdown of Adult Cases

The composition of the welfare caseload have changed gradually over the past 25 years, driven largely by population changes. Despite differing rates of caseload decline since 1994, the composition of the adult welfare caseload has remained relatively constant.

Table 3: Racial Breakdown of Adult Cases

Race/Ethnicity	1994	1997*
White	40%	37%
Black	36%	37%
Hispanic	19%	21%

Asians, Native Americans, and those designated "Unknown" comprise the rest of the caseload.

*National data is only available through June 1997.

Table 4: Employment Rate of Welfare Recipients

There is encouraging evidence that the employment rates of minority welfare recipients (people on welfare in one year who were working the following year) are catching up with the employment rate for whites.

Table 4: Employment Rate of Welfare Recipients: 1996-98

Race/Ethnicity	1996	1998	Percent Change 96-98
White	36 %	38 %	+5%
Black	23 %	33 %	+44%
Hispanic	19 %	29 %	+49%
All Recipients	27%	34%	+28%

Table 5: Trends in Marriage Rates and Births

The trends in marriage rates and births to unmarried women could exacerbate the increasing proportion of Hispanic families on welfare. While the proportion of never-married single mothers is increasing for the entire population, the rate of increase is largest for Hispanic women. Also, the birth rate to unmarried teenagers remains much higher for blacks and Hispanics than for whites. While the rate is decreasing for blacks and slightly for whites, it continues to increase for Hispanics. For example, between 1991 and 1996, the rate of births to unmarried teenagers decreased 18% for blacks and 4% for whites, but increased 3% for Hispanics.

	1992	1997	% Change
% of all single mothers who were never married	30%	35%	+17%
Never-married single mothers by race/ethnicity:			
White	17%	21%	+24%
Black	51%	55%	+8%
Hispanic	33%	42%	+27%

Table 6: Characteristics of Minorities on the Caseload

Minorities on welfare are more likely to have characteristics associated with long-term welfare reciprocity. Blacks and Hispanics on welfare tend to have lower educational levels, marriage rates, and larger families than whites, and are more than twice as likely to live in central cities and areas of concentrated poverty. Hispanics also have less recent work history than whites or blacks.

Table 6: Characteristics of AFDC/TANF Recipients by Race/Ethnicity*

	TOTAL	WHITE	BLACK	HISPANIC
% without HS diploma	43%	30%	43%	64%
% never married	47%	33%	69%	43%
> 2 children	29%	20%	33%	39%
Worked during the year	45%	49%	48%	33%
Live in area w/ poverty rate > 20%	48%	29%	67%	58%
Live in central city	49%	29%	68%	60%

*These data are from the March 1998 Current Population Survey, showing characteristics of recipients in 1997.

Minorities are more likely to be long-term welfare recipients. For example, in 1997, 20 percent of blacks on welfare had been on the rolls for at least five continuous years, compared to 19 percent for Hispanics and 14 percent for whites.

THE WHITE HOUSE
WASHINGTON

November 9, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Charles F.C. Ruff
Bruce Reed
Elena Kagan
Robert Weiner

RE: Anderson v. Roe

This memorandum describes the issues presented by Anderson v. Roe, which is in the briefing stage before the Supreme Court. The case involves the question whether, during the first year new residents live in California, the State can limit their welfare benefits to the level available in the state of their prior residence. Relying on the Supreme Court's decision in Shapiro v. Thompson, 394 U.S. 618 (1969), the Court of Appeals for the Ninth Circuit upheld a preliminary injunction against the California law because it interfered with the constitutional right to freedom of travel. Thirteen states have similar limitations, including Florida, Illinois, New Jersey, New York, Pennsylvania and Wisconsin.

