

WR PLANS -
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MEMO TO THE PRESIDENT

RE: WELFARE REFORM COST PACKAGES

We have constructed 2 core options for welfare reform, one which corresponds to a \$9.5 billion financing option, and one which corresponds to a \$12.6 billion option. Table 1 shows federal cost figures in FY 99 and five year totals for each option. Tables 2 and 3 provide further information on each option, including federal and state total costs, and 10 year costs.

Each table shows costs for six components:

- o Parental responsibility
- o Transitional assistance followed by work
- o Working poor child care
- o Removal of restrictions on benefits to two-parent families
- o Special initiatives and demonstrations of prevention, child support, and asset development initiatives
- o Measures to simplify, coordinate and improve the delivery of government assistance.

Both packages include the costs of the core initiatives in parental responsibility, transitional assistance followed by work, and a state option for removal of the restrictions on benefits to two-parent families. Both packages assume federal-state cost sharing of 80 percent/20 percent. The packages differ primarily in the amounts they invest in child care for the working poor, but there are also differences in demonstrations and in improvements of government assistance. The primary decision to made in assessing the two packages is how much to invest in child care for the working poor.

Parental Responsibility

Ensuring that both parents take responsibility for the support of their children is a major goal of welfare reform. Both packages reflect net savings from child support enforcement, which result from investments in systems and staff that generate substantial savings.

Both packages also reflect estimated savings from a requirement that minor parents live at home, and from a state option to deny benefit increases when additional children are conceived by parents on welfare. Both these proposals, especially the family cap, are quite

controversial. A decision to remove both of these provisions from the plan would increase the cost of both packages by \$250 million in five year cost.

Transitional Assistance Followed by Work.

The core of our welfare reform plan is the transformation of the welfare system into a system of transitional assistance followed by work. Both cost packages reflect the plan's proposals for dramatically increased participation in education, training and job placement activities during the first two years of any recipient's stay on welfare, and for the provision of work slots for those who are unable to obtain unsubsidized jobs before hitting the two year time limit. Both packages reflect the tight deferral and extension proposals in the plan.

Both packages assume state implementation in 1996, and both assume that the caseload will be phased in by enrolling into the new regime all applicants and recipients born after 1971. This schedule implies that by the year 2000, 46 percent of projected welfare recipients absent reform will be phased in. Of the phased in group, 11 percent would be off welfare, 25 percent would be working with some form of subsidy, and 35 percent would be in a mandatory education or training program. The final 29 percent would be in a deferred status due to a disability or because they are caring for a severely disabled child or a child under 1.

The only difference in this element between the two packages concerns the deferred group. Our goal is to send the signal that everyone has something to contribute, and that something can be expected even of those in the deferred status. Starting with similar objectives, APWA's bipartisan task force called for creating a special "JOBS- prep" category for those who are not immediately subject to the time limit whereby deferred persons would still be expected to do some things to help themselves or their children. We adopted this idea in Package 2 and included \$390 million to provide some services to and monitor participation from those recipients who are not immediately subject to the time-limit. Package 1 eliminates the JOBS-prep program, and assumes that persons who are deferred incur no additional costs relative to the current system.

Child Care for the Working Poor

The promise to "make work pay" is a major underlying premise of this administration's approach to welfare reform. With the expansion of the earned income tax credit for working families and the commitment to guaranteed health insurance, the major missing piece of the make work pay agenda is subsidized child care for low income families.

Most members of the working group and the Cabinet believed that child care for the working poor was critical to the success of the program. In focus groups, recipients indicated that concerns with child care ranked second only to fears about losing health insurance in deterring them from leaving welfare for work. Moreover, there are critical equity problems. Under any scenario, our proposal would provide child care for those in the JOBS and WORK programs, and for one year after people leave welfare for work. Unless we significantly

expand child care to the working poor, we will be left with a situation whereby those getting welfare or subsidized work would qualify for child care, while those who have not been on welfare recently are eligible for very little support.

Extending to working poor families child care subsidies that are equivalent to those available to welfare recipients would cost an estimated \$3.8 billion more per year above current spending. Neither plan proposes an uncapped entitlement to child care for the working poor, nor does either propose a capped entitlement sufficient to meet estimated needs. Package 1 proposes very modest additional spending for child care for the working poor of \$750 million per year when fully phased in, with a federal share of \$500 million. This would represent an important expansion from current expenditures of approximately \$1.0 billion, but it would still meet only about 20% of the estimated need. Package 2 includes additional spending of approximately \$1.75 billion per year, federal share \$1.4 billion. This would be sufficient to meet about half the estimated child care needs of families with incomes below 130 percent of the poverty line.