The Court in Shapiro struck down Connecticut, Pennsylvania and District of Columbia statutes that limited or denied welfare benefits to new residents for up to a year. Acknowledging the State's interest in the fiscal integrity of its programs, the Court held that "the purpose of inhibiting migration by needy persons in the State is constitutionally impermissible," and that "a State may no more try to fence out those indigents who seek higher welfare benefits than it may try to fence out indigents generally." 394 U.S. at 631. The Constitution, in the Court's view, requires that "all citizens be free to travel throughout the length and breadth of our land uninhibited by statutes, rules or regulations which unreasonably burden or restrict this movement." *Id.* at 636. The State has to demonstrate a compelling interest to justify any impairment of this right. *Id.* at 636. The Supreme Court has repeatedly reaffirmed the right to travel, but last addressed the issue in 1986.

Based on these precedents, at least nine state and federal courts have invalidated welfare residency requirements. It is a fair assumption that the Supreme Court took this case to reconsider the constitutional right to travel. The Court granted review of this issue once before, in 1995, but found that the case was not ripe because California did not have a federal waiver necessary to implement its provision. Anderson v. Green, 513 U.S. 557 (1995). Since then, Congress passed PRWORA, which resolves the ripeness problem and allows a state

"to apply to a family the rules (including benefit amounts) of the program funded under this part of another State if the family has moved to the State

from the other State and has resided in the State for less than 12 months.”

The United States is not a party to the case, and the PRWORA provision -- given that it is merely permissive -- is not under direct challenge. However, if the Supreme Court were to strike down California's statute under a standard of strict scrutiny, it could essentially nullify the federal law.

The Solicitor General is considering whether to file a brief in this case and, if so, what position to take. In light of the federal statute and the peril to the constitutional right to travel, there are significant federal interests at stake. The Supreme Court has not invited our participation, but would think it unusual for the United States not to file a brief. The last time this issue was before the Court, in Anderson v. Green in 1995, the U.S. did not participate. Although that was before enactment of the federal statute, there is no imperative that we file. If we do not file, no one else may offer the Court a moderate option that could preserve the right to travel.

The policies behind the federal statute are reasonable. Granted, in individual cases it may be unfair to limit a family migrating from Mississippi to Mississippi's level of benefits -- even if they did not receive benefits there -- while they have to sustain California's much higher cost of living. But in the aggregate, if welfare recipients can flock to the states with the highest benefits, there could be a "race to the bottom," as high benefit states seek to minimize disparities in benefit levels to avoid becoming welfare meccas. Moreover, we sought in PRWORA to give states more latitude to experiment with welfare solutions.

In addition to defending the federal statute, then, we believe our primary goal ought to be the preservation of Shapiro. The constitutional right to travel is important, and we generally should seek to safeguard the civil liberties of our citizens. Moreover, we have placed great emphasis on stare decisis in other contexts, from abortion to affirmative action. There are strong policy reasons not to undermine that doctrine. The Solicitor General believes that the best way to preserve Shapiro is to defend the statute and distinguish this case from the Shapiro line of precedent.

The Solicitor General therefore intends to file a brief tomorrow arguing that the federal provision quoted above is a reasonable measure designed to further the welfare reforms of 1996, to ensure that the state variations in welfare benefits encouraged under PRWORA do not create artificial incentives to travel, and to avoid state reductions in benefits given the fixed block grants states receive. Although no state may in its parochial interest seek to "fence out" poor people, the national legislature, when dealing with the right to travel -- a right of national citizenship -- can authorize states to effectuate a federal purpose. Because of the Congressional authorization here, and because California does not deny benefits as in Shapiro, instead adopting a "choice of law" approach for setting benefit levels, this case is distinguishable from Shapiro. The California statute thus need not satisfy strict scrutiny. But minimum rationality is too lax a standard to review impositions on the fundamental right to travel. Accordingly, the SG will urge intermediate scrutiny of California's law, a standard that would require California to show that its statute bears a substantial relationship to the goals articulated by Congress. In other words,

California would have to demonstrate that the statute is narrowly tailored.