Removing Restrictions on Benefits for Two-Parent Families

Supporting two-parent families by permitting them to receive benefits under the same rules as single parent families is an important signal about the importance of both parents in our approach to welfare reform. Ideally we would like to legislate an end to all provisions which treat two-parent families in a discriminatory fashion nationwide. Requiring all states to adopt such provisions would cost the federal government at least \$830 million over 5 years and states would be required to pay an additional \$675 million.

Because of the cost and to keep unfunded state mandates to a minimum, we chose instead to give states the option to remove all or a part of the current two-parent restrictions rather than requiring them to do so. Based on our experience with waiver requests, we estimate that states serving roughly half of the caseload would take this option. The federal cost would be roughly \$495 million. The packages do not differ in this element.

Special Initiatives

One of the most important lessons of the past decade is that welfare reform must be an ongoing learning process. Many of the elements we propose for our current plan were tried on a smaller scale initially. In five critical areas, we propose money for special initiatives and demonstrations which seem likely to point the way for future reforms and innovations. These include:

Teen Pregnancy and Prevention Grants--These monies would go to fund a series of efforts in the schools to reduce teen pregnancy, including mentoring programs, private partnerships, comprehensive community support programs, and other demonstrations designed to reduce teen pregnancy and reverse the alarming increase in out-of-wedlock childbearing.

NOT
EXACTLY

Proponents note that if we cannot find strategies which help prevent children from having children, we will never really solve the welfare problem. Skeptics point out that we don't have many proven solutions. Hence, the focus on special initiatives and demonstrations. (Package 1: \$200 million; Package 2: \$200 million)

Non-Custodial Parent JOBS/WORK Programs--Logically whatever we expect of mothers, we ought also to expect of fathers. Some very small scale programs are now being tried whereby men who are unable or unwilling to pay child support are placed in training or work programs. These programs seem to both "smoke-out" some men who really can pay as well as give an opportunity to young men to take some responsibility. Unfortunately these programs have not been tried at any real scale to date. And our experience with existing work and training programs for young men generally (versus fathers specifically) has shown very few payoffs. But there is reason to believe programs for young fathers, with the carrots and sticks that child support can offer, could be much more successful. (Package 1: \$130 million; Package 2: \$390 million)

Access Grants and Parenting Demonstrations--Too often the role of non-custodial parents is negligible both in nurturing and providing for their children. Our policies will significantly increase the responsibilities of absent parents to provide financial support for their children. But too little has been done to encourage non-custodial parents to play a more positive role in raising and nurturing their children. These monies would be designed to explore a series of strategies to enhance positive access and parenting skills in parents living apart from their children. (Package 1: \$30 million; Package 2: \$70 million)

Child Support Enforcement and Assurance (CSEA)--Support from two parents is needed to adequately provide for a child. But often the state fails to collect money that is owed, or the absent parent is unemployed or underemployed and in a poor position to provide support. CSEA would guarantee some minimum level of child support to children for whom awards are in place. CSEA payments would be deducted dollar for dollar against welfare payments, but would be retained when someone went to work, serving as a work incentive. Proponents argue this will increase child support awards, increase work, reduce welfare use, and reduce child poverty. Critics worry that it will be seen as welfare by another name, and could lead to less pressure to collect child support. (Package 1: \$120 million; Package 2: \$290 million)

Individual Development Accounts (IDA) and Microenterprise Projects--In the long run, families which build assets and equity are in a far better position to achieve real independence. Both IDAs and microenterprise programs are seen as powerful tools for stimulating savings and job creation among the poor. IDAs encourage savings by providing a match for every dollar saved. Microenterprise programs help welfare recipients and others to start their own businesses. Supporters see these as sending a clear rewards for everyone to accumulate and join the mainstream. Critics wonder about the cost of subsidizing IDAs and about the number of welfare recipients who really could succeed as entrepreneurs. (Package 1: \$60 million; Package 2: \$145 million)

Each initiative has strong support among some members of the working group. The two packages differ in their level of support for each of these initiatives. Package 1 allocates

\$540 million over 5 years, while Package 2 allocates \$1.1 billion. Note that even at \$1.1 billion, the proposals are still much more modest than most proponents would like.

Improving Government Assistance

The plan envisions a variety of initiatives to coordinate and simplify the system through which government assistance is delivered, to improve the incentives for work and savings, to manage the system through performance measures, and to improve accountability and program integrity. Most of these initiatives can be done without legislation, and most of either cost nothing or generate savings. Because it is difficult to quantify and get CBO to score savings from these measures, we have not included administrative savings in our cost estimates.

We have, however, included several initiatives that incur a modest cost. Package 1 includes the costs of a state option to vary the disregards for work and child support in order to provide better incentives to families. Our experience with state waiver requests suggests that many states may take advantage of this option through incentive schemes of relatively modest costs. Package 2 includes this option, and also includes an increase of 50 percent in the funds available to Puerto Rico and the territories. The benefit cap for Puerto Rico and the territories has been increased only once in 15 years. In addition, package 2 includes the costs associated with conforming the AFDC and Food Stamps asset rules, which would provide a modest incentives for savings by AFDC recipients.

Discussion

These two packages reflect our best assessments of how to allocate limited resources at two different levels. Other packages clearly could be devised. One could do more in child care and less in special initiatives in either package. An intermediate alternative could also be chosen. Still in the end, the major cost/financing decisions revolve around child care for the working poor. We do not believe that the parental responsibility or the transitional assistance programs can be reduced much further while still meeting the commitment to end "welfare as we know it." The limited benefit expansions for two-parents and work incentives, which are in both packages as state options, send very important signals about work and family. The demonstrations included in both packages are relatively modest. Thus the most critical question involves how much of a commitment we should make to working poor child care at this time. There are both policy and political implications of this decision, which many participants in the debate have strong feelings about. We look forward to discussing it with you.

SUMMARY OF COSTS FOR WELFARE REFORM PACKAGES
(Dollars in Millions)

PACKAGE 1 COSTS	FY 1999	5 Year			10 Year		
	Total	Total	Federal	State	Total	Federal	State
PARENTAL RESPONSIBILITY	(625)	(1,220)	(130)	(1,090)	(8,055)	(1,980)	(6,075)
TRANSITIONAL ASSISTANCE	3,305	8,170	6,690	1,480	25,185	22,030	3,155
WORKING POOR CHILD CARE	900	1,875	1,500	375	6,930	5,545	1,385
TWO PARENT (UP) PROVISIONS	375	895	495	400	2,875	1,580	1,295
SPECIAL INITIATIVES	225	625	540	85	1,830	1,530	300
IMPROVING GOVERNMENT ASSISTANCE	265	635	380	255	2,060	845	1,215
TOTAL COSTS FOR PACKAGE 1	4,445	10,980	9,475	1,505	30,825	29,550	1,275
PACKAGE 2 COSTS	FY 1999	5 Year			10 Year		
	Total	Total	Federal	State	Total	Federal	State
PARENTAL RESPONSIBILITY	(625)	(1,220)	(130)	(1,090)	(8,055)	(1,980)	(6,075)
TRANSITIONAL ASSISTANCE	3,415	8,545	6,990	1,555	26,555	23,125	3,430
WORKING POOR CHILD CARE	1,875	4,375	3,500	875	14,945	11,955	2,990
TWO PARENT (UP) PROVISIONS	375	895	495	400	2,875	1,580	1,295
SPECIAL INITIATIVES	505	1,315	1,095	220	3,945	3,225	720
IMPROVING GOVERNMENT ASSISTANCE	400	1,085	665	420	3,250	1,620	1,630
TOTAL COSTS	5,945	14,995	12,615	2,380	43,515	39,525	3,990

Note 1: Parentheses denote savings.

Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.

Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

**TABLE Package 1 - DETAILED SUMMARY COST ESTIMATES (FEDERAL AND STATE)
FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)**