California probably cannot meet that burden, although other states could well do so. California's statute is overbroad. Its limitation on benefits was enacted before PRWORA and is not limited only to those who received welfare in their state of prior residence, or who were eligible to receive welfare, or who traveled for the purpose of obtaining higher benefits. While the SG will argue that California should have the right to make further showings on remand, given the balance of hardships between current recipients of benefits and the state's policy, as well as the likelihood of success, he will contend that the preliminary injunction should stand.

We believe that this approach fulfills the SG's obligation to defend the federal statute, provides the Justices a way to preserve Shapiro, and fairly reflects the balance of policy concerns at stake.

THE WHITE HOUSE

WASHINGTON

April 5, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed

SUBJECT: Secretary Shalala's Report on Welfare Reform

Following your recent conversation with Secretary Shalala about welfare reform, she has provided the attached summary of the impacts and implementation of reform. This report pulls together evidence from many of studies we have described before, providing a helpful comprehensive summary. The report urges you to make your FY 2000 budget and other proposals to help low income working families a high priority. Her key points include:

Research Evidence

- Employment: There is solid, consistent evidence -- both from evaluations of state welfare reform demonstrations and national data -- that welfare reform has led to increased employment and earnings for welfare recipients. State studies show employment increases between 7 and 29 percent, and earnings increases of 16 to 27 percent. The employment rate of previous-year AFDC adult recipients increased from 19 percent in 1992 to 25 percent in 1996, and jumped to 32 percent in 1997.
- Family income: When earnings are combined with the EITC and other benefits, families who go to work should have more income than if they remain on welfare. For example, in the average state, a women with two children would be better off working 20 hours a week than she would be on welfare. At the same time, there is some early evidence that some of the most disadvantaged families may be losing income.
- Child outcomes: There are no early indications that rates of foster care or child abuse have increased as a result of welfare reform. For example, a recent study from Wisconsin found 5 percent of former welfare recipients (19 families) had a child live with someone else because they couldn't care for them after leaving welfare, but almost as many respondents (16) said this had happened to them before they left welfare. Maryland found that only 3 children (all in one family) had been placed in foster care out of a sample of 1,810 children in families who had left welfare.
- Food Stamps and Medicaid: As you know, enrollment in Food Stamps and Medicaid has fallen recently for a variety of reasons. The memo reviews the possible explanations but does not have definitive explanations for these trends. We continue to work closely with HHS and USDA to better understand the factors contributing to these trends and to ensure that the federal and state agencies are doing everything possible to make sure those who are eligible for these benefits continue to receive them.

- Legal immigrants: The memo underscores the importance of our current budget initiatives to restore benefits to vulnerable legal immigrants.

State policy choices

- Across the country, there has been a strong and pervasive shift towards encouraging, requiring, and supporting work. Most states require parents to engage in some form of work sooner than the 24 month federal requirement -- 23 states require immediate participation in work -- but they have flexibility to define what counts as work for this purpose. The memo indicates that Pennsylvania is the only state that treats this work requirement as a strict time limit that could lead to terminating families from assistance.
- There is significant variation in state use of sanctions, time limits, and diversion. Thirty eight states terminate assistance for families not cooperating with work requirements (typically cutting off benefits after several infractions, and restoring benefits to those who subsequently comply), while the remainder reduce benefits. Eight states have chosen a lifetime time limit shorter than five years, while five states plan to use state funds to extend benefits beyond the federal five year time limit and another five plan to impose time limits on adults only. It is too early to determine the impact of time limits since only a small fraction of recipients have reached them. Many states are experimenting with a variety of strategies to divert families from receiving cash assistance by providing lump sum emergency payments and other supports and requiring an applicant to search for a job before receiving assistance.
- States are in varying stages of designing strategies for and making investments in helping long-term recipients move from welfare to work and succeed on the job. The challenge is to convince states to invest unspent TANF funds on these adults.