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
PARENTAL RESPONSIBILITY				
Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
Paternity Establishment (Net)	(535)	(90)	(2,080)	(400)
Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	370	1,085	870
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(130)	(8,055)	(1,980)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	0	0	0	0
Additional JOBS Spending	2,870	2,295	7,110	5,690
Additional Child Care for JOBS	2,010	1,610	4,910	3,930
WORK Program	1,660	1,330	11,490	9,190
Additional Child Care for WORK	760	610	5,240	4,190
Savings from Child Care and Other Expansion	(185)	(100)	(1,480)	(815)
Transitional Child Care	555	445	2,565	2,050
Enhanced Teen Case Management	210	170	595	475
Savings - Caseload Reduction	(390)	(215)	(6,070)	(3,340)
ADP Federal and State Systems/Admin Efficiency	680	545	825	660
SUBTOTAL, JOBS/WORK	8,170	6,690	25,185	22,030
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	6,950	6,560	17,130	20,050
WORKING POOR CHILD CARE (Capped at \$900 million in net spending).	1,875	1,500	6,930	5,545
REMOVE TWO PARENT (UP) RESTRICTIONS	895	495	2,875	1,580
Comprehensive Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK Programs	165	130	815	650
Access Grants and Parenting Demonstrations	35	30	75	60
Child Support Assurance Projects	150	120	415	330
IDA and Microenterprise Projects	20	15	175	140
SUBTOTAL SPECIAL INITIATIVES	570	495	1,830	1,530
IMPROVING GOVERNMENT ASSISTANCE (IGA)				
State Flexibility on Earned Income and Child Support Disregards Generally Conform (but not Increase)	710	385	2,225	850
Assets to Food Stamps	0	0	0	0
All Others	(75)	(5)	(165)	(5)
SUBTOTAL IGA	635	380	2,060	845
GRAND TOTAL	10,925	9,430	30,825	29,550

President's Table with Full Phase-In in Fy 1996 with Further Adjustments in IGA, Working Poor Child Care, and Demonstrations; UP Two-Parent Provision as State Option; Eliminate Increase in Territories' Cap; Conform Asset Rules to Food Stamps but no Increase in Limits.

Note 1: Parentheses denote savings.

Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.

Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.

04/12/94

TABLE Package 2 -- DETAILED SUMMARY COST ESTIMATES (FEDERAL AND STATE)
FOR ELEMENTS OF A WELFARE REFORM PROPOSAL
(By fiscal year, in millions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
PARENTAL RESPONSIBILITY				
Minor Mothers	(85)	(30)	(210)	(85)
No Additional Benefits for Additional Children	(660)	(220)	(2,150)	(810)
Child Support Enforcement				
Paternity Establishment (Net)	(535)	(90)	(2,080)	(400)
Enforcement (Net)	(405)	(160)	(4,700)	(1,555)
Computer Costs	465	370	1,085	870
SUBTOTAL, PARENTAL RESPONSIBILITY	(1,220)	(130)	(8,055)	(1,980)
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK				
JOBS-Prep	375	300	1,370	1,095
Additional JOBS Spending	2,870	2,295	7,110	5,690
Additional Child Care for JOBS	2,010	1,610	4,910	3,930
WORK Program	1,660	1,330	11,490	9,190
Additional Child Care for WORK	760	610	5,240	4,190
Savings from Child Care and Other Expansion	(185)	(100)	(1,480)	(815)
Transitional Child Care	555	445	2,565	2,050
Enhanced Teen Case Management	210	170	595	475
Savings - Caseload Reduction	(390)	(215)	(6,070)	(3,340)
ADP Federal and State Systems/Admin Efficiency	680	545	825	660
SUBTOTAL, JOBS/WORK	8,545	6,990	26,555	23,125
SUBTOTAL, JOBS/WORK AND PARENTAL RESP	7,325	6,860	18,500	21,145
WORKING POOR CHILD CARE (Capped at \$1.9 billion in net spending).	4,375	3,500	14,945	11,955
REMOVE TWO PARENT (UP) RESTRICTIONS	895	495	2,875	1,580
Comprehensive Grants	200	200	350	350
Non-Custodial Parent JOBS/WORK Programs	490	390	2,000	1,600
Access Grants and Parenting Demonstrations	85	70	180	145
Child Support Assurance Projects	360	290	995	795
IDA and Microenterprise Projects	180	145	420	335
SUBTOTAL SPECIAL INITIATIVES	1,315	1,095	3,945	3,225
IMPROVING GOVERNMENT ASSISTANCE (IGA)				
State Flexibility on Earned Income and Child Support Disregards	710	385	2,225	850
Generally Conform Assets to Food Stamps	265	100	655	240
Increase Territories' Caps	185	185	535	595
All Others	(75)	(5)	(165)	(5)
SUBTOTAL IGA	1,085	665	3,250	1,620
GRAND TOTAL	14,995	12,615	43,515	39,525

President's Table with Full Phase-In in FY 1996 with Adjustments in IGA, Working Poor Child Care, Demonstrations; UP Parent Provision as State Option.

Note 1: Parentheses denote savings.

Note 2: Five Year and Ten Year Federal estimates represent 80% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.

Source: HHS/ASPE staff estimates. These estimates have been shared with staff within HHS and OMB but have not been officially reviewed by OMB. The policies do not represent a consensus recommendation of the Working Group Co-Chairs.