The Unfinished Agenda

To make work pay and ensure the long-term success of welfare reform, Secretary Shalala encourages you to focus on three issues:

- Help low income families retain their jobs and find better ones by: enacting your initiatives to expand child care, raise the minimum wage, and maximize access to Medicaid and CHIP; making Food Stamps more accessible for working families; and through the TANF rule, encouraging states to help working families with transportation, child care and other supports.
- Invest in all families, including the hard-to-serve by: reauthorizing DOL's Welfare-to-Work program, encouraging states to invest TANF funds in hard-to-serve populations as well as non-custodial fathers, and resisting efforts to cut the TANF block grant.
- Treat legal immigrants fairly by enacting our new proposals to restore additional disability, health and nutritional benefits and by releasing guidance on public charge.

THE PRESIDENT HAS SEEN

01-17-00

100 (Rev. 11-29-95)

THE WHITE HOUSE

WASHINGTON

January 14, 2000

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MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Cynthia Rice

SUBJECT: Second Chance Homes

*FRIDAY
PER OUR COMMUNICATIONS
AND WANT FOR CALL OFF
TR*

We understand Jane Fonda would like to talk to you about second chance homes. Ms. Fonda has been very involved in teen pregnancy prevention efforts, and is the founder of the Georgia Campaign for Adolescent Pregnancy Prevention.

Background on Second Chance Homes

As you know, the 1996 welfare law included a provision you championed to require unmarried minor parents to attend school and live with a parent, guardian or adult relative in order to receive TANF, unless these options are not available or appropriate. For teens unable to live at home or with relatives, states must provide access to an adult-supervised and supportive living arrangement such as a second chance home. States can use TANF funds to pay for these homes.

To date, several states (including Massachusetts, Nevada, New Mexico, Rhode Island, and Texas) have statewide second chance homes programs, and at least 16 states have local programs. Rough estimates show that current programs are serving about 1,000 teen mothers each year.

What More We Can Do

This fall, we began to consult with experts about what more we could do to encourage second chance homes. (One of these experts, Kathleen Sylvester, formerly of the Progressive Policy Institute, has also been working with Fonda, which may have prompted this call.) Fonda may be calling to urge you to do more in general on second chance homes; or she may be urging you specifically to include new funding in your budget.

In general, we do not think funding is an obstacle to the expansion of second chance homes. States currently have \$4.2 billion in unobligated TANF funds, or 11 percent of the total awarded, that they could devote to these efforts. Thus, we did not recommend to you any new spending in the FY 2001 budget.

However, there are several very helpful steps we believe we could take by executive action, and once the budget is completed, we were planning to work with HHS and HUD to develop such a package, which we believe could include:

- ✓ 1. Issue HHS guidance to states making clear how they can use TANF and other federal funds for second chance homes. In our experience, guidance like this often spurs action by providing reassurance to state budget officials and fodder for state advocates.
- ✓ 2. Direct HUD to make certain surplus properties available, at a 50 percent discount, to nonprofit groups that want to purchase them to create second chance homes. Since TANF funds cannot be used to purchase property, this action would provide another way to subsidize such purchases. (It is not necessary to purchase property in order to run a second chance home, of course – TANF funds may be used to rent property for such homes – but this action would provide additional options.)
- ✓ 3. Direct HHS to use existing evaluation funds to research the impact and effectiveness of these programs. We believe more states and communities will be willing to put homes in place if there is more concrete evidence of their effectiveness in helping teen parents become self-sufficient and prevent additional out-of-wedlock births.

Note that we have not yet vetted these ideas with the agencies, but plan to very shortly.

Support for Second Chance Homes

There is widespread political support for second chance homes: Senator Moynihan and Senator Bradley have both proposed new funding for second chance homes (Moynihan at \$45 million a year and Bradley at \$300 million a year). Governor Bush, as part of his faith-based platform, said he would provide a block grant to states (amount unspecified) for pilot maternity homes.